FOREIGN ECONOMIC POLICY

HEARINGS

BEFORE THE

SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

DECEMBER 4-14, 1961

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CONTENTS

WITNESSES AND EXHIBITS

Objectives and World Problems

Problems of European Integration

Interrelation of Japan and Western Trade Policies

Underdeveloped Countries

ASSISTANCE FOR READJUSTMENT OF DOMESTIC RESOURCES

TRADE WITH THE SINO-SOVIET BLOC

COMMERCIAL POLICY

ADDITIONAL INFORMATION

APPENDIX

FOREIGN ECONOMIC POLICY

MONDAY, DECEMBER 4, 1961

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee of the Joint Economic Committee met, pursuant to notice, at 10:08 a.m., in room 4221, New Senate Office Building, Hon. Hale Boggs (chairman of the subcommittee) presiding.

Present: Representative Boggs (chairman), Senators Bush and Javits.

Also present: Wm. Summers Johnson, Executive Director; and Richard J. Barber, Clerk.

Chairman BOGGS. The subcommittee will come to order.

The Subcommittee on Foreign Economic Policy of the Joint Economic Committee begins today a series of public panel discussions, lasting approximately 2 weeks, on the subject of U.S. Foreign Economic Policy.

There would not be a more timely or relevant subject for congressional study and public discussion. The administration has indicated that it will submit to the Congress, early next year, its proposals in the field of foreign trade policy. The public debate has already begun and promises to intensify in the months ahead.

The issues involved in this debate and in the forging of a foreign trade policy for this decade and beyond are nothing short of momentous. We are on the threshold of a new era in our international economic relations. The old assumptions may be no longer valid and the familiar prejudices no longer an adequate guide to national policy. Nothing short of a basic reexamination of our foreign economic policy will do.

The issues are not only new, they are also exceedingly complex. The course we take in our foreign trade policy will have a profound influence on our own economic growth, productivity, and employment. It will, in equal measure, influence the economic and political futures of our Western partners, of the uncommitted countries and, indeed, of the Sino-Soviet bloc.

Our first concern, and our first responsibility, is of course to our own people—to our own workers, our own industries, our own investors, and our own traditions. The question is not whether we should take from some and give to others because the others are more in need. The question is, What is best for our common good?

As all of you know we are facing a serious balance of payments problem, and there is even talk that we may have to devalue the dollar. It may be that the only practical way we can keep our prices competitive and protect the dollar is to bargain down our tariff barriers and subject American industry to a larger area of competition.

It may be that the only practical way to discourage American industry from building too many plants abroad and taking too many jobs abroad is to bargain down European tariffs, so that European markets can be penetrated from the United States.

On the other hand, there is a question whether American industry can compete under existing conditions. We are told that while American wages are much higher than European and Japanese wages, and as yet the American worker's productivity is correspondingly greater than the European and Japanese workers, Europe and Japan are running us a race in building the newer and more productive and more automated plants.

On the other hand, it may be that our best interest lies in finding a way to build a modern wall around the United States in an effort to insulate ourselves from the rest of the world, competitively speaking.

Needless to say, whatever action we take will result in some industries and some jobs being affected in one way or another, either to their better advantage or, in some cases, to their disadvantage. When President Kennedy called upon us to make sacrifices for the common good, he was referring to these areas as well as many others.

I might say in the beginning that the members of this subcommittee are not precommitted to any of these notions. We are very fortunate, indeed, in having to discuss these problems with us a distinguished group of panelists who will carry on for 2 weeks, and while some of them have very definite views, the opposite points of view will be discussed with equal vigor.

I am very happy this morning to have a distinguished Member of the U.S. Senate and a distinguished member of this subcommittee, Senator Bush of Connecticut, who desires to make a statement of his own.

Senator Bush.

Senator Bush. Thank you very much, Mr. Chairman. I want to join with you in welcoming this particular group of highly distinguished men to be with our committee today. I go back a good many years with at least two of these. Mr. Al Neal was the director of our staff under the Randall Commission back in 1953 and 1954, and a man for whom we acquired the greatest respect and have maintained it ever since.

Of course, Mr. Viner is one of our most distinguished economists in the whole country, and I need not, indeed, say how honored we are to have the former Secretary of State here to give his views about this important subject.

I welcome these hearings by the Subcommittee on Foreign Economic Policy on the opportunities and the problems created for the United States by the emergence of the Common Market.

At the same time, I express the hope that the hearings will not be perverted into a one-sided propaganda barrage in support of a vaguely outlined proposal by the administration to broaden greatly the President's powers to reduce tariffs and to weaken, if not eliminate entirely, existing safeguards against injury to domestic industries and to the thousands upon thousands of men and women for whom they provide jobs.

Specifically, I respectfully suggest to the distinguished chairman of this subcommittee, that before these hearings are closed an opportunity to testify be given to industries which are vulnerable to import competition, and to representatives of the workers whose jobs are imperiled should safeguards be removed.

I am entirely mindful of the importance of finding sound solutions to the problems we encounter in adjusting our trade relations in a changing world. I am aware of the cold war implications of the actions we take in this area. I am not unmoved by the idealism which envisions the United States entering into a broader partnership with other free nations to expand mutual trade, to share more equitably the burdens of the free world's defenses, and to raise living standards in the underdeveloped nations of Latin America, Asia, and Africa. And I am opposed to having this Nation retreat to isolationism and to such a high degree of protectionism as to raise impenetrable tariff walls around our borders.

There are, however, many hard questions which must be faced and honest answers obtained before we make drastic alterations in the Trade Agreements Act which, despite imperfections both in concept and in administration, has permitted an expansion both of our exports and our imports. While these developments have taken place there have been increasing complaints that segments of American industry and the workers they employ have been injured in the process.

We are beginning these hearings without knowledge of what the administration intends to propose to the Congress. Accordingly, I urge the chairman to request the administration to disclose immediately to this subcommittee and to the public the precise details of the plan it has in mind. I fail to see how this subcommittee can consider intelligently a proposal which has not been disclosed except in broad generalities through information leaked by the administration to the press.

It is said by one writer, Bernard D. Nossiter, of the Washington Post, in an article appearing in the Reporter magazine for December 7, that—

> * * * Agreement is emerging on a proposal that may be summarized this way: Instead of limiting the President's authority to cut tariffs by the 15 or 20 percent that Congress has been granting, empower him to wipe out gradually all tariffs on a broad range of goods in which the United States and the Common Market are dominant; permit him to cut in half the tariffs on other goods; enable the Government to negotiate across the board, eliminating the "peril point" provision for setting a minimum tariff level on every one of the thousands of items to be negotiated; restrict use of the escape clause to restore levies for industries claiming injury from tariff concessions.
>
> For workers and plants made idle by imports, the administration would provide loans for grants, technical help, and fast tax writeoffs to stimulate purchase of new, more competitive equipment or to enable them to go into some other industry. Their unemployed workers would get longer jobless benefits, retraining in new skills, and moving allowances to help them find new jobs.

The latter portion of the administration's proposal, as outlined by Mr. Nossiter, bears a strong resemblance to the "trade and life adjustment" program which was advanced by David McDonald, of the United Steelworkers, when he and I were members of the Randall Commission in the early years of the Eisenhower administration.

I see Mr. Neal, parenthetically, nodding assent to this. It was rejected then by the Commission and by the Congress, which insisted upon retaining the "peril point" and "escape clause" safeguards of the Trade Agreements Act.

One of the papers submitted to this subcommittee ("The European Economic Community and the United States" by Robert R. Bowie and Theodor Geiger) suggests that one method of carrying out such a "trade and life adjustment" program would be through expansion of the Area Redevelopment Act which was enacted to aid the so-called depressed areas of chronic and persistent unemployment in this country.

I urge this subcommittee, before it considers recommending sweeping tariff reductions which threaten to create additional depressed areas and more unemployment in this country in the expectation that an adjustment program would repair the damage, to take a close, hard look at the area redevelopment program and determine whether it is living up to the expectations of its sponsors. If the information at my disposal is correct, the program is encountering serious administrative problems which would be compounded if areas made depressed areas through reckless tariff cutting by the administration were added to its jurisdiction. I suggest to our chairman that it would be appropriate to call the Administrator of the Area Redevelopment program as a witness if the suggestion that his agency add to its problems a new "trade and life adjustment" program is to be seriously entertained.

Additionally, I hope the subcommittee will consider whether a time when this Nation has almost 7 percent of its work force unemployed—a level of unemployment which has resisted all the efforts of the administration to reduce it—is an appropriate time to recommend actions which proponents admit would put more men and women out of work.

I do not wish to inject a parochial note into these hearings, because I am sensitive to the broad national interest involved in the subject matter, but I cannot avoid thinking of the effects of such a program as is apparently contemplated by the administration upon such areas of my own State as the Naugatuck Valley. There a great industrial complex has grown up around basic industries such as brass products and rubber footwear, both vulnerable to imports because of the low wage rates paid by their foreign competitors. Does the administration propose to destroy these industries and the jobs of the thousands of men and women they employ and attempt to salve the wounds so caused by a massive outpouring of Federal funds in factory reconversion loans, retraining allowances, moving allowances, and unemployment compensation benefits?

I hope this subcommittee will seek a clear answer to that question. I hope further that we will look carefully into the whole problem created by the great disparity between wage rates prevalent in this country and in other industrial nations with which we must compete.

In 1960, our manufacturing industries paid, on the average, $2.29 an hour, in comparison with $1.79 in Canada, $1.02 in Sweden, $0.89 in the United Kingdom (adult males only), $0.70 in Switzerland, $0.63 in West Germany, $0.44 in Austria, $0.43 in France, $0.37 in Italy, and $0.29 in Japan (including salaried employees and family allowances on the latter figure).

I urge the subcommittee to give most careful consideration to these wage differentials, and what they mean to our industries which produce products with a high labor content. Can such industries compete successfully if American markets are thrown wide open to foreign producers which pay wages which are one-third, one-fourth, or almost one-tenth lower?

I ask the subcommittee to consider what the nations of Western Europe have done when confronted with a comparable disparity in wages between themselves and Japan. I am advised by the staff of this subcommittee that 13 countries of the 17 Western countries use quantitative measures to discriminate against Japanese goods: The Benelux nations—France, Italy, Germany, United Kingdom, Australia, New Zealand, Norway, Denmark, Austria, and Sweden. If quantitative measures—quotas, to use a blunt, unpopular word—are necessary to protect labor in these countries against the lower wage rates in Japan, may they not be necessary to protect American labor against the lower wage rates of Western Europe as well as of Japan?

I hope we will also consider the whole intricate and politically sensitive question of our treatment of agricultural exports, and the quotas this Nation imposes against the importation of agricultural products. For example, does it make sense for the United States to sell cotton to foreign textile manufacturers at a price 8 cents a pound less than domestic manufacturers must pay? Is it in the interests of American consumers to impose restrictions, whether by quota or by the device of abnormally high requirements under the guise of health or purity, on such products as Argentine beef? Is the administration prepared to face squarely the removal of these and other subsidies and rigid protectionism for agriculture at the same time it proposes to remove the subsidies to industry involved in the tariff?

We should also examine carefully into the barriers against American products which are imposed by nations of Western Europe and by Japan. One example, referred to in hearings conducted by another subcommittee of this committee, is coal. The distinguished senior Senator from Illinois, Mr. Douglas, has stated that coal produced in his State can be delivered to West Germany at a lower price than coal mined in Germany. I assume the same is true of coal mined in West Virginia. Yet West Germany excludes American coal, presumably to protect employment of her miners. How extensive are similar restrictions against American products employed by the nations which urge us not to impose quotas against their products?

Finally, I hope that the subcommittee will examine closely the underlying premise of the administration's proposed program: that it is necessary for the President to have authority to make sweeping tariff cuts across the board in order to negotiate with the Common Market, the United Kingdom, and other Western nations which may become associated with it.

I am advised by the subcommittee's staff that the average American tariff on industrial goods has been lowered through the years until it is now only 11 percent. This compares with 19 percent in Japan and Austria, 17 percent in the United Kingdom and New Zealand, 16 percent in Italy and Canada, 15 percent in France, and 14 percent in the European Economic Community (Common Market). We are informed the Common Market intends to raise its external tariff to 20 percent.

Would it not be reasonable to say to these nations, and particularly to those to whom we have given billions in Marshall plan aid for the rebuilding of their industrial plants: Give us a breathing spell until you lower your tariffs to the level of ours? Is it too naive to expect a measure of appreciation and understanding of our own problems, compounded by our balance-of-payments difficulties, from those whom we have helped so much in the past?

I have raised these admittedly difficult questions because I believe they must be faced candidly and not brushed aside in the hearings this subcommittee is about to conduct. The administration owes it to the workers for whom American industry provides jobs to outline, in precise detail, the plan it proposes and the solutions it recommends to the problems these questions pose. I hope this subcommittee will insist upon this information before it proceeds to make recommendations based on the testimony taken in the hearings.

Thank you very much, Mr. Chairman, and our distinguished witnesses, for your patience in letting me make this statement.

Chairman BOGGS. Does that conclude your statement, Senator?

Senator BUSH. That concludes my statement; thank you, sir.

Chairman BOGGS. Senator Javits of New York has come in. He has a statement.

How long is your statement, Senator?

Senator JAVITS. Five minutes.

Chairman BOGGS. Proceed.

Senator JAVITS. Mr. Chairman, first let me express my pleasure at the very distinguished panel that is appearing before us this morning, both on the practical and academic sides, and make this my rather formal acknowledgment to the Chair for the opportunity which was given to me so splendidly to investigate into the very problems which my colleague, Senator Bush, has just spoken about, both in Europe and in the Soviet Union.

I deeply believe that, as is true in so many of our problems today, everything which is said about this subject must be conditioned by the issue we face with the Communist bloc, which is unrelenting, in my view, in the pressure which it intends to put on the free world in economic terms, and which, in my view, is mortally afraid of the implications of the European Economic Community. Therefore, while I deeply appreciate the injunctions of caution and the very thorny questions which are raised by my colleague, Senator Bush, with which, of course, I am very familiar, I must point out that in the interest of a decisive victory for freedom in the world, it is going to be necessary for the United States to take a bold initiative in the action on trade and tariffs which is now impending, and that I believe it fully within the competence of our country to give at one and the same time adequate protection—not using that word in its tariff sense, but in the legislative sense—to the economic interests of the country, and particularly to the economic interests of workers and owners of businesses which are concerned.

I feel that we shall develop this subject as we go along, but I also would not be true to my own conviction if I did not express the view that our objective must be the broadening of world trade and the accommodation of the trade of the less-developed areas, and that these are the two critical elements in utilizing trade as a decisive element of our position in what is euphemistically called the cold war.

Now, Mr. Chairman, I shall conclude my statement in a moment because I shall have an opportunity, as we go along, to develop what I found, but I wish to report to the committee as a basis for its discussion the fact that I served as Chairman of the Economic Committee of the NATO Parliamentarians' Conference, which had its meeting in Paris, from November 13 to November 17 and which was attended by a delegation from Congress, officially designated. Mr. Chairman, I am confirmed in my conviction that trade policy which will have to be developed under the leadership of the United States will be the key to the economic future of the free world.

On Friday, when we consider East-West trade, I shall discuss in more detail my experience in the Soviet Union upon this subject. But right now, I would like to stick with the NATO Parliamentarians' Conference and the recommendations adopted by it, as proposed by its economic committee. They deal with the subjects under consideration by our subcommittee.

They call for coordination of NATO policies on trade with the Soviet bloc to meet the challenge of Soviet aid and trade programs for the less-developed areas. They call for stabilization of prices and the increase of consumption of primary commodities from the developing countries, notably Latin American countries, where we seek very strongly to get a situation in the European Common Market which does not discriminate against them in favor of African countries. The recommendations called for increased imports by the European countries of NATO of manufacturers of the newly developing nations, and also for their taking a fair share of the exports of Japan and other industrial areas, such as Hong Kong, which have low general wage scales compared to ours.

Also, they call for a recognition of the need for economic unity in NATO, the OECD and GATT, which is an echo of the need for western economic unity as described in the Herter-Clayton report.

It is a great significance that the GATT ministerial meeting just concluded in Geneva shows a failure to reach agreement on two of the vital issues raised in these considerations, to wit, the measures to expand European import of tropical products from all the developing nations, including Latin America, and the measures to increase Western European imports from Japan and similar areas. Right now, the United States bears the brunt of the responsibility and the greatest burden in these two areas, and the responsibility and the burden must be shared by Western Europe.

Now, Mr. Chairman, I am glad to report that I found a recognition of this need among the parliamentarians in Paris. I feel we must face the two stern realities in this: one, we need bargaining power in the European Economic Community, which is now likely to grow to be almost equal to the United States in size with the adherence of the United Kingdom and the other nations in the hitherto free trade area.

One, we need bargaining power, as I have said. And second, in addition to bargaining power, we need to take account of the challenge to us of the Communists in the newly developing areas where, I can report to the Chair, they expect to beat us economically, and therefore to beat us politically.

So Mr. Chairman, I welcome these hearings. I compliment the Chair on his foresight in calling them. I believe they set the proper note, because they encompass the economy of the United States as well as the economy of the free world and the economic competition of the Soviet Union and the Communist bloc, all incorporated in the work of the Joint Economic Committee.

Mr. Chairman, I conclude upon the following note: The struggle against Communist domination of the world demands singleness of purpose and coordination of economic power. This is terribly obvious, and I use the word "terribly" literally, from the experiences of East-West trade, where individual national policies are being exploited by the Communist bloc to divide and penetrate free world economics. It is also evident from the experiences of Western Europe's trade policies toward the developing nations. Our allies and our trading partners are looking to us as one of the economic powers of the industrialized free world for leadership.

Mr. Chairman, I have confidence that as we develop our policy in these hearings, we shall retain and, indeed, enhance our position to exercise this leadership.

Thank you, Mr. Chairman.

Chairman BOGGS. Thank you very much, Senator.

Our first panelist today, as has already been noted, is former Secretary of State, Christian A. Herter.

We are particularly pleased to welcome you here, Mr. Secretary, both as a distinguished former colleague in the House, former Governor of the State of Massachusetts, former Secretary of State, and now a very distinguished private citizen.

As everyone knows, Mr. Herter joined with Mr. Will Clayton, former Under Secretary of State in President Truman's administration, in writing our first paper, which is entitled "A New Look at Foreign Economic Policy." Joining in a discussion on this paper this morning on the broad topic of objectives and world problems will be Mr. Alfred C. Neal, who is known to all of you as President of the CED, or the Committee on Economic Development, former President of the Federal Reserve Bank of Boston, and Mr. Jacob Viner, who is well known to this subcommittee as a distinguished professor of economics and international finance.

The chairman is very pleased to recognize you.

STATEMENT OF CHRISTIAN A. HERTER, COCHAIRMAN, U.S. CITIZENS COMMISSION ON NATO; SECRETARY OF STATE, 1959–61

Mr. HERTER. Mr. Chairman, gentlemen of the committee, I have been very much interested in your opening statement with regard to the responsibility of the Congress in connection with our foreign economic policy, as well as the statements that have been made by your two colleagues, one raising a great many very thorny questions, questions that have to be discussed, discussed very frankly and freely here, and the statement made by Senator Javits, placing the whole problem that lies before you in an international setting.

It may be apropos to remark that these hearings are being held in the Foreign Relations Committee room. In my view, our foreign economic policy, while, of course, having tremendous domestic implications, at the same time has tremendous international implications, because today it is impossible to separate these two things from the point of view of the long-range interests of the United States and they have to be considered and balanced together.

Then, if I may, I would like a little, for a moment or two, to outline the world setting in which these problems are being discussed, and I do that because I think that that world setting is such an important phase of this whole matter that it ought to be borne in mind continuously in the discussions and in the hearings, for the reason that the problem in which we deal is one in which it is very easy to get lost in the forest for looking at the trees. The overall implication of what the policy of this country shall be must, in my mind, be given full consideration, although I recognize that our own domestic well-being is of primary importance in this respect. The foreign trade of the world is carried on in large part by the great industrial countries. The great industrial countries are all, with perhaps the exception of Japan and, perhaps to lesser extent, Australia, in the Atlantic community. That is, the countries of Western Europe, the United States, and Canada. That group of nations is a very small part of the world. Geographically, it represents a small area of the world, perhaps one-sixth of the area of the world. From a population point of view, it represents roughly 500 millions of people out of a total of 3 billion; again, one-sixth of the peoples of the world. The other peoples of the world—that is, the five-sixths, can roughly be divided into two groups. First, those under Soviet domination, which represent about one-third of the people of the world. The second, representing one-half of the people of the world, are generally described as the underdeveloped, less developed, or, as we have used the phrase at the present time because, in the cold war to which I will refer in a moment, it seems appropriate to, the contested nations of the world.

Two-thirds of the productive capacity of the world lies within the smallest group. It therefore assumes an importance, from the point of view of the future development of the world as a whole, entirely beyond its population or its geographic area.

In recent years, there have been very startling developments, from the point of view of the political orientation of the world. I think it is fair to say that beginning in 1947, it became apparent, that the Soviet bloc, as it was then being constituted, with Russia in the lead, had definitely determined that it was not going to play in the economic field with the Western bloc. Mr. Clayton can testify to this, because he was present and a part of the negotiations when Mr. Molotov refused to attend the meetings in Paris to discuss the Marshall plan and insisted that the Poles and the Czechs, who at that time were actually either in Paris or on their way there, be withdrawn from that conference.

From then on, there has been a definite cleavage between the Western World and the Soviet bloc, and there has resulted, a continuing cold war as between the Western group and the Soviet group. This, I feel, cannot be emphasized too strongly.

I feel very much as Senator Javits says, that this is the all-controlling factor in the future to which we have to look forward and the free world has to look forward. Everything depends on how seriously one takes the words that have been spoken and the actions taken by the Soviet bloc. You can run through a whole gamut of Soviet manifestoes and the statements made by Soviet leaders, whether from Russia, whether from China, whether from the satellite countries—all of them not only indicating but stating very frankly that this is a war to the finish. It is a war to the finish as between two ideologies, two economic systems, a war to the finish in which no holds will be barred, and one in which the Soviet bloc is convinced that it represents the wave of the future—represents the inevitable communization of the entire world.

This is something that I think we cannot forget at any time in our consideration of this matter, because in my opinion, it is reality and not just a dream. There are many who seem to feel that peaceful coexistence, as it has been described by the Soviet bloc, is something that we can live with. Perhaps we can live with it, but that is not the point. Their definition of coexistence is taking over of all of the rest of the world into the Communist bloc. Coexistence is merely a breathing spell that represents a lesser or greater degree of cold war activity, and it goes back to the old Marxian theory that at times you retreat in order to make greater advances at a later point.

So in my opinion, in viewing this whole problem from the point of view of the setting in which it must be placed, we cannot forget the cold war.

From the Soviet side the cold war takes on two aspects, two major aspects. One is keeping apart the industrial nations, developing as many differences as possible among them political, economic, and military. The second is directed toward taking over the contested nations of the world, taking them over by subversion and by all the methods that are used in the category of implements that the Soviet bloc is constantly developing.

Obviously, if we are going to face this situation realistically, if we are going to try to make this world a place in which what we call the free nations or the contested nations can live in peace and live under the type of ideology that we find is the only ideology that is acceptable to us rather than the slave ideology of communism, then clearly, we have to address ourselves to how best we can meet these two main thrusts in the cold war.

With respect to the industrialized nations, obviously unity insofar as it can be achieved from the point of view of economic policy, and this, to my mind, is a prerequisite of political unity; it is not only desirable, it is, to my mind, essential. Trade wars can be very devastating and very divisive, and the dangers of trade wars are facing us very directly.

This again is one of the matters to which, I am sure, you will be giving a great deal of attention in these hearings.

The developments that are taking place in connection with the Common Market in Europe are really revolutionary. Its organization marked the first effort in a very long period of time by the European nations, represented by the six in the Common Market, to pull together an area that has been separated for many, many years and goes through many, many wars; pull it together into an economic area with common policies, with the hope that this would develop into closer political unity. On both the economic and military sides the Common Market has made tremendous strides; those strides, in fact, since 1958, when it first came into effect, are quite sensational. The figures that have undoubtedly appeared in the various documents that you have show the tremendous growth in trade as between those countries themselves and tremendous growth in productivity.

There is no blinking at the fact that the British Government, which through 300 years of foreign policy, has stayed aloof from the Continent, has found itself, as the result of the tremendous increase in productivity on the Continent, in the position where it has taken the revolutionary step of requesting admission to the Common Market. If, as seems probable, it becomes a member of the Common Market, and if, as likewise seems probable, some of the Scandinavian countries and those who are associated with Great Britain and the so-called Outer Seven likewise become either members or associates of the Common Market, we shall then find a trading area with internal tariffs rapidly decreasing, of a size to rival the free trade area that we have in the United States, an area which today, of course, is the largest free trade area in the world.

Unhappily, however, the provisions of the Common Market provide for a common external tariff, an external tariff which would be discriminatory, as it is at the present time against many things that we feel we could export into this rapidly growing market.

The whole tendency in that market is to move restriction to trade and to bring it into an internal free trade area at an early date. Already, the Rome Treaty timetable, which provided for the complete elimination of tariffs within the area by 1972, with even some possibilities of postponement on given items beyond that time, has been advanced very considerably. We do not yet know whether, on January 1, this coming year, the internal tariff will be reduced 40 or 50 percent. It would automatically be 40 percent, according to the schedule that has been laid out, and there has been some talk about their moving beyond to 50 percent.

Senator Bush. Mr. Secretary, over what period of time do they contemplate that reduction?

Mr. Herter. They contemplated that time from 1958 to 1972 originally, with certain leeway as to when they would reduce at 10 percent intervals. They contemplated originally, I think, a 14-year period to go into a full free trade area.

Senator Bush. So it is a progressive, gradual reduction?

Mr. Herter. That is right. But they have actually moved very far ahead of that. They have already cut 30 percent, and now contemplate either another 10 or 20 percent reduction at the beginning of the coming year, so they are in advance of the schedules that they have laid out. They are cutting tariffs faster as they have found it advantageous to do so.

Senator Javits. As a matter of fact, they propose to cut them faster. They do not propose to comply with the 14-year schedule at all.

Mr. Herter. No, from present indications, they would get to a free trade area internally in 1967.

While this is going on as far as Europe is concerned, in this country the pressures for greater protectionism have certainly increased.

There are a good many areas in which industry in this country has felt the pinch of competition. One of the most difficult things—I am sure this will be brought out by greater experts in this field—is to determine how much foreign competition is responsible for the difficulties of certain industries, how much inefficiency is responsible, how much internal competition is responsible, and how much technological development is responsible. It is a very difficult thing to make an exact determination in the field, as certainly the Tariff Commission has found out in many of its studies. But on the whole, I would say that the protectionist sentiment in this country has been growing and this is something that has got to be faced in connection with the renewal of the Trade Agreements Act which is coming before the Congress in this session.

In other words, the problem as to what we do at this coming session of the Congress is going to be a determining factor, I think, in the future of the free world, in the future of our own survival, in the face of the threat that is the paramount question that is before it. If we are to go in one direction and Europe go in the other, inevitably, you will find trade barriers growing as between two large free trade areas. With those trade barriers growing, you would find a good many different things happening; for one thing, the slowing down of trade, both imports and exports. You would inevitably find political irritants mounting constantly. You would find I think, very soon, an atmosphere in which it would be very difficult for us to maintain some of our military installations that we now have, which are an essential to the military stalemate of the world.

You might well find that you can no longer afford to maintain troops in Germany, that we can no longer afford to maintain certain bases, to keep troops in Japan, Okinawa, and elsewhere. I say that deliberately, because this has been a very real problem that the administration has to face in connection with our balance-of-payments situation.

I can think of nothing that the Russians would like better, or the Soviet bloc would like better than to see a first rate trade war as between this side of the Atlantic and the other side of the Atlantic.

So what is the alternative in the picture? The alternative, to my mind, is to reconcile our policies with those of Europe, with a view to increasing trade on both sides, helping our balance-of-payments picture, and bringing a closer political unity which would make possible the facing of the Soviet bloc with such a strong economic community that our chances of survival would be magnified enormously. But economic unity among the Atlantic nations poses real questions as to their relationship to the underdeveloped nations. There I think we have got some very difficult problems to work out. The worst thing that could happen would be for the industrialized nations to club together and become the rich man's club at the expense of these nations. If we did that, I think we would be deliberately pushing them into the hands of the Soviet bloc. I think we have to examine very carefully our trade policy with regard to those countries.

We have a rather anomalous situation today of giving extensive aid to our South American friends and allies in terms of capital investment, technical assistance, and so on, and, at the same time, putting up barriers against what they export that might come into this country. The same is true, to a great extent, in the Common Market. The same thing holds true, of course, with regard to Japan. The South American countries are today struggling to improve their own internal economy, and to them foreign trade and the development of foreign trade is just as important as much of the capital investment and grant aid we can give. In the long run, their chances for economic development, in a climate of freedom, depend on their ability to find export markets for their raw materials and certain of their manufactures.

This is a consideration we have to take very seriously. Mr. Neal can testify on this point, I think, very much better than I can, because he has studied it and written on it very eloquently. I hope that if a new policy is undertaken by this Government that it will not be a policy which puts us into a trade partnership with Europe, which I favor if such a policy excluded from its markets the products that the less-developed or contesting nations have to export and find a market for if they are going to have any chance of survival and development under our free economic system.

That, Mr. Chairman, is a very much condensed version of the setting in which I feel that this whole problem has to be discussed. I am fully mindful of all the problems Mr. Bush has raised, and they are serious problems. They are problems that must have the attention of this committee and must have the attention of this Congress. But I feel that the overall setting is one that cannot be forgotten, and let me repeat once again what I feel so strongly in this question of development of a policy; the real danger of getting lost in the forest for looking at the trees.

Thank you.

Chairman BOGGS. Thank you very much, Mr. Secretary.

Mr. Neal, we shall be happy to hear from you at this point.

STATEMENT OF ALFRED C. NEAL, PRESIDENT, COMMITTEE ON ECONOMIC DEVELOPMENT

Mr. NEAL. Mr. Chairman, it is very kind of you and your committee to give me an opportunity to participate in such a distinguished company in the discussion which is of such vital importance as Mr. Herter has just concluded, particularly since I am talking, if I may——

Senator BUSH. Mr. Chairman, could we ask Dr. Neal to pull the microphone closer to him so we can hear better?

Mr. NEAL. Yes, sir.

Senator BUSH. Thank you.

Mr. NEAL. I am talking as an individual and not for the organization with which I am associated. I understand that you have invited a chairman of one of our key committees to present CED's view on this subject. So if I may, what I am going to say is personal, although there are bound to be resemblances between it and what CED's position is.

I should like to carry on within the setting Mr. Herter has so admirably sketched and get down to what is probably the key economic problem that we are facing in this upcoming trade negotiation. That is to say, the effect of the enlarged EEC on the United States and what the United States may do on it and on the rest of the world.

I think there are some very special reasons why we should have a bold foreign economic policy now. These are reasons in addition to the overriding political considerations which Mr. Herter has so well described.

First, let us look at a few of the negative ones. The enlarged European Economic Community, if it does not lower its tariffs, could hurt the exports of the United States, of Canada, of Japan, and of other third countries. This is because of the inherent discriminatory effect of reducing tariffs within and not reducing them against outsiders.

Second, an enlarged EEC, if it does not lower its tariffs, could act as a powerful magnet to attract U.S. capital and, incidentally, local capital into unnecessary and uneconomic investment in Europe. The way to deal with this problem is to reduce the tariffs that are creating the magnetic force and not to restrict the capital movements themselves.

We have been very much interested, as Mr. Bush has pointed out, in getting restrictions against our goods, our capital, and our ways of earning abroad reduced. Well, for us to put on new restrictions as you would in the case of capital movements would pretty effectively close the possibility that we will get a lot of these other restrictions removed.

If, then, we have an enlarged EEC without lower tariffs, as Mr. Herter pointed out, there could be a possibility of a trade war between the two sides of the Atlantic, and among the great industrial complex that stands against the Soviet Union.

But there is another side to this. The other side is very attractive. First, an enlarged European Economic Community represents a major success for U.S. foreign policy. We have consistently aimed at this. We have aimed for unity in Europe, and now it is about to come off and we shouldn't be disturbed about this. Further, the enlarged EEC, while it may be inherently discriminatory against third countries, certainly represents a movement toward freer trade. A lot of trade which formerly moved despite restrictions is going to be moving without any restrictions at all.

An enlarged EEC, growing at a faster rate than the United States, could open up vast new markets for the United States and other third countries. In the EEC, the gross national product is growing at the rate of 4.5 percent per year, while we are having a little bit of trouble keeping ours up to 3 percent. Everybody knows it is easier to grow in a growing market; you get pulled along with it.

An enlarged EEC can aid greatly in the development of less-developed countries by providing markets, know-how, and capital to them. We have been carrying this burden much too much ourselves. Now we have, with an enlarged EEC, an opportunity more easily to share the burdens.

Well, to realize the positive and to avoid the negative effects of an enlargement of the EEC will require the United States to do its part to perfect the partnership, and certainly it is a partnership we want. Here I can only echo Senator Bush's contention that we have some things coming to us.

The first thing we have coming to us is that as a member of the GATT, we have a right to insist that other members of the GATT live up to the agreement.

Now, the GATT is being violated. It is being violated in several ways. There are quantitative restrictions still employed by European countries which have convertible currencies against U.S. products, particularly U.S. agricultural exports. My understanding is that these restrictions are contrary to the GATT.

Second, as Senator Bush pointed out, a number of these countries are discriminating against Japan by employing quantitative restrictions when they have no right to. That is to say, unless they have invoked article 35, they do not have a right to descriminate against Japan. So there is something to be gained by us all living up to the agreement.

Incidentally, our own quantitative restrictions, by and large, are consistent with the GATT. We have a consistent clean bill of health on this score. When we discriminate, we pay for it, and we have some pay coming on the other side.

Another thing we should do is to widen the area of negotiation to cover elements other than trade in payments. We are used to getting in and trading a concession on widgets for a concession on gadgets. The balance of payments is really what we are concerned with. There are differences in the treatment of tourist allowances and travel allowances, for example. We have cut ours to $100. No European country gives anything like $100. Well, why not? Why can we not equalize on those things?

Capital is free to move out of this country into Europe. By and large, capital is not free, without getting a license, to move out of Europe into the United States. Well, why do we not clear that up and get a little more freedom for European capital movements to come here, because long-term capital movements, the way the balance of payments is calculated, improve our position.

There is the matter of the way internal excise taxes are applied here and in Europe; on automobiles, for example. You first pay the tariff, which is around 29 percent in the Common Market—28 percent. Then, on top of that, the internal excise is applied. When you import an automobile into this country, you pay the tariff and that is it. You do not pay the excise, the 10 percent on top of the tariff. I think we have some bargaining power in this.

Then there is the matter of European air routes and rights. We have treated each Common Market country as a separate country, entitled to a certain amount of reciprocity. Well, if the Common Market is really a common market and we are a common market, why shouldn't we look at these two units as being equal? We do not have to worry about the Common Market's ability to earn dollars. It has the ability now. And many of these practices and licenses and agreements and acquiescences in discriminations grew up at a time when the dollar shortage was a problem. Well, the dollar shortage has disappeared.

Senator JAVITS. If the chairman would allow me, would you add to your list the so-called sumptuary taxes on coffee, cocoa, and other tropical products in the now far more satisfactory, in terms of their own people, European economy?

Mr. NEAL. Yes, sir, I would be very happy to, Senator Javits, because they represent a type of discrimination.

All of these things I have mentioned in the last couple of minutes are not in violation of agreements, but they do represent a kind of discrimination against the dollar, and I think we need to remove them. They also represent, as you so well pointed out, a discrimination against the underdeveloped countries. But we should work to develop a more concerted economic policy among the free industrial countries generally, and there is in the OECD a mechanism for doing this.

We are doing quite well, I think, in getting a better coordinated monetary and central banking-policy, and there is much that can be done with respect to fiscal policy which would aid growth and stability all around. But then we get down to the part 4. We need to enlarge our authority to negotiate tariff reductions to match the ability of the EEC to cut tariffs across the board and so to avoid the effects of discrimination resulting from the elimination of the EEC's internal tariffs.

I think the first thing we need to realize in this connection is that we are not talking here about big, cataclysmic changes. If people talk about cutting tariffs in half or eliminating tariffs, it frightens us. But if you look at what kind of tariffs there are, and I do have a little table here which illustrates the kind of problems we have, we are probably talking about cutting tariffs that are, on the average, as Senator Bush pointed out, 14 percent down to something like an average of 7 percent. With respect to the United States, I think we are talking about an average percentage reduction which is less than that, because the U.S. tariff is lower.

But there is certainly room for advantageous bargaining within these tariffs. I mentioned automobiles, for example. There is no reason why we should have, in the Common Market, a 25- to 29-percent tariff on automobiles, when ours averages 9 perecnt on actual imports. I do not think that we can very well defend a tariff of 10 percent on aluminum ingots in the Common Market as against the tariff of 5 percent in the United States.

And on paper and paperboard, for example, we have got our tariff down to 4 percent. The EEC tariff runs 6 to 18 percent.

In all those cases I have mentioned, if we get the EEC tariff down, we are making a market for American exports, and, by this process, we are providing American jobs. That is the purpose of the excise, too.

Well, we should concentrate, then, on bargaining against foreign tariffs that are most harmful to U.S. exports and that are most helpful to expanding them.

This means that we have to buy the reductions in tariffs in the kind of currency which is acceptable to the EEC and others. Our friends abroad are not giving very much away. We have to make comparable cuts in our own tariffs, but, as I pointed out earlier, if we run in all the other discriminations in this negotiation, I think we have more coming to us if we ask for payment in tariff concessions, we have more coming to us than we have to give in return in the tariff area. And I think that this would be a particularly advantageous time for us to negotiate if we have ample authority.

To this end of expanding exports, by the way, I think U.S. industry and labor both should carefully study export markets that are now restricted by foreign tariffs, and, incidentally, there is no comparison of U.S. and EEC tariffs except this little sheet that I have given you, until a study which we have been working on for 18 months is published. So that I can assure you that most American industries and most American labor organizations do not even know the kind of tariff discrimination or restriction that they are going up against.

But they should study where markets can be opened up; they should make those studies available to our Government, and the import of what I have to say is that our Government should have the authority to negotiate on the basis of this knowledge and in the interest of the United States and of unity within the free world.

Thank you very much.

(The following was submitted for the record by Mr. Neal:)

Comparison of U.S. and European Economic Community tariffs on selected manufactured commodities

[Percent]

Brussels tariff code	Commodity description	U.S. average duties	EEC common customs tariff
31.02	Mineral and chemical fertilizers, nitrogenous:		
	A. Sodium nitrate, natural	0	0
	B. Other	0	10
39.02	Polymerization and copolymerization products (i.e. polystyrene)	23	19–23
44.15	Plywood, blockwood, lamin board, batten board and veneered panels; inlaid wood and wood marquetry.	20	15
48.01	Paper and paper board in rolls or sheets	4	6–18
50.09	Woven fabrics of silk	23	16–17
57.10	Woven fabrics of jute	3	23
61.02	Women's, girls', and infants' outer garments	24	20–22
61.04	Women's, girls', and infants' under garments	33	22
64.02	Footwear with outer soles of leather, rubber or plastic	13	20
73.18	Tubes and pipes and blanks of iron, other than cast iron	3	14
76.01B	Unwrought aluminum	5	10
85.15	Radiotelegraphic and radiotelephonic transmission and reception apparatus, radio broadcasting and television transmission and reception apparatus, etc.	13	16–22
87.01	Tractors	0	12–20
87.02	Motor vehicles for the transport of persons, goods or materials	9	[1] 25–29
88.01	Balloons and airships	12	18
91.01	Pocket and wrist watches	35	13
94.03	Furniture and parts (other than chairs, bedding and medical furniture).	12	18

[1] Excludes goods designed for transport of radioactive material, 10%.

NOTES.—United States duties are based on preliminary data from a study by the Committee for Economic Development in which the U.S. duties are structured within the framework of the Brussels tariff nomenclature. The average duties are weighted averages of ad valorem equivalents of duties collected on 1959 imports from countries, other than Communist dominated. The weighted averages are calculated on the basis of 1960 imports.

The EEC common customs tariff is the proposed external tariff on goods from third countries imported to the Common Market.

Chairman BOGGS. Mr. Viner, we shall be very happy to hear from you at this point.

STATEMENT OF JACOB VINER, WALKER PROFESSOR OF ECONOMICS AND INTERNATIONAL FINANCE, EMERITUS, PRINCETON

Mr. VINER. Mr. Chairman, I would have liked to speak on the foreign policy implications of our trade policy, but Secretary Herter has dealt admirably with them and I am entirely in agreement with what he has said. I confine myself to a general discussion of the desirability of this country continuing to move in the direction of mutual or balanced reductions in trade barriers, with emphasis on the "mutual" or the "balance." Here I wish I could have known what Mr. Neal would say, because some of what I am going to say is very much along the same line as his statement. I want to make one qualification: We ought to move fast, but only as fast as is consistent with a number of important counterconsiderations, in the direction of mutual reductions of remaining trade barriers.

While I have not got the time to enter into a detailed discussion, we ought at least to keep in mind that that formula may not be the proper formula with respect to the underdeveloped countries. Except, therefore, when I say something specific to the contrary, what I am going to talk about will be what should be our trade relations with our friends who are relatively advanced in industry, and who are seriously competitive with us in many ranges of industry.

I am also going to confine myself largely to discussion of the short-run consequences of trade barrier reductions. I am strongly in favor of as steady a movement as possible in the direction of the removal of trade barriers, everywhere and of all kinds, subject to a few very special qualifications which are normally not of major importance. But I am not necessarily in favor of moving in that direction at any moment or without balance, or at a rate which would result in political or economic disruptions within the country, and, therefore, gradualness is an essential element inthe program I would advocate.

There has now come into the American view—I think somewhat belatedly—that normally coutries have to consider their balance of payments situation in framing their trade policy, or their economic policy in general. We lived in a sort of an exclusive gold-rich utopia of our own for about two decades. I remember in the days of the horde at Fort Knox, people talked about the foolishness of digging up gold in one place, and burying it in Fort Knox, where it lay idle. That gold at Fort Knox was not at all idle during that period. It was working strongly for us all the time. It gave us a freedom from balance of payments restraints in our foreign and other policy. Without Fort Knox, there would have been no Marshall plan. Without Fort Knox, we could not have helped finance our allies before and after we entered World War II. Without Fort Knox, we would not have dared to undertake our foreign military and foreign aid programs on the scale on which we planned and executed them.

Those happy days are over. We are now in a more normal situation, one in which practically all countries have been at practically all time, except for short periods, that of having to give serious consideration to the impact on balances of payments of trade and other economic policies.

I take our present balance of payments situation seriously, and I regard it as a reason why, at least at this time and with reference to advanced countries, we should not move strongly in the direction of unbalanced reductions in trade barriers.

The best planned mutually balanced reductions in trade barriers will still hit some industries, some bodies of labor, some regions, even though investment of capital and of skills and crafts in them had taken place with governmental and public encouragement. In principle, I regard claims for adjustment of compensation in such cases as having a measure of validity.

In practice, however, it is an extremely difficult thing to find adjustment procedures which will do more good than harm. Historically, I can think of only one major instance of adherence to the principle of compensation which later was judged to have been highly successful, namely, the British compensation to the planters when they emancipated the slaves in the West Indies. It would, I believe, have taken another generation at least, before emancipation could have been carried through an elected legislature, before the resistance of what had hitherto been a respectable property interest could have been overcome, had the slaveowners not been compensated, and thus their opposition to the measure weakened, and the zeal for reform strengthened on the part of those many who thought that one ought not, by legislation, suddenly to wipe out the value of hitherto legal property assets.

One of the tasks for the administration, and then later on for Congress, will be to see whether it can devise a scheme, with sense and balance and proportion, for adjustment or compensation. The technical difficulties are great, if it is not to be financially and administratively burdensome, and there is something to be said against establishing it only with respect to injuries, or to destruction of reasonable expectations, arising out of tariff changes, when the Government is in many other directions similarly distributing some pains along with the blessings it confers. The principle is valid as a general principle, but its application needs to take account of the danger that administratively, politically, it opens a path to a somewhat promiscuous expansion of government, involving elaborate machinery for regional adjustments, interindustry adjustments, and adjustments between various labor groups, wherever the course of legislation, or of economic change in general, infringes on them unevenly.

There are these and other difficulties. Nevertheless, I don't say it is hopeless to try to meet them, but I must say that so far I have not seen a formula which, if carried out on other than a token basis, and extended to all comparable situations, would not probably in the long run do more harm than good in many respects.

Senator JAVITS. Mr. Chairman, would you allow a question at this point?

Chairman BOGGS. One question.

Senator JAVITS. One question. I don't quite gather, Professor Viner, at this point whether you are for or against adjustment assistance, or whether you have any alternative, or whether you just say we have to absorb the pain.

Mr. VINER. I am for it in principle. If I were a member of a group, asked to see if it could work out an acceptable scheme, I would seek wholeheartedly for a workable scheme whose benefits would probably more than offset its inevitable defects.

At this point, I am not aware of any proposal which I would regard as desirable as it stands. I feel myself that something bigger ought to be worked out, and perhaps experimented with, which was not confined to the impact of tariff changes. In a rapidly changing universe, undeserved and highly undesirable effects of random events, involving obsolescence of particular facilities, skills, investments, are constantly occurring, but remedies adopted may be worse than the disease. All that I am arguing for is, first, caution lest we embark on a dangerous program, and, second, that there is no value in merely token action. Unless there is real conviction on the part of the advocates of a proposal, that it will do a substantial part of the adjustment job with a fair degree of success, I don't see much point in venturing into this untried field.

Let me go on to a second issue, if I may, Senator, on which I have got the same sort of point to make: I am in principle for action, but I am unable to convince myself that a suitable procedure has yet been discovered. We need more flexible and larger tariff bargaining power on the part of the Executive. We need it in the interests of our export trade, and in the interests of some industries, even, who are foremost in opposing trade-barrier reduction. With respect to the Common Market, I am also in agreement basically with Mr. Neal, in holding that they "owe" us something. The question of what I mean by "owe," I leave in the air. But we began to support a common market, with, I think, rather uncritical and naive enthusiasm, without seeing that from our point of view, while on the whole it might be something strongly to encourage, it nevertheless involved certain costs to us, potentially at least. It is, I think, to be regretted that we did not make some effort in advance to see that the Common Market should be so fashioned that we would have advance claims to negotiate with them on means of lessening its potential adverse effects on us.

In this respect, also, we needed to bear in mind the "orphan countries," the small countries that would be left out in the cold if the bulk of the trading world consisted either of tariff unions or of great industrially advanced countries. This is now the problem facing especially, but not only, the relatively underdeveloped countries. I think we have a certain responsibility to them now, because the Common Market is in part an institution of our making. We now have some responsibility to do something to see that the possibly heavily injurious impact on the orphan countries, on the small or underdeveloped countries not within any big trading area, shall be lessened.

There will also be some injurious impact on us, but it may be offset by benefits, and we can bear economic injury more than the underdevelopel countries. And the new imbalances that may result from the Common Market will, in any case, be less for us than it will be for some of the underdeveloped countries.

To deal effectively with the Common Market, there must be sufficiently large and sufficiently flexible bargaining power on the part of our Executive. Now, how do we get this flexibility?

It is a political bias of mine, that, as far as possible, consistent with the attainment of an important national objective, the legislation should be a faithful expression of the will of the Congress, and that the Congress when it confers power on other agencies of our Government should do so with as explicit a formulation of the intent, the purpose, and the limits of exercise of such power. Carried too far, that could result in administrative paralysis. The Congress itself cannot engage in tariff negotiations. The President cannot effectively negotiate unles he has authority to match what we get by what we give.

Item bargaining is a tedious, laborious method, time consuming and inherently narrow in its scope. Across-the-board reductions over categories of commodities, or over the tariff as a whole, obviously provide the speediest and most elastic procedure by which to carry on effective tariff bargaining in the direction of reduction of trade barriers. There will be argument about the percentages, and the categories, but you can move fairly fast once agreement has been reached on these particular things.

Item-by-item tariff bargaining on a multilateral basis is an extraordinarily complex process. It can slow down and come to nearly nothing with the greatest of ease. I believe that under all the bargaining that has taken place from 1934 to the present day, with a qualified exception for the Canadian part, practically all the effective reduction of trade barriers that has been done has been the result of the offers initiated by the United States, that the bulk of the reduction of trade barriers through this process of multilateral bargaining has been on our part or in compensation for our concessions. And it could not very well have been very much otherwise, because germinal multilateral bargaining, item by item, between a large number of countries, is impracticable.

Now, across-the-board reductions are "unselective," at least within the categories of commodities to which they are applied. In the group on which the reductions are being made may be some commodity which on the contrary needs, if anything, some special help. What do you do in that case? The producers of that commodity will have spokesmen, and will arouse public opinion against the whole process. An effective adjustment procedure would be an answer, or a partial answer, to this difficulty, and that is one of the important arguments, too, for the adjustment thesis—it does enable the advocates of tariff reduction to demonstrate that they have considered the incidental inequities that may result from its adoption, and that they have taken some steps at least to lessen them.

The genius may come along who can find a general formula which meets the difficulties of across-the-board reduction. If we really had an international tariff nomenclature, which was sufficiently detailed, so that, say, if you took 100 items at random, they would be of corresponding economic importance roughly in the trading world at large. Then you could accomplish both purposes, of simplifying the tariff-bargaining process while maintaining appropriate selectivity. You could take a group or a category of commodities, schedule A, say, and offer to reduce by 10 or 20 percent or whatever it is, the rates on this category of commodities, except for 10 percent of the items, where you reserve the right to shelter an industry that cannot stand the impact of further reductions, because it is already in distress, and you would also, I would argue, thereby lessen the political resistance to your reducing any duties. It may be that by developing and analyzing the existing international nomenclatures, the commodity experts may be able to find out ways of devising groups of commodities which are fairly parallel in importance, so that the offer to reduce duties by a uniform percentage on, say, 90 percent of the items in the group would have a fairly ascertainable quantitative meaning.

One thing, however, that one must not commit oneself to is too much belief in or concern with the figures that circulate, some of which have been circulated this morning, about average import duties, either in measuring the comparative burdensomeness of tariffs in different countries, or in measuring the significance for your own country of an existing tariff, or of a proposed reduction of that tariff.

What the average 14-percent level of our tariff means economically nobody can know merely from knowledge that the figure is 14 percent rather than 5 or 30 percent. It is the average of the duties collected on all dutiable imports, or, perhaps, the average duty collected on all imports, including nondutiable ones. Supposing a country has 9,000 commodities on its free list, and 1 commodity on which it has a very stiff tariff which nevertheless is imported substantially. That country, if the average duty on dutiable goods, is taken as the measure, has a high tariff, although it is very nearly a free-trade country.

On the other hand, you have a country which shows a low-average duty on dutiable imports, because it has divided its goods into three categories, as we have, historically. One category of goods we want to import and to get as cheaply as we can—we don't want to or we don't believe we can produce them at home, and we don't want to levy consumption taxes on them. I will cite coconuts, bananas, coffee, and tea. They help to keep the average rate of duty on American imports as a whole quite low, but they do not signify that we have a liberal trade policy.

On the other hand, we have another group of commodities where the American production gets a moderate degree of protection, although imports represent only a small proportion of domestic production. That covers a great range of American industry, including much of our export industry.

There is another range of American industry, important in the American economy, but not important in our import trade, in which our duties are extremely high, so that imports come in only in small quantities and for special reasons.

We collect duties in this country in the main on imports in the second category—commodities which are barely competitive with us, and in which the American producers really dominate the domestic market in quantitative terms. The duties which are most important as trade barriers, the duties on the third class of commodities, scarcely enter into the 14-percent figure, because those duties are not collected—they are effective as trade barriers but ineffective as customs-revenue producers because of their effectiveness as trade barriers.

Let me cite just one commodity—Cigar-wrapper tobacco, the duty on which stood out conspicuously in the American tariff for many years for its severity. The duty for years was $2.12 a pound; it is now somewhat lower.

Cigar-wrapper tobacco. The ad valorem equivalent of the duty was rarely less than 200 percent, and at times may have reached 300 percent, or even higher. This duty had no appreciable effect on the average level of duties collected on imports, because it was high enough to keep this grade of tobacco from being imported. The $2.12 rate was not an effective rate in terms of raising the average duty collected on American imports. But it was a very effective rate in keeping out imports.

When we compare European tariffs, or the Common Market tariff, with the American tariff, any measure of height of tariffs, which weights the rates by the quantities of imports which actually pay these weights, can for this reason be grossly misleading.

It is possible also to overestimate the economic significance of particular high rates of duty. For many of those, even if the rate were zero, the imports wouldn't be very much increased. We can dominate the American market because of the superiority of the product, our lower costs, and so on. They remain in our tariff largely because they protect the American price structure, rather than American production. But, we still have a lot of high rates, which do exclude imports, and we ought not to let that 14-percent figure delude us into thinking that we are a low-tariff country. Nor ought we to exaggerate the number of other countries that have higher tariffs than us by using that mode of measurement. For England, in particular, that mode of measurement is on the face of it absurd.

In the first place, with respect to agriculture, England, like most of the world, is using other devices than import duties as effective trade barriers.

Senator Bush. Of course, Mr. Chairman, if I may just interject here, these percentage figures to which you are talking now, which I think I quoted in my original statement, are not perfect. And you pointed out some very real pitfalls in relying too much on those figures, which I agree with.

But I suspect—and I would like you to comment on this—if the adjustments were made in these figures, to take in goods which come in free of tariff, we wouldn't come out with very much difference as far as these figures are concerned. In other words, we would still be a low-tariff country, in respect of these other countries. In other words, you come in with your coffee and your tin and a lot of the raw materials that are not in these figures at all—they come in, in tonnage and large dollar volume and so forth.

Mr. Viner. I don't think that even today our trade barriers are substantially lower in relation to other countries than they were say, before 1934. Our trade policy, plus some historical accidents, have very definitely reduced the amount of tariff protection that American industry gets.

Senator Bush. That is right.

Mr. Viner. A number of other factors. The trade policy was I think perhaps the lesser of the two. Inflation was an important factor. Some of our most effective protective duties were specific duties—so much per pound. The depreciation of the dollar lowered their effectiveness as trade barriers.

But, in any case, if you ask me—and it would be a fair question to put to me—what formula I would substitute for that of average duty collected, as the measure of the height of a tariff. I would throw up my hands. The only way I know to compare the burdensomeness, the effectiveness as barriers to trade, of two national tariffs would be to consult the commodity experts, and to read the tariffs themselves, and then to form a general impression. If persons wanted to generalize about what kind of tariff we have, rather than relying on the usual statistical compilations or averages, they would do better if they just read the tariff in all its detail. If there are no rates in a tariff which exceed, say, 10 percent, or if there are very few such rates, that tariff is a low tariff. If there are both high and low rates, only the real expert can know whether it is a high or a low tariff. If there are many high rates, the odds that it is a high tariff.

With respect to the Common Market, taking up where Mr. Neal left off and agreeing with him basically, we ought to get into a good bargaining position in relation to it. I agree with Mr. Neal that a "balanced" mutual reduction would involve more reduction on their part than on ourselves—on the ground that the setting up of the Common Market, which we supported, involved our surrender, in part, of our rights to most-favored-nation treatment, without any corresponding concession to us on their part. Let us assume that three countries in the Common Market were coal producers, and three of them were coal importers, and that each one of the coal importers had a duty of a dollar a ton. Suppose this is made the Common Market rate, so that there is a sense in which you can say that the duty on outside coal remains what it was before in the Common Market. Nevertheless, the effective duty has been raised as against American coal, if measured by the degree in which it is a barrier to the import of American coal. In other words the internal preferential freedom within the Common Market is an additional barrier on imports from countries outside the area. And in that respect, as tariff bargaining goes, we have a reasonable claim for corresponding concessions.

I would rather, however, see us press the Common Market, on hehalf of the interests of what I have called the orphan countries, that of our direct interest, although indirectly we do have an interest in the Common Market assuming through liberal trade policy a share of the responsibility of helping the less privileged countries to attain a level of prosperity which will keep them healthy members of a free world.

One word more on the manner and mode of our tariff bargaining. We ought not to use bargaining for mutual trade-barrier reduction as an arena for hot fighting between countries who most urgently need to be friends in a critical period of history. We ought to act with good will and to try to be as fair as we can. If we search for concealed trade barriers abroad, perhaps we ought to look a little to see whether we have not got some concealed trade barriers of our own, and bring them out into the open. And at some stage or other in the negotiations, we ought to admit that there are for us as for them, internal political aspects to trade policy, there are certain things which some of us might wish done but because of historical and political or other circumstances we cannot do, but defending them as if they were consistent with our own ideals.

I think our agricultural policy is, as trade policy, something horrible beyond the imagination of man. And yet if a President of the United States were to say: "I am buried in and bound by American history, I can't step out of 150 or 175 years of history at will, there are other more urgent things I have to do, which I will not be able to do if I do not yield in this area," I might disagree as to the facts, but I would accept the doctrine, even if reluctantly. What I see at fault in our trade policy, is not that there is yielding to political necessity, but that we sometimes defend our sins, and discover strange virtues in them. To foreigners we should confess them with a reasonable degree of frankness, and suggest that they do likewise. Agriculture is nowhere dealt with at other industries are dealt with. There is no important advanced country in which agriculture doesn't get all sorts of subsidies, temporary ones and perpetual ones, some of which are hurtful to these countries and even to their agriculture. We don't have to say much more to the European countries in the Common Market than that we are in the same boat politically as they are, that agriculture cannot be dealt with on the same terms as other industries, and that both parties must frankly concede this to each other. I am afraid that in my academic type of advocacy, I have stressed difficulties and qualifications in reaching conclusions. There are a few things for which I am 100 percent. The removal of trade barriers is something for which I am about 98 percent, but I have been putting some emphasis on the 2 percent. This may not always be bad advocacy. If one ignores the fragments of virtue in the opposition's arguments, if one does not try to give them all the weight that belongs to them, in the long pull it is not going to aid one to get public support for or congressional assent to what you are after. For instance, the possible need of adjustment measures, the balance-of-payments difficulties at this particular time, ought to lead to a program of gradualism in reductions, and mutual balance in concessions rather than unilateral reductions on our part. So also, concessions with respect to that 2 percent—in other words, restrictions, limitations, exceptions from the general rule, with respect to tariff-reduction proposals. To move along that way, trying to do justice to every just interest, and presenting a balanced program, might even—it is conceivable, although I wouldn't know just where—in a few odd corners involve an increase in American import barriers. I would not read that out as being wrong in principle, nor as being necessarily wrong in practice, nor as being faithless to a cause.

Then a point on the procedure.

Here it is——

Senator BUSH. Before you leave that point, would you just give us an illustration of what kind of a thing, what kind of a situation might justify increasing barriers?

Mr. VINER. Justify an increase in barriers? Well, I find it very hard to find a case offhand in which I would justify increase of barriers unless the military men would come along and present me a more logical case than they usually do in favor of trade barriers for military purposes. On the whole, I believe American trade policy is, from a military point of view, excessively restrictive, that the things we keep out in peacetime are for the most part things that have no military importance. Our highest tariffs, I believe, are on things like embroideries, laces, jewelry, special kinds of fringes, and so on, which have no military importance whatsoever.

But if I do find a case—though I am a free trader, or very near to it—nevertheless, if I find a case where in the national interest I feel a particular industry ought to be preserved, or ought to be enlarged, for other than strategic reasons, I would not deny it a claim to tariff protection. If I found that a particular industry was the exclusive generator of particular kinds of skills, and that these skills were necessary, not only for that industry, but for other purposes—and that you wouldn't have them if that industry didn't generate them——

Senator BUSH. That is a good example.

Mr. VINER. If I found an example of that sort, my own preference would be that as far as possible it be kept out of the field of trade policy, but instead that it be subsidized in some way. But if the simplest way and the easiest way to foster it were a tariff, I would recommend a tariff. But I want you to note how difficult I find it to think offhand of a case where I would support an increase in trade barriers.

But let me give you another case, and that is a concession to the enemy. If you have export subsidies, if you are making exports of ingredients of manufactures artificially cheap, to foreign competing manufacturers there is nothing in the free trade case, as economic doctrine, which opposes adjustment with respect to the imports of commodities containing such subsidized ingredients. The fathers of free trade made special exceptions for such cases; where a domestic industry is taxed in a discriminating fashion, and its inability to compete successfully with imports is a result of such discriminatory taxation, and if it is not politically practicable to abolish such taxes, that industry has a valid claim, within the logic of the free-trade doctrine, to protection by an import duty. I would call that a free-trade import duty. If we impose artificial costs on an American industry, we owe it artifical protection against imports. The two would balance out as far as trade was concerned.

There may be such cases even though I can't point to any, offhand. To be concrete—there is an export subsidy on cotton; cotton is an ingredient of cotton textiles, a cost item in the manufacture of textiles. I would not say that cotton costs the American textile manufacturer all of the export subsidy on the amount of cotton in each yard of cloth he produces, but the export subsidy is undoubtedly a handicap to him in his competition with foreign textiles. I would see nothing wrong in principle in some kind of an adjustment for that. Abandonment of the export duty on the cotton would be my preferred solution. But I am again assuming that politics will continue to be a necessary and desirable ingredient of American life, and that such things as export subsidies on cotton are an inevitable by-product. I would then certainly sympathetically examine whether it isn't in the interest of the national economy that the textile industry should in some way be relieved of the burden of an artificial cheapening for its foreign competitors of one of its ingredients.

Thank you.

Chairman BOGGS. Does that complete your statement?

Senator Bush, do you have any questions?

Senator BUSH. Mr. Chairman, before I ask any, I would like to ask what your plan of procedure is. I have a lot of questions. This is an unusual opportunity—these three very able men have prepared themselves. I wonder what time schedule we are going to be on?

Chairman BOGGS. Well, Senator, I would think that the questions that you have would be pertinent to practically all the witnesses we have. Our schedule today calls for a morning session only.

I would hope to finish by 12:30 or 12:45 at the latest.

Senator BUSH. Well, may I ask—is that going to be the plan throughout the week?

Chairman BOGGS. No. Tomorrow we will meet in the morning and in the afternoon, both.

Senator BUSH. Well, I am a little disappointed, Mr. Chairman. I can't be here for this whole business. I wonder whether you wouldn't reconsider, so that we could have an afternoon session here.

I have a lot of questions. This is a very, very serious matter, as you know, as well as or better than myself. And I think that——

Chairman BOGGS. Well, let's go on.

Senator BUSH. Do you wish me to limit my questions to 10 minutes, and then the Senator may have some?

Senator JAVITS. I think, Mr. Chairman, if Senator Bush would yield to me for one question, I will be through.

Chairman BOGGS. Fine. Then we will yield the balance of the time to Senator Bush.

Senator JAVITS. I have one question of the three witnesses, because it was omitted in their presentation. I think they know my attitude. I actually introduced legislation on this subject in the field of adjustment assistance and the other fields. I don't agree with Professor Viner that adjustment assistance is difficult, where you are dealing with money. If you give a man money for moving from place to place, or if you give him unemployment compensation, if you give him earlier retirement, that is cash in the pocket. And that to me is very effective adjustment assistance. If you give a manufacturer a loan, as we did after the war, on very favorable terms, to convert from war to peace, for example, in his production, that is a very tangible kind of adjustment assistance. But I do have one question.

All three witnesses omitted the element of phasing out of tariff protection over a period of years, in order to enable an industry, as well as the individuals in it, or a particular business—not a line of business—a particular business—to adjust.

Now, in the legislation I have put in, a maximum period of 7 years is contemplated, so that the President has three courses of action. He cannot negotiate, or reduce anything. He can negotiate and reduce, or take whatever action the law permits him. Or he can negotiate on a phase basis, which will phase out a particular tariff or a particular line of protection, whether it is quota or otherwise, over a period up to 7 years.

Now, my only question, therefore, to the panel is: Is this a legitimate other way, and can it be helpful?

Mr. HERTER. Mr. Chairman, I thought by implication at least this was certainly brought out by Dr. Viner when he spoke about gradualism in the cutting of the tariffs. I had not gotten into any of the details of a program at all. But I would certainly favor a gradual reduction. After all, this is the Common Market method of doing it. If one is going to go into an across-the-board reduction, I think the percentage method of doing it over a period of time gives a given industry that might be affected by it a much better chance of adjustment, than to do it by a meat ax process. I don't know whether Dr. Neal would agree with that or not. But certainly that is the trend by which not only the Outer Seven, but also the Common Market were moving toward tariff reduction.

Chairman BOGGS. I think it might be observed, should it not, that the adjustment procedure which was established by the Six has not been employed because the success of the enterprise has been so great that it hasn't been necessary.

Mr. HERTER. This is as far as the adjustment program is concerned?

Chairman BOGGS. Inasmuch as the Common Market of Six itself is concerned.

Mr. HERTER. As far as I know, they have provision for an adjustment program. That has been invoked only with relation to certain uneconomic coal mines in Belgium. I don't know of any other instances.

Mr. VINER. On the phasing, there is one kind of phasing against which I can see no objection. I had it in mind when I recommended gradualism." If we decide on a "bold" program of, let's say, 50-percent reduction in our tariff, we should phase the points in time at which the reductions shall take effect. There is another kind of phasing about which I am not so enthusiastic, that is, where, say, the President would be authorized to reduce 10 percent this year, and if he wants to, another 10 percent the next year, and if he wants to, another 10 percent the next year, up to a maximum of 30 percent. That just creates an artificial uncertainty in the whole situation. In the meantime, foreign producers would be foolish to act on it, because they don't know that it is a reasonable certainty, while American industry would be foolish to expand its facilities or equipment, if it is dependent at all on the tariff, because it doesn't know whether or not the rug is going to be pulled out from under them. I think that was one of the mistakes in our past procedures. The whole extent of the reduction contemplated by the Executive should be offered in the initial bargaining, so that these unnecessary and damaging uncertainties would be avoided both for the American industry that is involved, and for the foreign industry which may contemplate taking advantage of it in order to enter the American market, the reductions to become effective at intervals prescribed in advance.

I am not sure which kind of phasing the Senator had in mind. I am all for the first, in part because a "bold" policy will have much more chance of adoption if it also has an element of gradualism in it, so that there is some time for the normal adjustment process to work itself out. Economically also, there is a lot more to be said for it.

Senator JAVITS. I might say, Professor Viner, that is precisely what my bill contemplates.

Mr. VINER. Then I am with you, Senator.

Senator JAVITS. I might say also, Mr. Chairman, I am through now. I have heard Professor Viner on the subject well over 20 years ago, at Williams College.

Mr. VINER. Almost 30 years ago. And I heard you, Senator.

Senator JAVITS. And his views have been consistent through the years. Thank you, Senator Bush.

Chairman BOGGS. Senator, just one moment, and then you may have the balance of the time.

Mr. Neal, I would call your attention to a study by the subcommittee entitled "Trade Restraints in the Western Community," which deals with the subject that the CED is now studying. I can understand why you have not seen it. It was just published on December 1, just a few days ago. But it is a rather complete study of these barriers. And I recommend it to your attention.

Just one question, if I may, Senator, and then you may have the balance of the time.

I gathered from Mr. Neal—whether you think the Common Market is a plus or a minus, insofar as the United States is concerned, I got the very definite impression that you do feel that we need to be in a postion to bargain with the Common Market. Is that correct?

Mr. NEAL. I think that is precisely the implication I tried to convey, sir. I am very pleased to know about this study.

Chairman BOGGS. That is all. Senator Bush.

Senator BUSH. Thank you, Mr. Chairman.

Mr. Chairman, I would like to say first—I want to make it quite clear to you distinguished gentlemen that I have never been and do not now claim myself to be an extreme protectionist. I have supported the Trade Agreements Act since it was first discussed, and adopted, and as a member of the Randall Commission, I supported it against all the opposition to it. I rejected completely the thought that we ought to go back to letting the Congress handle these matters, as it did before that act, which I believe Mr. Viner had something to do with bringing about, when Secretary Hull was its chief proponent. I want to make that very clear.

I also want to make clear that I appreciate fully the implications of this whole thing—the desirability of our expanding our trade, and the fact that in order to do it, we should make, from time to time, adjustments in our policy, and reduce barriers wherever we can, without causing serious injury to important segments of our own economy.

Mr. Viner's language, about mutual or reciprocal arrangements for gradual and selective trade barrier reduction, is almost the language of the Randall Commission. Maybe we took it from Mr. Viner, who I think may have testified at that time. I believe you did. At any rate, that is my conception, too, of the way we should approach these matters.

Now, when Mr. Herter very kindly wrote me a few weeks ago he was going to testify here, he asked me what suggestions I might have that might be addressed to him, or that he might be called upon to answer when he came before this committee. So I wrote him. I now address these questions to any of the panelists, not particularly to the Secretary—but I will read the first one, because I think this has an important bearing on this whole question of tariff and barriers.

I said to Mr. Herter—

You asked for questions. First, I think you should be prepared to discuss quotas, and explain why you do not believe the use of quotas would be helpful in connection with the new trade policy. During the years of the Eisenhower administration, the quota technique was brought into play several times. The fact that it was done on a voluntary basis does not change the principle. I recall specifically the quota arrangements in connection with cotton textiles.

I believe the velveteen textile was the most important one.

Notably velveteen, and also stainless steel flatware. I recall that the Japanese were making such inroads into our markets for these products that both industries, that is the textile and the steel flatware business, would likely have been out of business, in a very few years, had not action been taken to these quota arrangements. I don't believe tariffs are very much good. They either have to be prohibitive, or else they wouldn't be very effective. However, properly established quotas will admit reasonable amounts of foreign imports in competition, and will restrain increasing costs here by virtue of the competition, and thus benefit the consumer. My conception of the quotas is a fixed percentage of the market. If the market grows, the absolute import under the quota will grow proportionately.

This is not shutting out. This is coming to an agreement, as to how much of the market is fairly allotted to a given country.

So first I open up the question of quotas, and ask any of the panelists to comment as they will.

Mr. HERTER. There are three types of quota systems, as you know. There are those that are combined with the tariff, where so much of a given commodity is allowed to come in at a given tariff rate, and then the tariff is raised on all future imports beyond that quota. There is also the type of quota which is a complete barrier, so to speak, which we have in certain agricultural commodities—that we have got to have as long as we are going to maintain an agricultural policy, which has been quite well qualified in its terms by Dr. Viner.

You cannot maintain artificially high prices in this country for agricultural products without excluding imports. It just cannot be done.

The third type of quota is the one where you allow so much of a commodity to come in, a percentage, let's say, of the market, as you described it. There the actual operation of the quota system is almost impossible, unless you are dealing with only one supplier. In the case of the Japanese, it could be enforced, whether it was voluntarily or whether it was prescribed by law. If you have got 20 countries that may want to do that, you have this hideous race which takes place in the first few days of the opening of the fiscal year to which it may apply, in which everybody tries to pile everything in, and from there on there is an embargo, which makes a very disorderly trading pattern.

Actually, today—take the stainless steel flatware—the entire import quota that comes into this country comes in within the first 30 days. If there were other countries that were competing in that they would have to fight terrifically in order to get in. It is very, very difficult thing to enforce.

Senate BUSH. In conection with the stainless steel flatware, even granted that it is true, as you say, that they come in with their imports in the first 30 days, it has had the effect that it was intended to have, in offering a protection that would keep this industry in business in this country.

Mr. HERTER. There is one thing I find some difficulty in answering about the stainless steel flatware. I have read the reports of the Tariff Commission on it just recently. They do not indicate whether or not the manufacturer of that stainless steel flatware also manufactures other goods, or whether it is only one of their products. But when you add up the total volume in dollars and cents of stainless steel flatware, from the point of view of the economy of this country, it is a minimal amount, which is true of nearly all of these things in which the escape clause has been applied. It is a very minimal amount.

Senator BUSH. I don't mean to emphasize this item, Mr. Secretary. It is only an illustration. I agree that it is a small industry—yes, that it is a small industry. Of course, the textile industry is a much larger one. But I agree that stainless steel flatware is small. But it is the question of principle that is involved here. That is what we are talking about. And you have pointed out the difficulties, as you see, in using the quota. In other words, do you reject the quota system?

Mr. HERTER. I think the quota system of course is the most absolute system of trade barrier that there is.

Senator BUSH. Now, you mentioned one, two, and three. The second one had to do with quotas on agricultural imports?

Mr. HERTER. Yes. We don't have any agricultural imports on those where we have high artificially supported prices at the present time. In wheat I think we have got a tariff that makes it entirely probative.

Senator BUSH. Do you visualize that if the new program which you are presenting is adopted, that we would remove barriers on agricultural products?

Mr. HERTER. No. I feel very much the way Dr. Viner does about the whole agricultural picture. That is, a separate study all by itself—just as it has been proven to be in Europe a separate problem, where adjustments have not yet been made. And it has historically certain social and political signficance. I can recall, for instance, quite well when I was Governor of Massachusetts, having brought before me a bill dealing with certain milksheds and the establishment of a milk control law. I signed the bill. It was drafted in order to protect what was left of the dairy industry in Massachusetts. The reasons were not economic reasons. We could get milk just as pure and much cheaper from Wisconsin, than we could produce it in our own State. It had to do entirely with social and political factors that had a very real bearing from the point of view of maintaining—maintaining what had been a healthy segment of our economy.

Senator BUSH. Well, so far as the balance of payments is concerned, insofar as imports is concerned, really I don't see any difference in principle from encouraging the imports of agricultural products and encouraging the imports of manufactured products. In the manufactured field, you have a much higher labor content, there are many more families affected, and you have got this tremendous problem of life adjustment facing us if this kind of a thing goes through on the basis it is being discussed.

Now, how can you justify being so inconsistent as to do nothing about the agricultural import situation, but still insist that we should adopt this new scheme of giving the President authority to cut tariffs all across the board on manufactured products, regardless of whether they have a high labor content or not. How can you justify that distinction?

Mr. HERTER. You cannot. It is an illogical position, based upon political considerations. You just cannot justify it. And very frankly, I am completely out of sympathy with our agricultural policies.

Mr. BUSH. Well, now, does anyone on the panel wish to comment further on that point. Mr. Neal or Dr. Viner?

Mr. NEAL. Could I say something about this quota problem? It is, as Professor Viner and Mr. Herter have pointed out, by definition a movement away from liberalism. On the other hand, there are some cases in which you get an explosive effect by introducing modern technology into a very low wage situation. We have had this from Japan, from Hong Kong, from Pakistan, and from India in the textile industry.

If your problem is one of maintaining a general liberal trade policy, with exceptions, or not having a liberal trade policy, then it seems to me you have to face the possibility, and it is a real one, that in some industries—and I doubt there will be more than a very few of these—our producers, and the producers in Western Europe, by the way, will be faced with a rapid displacement of labor and other resources from a competition which is just too vigorous, and that large numbers of people will be involved.

In cases like these, I think that the steps that have been made in the textile industry, in the direction of an international agreement, in which producers and importers both join, and which leads to the establishment of quotas—in some cases, by the way, the establishment of quotas for countries that had embargoes before, so that you are widening the market in the process, and quotas which expanded overtime, so that the adjustment can be spread out over a long period of time—that this type of quota, on this basis, I think is justifiable and is, let us say, only a minor departure from what we are talking about when we are talking about liberal trade policy.

Senator BUSH. So there are places where quotas in principle can be useful, apart of our foreign economic policy. That you agree.

Mr. NEAL. I believe so.

Mr. HERTER. I think—may I just add a word to that. I would agree with what Mr. Neal had said. But I would put the emphasis on the fact that the quota should not be a permanent part of an arrangement, that it should be a transitional thing, to take care of what he calls explosive technological change.

Senator BUSH. Shouldn't that apply to most any arrangement of tariff or quota or trade agreements? I mean they may be changed and should be changed from time to time. Is that so?

Mr. VINER. But there is a difference between recognizing that this is a changeable world, and that things that are enacted now may not last forever, on the one hand, and deliberately creating uncertainties in the picture, on the other hand.

The quota is not the worst kind of phenomenon there is in the world. But there are differences in kinds of quotas. In one respect, there ought to be a strong bias on the part of reasonably conservative Americans against the quota system. It is in form and in kind a definite departure from the free market economy, in which market demand and supply, prices, determine the scale and character of the operations which individuals engage in.

Senator BUSH. Well, isn't that true of any restriction?

Mr. VINER. No; it is not true of an import duty. A 10-percent ad valorem import duty involves a definite maximum impact on market price. In other words, the importer, or domestic producer, who is contemplating the duty with joy, because it helps protect him, knows that it is limited to 10 percent. You don't know what the limit is to the duty equivalent of a quota. It may be 5 percent or it may be a thousand percent, in terms of the price effect. Moreover, it belongs to a pattern of administrative intervention in the market which is a peril to the free market. I wouldn't like our Government, or our administrative agencies, to be skilled or to believe itself skilled in the imposition and administration and manipulation of import quotas, for it is too easy to slide over to domestic quotas, which you allot and to particular firms the quantities they may—or must—produce, of particular commodities.

However, there are differences in kind as between quotas, and perhaps there is not too much profit in discussing quotas as such.

American quotas, in our trade-barrier system, were introduced in the main in order to limit the disturbance that would be caused by import duty reductions. And they were not what is known to technicians as "absolute quotas," but were "tariff quotas." That means that a specified amount can be brought in at a lower rate of duty, but you can exceed your quota, but subject to the full rate of duty on the excess. As a transition device, I think it was an ingenious invention. Absolute quotas were introduced in Europe in the 1920's and 1930's, as a step toward the state-managed economy in which bureaucrats dictate how much shall be produced of what kind and by whom. There ought to be a strong bias in this country, particularly on the part of one of our major American political parties, against the very idea of the quota, because it is on the path to something that they say they dislike very much.

Senator BUSH. I think that is a very interesting observation. I am glad the panel has some sympathy with the quota for some places. places.

Mr. VINER. Yes, I have too; I think the tariff quota is an ingenious invention, appropriate for some circumstances. If you have a 50 percent duty, and then you say we are going to cut it to 10 percent, but for the first 5 years, to make sure it doesn't overwhelm the domestic industry, we will limit the imports to a million tons, which is somewhat more than came in at the peak in the past, that is still a quota, but when regarded as linked with the reduction in import duty it is not very restrictive, and there is a lot to be said for it. It is a way carrying out this gradualness that I have been arguing for.

Senator BUSH. I can perhaps comfort you by saying I am not sure about this quota business itself. I am trying to get information from skilled and able witnesses, like yourself, and these other gentlemen, and those who are coming to see whether this thing is practical or not. And that is what my purpose is. I really don't know. I have seen it work in the past few years, in limited areas, as we have just discussed. But I, like yourself, feel that we should proceed gradually, selectively, reciprocally.

Mr. VINER. Not too gradually and not too selectively.

Senator BUSH. All right; I am only using your words. But that is the purpose of my question about the quotas.

Now, I would like to move on to another question here that I addressed to Mr. Herter.

He spoke in his statement to us with Mr. Clayton. He said—

We believe that the dislocations of labor or capital as a result of increased imports can be adjusted better by the affected parties than by the Government, but we would support a public program for extreme cases.

How would extreme cases be defined?

Mr. HERTER. That depends entirely on the machinery that is set up for this purpose. My own feeling is that probably the best instrument that one has for determining extreme cases is the Tariff Commission itself—the Tariff Commission has to make very careful studies of all these matters in connection with its responsibilities.

Senator BUSH. Well, the Tariff Commission, if I recall, is supposed to find out whether serious injury exists or is threatened, doesn't it?

Mr. HERTER. Yes; it does.

Senator BUSH. Well, is that an extreme case?

Mr. HERTER. It would be an extreme case if they found that this was due primarily to imports. This is one of the things that you find in many of their studies. Dr. Viner is an expert in the field and I am not an expert in the field. But those I have seen——

Mr. VINER. I was once an expert. I want to make that clear.

Mr. HERTER. They have great difficulties in disentangling the reasons for the failure or the difficulties that businesses have. With respect to the first part of that statement, may I go back again to personal experience that you know about in New England, in connection with the textile industry. There the movement of the textile industry out of New England was not caused by imports—it was caused by competition from the South, within a free trade area. We went through a very hard time in some of our larger cities in Massachusets, because they were essentially a one-industry city—textiles—which had been built up over a long period of years, for reasons we don't need go into here.

The South began offering competition, began offering tax concessions, began offering closer access to the raw material, and many other things and cheaper labor. And we had to go through this period of adjustment. We did everything we could to appeal to the Federal Government for help. There was nothing practical that the Government could do from the point of view of steering contracts, or from the point of view of anything except a limited degree of vocational retraining, which was largely done by the State itself. What happened was that individuals began to show initiative to find what industry they could to replace the textile industry. As you know, the great Amaskeague mill in New Hampshire today has perhaps 25 industries in those buildings. In Lawrence, Lowell, Fall River, New Bedford, we have a diversification of industry today, with higher grade labor. Actually in Lawrence not long ago you had a labor shortage in the city, but it had been a labor surplus area for a long period of time during the transition. But the readjustment came about through the initiative of individuals.

Senator BUSH. That is right.

Mr. HERTER. And that is what happens within a free trade area. There is very little that can be done. The particular piece of legislation that is in force now is having great difficulty in knowing how to adjust itself, or how to administer. I think the very points have been brought out about the difficulty of administration, that are very great. But I think in the retraining field, in the loan field, and in the question of assisting with technological advice and so on, the Federal Government can do some real things.

Senator BUSH. Well, let me point out, too, Mr. Secretary, that what took place in that longer period of adjustment in New England, through the loss of the textile business, was due to a transition that took place within our own economy, and without any Government action. It wasn't the Federal Government that caused it by any positive action that it took.

Mr. HERTER. Right.

Senator BUSH. It was just like the exit of the buggy whip, and the horse and carriage, and the icebox, and a few other things. It was a part of our development. And we gradually, as we said, made a wonderful comeback. But it took us a good 20 years to do it in New England. Now we are talking about something, of a dislocation, putting a lot of people out of work, maybe a lot of companies out of business, by concrete action of the Federal Government. So it is a different thing, in my humble opinion. And this is why we have got to study it so very carefully.

Mr. HERTER. May I interrupt there for a moment. I wouldn't be advocating any of these things if I didn't think there were comparable benefits coming to us from the point of view of the overall economy. It may mean some shift in our production. But the whole history of the last 30 years, the liberalization of trade, has shown how tremendously trade has increased and how greatly prosperity has increased in these industrialized nations. So it is a question of balancing benefits in the Federal action, rather than taking something away.

Senator BUSH. I appreciate that is your position. And I am sure it is held in absolute perfect conscience. I don't question that at all. But I do think that when we are undertaking a concrete action by the Federal Government that may have such profound implications upon thousands and thousands of families in this country, that we have got to look at it very carefully, and make sure there are those contingent benefits which justify the requests by our Government that these people accept the hardship for it, and go through the life-adjustment processes, even if the Federal Government does attempt to try to help them. But I don't think that it is going to be particularly attractive to these people to say that they were going to have to leave Massachusetts and Connecticut, and go out to Keokuk, and we try to train them there to some new skills, pull them up by the roots, where their families have been brought up, the children in schools, where the churches and the cemeteries are. I mean it is a very serious matter for these families that are numbered by the thousands in this country. So that is why I think that the Congress must closely scrutinize this business, and weigh very carefully what these additional benefits are.

Now, the thing I would like to know is how bad would a situation have to become before it could be called an extreme case. Would somebody answer that question?

Mr. NEAL. The mere mention of an adjustment assistance program implies that you are going to have a lot of people out of work, a lot of industries going broke, and so on. And I want to underline, because it is a fact, a very important fact, what Mr. Herter said about the Common Market.

Now, here is an area of 160 million people which used to be six countries, each having their separate tariffs. And in a space of a little over 3 years they are cutting their tariffs by 40 percent. You cannot find anything but prosperity resulting, except for the impact of competition from American coal, which you yourself cited, I think, sir.

Within our own country, in spite of having cut our tariffs by 50 percent, roughly, by one way or another, since 1934, if you look at the depressed areas—and these are all classified now, and even as to cause of depression—it is remarkable how difficult it is to find that imports had very much to do with any of them. I mean the truck displaced a lot of freight, and the diesel replaced the steam locomotive, and you had a lot of closing down of carshops and things of that sort. Petroleum and natural gas took much of the market away from coal, so you have a lot of depressed coal communities. And the depressed textile communities are depressed more in New England than the other locations because of internal competition. And so it goes when you study the depressed areas. So the thing I would like to say is that regardless of what definition you take for hardship—and I think that the only definition that makes sense is displacement of labor, in some substantial way—that even with this definition, and even with a very large cut in American tariffs, if we maintain, as I think we can, a high level of employment generally in the country, you are not going to have much reason to use adjustment assistance. But we ought to have it, anyway.

Senator BUSH. Of course, you mentioned the coal situation. Whatever life adjustment programs there may have been, they have not been very successful for the poor folks in the coal areas—either Pennsylvania or West Virginia. There has been no genius that has come along with just exactly the right magic wand to straighten out that situation. And I am a little skeptical that the Federal Government all of a sudden is going to be able to wave the magic wand over these industries that may be caused serious injury, and it is expected they will be caused serious injury, because the life adjustment program is tried out right beside it to take care of these industries that are going to be crushed in many cases by this action of the Federal Government.

Now, I would like—maybe I can have one more question.

Chairman BOGGS. Surely.

Senator BUSH. I said this to the Secretary:

> Our national economy is supported by a network of subsidies that is intricate. These subsidies reach into almost every aspect of our economic life. The farmer is heavily subsidized. Wage rates are subsidized by a complicated system of laws. Some manufacturing industries are subsidized by tariff. Transportation is heavily subsidized, every form of transportation, and some unfortunately so heavily subsidized as to work disadvantage on others, to wit, highways versus roads. The point here is this: Can you take one of these props out from under the economy by removing protection against imports, and still maintain these other subsidies with impunity?

That is my question.

Mr. VINER. All of these considerations you raise have to be very carefully looked at—they are significant, they are relevant, they are important.

What is important is that Congress, the administration, the public, have some kind of a general scheme of thought, some general philosophy—a notion of what sort of economy they want—before they decide on major moves. In a subsidy-ridden economy—and I will at least for the present agree with you that we have a subsidy-ridden economy—these subsidies distort the allocation of resources, unless they are offset by countervailing subsidies somewhere else.

You might argue that if an economy is operating with two crutches, even if one doesn't believe in an economy operating on crutches, it is a mistake to take the crutches away one at a time, and it is less of a mistake to maintain both crutches until the time comes to take them both away simultaneously. I haven't got a formula to answer that, and I do agree that as far as is practicable the other things that are distorting the economy should be introduced into the picture when tariff reduction is under consideration.

I think I dealt with the principle involved when I said that if the domestic textile industry is being injured as a result of an export subsidy on one of the ingredients of textiles, it may be wisdom, it may be sound policy, it may be good economics to provide the textile industry with an artificial offset.

I am not prepared to make a positive recommendation as to what to do in this particular situation. The Congress is not able to deal with the whole universe simultaneously in one piece of legislation or in one session. I do think it could improve its facilities to that purpose, and that perhaps one major task that the Congress should assume would be to reconsider its own mode of operation as a legislative agency. Difficulties are created in every field by the sort of issue you are raising, and the result tends to be that with choice restricted to either imperfect action or no action, the outcome is inaction. You can't have neat legislation, formula legislation, and have it good legislation on complex matters in an economy like ours, with many inconsistent, interdependent elements in it which can't all be dealt with at once. When the time comes for decision, you will use your judgment, Senator. Any advice I would feel qualified to give would take the form of considerations deserving attention, and of suggestions as to how they should be weighed in the balance, but that is about as far as I would feel qualified to go. But I don't think, however, that a negative answer to the whole proposal, could be justified merely on the ground that it will not be possible to take care of all the bits and pieces at the same time. Such an attitude would lead to legislative paralysis.

Mr. NEAL. Senator, may I add something on this subsidy issue, because I think that your question appropriately combines these issues?

The biggest subsidy, I think, that the U.S. Government is having to pay is to agriculture.

Senator BUSH. That is right.

Mr. NEAL. It is an anomaly of this world that American agriculture, by and large, is more efficient than the agriculture anywhere else.

Now, if we want to get rid of subsidies—and here I think Professor Viner's point about having a consistent philosophy about these things is very important—if we want to get rid of subsidies, certainly the trade policy ought to be set up in such a way as to reduce, rather than to increase, the need for subsidy. Well, now, one of the reasons for subsidies to agriculture is overproduction, and one of the reasons for overproduction is that we don't have sufficient foreign markets. We can outproduce and outsell Western Europe in a whole range of the big crops of this country. Now, if we can have a trade policy that will permit American agriculture to enter those markets in volume, you are going to be able to reduce this agricultural subsidy, and the country is going to be a lot better off for it.

Senator BUSH. Are you optimistic about that?

Mr. NEAL. I think we have got to try, sir.

Senator BUSH. Let me raise this question. It is right in line.

You take the shipping business. We are subsidizing the shipping business—how? We are paying them the difference between the cost of wages on our ships and the cost of wages on the ships of our competitors at sea—Britain, Norway, the Dutch. And that is the subsidy to the U.S. shipping lines, as I understand it. I think that is correct. That is it.

Now, have you thought about the possibility of subsidizing the wage rates for these manufacturers instead of pushing them out of business? Have you thought about that form of subsidy for the manufacturing industry, who has a high labor content? If it is fair for one industry, is it unfair for another? Is there any comment about that?

Mr. HERTER. Insofar as the shipping industry is concerned, I think that development was a matter of national defense essentially—the whole merchant marine development has always been a part of the Defense Department insisting on having available to it shipping with our farflung interests all over the world, merchant shipping.

Senator BUSH. Mr. Secretary, that same national defense argument can come into this other thing, too, in this question of manufacturing industries, with the growing menace of the Russian submarine and war and so forth, the question is how heavily dependent do we want to become—how much more heavily dependent do we want to become on imports of manufactured goods from abroad?

Mr. HERTER. Under existing law, there is a national defense provision whereby the President can recommend on the ground of national defense the protection of certain industries.

Senator BUSH. He is not likely to do it before we get into war. And if he thought it was very important, he probably would be down here testifying.

Mr. HERTER. I think one of the reasons is because of our stockpiling program.

Senator BUSH. I would just like to ask Mr. Chairman if I could have inserted in the record at this point in my questioning——

Chairman BOGGS. Without objection.

Senator BUSH. The hourly wage rates in manufacturing as of 1960, in the various countries, beginning with the United States, and down through Japan.

(The table referred to is as follows:)

Hourly wages in manufacturing—1960

[In cents per hour]

United States	229	West Germany	63
Canada	179	Austria	44
Sweden	102	France	43
United Kingdom	[1] 89	Italy	37
Switzerland	70	Japan	[2] 29

[1] Adult males only.
[2] Includes salaried employees and family allowances.

Source: Computed from data contained in 14 International Financial Statistics, No. 10, October 1961; 84 International Labour Review, No. 3 (Statistical Supplement), September 1961; 15 United Nations Monthly Bulletin of Statistics, September 1961.

Senator BUSH. I also want to point out that the question raised by the Secretary, Mr. Herter, concerning the textiles of the North and their moving to the South, that this was in large measure due to the differential wage rates down there, was it not?

Mr. HERTER. Yes. I think that and tax concessions.

Senator BUSH. And some power concessions, too, I believe.

Mr. HERTER. Yes. After all, the textile industry developed artificially in New England because of the clean rivers, the fast running rivers, and a little capital, and a little get up and go.

Senator BUSH. Well, Mr. Chairman, I think that these gentlemen have been very patient with me. I will hold my further questions for the time being.

Chairman BOGGS. Thank you very much, Senator.

Just one observation which I would like to make before we conclude.

In connection with the dislocation of the coal workers in Belgium, I am informed that Belgium is one of the few countries on earth today which has overemployment. There is no unemployment in Belgium. So that whoever may be displaced is now working somewhere else. So that there has been no unemployment as a result of the formation of the Common Market.

I would like, on behalf of the subcommittee, to express our appreciation to Secretary Herter and Professor Viner and to Mr. Neal, of course, for your fine contribution to the panel.

Thank you very much. We will recess until 10 o'clock tomorrow morning.

(Whereupon, at 12:45 p.m., the committee recessed, to reconvene at 10 a.m. Tuesday, December 5, 1961.)

FOREIGN ECONOMIC POLICY

TUESDAY, DECEMBER 5, 1961

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee of the Joint Economic Committee met, pursuant to notice, at 10:05 a.m., in room 4221, New Senate Office Building, Hon. Hale Boggs (chairman of the subcommittee) presiding.

Present: Representative Boggs, Senators Bush and Pell.

Also present: William Summers Johnson, executive director; and Richard J. Barber, clerk.

Chairman BOGGS. The subcommittee will come to order.

We continue hearings this morning on the whole range of foreign economic policy.

We are very fortunate indeed to have the former Secretary of State, Mr. Dean Acheson; former Under Secretary of State, Mr. William L. Clayton; and the distinguished professor, Prof. Henry Wallich.

We will call on Mr. Clayton first. But, before doing that, I would like to summarize, if I can, just a few of the activities of our distinguished panelists, all of whom are so well known to the American scene.

Mr. Acheson was private secretary, some years ago, to the late great Justice Brandeis; Under Secretary of the Treasury back in 1933; Assistant Secretary of State, 1941; Under Secretary of State, 1945; continued there through 1947, and served as Secretary of State for a good many years—I think recently Vice Chairman of the Commission of the Organization of the Executive Branch of the Government.

Mr. Wallich has been in the export business, has worked for the Chemical Bank & Trust Co., has been in the security business economist for the Federal Reserve Bank of New York; consultant with the Mutual Security Administration in 1952, prior to that to the ECA in 1948, to the Treasury Department in 1951–52, to the Government Development Bank of Puerto Rico, 1955–57, and on the President's Council of Economic Advisers, 1959–61; is author of "Monetary Problems," and so on.

Mr. Clayton, who will be our first panelist today, was one of the distinguished authors of the report filed on our economic problems arising from the merging Common Market. He joined with former Secretary of State Christian Herter, who was here with us yesterday, in the preparation of that report.

I won't attempt to cover the long and distinguished career of Mr. Clayton, but I would point out some of the highlights of that career.

He served as Assistant Secretary of Commerce, 1942. He has served with many other Government agencies, including service as Surplus Property Administrator, with UNRRA, most active in economic affairs, then as Under Secretary of State for Economic Affairs. And when the Marshall plan was inaugurated, under the impetus of Secretary Marshall and President Truman, it was Secretary Clayton who insisted that it be administered as a joint enterprise for Europe.

So we are very happy indeed to have all three of you gentlemen here with us this morning. And if it meets with the approval of Senator Pell and Senator Bush, I will call on Mr. Clayton to open the discussion.

STATEMENT OF WILLIAM L. CLAYTON, COCHAIRMAN, U.S. CITIZENS COMMISSION ON NATO

Mr. CLAYTON. Mr. Chairman, and gentlemen of the committee, I doubt if I can add much that is new to the paper that Mr. Herter and I have prepared for this committee, and to the very enlightening statements made on yesterday by Mr. Herter, Mr. Neal, and Professor Viner.

I would like, however, in this short preliminary statement, to review certain aspects of this whole subject, the importance of which, it seems to me, can hardly be overemphasized.

First, I want to mention the essentiality of Western unity to Western survival. In speaking of survival, I am speaking in the sense of the cold war, under which we could lose our freedom without a shot being fired.

The objective of the cold war is to divide the countries of the West, to isolate the United States, and to win the underdeveloped countries to communism.

Assuming that Britain's negotiations to join the Common Market are successful, it is believed that all or nearly all of the Western European OECD countries will become affiliated in some form with the European Common Market.

There are seven of them already in the Common Market—the six original countries, and Greece was admitted on an associate basis. So that only leaves 11. And the majority of that 11 have already announced that they would seek affiliation if Britain's negotiations are successful.

If, then, the United States and Canada should associate themselves with the trade aspects of the Common Market movement, the Soviets would face a united West, with a political and economic aggregation so powerful that their cold war objectives could not be realized.

On the other hand, if the United States stands aside, the West would be divided, the United States would be isolated, and the Soviets would have an open road to the underdeveloped countries.

In any case, we must reduce the barriers to trade among the Western nations and the underdeveloped nations because this is the only real way we have of solving our balance-of-payments problem, and protecting the dollar against devaluation. This will allow us to export more, it will help keep United States costs down, and it will take away the artificial incentives American companies now have for locating their new plants in Europe and thus exporting jobs to Europe.

The second point which I feel can hardly be overemphasized relates to these same non-Communist underdeveloped countries. There are about 100 of them, with half of the population of the world. Half of these underdeveloped countries, with about 1 million of population, have been born into the world since the end of World War II. Even in normal times it would be extremely difficult peacefully to assimilate these inexperienced baby countries into the world family of free nations.

It is my considered opinion that it will be impossible to do so unless the rich industrialized nations of the West join together in an enterprise dedicated to raising the productivity and standard of living of the poor countries.

It is my opinion that this narrowing of the economic gap between the two groups of countries can be done only by measures substantially increasing the volume and the value of the exports of the underdeveloped countries.

To accomplish this, the industrialized West must establish a system of free trade on the exports of raw materials of the underdeveloped countries.

Last week, representatives of 45 nations met in Geneva, at the Ministerial Conference of the GATT. I quote briefly from cable dispatches published in the newspapers about the proceedings at this meeting.

> The underdeveloped nations of the world pleaded with the rich industrial nations of Europe and North America today to lower their tariff barriers. One spokesman for the underdeveloped nations threatened the richer nations with economic reprisals if something is not done to open up more markets for the raw materials and the agricultural products that underdeveloped countries export. The Brazilian Minister of Trade said "Either economic progress is fairly common to all, or the resulting inequalities will lead to social revolt and turmoil. There is no longer a place for the chosen few in a tightly interdependent world."

In my opinion, we will never regain our lost prestige in Latin America, no matter how much money we give or lend them, as necessary as that is in some cases, until we undo the actions which we have taken tending to widen the economic gap between North America and Latin America.

For example, the import quotas which were established on lead, zinc, petroleum, sugar, and on other commodities, and our export subsidy on raw cotton, all these commodities are produced for exports in Latin America. Now, the export subsidy on raw cotton amounts to 25 percent of its value.

In other words, the U.S. Government guarantees a price for raw cotton, at average locations, of 33 cents a pound. But the world price, also fixed by the U.S. Government, is 24½ cents a pound. The opinion has been expressed in certain Latin American countries, with which I am very familiar, that the U.S. Government uses its great wealth to, in this way, drive out its cotton-growing competitors throughout the world. Of course, we all know that that is not true. But anyway, that opinion does exist in some places.

The Communists are guilty on many counts, but they did not create this economic discrimination. In speaking here of economic discrimination, I am referring to the general discrimination, including the import quotas on commodities that the Latin American countries export, and not simply on the cotton situation.

Senator BUSH. Could I ask just one question, Mr. Chairman?

Chairman BOGGS. Yes.

Senator BUSH. Do I understand, Mr. Clayton, that part of this program that you are recommending involves the abolition of the export subsidies on cotton and other goods?

Mr. CLAYTON. No—it does not specifically, Senator Bush. But the program that we are advocating does provide for the elimination of all discriminations in international trade, and the elimination of tariffs and quotas.

Senator BUSH. Well, then, it must encompass the abolition of the export subsidies for American agricultural products, is that right?

Mr. CLAYTON. In general, it does.

Senator BUSH. Specifically, too.

Mr. CLAYTON. Well, you can say specifically, yes.

Senator BUSH. So then it advocates the abolition of the export subsidies.

Mr. CLAYTON. It advocates abolition of the export subsidies, and of the import quotas.

Senator BUSH. Yes, I understand on the import side. But I have been unclear as to how far it went with respect to the export subsidies.

Mr. CLAYTON. The export subsidy, Senator Bush, is a device which has been practiced on us in the past. And we have always denominated it as unfair competition. Our law provides, in those cases where an imported product is sold in this country at a less price than its foreign market value, a countervailing duty in the amount of the difference between the two amounts is to be added to the regular tariff.

Senator BUSH. Thank you, sir.

Mr. CLAYTON. I will repeat what I said about the Communists. The Communists are guilty on many counts, but they did not create this economic discrimination against the poor countries. If every Communist in the world should disappear tomorrow, this discrimination would remain, and it would continue to widen the economic gap between the rich industrial countries and the poorer countries.

Giving Latin American and other developing countries fairplay can be done at no sacrifice to the industrial countries. Indeed, it can be done in a way to increase the standard of living of both groups of countries. But the incalculable gain to the West will be the preservation of our democratic society threatened today as it has never been before.

Thank you.

Chairman BOGGS. Thank you, Mr. Clayton.

Secretary Acheson.

STATEMENT OF DEAN ACHESON, ATTORNEY AT LAW, SECRETARY OF STATE, 1949–53

Mr. ACHESON. Mr. Chairman, Senator Bush, Senator Pell, for more than 20 years, I have believed, said, and, when I have been in office, have acted on the belief that should the strongest power in Europe gain hegemony over that continent, and thereby over other great areas, the scales of power would be tipped disastrously against the United States, and their problems would become unmanageable.

It would then no longer be possible to maintain an environment on this globe in which free societies could survive and flourish.

I believed this when the threat came from an autocratic Germany, as I have believed it since the threat has come from the Soviet Union.

Indeed, recognition of this truth has, through recent administrations of both political parties, shaped the foreign policy of this country.

This policy has taken the form of a coalition between Western Europe and North America to preserve an environment of freedom.

The responsibility for preserving this environment falls on the Atlantic countries, because together they have a trained population twice that of the Soviet Union, and an industrial production three times its own. Together, they can perform this task, separately they cannot.

This living area for freedom is not for the exclusive benefit of the United States of America and the NATO, or European, powers who carry the burden of preserving it. It is for the equal benefit of those peoples who wish to be free to develop in their own way—nations, some new, some old, lately started on the road to development.

In other words, there is no dichotomy between our American interest in the Atlantic nations and in the newly developing nations and peoples. The cohesion of the former is essential, both in their own interests, which includes ours, and in the interests of the latter.

This cohesion has rested on improvisations of policy and procedure, good enough in their day, but no longer adequate. The last year or two alone has shown that the problems of this decade are too much for catch-as-catch-can methods. The Khrushchev-Ulbricht demands regarding Berlin are not beyond the power of the alliance to resolve. But the will to devise the method and create the capability to do so has not been focused.

On the economic side, the problems of the franc, the mark, the pound, and the dollar have cried for the integration of financial policy. The requirements of increased production in the great producing plant of the free world demand integration of measures to meet, first, the need for military defense of ever-increasing complexity and expense; second, the increasing needs of our own countries, needs for the raising of standards where they are already too low, needs for meeting increasing demands for schools and colleges, transportation, housing, and recreation facilities; and, third, to meet needs for export capital for the underdeveloped countries.

It is against this background that I ask you to consider and appraise proposals adequate to the need for bringing together as closely as our wit can devise it two great economies of the free world, those of Western Europe and of North America.

This can and should be done in a way to make the whole free world area the beneficiary, and quite impregnable to Communist economic and commercial penetration.

To do this is not the whole answer to Khrushchev's threats and prophesies. But it is indispensable to answering and meeting them. It can create an operating free world economic system which nothing can equal, and the power of which nothing can threaten.

But if Western Europe and North America fall apart, if each starts excluding the other from, or penalizing the other in, its own area, they will weaken their indispensable coalition, and will lose the environment of freedom for themselves, for all who want it for themselves, and even for those who call themselves our enemies. This is the background against which we must make our decisions.

Thank you.

Chairman BOGGS. Thank you, Mr. Secretary.

Mr. Wallich.

STATEMENT OF PROF. HENRY WALLICH, PROFESSOR OF ECONOMICS, YALE UNIVERSITY

Mr. WALLICH. Mr. Chairman, gentlemen of the committee, I would like to lend my support to the principal proposal that I believe has been discussed here, that is, the proposal for a broader approach to reciprocal tariff reduction, and for a compensating device to ease the pressure on industries that would suffer increasingly from import competition. I think this is essential if we are to retain our trade relations with the Common Market and strengthen them. If we do not do this, we will not just stand still—I think we will be worse off, as the internal barriers within the Common Market go down, while those on the outside against us remain up.

I also find myself in broad support of many of the proposals made in the very excellent study papers that have been presented to the committee. I think among these are some of the best of the many excellent papers that have come out of the Joint Economic Committee, for which the academic community is greatly indebted.

I would like, however, to raise a couple of points that only obliquely touch some of this discussion. One can summarize what I want to say under the general heading of "Where Is the Money Coming From?" I don't mean budget money. I mean the balance-of-payments resources required by these proposals for more imports from Japan, for a positive foreign aid program, and for closer association with the Common Market. All these, I think, are likely, in the short run, to put some pressure on the balance of payments. In the long run, they will strengthen the American economy. Particularly reduction of tariffs will reduce the pressure on companies to go abroad.

In the short run, a bigger volume of both exports and imports calls, at any rate, for larger foreign exchange reserves, because the volume of trade and potential fluctuations in it would be larger.

Now in directing myself to our balance-of-payments deficit, I think we have to recognize that the present condition of a sizable deficit severely limits our freedom of action in all directions. It hampers what we want to do on foreign aid. It hampers our military posture, it hampers our trade policy, and it hampers very badly our domestic policies.

We could expand our economy and run it at a faster rate if we didn't have to worry about the outflow of gold. We are losing many billions of gross national product, many hundreds of thousands of jobs possibly, all because of $2 to $3 billion deficit in the balance of payments.

Senator BUSH. Would you expand that? That is a very important statement. Why does the balance of payments so inhibit the growth of the gross national product?

Mr. WALLICH. Well, Senator Bush, in the past administration, and I believe in the present one again, it was realized that if aggressive action were taken to reduce unemployment by credit and fiscal means, we would encounter an outflow of capital and also an increase of imports. I would guess that if this economy were run at its full potential—if one can put it that way—by 1963 we might get well over $600 million GNP—maybe $620 million. That means or much as $100 billion GNP above now. For each added billion GNP in a cyclical advance, we add some $40 million of imports. That means for $100 billion, we may add something like $4 billion of imports. Now, this will be partly offset by a rise in exports. If we buy more, others will buy more from us. Typically our exports have gone up by something like $1 billion a year. So over 2 years, to 1963, maybe we may gain $2 billion of exports. That still would leave an increase in the deficit, if nothing were done about it, of $2 billion. Added to the present deficit of about another $2 billion, there would be a $4 billion deficit.

Senator BUSH. In the balance of payments.

Mr. WALLICH. Yes, sir. This is the magnitude of our balance-of-payments problem. We have been through it in one complete cycle. When things are at their best, we are close to balance. When they are at their worst, the deficit runs of the order of $4 billion.

So what is needed, really, is an improvement of $2 to $3 billion in the balance of payments. That would get us to an average fluctuation around zero—a position that would permit balance.

Let me briefly say what I think we can do about it.

We ought, I think, to go ahead with all the policies suggested in the study paper—a broader approach to reciprocal tariff cutting, matched by trade adjustment, a strong positive foreign aid policy, adequate markets for Japan and the less developed countries.

At the same time, we have to look to our competitiveness and other ways of strengthening the balance of payments. To remain competitive, to avoid inflation, that is the No. 1 need. We have done quite well in this regard the last year. We have also had high unemployment. It remains to be seen what will happen when unemployment diminishes.

Second, I think we ought to mount something like an export drive. The European countries did this after the war. They did it against great odds. It was said at that time that one could not possibly crack the American market. Well, they have certainly cracked it. The evidence of that is before our eyes.

Today, we see American business lose out on profit opportunities in the export market, the fastest expanding market in the world. Many American firms, of course, are doing a very good export selling job. But one keeps hearing of firms that are not interested, and consider exports to be marginal. They won't send salesmen; they wouldn't adjust the design of their product. The other day I heard of a firm that wouldn't even answer letters of inquiry from abroad.

Now, I think business, stimulated by Government, could mount a drive to alert particularly medium-sized firms to the profit possibilities that are opening up abroad.

Second—I say this with considerable hesitation—I wonder whether all we have done is really adequate to this very urgent problem of raising our exports, and whether we ought not to begin to contemplate some kind of tax aid. I would think this ought to be within the permissible limits of the GATT. One tax device that has become quite familiar is accelerated depreciation on equipment used in exports.

Accelerated depreciation is embodied in the 1954 code, and everybody can use it. Special advantages were recently given to the textile industry that will help them defend themselves against imports.

Now, if this could be intensified for equipment used in the export business, it would stimulate exports, draw new firms into the export business, allow them to lower their prices. It would not cost a great deal of money, because exports, after all, are only 4 percent of the GNP, and probably the loss of revenue has some similar relationship to total corporate taxes of $22 billion or so.

In addition to these export-promoting measures, I wonder whether we do not have to look to some dollar-saving measures. Some very good things have been done in this area. The latest—the agreement with Germany—should be considered more an export-promoting device, under which Germany will pay $300 to $400 million more a year in purchasing military equipment in this country. That is a sizable chunk of the deficit, and a real success for the measures that were initiated last fall.

To cut imports usually invites retaliation, and that is a bad thing. To cut foreign aid would weaken our foreign policy. To cut troops would weaken our military stance. All this I would consider action of last resort that we need not face now.

Tourist outlays have been curbed to some extent by reducing the allowable tax-free limit for returning residents from $500 to $100. I think that was a good thing. I don't know whether more can be done in this area—certainly not currency controls that were used by other countries. Conceivably one might think of a tax.

This leaves as the last major item of outgo foreign investment. Private direct foreign investment is a money earner. In the long run it strengthens the balance of payments, and it would be a great pity if for short-run considerations, we were compelled to reduce it. The Treasury has been trying to tax foreign subsidiaries' earnings currently. That would reduce it. I hope we are not going to be driven to that.

Conceivable we could do something about portfolio investment. That is to say, new issues floated by other countries in the New York market. That is less of a balance of payments earner in the long run, because of the lower interest rate.

Conceivably, something could be done about short-term lending to other countries, which has put a big hole in the balance of payments recently.

In conclusion, let me say once more I raise these points because I wonder about the balance-of-payments impact of our constructive measures. I am in support of the constructive measures that have been suggested.

Thank you. Mr. Chairman.

Chairman BOGGS. Thank you, Mr. Wallich. Senator Pell.

I might say that the panel is free to question one another, if you all are so inclined.

Senator PELL. There is one question that comes to my mind. I guess all of us as politicians tend to speak with certain parochial interests in mind. For those of us who come from industrial States—in my own case, a State which has textiles as a principal industry—we wonder what the program that is envisaged in the paper of Mr. Clayton and Mr. Herter proposes in the way of trade adjustment legislation to make their ideas more palatable. I was wondering if this thought could be enlarged upon, in the context of agreeing with the long-term objectives of a world of free trade, and the Common Market. But how can we get over this initial hump, when great segments of our country will suffer?

Maybe Mr. Clayton would care to address himself to that.

Mr. CLAYTON. Senator Pell, we had not gone into any detail on that question. The fact is, however, that in the Common Market, provision has been made for the same thing—for adjustment and for help in the case of labor that has been displaced and so on. And they have found very little occasion to use it.

I, myself, think that if we should associate ourselves with the Common Market, on a basis of reciprocal tariff reduction over a period of years, until we even got down to zero, that we would find that much less need of this thing of which you speak than one would naturally think. Perhaps in the textile industry it would be more apparent than in almost any other industry. But the fact still remains that for the first 8 months of this year, we have exported more textiles than we have imported, in dollar value.

Senator PELL. One further question about the Common Market. I was very struck by the fact that its rate of expansion, its GNP, is about double that of our own at the moment.

Do you foresee this condition continuing, and, if so, when do you see the Common Market, if we don't join it, as being a larger market than our own?

Mr. CLAYTON. Well, I think it is likely to be a larger market than our own in the next few years, particularly if Great Britain joins, and other Western European industrial countries join, as I think they will really be compelled to do.

Great Britain was compelled to join by force of economic—of competition. She couldn't stand it any longer. I think every industrial country in the world will be also in that position—assuming, of course, that the Common Market carries on as at present.

Senator PELL. Do you foresee the possibility of us actually joining the Common Market in the future?

Mr. CLAYTON. I think that we will be compelled to make some trade partnership with the Common Market by force of competition. In other words, we will lose our exports so fast that we will be compelled to make some arrangement with the Common Market that will permit us to increase our exports rather than lose them.

Senator PELL. And do you foresee the possibility that they might reject our application for partnership or associate partnership?

Mr. CLAYTON. Of course there is also that possibility. But I would not think that it is a probability. I think that Western Europe would welcome us into the Common Market on a trade basis. I don't mean—I am not talking about a full membership in the Common Market, with all its political implications.

Senator PELL. Thank you, sir.

Professor Wallich, I guess I failed in economics when I was at college, and I got lots on this question as to why the growth of our GNP has the direct effect of increasing our deficit as our GNP increases. To my mind, as our GNP would increase, the ratio of our dollars of balance of payments deficit would remain the same. I wonder if you could enlarge on that a tiny bit.

Mr. WALLICH. What I had in mind, Senator Pell, is that out of the larger GNP, the larger purchasing power of the American consumer, more will be bought of everything, more, also therefore, of foreign goods.

Senator PELL. But why would the ratio change? Wouldn't the graph go up at the same rate?

Mr. WALLICH. The import ratio would not change—that was not my thought. But if our exports rise slowly, and if our imports rise at a constant ratio to GNP, 3 or 4 percent, then imports will rise faster for the time being, at any rate, than exports will. That is what opens up this gap.

Senator PELL. Why do they rise faster?

Mr. WALLICH. If you project this very sizable increase of $100 billion over 2 years, which is the Council of Economic Advisers unofficial projection, that is a rate of increase more rapid than what we can anticipate in our exports. Our exports historically, through good and bad times, have tended to go up a billion dollars a year or so.

Now, if, in the course of 2 years, we raise the GNP by $100 billion, we would tend to raise imports by about $4 billion. This rapid rise of GNP causes the gap. After that we would go on evenly.

Senator PELL. What you are saying is that if we adopt a radical rise in GNP, a radical rise in exports will not necessarily follow, too. And it would seem to me if you assume a radical rise in one, you have to assume it in the other—it won't remain constant.

Mr. WALLICH. I think, Senator Pell, our exports depend principally upon demand abroad. Now, foreign countries are expanding rapidly, but they are also threatening to put up Common Market barriers against us. So on balance I would expect our exports to rise about as much as they have in the past; $1 billion a year is a good rate of rise. It is 5 percent per year. But $100 billion increase in GNP in 2 years is a much more rapid rate of increase—something like 8 or 10 percent per year.

Senator PELL. To my mind it is a dangerous thought that we should hold down our GNP in order that we could hold down our balance of payments deficit.

Mr. WALLICH. Absolutely, sir. That is why the balance of payments deficit is so hamstringing to our domestic policies. We could expand the economy, we could have expanded it in 1958 and 1959, more if we didn't have this incubus on us.

Senator PELL. One final question, sir. Do you have any thoughts as to good trade adjustment legislation or proposals? What type of program would you envisage?

Mr. WALLICH. This is very experimental, Senator Pell, but I think hopeful.

Ten years ago, people were talking about it in very different terms. They talked about it in terms of buying out an industry and just stopping production. Today, nobody speaks of that anymore. What they talk about is a readjustment within the industry, concentration on profitable lines, elimination of the unprofitable ones, switches into newer types of production, electronics, for instance. I think the reason why we have had this shift in thought is that industry itself has demonstrated to us how very flexible it is. Firms have moved from textiles into electronics, from automobile parts into airplanes, into missiles. A corporation is no longer a thing that turns out one particular product. It is a growing entity that can shift and find its way where it is profitable.

Senator PELL. But to be specific, what type of assistance do you see, besides telling them they should shift?

Mr. WALLICH. I would think that accelerated depreciation on investment in the new lines—perhaps full expensing of new equipment. Secondly, loans from the SBA. They might have to exceed the size of SBA loans. That would be aid to the firm. There would have to be retraining for the worker, maybe relocation loans, extension of supplementary unemployment compensation.

Senator PELL. When you say relocation loans, that means the movement of workers or the movement of industry?

Mr. WALLICH. It might mean both. One cannot, in all cases, assume that all the same workers would continue to work for the same plant. It might happen, it might not. It might be necessary, because of relocation, to have community facility loans for the cities that were affected.

Senator PELL. Do you believe it would be economically feasible for subsidies to be given to either the areas or the industries involved?

Mr. WALLICH. I think, Senator Pell, it is a lot more feasible than the idea of buying out an industry and stopping it. That would get us into something worse than the agricultural price support program.

The new proposal seems to be in line with the natural tendency of industry to keep shifting its product mix anyway.

Senator PELL. Thank you, sir.

Chairman BOGGS. Senator Bush, I will call on you in just a minute. I just want to pursue one thought that Senator Pell's line of examination raises.

Professor Wallich, I am unclear in my mind as to what you recommend insofar as a trade policy is concerned.

Now, I gather that you recommend increased exports, which are certainly a plus in the balance of payments. But in light of the emerging Common Market, and all of its implications, insofar as our export market is concerned, both in Europe and in third countries, what do you specifically recommend?

Mr. WALLICH. I would recommend the President be given power to make tariff cuts across the board, perhaps blocking out certain problem areas, like agriculture, and perhaps some other areas, that these cuts be negotiated reciprocally, so that as we lower our tariff, they lower theirs. Since theirs is a little higher, a given percentage cut will mean a larger absolute cut in the Common Market tariff than in ours. We will be the gainers.

This eliminates, in effect, the present peril point procedure under which a tariff negotiation cannot proceed where the Tariff Commission says that here is a sensitive industry and a sensitive tariff point.

In lieu of that, and to cushion the blow, we would have what is called trade adjustment. That means loans, accelerated depreciation, other facilities for business, labor, and the communities.

Chairman BOGGS. Thank you. I will come back in a little while. Senator Bush.

Senator BUSH. Mr. Chairman—Mr. Clayton, I want to go back to your statement. We had a digest of it here. I will just read the paragraph that I want to call attention to. It says—

Mr. Clayton gave as his opinion that the United States will never regain the prestige which it has lost in Latin America, no matter how much money we give or lend them, as necessary as that is in some cases, until we undo the actions which we have taken tending to widen the economic gap between North America and Latin America. He said that he was referring to the import quotas which the United States had established on lead, zinc, petroleum, sugar, and other commodities, and export subsidy in the United States on raw cotton, which amounts to 25 percent of its value. He pointed out that all these commodities are produced for export in Latin America.

Now, are we to understand—do you understand that the removal of these import quotas that you mentioned here is definitely a part of the administration program that is under consideration here?

Mr. CLAYTON. I don't know, Senator Bush, what the administration program is. I don't think it has been spelled out yet.

Senator BUSH. Well, that is one of the things that troubles some of us.

Chairman BOGGS. Senator, if I may interrupt you—I don't know of any administration program that has been submitted to this subcommittee.

Senator BUSH. Well, I got the impression that this hearing was held largely to discuss at least a program that the administration has in mind. And I said yesterday, and I say again, that I think it is very difficult for us to proceed without we knowing in some detail just what the administration program does encompass. I wanted to find out from any of these witnesses, if they knew, for instance, that this removal of import quotas was a part of the program.

Chairman BOGGS. Well, just for the purpose of the record, these hearings and this study were scheduled, if I remember correctly, last spring. To my knowledge, they have gone ahead without any specific recommendations from the administration. We do not have any recommendations from the administration. I read in the press where the President may make some statements in this regard in a speech or a series of speeches which he has scheduled for this week, before the NAM in New York, and the AFL–CIO in Miami. But as of now, we do not have an administration program. And what we are trying to do, Senator, is bring out, as best we can, the various thoughtful thoughts in this whole thing. We are not committed to any specific program.

Senator PELL. And if I may interpolate here for a moment, in speaking as a member of the administration party, we hope very much that when the program comes forward, there will be not only a proposal and a program for trade reductions, but that there will also be a substantial trade adjustment program, which is the only way that this program could be made palatable to areas of the country like yours and mine, sir.

Chairman BOGGS. I make only one other observation, sir.

Senator BUSH. I certainly want to join, before we leave that point, in the expression of Senator Pell. I have much hope that we will have some very specific convincing recommendations regarding the trade and life adjustment program that is involved in this whole business. Every statement that has been made on the subject does talk about the fact that this will, of course, cause a lot of unemployment in our country. There is no estimate of how much—but it is certainly going to run into many, many thousands of people, and affect the lives of a great many thousands of families. And this, to me, is just as important to know where we are going in this respect. And I am glad to hear Senator Pell express his concern for it. This is just as important as any phase of this program, in my judgment. And I so far don't think any evidence has come out that is very convincing that will give comfort to these people—thousands of them—that are going to be thrown out of work by affirmative action of the U.S. Government.

Mr. ACHESON. Mr. Chairman, may I inject myself, rather recklessly, into this discussion within the committee?

Perhaps I could bring back what to me is an important sense of proportion.

Of course I would agree wholly, completely, with Senator Bush in that before anyone makes up his mind ultimately about what is done, there must be a good deal of specificity about it. But it also seems to me—and I am sure Senator Bush will agree with me—that there are two questions here. One is, Is it essential to go ahead and do something vis-a-vis Western Europe and the Common Market? The second question is, If that is true, then how do you do this so as to bring about the least dislocation on both sides?

Chairman BOGGS. Well, now, if I may interrupt, Mr. Secretary, that is exactly the purpose of these hearings. You have stated it. You couldn't have done it any better if you had been rehearsing this for a month. Go right ahead.

Mr. ACHESON. I would like to talk a little bit in expansion of what I have said in this statement as to why it is essential to do something.

It has become increasingly clear, as the postwar period has gone on, that the original ideas that we held in 1945, 1947, 1949, and 1950, about an alliance between Western Europe and North America, were quite forward-looking steps for their time. But they are not adequate for the decade which is opening. This, I think, is brought out very clearly in the field of foreign policy and military policy which Berlin has so highlighted. We and our allies, have been trying to figure out what to do about that for 3 years, and there still is going to be a Foreign Ministers' meeting in December to deal further with what decision—the capability you need, how far one is going in the field of risk, what are the various interests of the countries of the alliance. These things have been hammered out year after year. The important thing in this area is to find a way to resolve these problems, make decisions, and then get forward with carrying them out.

Well now, it is the same thing in the economic field.

I pointed out the vast need for increased production, for military needs, for the increasing needs of our own people, and for export capital. But in doing this, there are a whole lot of things you have to deal with specifically—financial policy, trade policy, and so forth.

Now, in trade policy, we don't start with a 180° choice—we just don't start with that. We have actually been supporting the Common Market. It is something to which we largely contributed, since it grew out of the Marshall plan, and out of the work of the Organization for European Economic Cooperation.

I think I was the first person outside of a very small group within the French Government who was told that Mr. Schumann was even thinking about the coal and steel plan. And the moment that he and Mr. Monnet explained to me what they had in mind, I knew I was present at the beginning of a new era. This was going to be something unprecedented in the history of Europe since the Roman Empire.

We threw our influence toward helping this movement forward—sometimes to the annoyance of some of our allies. But nevertheless, we backed the Common Market, and the Common Market is in operation, it is growing stronger. And now we come to a very decisive turn in events: Which way is the market going to move? Is it going to move in the direction of being an exclusive European market, with high tariff walls around it, or is it going to associate itself with the other great market of the world, that is, North America, and all the areas which are within the free world, but are not industrial areas? This is a decisive decision. And it is in this decision that both our interest and our influence can play a great part.

If the Common Market should decide that its policy will be high tariff barriers and exclusivity, then I think the free world is split. I think the power of the Soviet Union and its allies is vastly increased. And the Common Market which started as a road to the unity of the Western World will have been the instrument to bring about its division.

Now, things like this happen, not because people are wicked, but because in various battles they take a wrong turn. It is to our interest that they should take a right turning.

Now, how do we bring this about?

I think we bring it about by saying we would like to be associated with this effort, but we can only be associated with it on a basis that your external tariffs will be low rather than high—which will be of great advantage to us, for one thing—but of great importance to everybody else in the free world. And then we say we can only bring this about by taking some action along that line ourselves. Surely this will bring about some difficulties—to you, to us, and perhaps the toughest nut of all will be in the agricultural policy of the Common Market. But in all of these things, we have no choice—we really have no choice. We must throw in our lot and our influence with the Common Market, to bring about, on their part and on our part, a trade policy which will fit in with all the other policies we are trying to bring about to unite the free world.

Now, may I say one other thing, and then I will stop.

Trade policy is not alone in the economic field. And insofar as we bring about unity of policies in other directions, we will take much of the pressure that people imagine will be brought to bear on the U.S. market away from it.

For instance, we have been bearing a very large share, too large a share, of the export capital needs of the developing countries. As Mr. Clayton said, the European market may be bigger than ours in a short time. They can take, and should take, a large part of this burden. And insofar as that is worked out, and that is agreed upon, and production is devoted to that, it is not going to be production which hammers in on the American market. Similarly, with military requirements—it is essential that until—and I think this will be a long time off—any agreement with the Communist bloc on control and limitation of armaments is possible—until that time comes, we must devote a lot of our and their production to this high-cost military preparation.

Similarly, with our own needs, in our own country, and in Europe, they are tremendous needs, which, if met, would take a great deal of the productive capability of the Common Market.

For instance, European schools. European schools will compare very favorably with ours in quality. They will compare very unfavorably with ours in quantity. They are now getting in Europe to the point—for instance, in England—where it is almost essential that it shall be decided as to a child, by the time it is 11 years old, whether it is going on to a university, or a college education. Well, now, this is not an ideal situation. To correct it will absorb a lot of money. Transportation will absorb a lot of money. And saving of recreational facilities, and so forth.

Well, now, what I am trying to urge on the subcommittee here is that in looking at this problem, let us understand first that we must go into a new trade policy—we have no alternative. When we are sure of this, and why, then we turn to these very important questions which have been raised this morning, and will be raised for a long time—how to deal with the dislocations which may result. Well, they can be dealt with. It is not above our capacity to do this. And I am sure that the Congress and the administration will work this out and come to an understanding about it. But, first, we must understand that we must go forward.

Thank you, sir. I am sorry to have talked so much.

Senator BUSH. That is very, very interesting, Mr. Secretary.

Do you contemplate that we should, in effect, if not in fact, join the Common Market? Is that what you visualize as the ultimate of this move?

Mr. ACHESON. I think if you mean by joining the Common Market signing the Treaty of Rome, this produces too many difficulties. I think that the whole movements of population, and all the things, aside from the trade aspects, are not really adapted to Canada and the United States.

Senator BUSH. We would become, in your view, rather an associate member of it?

Mr. ACHESON. I should think we would become an associate member, or be associated with it, yes.

Senator BUSH. By treaty?

Mr. ACHESON. I assume so. I assume so.

Now, many of the political aspects of this are not really applicable to North America vis-a-vis Europe. Some political questions are very important. These are the ones I mentioned earlier. How do we coordinate our foreign policy, how do we coordinate our military policy? How do we create that civilian dealing with the ultimate decisions, both of foreign and military policy; this has got to be better than it is now. It is not adequate today. You cannot run this vast coalition by having first Ambassadors and then foreign ministers and then NATO and then heads of State mulling around with these questions, and never reach decisions. It is much better to decide them even if they are not decided as ideally as they should be, than have them knock about for years and years and years.

This aspect of the military-politico questions I think are apart from the Common Market, and raise separate questions, and I won't mix them up with this consideration.

Senator BUSH. Now, here is one of the troublesome things to me, Mr. Secretary, about this association or partnership with the Common Market.

As was brought out yesterday, the wage rates which are paid within the Common Market countries are within a very narrow range. It is 43 cents, 50 cents, 60 cents, goes as high as 70 cents. But you can put a hat over the bracket, so to speak. But when you get over here, the comparable figure is $2.29 to $2.30.

Now, it would seem, therefore, that there was some hazard in attempting to become a partner in this enterprise if we are at such a serious competitive disadvantage because of high cost labor content in many of our manufactured products.

So it would be—they should be delighted to have us associated, because it would improve their import possibilities into this country very materially. But I don't quite see how, at the cost disadvantage we would be, the competitive disadvantage we would find ourselves in, this would promote the very thing that we are trying to do, to wit, improve the spread between our imports and exports.

Now, would you, or any of you, care to comment on this particular factor in respect of a Common Market association by the United States?

Mr. ACHESON. This isn't my field. But let me just say something, and then ask these gentlemen who are much wiser.

This argument has been made ever since I started having anything to do with tariff bills, and the first time I ever started was in the Smoot-Hawley tariff of 1930, when I say to my shame that I represented textile manufacturers who were raising rates.

This is a terrific argument. You picture the high standards of American labor, their high wage rates, and these low-cost mills in India, and so forth. And you say—How can you compete?

Well, the answer is, in the first place, you can compete. Some of the highest wage industries are the best competitors. They are the most competent. Their productivity is the highest. They really can compete.

In the second place, if you begin to bring these two great markets closer together, wage rates are going to rise on the Continent. They will rise. They are rising now, and they will continue to rise.

In the third place, there are some industries where you should give up the struggle. It is not worth directing intelligent high cost American labor to making some things.

Therefore, this doesn't really bother me. I think this is a bogey man, rather than a real man. If you have some sense in dealings with rates, and also in arrangement that both my colleagues have spoken about, of taking care of industries which have to be abandoned, and work at something else.

Now, Mr. Clayton and Professor Wallich know a hundred times more than I do about this.

Senator BUSH. Would you like to comment on that, Mr. Clayton?

Mr. CLAYTON. First of all, Senator Bush, I would like to say that I agree fully with Mr. Acheson's remarks about the Common Market. He has expressed it much better than I could do.

Your question about the difference in labor costs, I have this to say.

The determining factor in pricing is the unit cost of production. Wages are only one factor in that cost. An important factor, but only one.

We have exported—we did export in 1960 $20 billion worth of various manufactures, various goods, in competition with the whole world. Those goods were made with the high American wages. And they were a great variety of goods. We got that business, $20 billion, in competition with the low wage countries, and every country in the world. So that I would rely on American ingenuity, American genius, American inventiveness, in adapting labor to machines, and in making new machines, and introducing new methods, and so on. It has stood us well in the past, and I think it will in the future.

Senator BUSH. Professor Wallich, did you want to comment on this?

Mr. WALLICH. I fully agree with Secretary Acheson and Mr. Clayton. We can compete. And the evidence, Senator Bush, is that we have got $20 billion of exports, and only $15 billion of imports. We are being licked 15 times, but we are winning out 20. And when we think of the effects of employment, all we see is the man who loses the job—one never sees the one man and a quarter who gets a job and is divided across the Nation.

I wonder if I may draw your attention to a table in the document called "United States Commercial Policy"; the table is on page 25. It shows what Mr. Clayton referred to—the unit costs in manufacturing, and compares them with Canada, the United Kingdom, Common Market, and the less developed countries. It shows indeed the United States of America at a disadvantage in labor practically compared to everybody except Australia.

In materials, we have a tremendous advantage. In overhead, which includes financing, we have an advantage in quite a few areas. This overhead is in good part financing costs. If our manufacturer finances his equipment at 5 or 6 percent, and the foreigner pays 9 or 10 percent, it doesn't take very long before this begins to bear down upon him. On sales cost, the table shows that we are at a disadvantage practically everywhere. I suppose that is wages again, and our high cost of advertising.

And on the total—this is very curious—we are ahead competitively in unit costs practically with respect to everybody. There is one exception here, and that is the Common Market. They have lower unit costs than we. Now, this is the average—this may be very different for textiles, it may be very different for pottery, and a lot of industries.

Senator BUSH. What are these figures on this table? Have you it before you there? Are these percentage figures?

Mr. WALLICH. These are cents out of a dollar's worth of unit cost, Senator Bush. These are simply cents.

Senator BUSH. So the dollar is, in effect, a percentage?

Mr. WALLICH. Yes, it is, in effect, a percentage.

Senator BUSH. The European Common Market people do not seem to feel the same way about Japan, for instance, as we are asked to feel about them. I have not seen any indication that they are taking a liberal attitude toward this important part in the cold war, but rather are discouraging the importation of Japanese products for the very same reason, because of the great labor cost differential, that some of us are troubled and a little bit cautious about in this situation that we face here.

The question has been raised, something on which I want to ask Mr. Wallich a question, bearing on the whole balance-of-payments program, as to whether we should, in an effort to deal with it, restrain in any way the now unrestricted flow of investment capital abroad. I would agree with what Mr. Wallich said, and the net advantage of this has been very great that we get each year in revenues, and improves our balance of payments more than we export in the way of capital abroad.

Is that so, Dr. Wallich?

Mr. WALLICH. Yes, that is correct, sir.

Senator BUSH. My recollection is that the dollar improvement for us is in the order of $2.3 billion, or something of that order, as against a figure of $2 billion or less of exported investments. Is that about right?

Mr. WALLICH. Yes, those are the orders of magnitude, Senator Bush.

Senator BUSH. So it would seem a shame to inhibit the investment of capital abroad which is going to produce a favorable factor for our balance-of-payment problem. That is your position, is it?

Mr. WALLICH. Yes, it is just like stopping to put money into the bank.

Senator BUSH. Yes.

Do any of the others have any comment on that important matter, about this possible restriction of capital investment abroad?

No comment?

(No response.)

Senator BUSH. I want to read this statement. This has to do with the export subsidy program:

> The Commodity Credit Corporation makes export payments under this program on commodities exported from commercial stocks, including commodities acquired from the Corporation at domestic prices, and sells commodities at reduced prices for export. Export payments on cotton, feed grains, rice, and wheat are made by issuance of export payments certificates which may be used to pay for the same or similar commodities obtained from price-support inventories of the Corporation.

That is the Commodity Credit Corporation.

> Export payments or differentials on wheat and wheat flour exported under the International Wheat Agreement and export payments on commodities exported under title I, Public Law 480 are reimbursed from appropriated funds and are not recorded as costs of the commodity export program.
>
> The attached tabulation—

which I shall ask to put in the record, Mr. Chairman—

> does not cover other CCC-owned commodities which are from time to time sold at world prices. These world prices are always below the U.S. domestic prices.

Is it your feeling, Mr. Clayton or anyone else, that we should exclude agricultural imports from this new program, that this should be confined entirely to manufactured products?

Mr. CLAYTON. Senator Bush, I want to say that I disagree completely with the present agricultural program. Mr. Herter and I, in this paper that we presented to the committee, proposed a policy which, in time, would lead to free trade reciprocally negotiated with the common market countries and any other country that wished to negotiate it with us, and, of course, that would involve this question of export subsidies.

I do not believe in the export subsidy on any commodity.

Senator BUSH. Do you think that in connection with this program, the administration is prepared to face squarely the removal of these and other subsidies in rigid protectionism for agriculture at the same time that it proposes to remove the subsidies to industries involved in the tariff, the manufacturing industries? Do you think the administration is prepared to face that?

Mr. CLAYTON. Senator Bush, I have no opinion about the administration's position.

Senator BUSH. Your personal judgment is that they should face it at the same time?

Mr. CLAYTON. I think they should face it, but I have no opinion as to whether they intend to do so.

Senator BUSH. Does anyone care to comment about that on the panel?

Mr. ACHESON. Well, I would say, Senator, that nothing confuses me more than agricultural policy, but I am prepared to go along with the views of Mr. Clayton and Mr. Herter on this matter.

Senator BUSH. In other words, you would be inclined to feel that they should face this at the same time, that it would be highly discriminatory and not in line with the general policy if they did not face up to it?

Mr. ACHESON. Yes.

Mr. WALLICH. Senator Bush, realizing the advisability, as Mr. Clayton said and as Mr. Acheson put it, of facing up to the agricultural problem, because it is a similar one, I think the chances of getting any action at all in the area of things the administration seems to have in mind would probably not increase if they at the same time take on the agricultural program.

Mr. ACHESON. I would agree with that, also.

Mr. CLAYTON. Senator Bush, excuse me for going back to the question of the export of capital.

Senator BUSH. Yes, sir.

Mr. CLAYTON. I did not understand when you asked if there were any comments; I did not understand that you were directing that question to the three of us here.

Senator BUSH. Yes, sir. I would be delighted to hear your view on that.

Mr. CLAYTON. I just want to say that I thoroughly agree with the position which you so well stated, that to put a prohibition or put a tax or anything of a discouraging nature on the export of capital which brings us in, as you have well pointed out, more money each year than we put out, I would think that any measure that was taken to discourage that export of capital would be a very bad one.

Senator BUSH. Yes, sir.

I would just like to get in the record an illustration of a problem, Mr. Chairman, that cannot help but concern one in my position, and perhaps Senator Pell, too. This is taken from testimony given before a subcommittee of the House on December 1, given by Mr. T. E.

Veltfort, representing the views of the so-called brass industry, manufactured brass products. I just read one short paragraph:

Starting with 1949, imports of brass mill products increased rapidly and steadily from 21 million pounds a year to a peak in 1959 of 199 million pounds. At the same time, exports which before the war had averaged about 50 million pounds a year (with negligible imports) declined to about 7 million pounds a year (excluding copper wire rod which is intended for drawing into electrical wire and is not a brass mill product). The imports constituted nearly 10 percent of the domestic market for all brass mill products. The percentages of the domestic market, however, were substantially higher for specific products for which we have developed a broad market here, or in which the labor component is high. The change from net exports to much larger net imports involved the loss of the equivalent of a year's work of about 3,000 production workers.

Now anybody that has visited the brass mills will have a hard time figuring how you are going to convert a brass mill into an electronics plant or something else. It just is not that kind of a place. This is an illustration, and just one small illustration, of the thing that concerns those of us who do represent areas where we have a very large number of employees, workers, in manufacturing industries that have been under the protection of the U.S. foreign policy for some time.

In addition to that, I would like to put this other short insert into the record:

Before commenting on the drop in brass mill product imports which has taken place since 1959—

and there has been a drop in imports since then—

let me explain briefly the principal reasons for the rapid growth in imports and the practical elimination of exports. A basic reason is the much lower wage rates of the important exporting countries. Wages in the United Kingdom and West Germany, from which most of our imports came in 1960 were, respectively, less than half and less than one-third of ours. Productivity of the brass mills in these countries is high and rising, for they use modern equipment and methods and are quite familiar with the improvements which have been effected in the industry in the last decade, as there has been free interchange of information among these nations and ours.

So you see, they have been going ahead, as I think Mr. Acheson suggested, and they have been improving their production methods, and they have exactly as good equipment as we do. But where the labor cost factor is more than negligible, where the differential is high, this puts them in a very great competitive disadvantage and this is one of the things that I hope we can get some assurance of when the administration comes down to this program.

I want to say just one more word, that I mentioned yesterday, that is this: I am not insensitive to the very great need for improving our trade. I have given a lot of time to it and was a member of the Randall Commission, and I realize that it is of great importance to the United States. As Mr. Acheson well pointed out, I do think that in being cautious about this, one should not be thought of as being isolationist or reactionary, because actually, we have been progressive in this respect. I think we speak, this program speaks, of removing the escape clause and the peril point provisions of the Trade Agreements Act, doing away with them entirely.

Those were put in there by no less of an internationalist than Senator Vandenberg, who was one of the two authors of that particular phase of the legislation, and certainly he was one whose understanding of international affairs and foreign policy, as Mr. Acheson well knows, was outstanding. He was one of the great Senators of his day in getting away from the thought of isolationism and so forth. But it was his idea at that time that this escape clause and peril point legislation in the act was reasonable protection, and I think——

Mr. ACHESON. Is your memory right about that?

Senator BUSH. I beg your pardon?

Mr. ACHESON. Is your memory right about that, sir? I thought it was Senator Eugene Milliken, of Colorado.

Senator BUSH. Senator Milliken told me himself what I have just said.

Mr. ACHESON. Then you are clearly right.

Senator BUSH. I never worried about my memory. It may be Senator Milliken who is mistaken, but this he told me himself when we were both serving on the Randall Commission. He said Arthur Vandenberg and he worked this out.

Mr. ACHESON. That I would not doubt.

Senator BUSH. That is what he said. That supports my statement.

Mr. CLAYTON. Senator Bush, may I just say a word on that?

Senator BUSH. Yes.

Mr. CLAYTON. At that time, I was Under Secretary of State for Economic Affairs, and I had numerous conferences with Senator Vandenberg and Senator Milliken, and I found Senator Vandenberg very liberal in his views on the Reciprocal Trade Agreements Act and the proposed amendments, but Senator Milliken very strong in his views that some protective measure should be inserted into the act as an amendment measure that would protect domestic producers. I am sure that Senator Milliken and Senator Vandenberg did work this out together, but I think Senator Milliken was the senior partner of the firm.

Senator BUSH. Well, certainly he was a very active protectionist. He was on the Randall committee with us, and I know his views were different from those of the majority of the committee, including my own.

Nevertheless, I still maintain that Senator Vandenberg—something was worked out by those gentlemen, by the Senate and by the Congress, and that it had served a useful purpose thus far. Whether it has outlived its usefulness is a case that has to be made, I think, in a more convincing way than has yet been made respecting those particular provisions of the act.

Chairman BOGGS. Thank you, Senator. Have you concluded?

Senator BUSH. I have concluded. I asked if I might have this inserted into the record.

Chairman BOGGS. Without objection, it is so ordered.

(The document referred to is as follows:)

EXPORT SUBSIDY PROGRAM

The Commodity Credit Corporation makes export payments under this program on commodities exported from commercial stocks, including commodities acquired from the Corporation at domestic prices, and sells commodities at reduced prices for export. Export payments on wheat flour and cotton products are made in cash. Export payments on cotton, feed grains, rice, and wheat are made by issuance of export payments certificates which may be used to pay for the same or similar commodities obtained from price-support inventories of the Corporation.

Export payments or differentials on wheat and wheat flour exported under the International Wheat Agreement and export payments on commodities exported under title I, Public Law 480 are reimbursed from appropriated funds and are not recorded as costs of the commodity export program.

The attached tabulation does not cover other CCC-owned commodities which are from time to time sold at world prices. These world prices are always below the U.S. domestic prices.

Export subsidy programs on agricultural commodities, 1960–61 fiscal year and July–September 1961

Commodity	Fiscal year 1960–61		July–September 1961		Average subsidy	
	Quantity exported	Amount	Quantity exported	Amount	1960–61 [1]	July–September 1961 [1]
	Millions	*Millions*	*Millions*	*Millions*	*Per unit*	*Per unit*
Payment in kind:						
Barley……bushels..	48.0	$7.5	3.0	$0.7	$0.16	$0.23
Cotton, Upland……do….	6.9	219.6	1.1	46.5	31.83	42.27
Corn……do….	128.6	8.2	13.3	1.1	.06	.08
Grain sorghum……hundredweight..	38.6	3.8	4.7	0.7	.10	.15
Oats……bushels..	10.5	1.9	1.4	0.2	.18	.14
Rice……hundredweight..	18.7	54.5	1.4	3.8	2.91	2.71
Rye……bushels..	5.8	1.8	0.5	0.2	.31	.40
Wheat……do….	504.2	259.3	104.9	49.2	.51	.47
Cash:						
Cotton products……	----------	----------	----------	----------	----------	----------
Equalization payments……	----------	12.4	----------	2.3	----------	----------
Wheat flour……bushels..	59.7	46.7	12.7	9.8	.78	.77
Differential allowed:						
CCC stocks:						
Wheat……do….	38.6	21.0	10.4	4.9	.54	.47
Wheat flour……do….	----------	----------	(2)	(2)	(2)	(2)
Total……	----------	636.7	----------	119.4	----------	----------

[1] Quotient of total dollar amount, cols. 2 and 4, divided by the respective quantities, cols. 1 and 3.
[2] Quantity not available.

Source: Data based on CCC records.

Chairman BOGGS. To go back for a moment, for the purposes of the record, last spring this subcommittee was created by the Joint Economic Committee to make a thorough inquiry into these very matters that we are now discussing in these panel hearings. In the interim, various people have filed comprehensive reports, one of which was that in the file by Mr. Clayton and Mr. Herter. I had the responsibility as the chairman of the subcommittee of going to various places, including Brussels, London, Paris, and so on.

I might say, Mr. Acheson, that our problems as compared with some that the United Kingdom faces, while I do not like to use the word "insignificant," in some respects, they are relatively so. As chairman of this subcommittee, I had the privilege of talking at some length with Mr. Heath, who is negotiating the entrance of the United Kingdom into the Common Market. At that time, the Commonwealth nations were meeting in London, and the remarks made by the representatives of the Commonwealth were much more vehement than some of the remarks that I read in the press here by some of our people who are concerned about the implications of the Common Market insofar as the United States is concerned. But Mr. Heath made the point, which I think has been made here, that the implications of the Common Market for the good of mankind and for the freedom of mankind are so overriding that the other problems can be worked out as soon as they are put in focus; that all of these are problems that have been faced before in the history of mankind and can be worked out at the ministerial level and at the technical level. But the goal of European unity is so large in its political and its military, as well as its economic, implications that the United Kingdom has decided to make this plunge.

Now, I think it well for us in these discussions—I might also say that I met with Mr. Christiansen the day the OECD became a reality, the day that the last order of ratification was filed, and also with Mr. Wyndham White of GATT, Mr. Monnet, the intellectual forces behind the Common Market; with our own people, Mr. Finletter, our NATO ambassador. The European Common Market is something that is a reality. It is something that we cannot ignore, even if we did not have these hearings, and even if the Senate Committee on Finance and the House Ways and Means Committee attempted to ignore this, we could not. Because here it is. I think that in our discussions, both on yesterday and today, we have failed to bring out some of the larger implications of the Common Market, and I consider these political and military.

I might make one other observation in that connection. At a meeting in Brussels of the Inter-Parliamentary Union, where there were approximately 60 nations represented, including the Russians and the satellites, the Soviets were most anxious to oppose a resolution which, in effect, favored regionalism in these economic matters, and the Soviets and the bloc countries were very much opposed to the emerging Common Market, for reasons which I think are quite obvious. But I think it well for the record to show some of the military and political implications of the emerging Common Market, and if you gentlemen would like to comment further on that, I would appreciate it.

Would you, Mr. Acheson?

Mr. ACHESON. Well, I do not know that I have anything more to say than I said before, Mr. Boggs.

It is true, this is part of a much larger program, and I tried to bring out a few moments ago how one cannot ignore the other parts of the program as being affected by this. I feel as you said a moment ago, we must face this. We have no possibility of not facing it. I think we are all aware of that. Senator Bush said the same thing. We are all aware of it.

You are also entirely right that our problems are much less than the problems of the British. They are related to the same problem. We are responsible for many areas of the world which have this agricultural problem—that is, the Latin American countries—just as the British are responsible for parts of the Commonwealth who will need to be considered in connection with any relationship between Great Britain and the Common Market and ourselves and the Common Market. So our problems are the same, although they are not as great.

But we come back, over and over and over again, to the fact that if there is going to be an environment in which free nations can survive and flourish, it depends upon the unity and the coherence of the great central powers that make that possible, and that is Western Europe and North America. We must never forget this.

If we had an order of priority, if the time of highly placed people and the best talent of the United States and money were allocated in relation to the importance of problems, we would see that whatever a problem was, it led back to this matter of the coherence, the political and economic coherence, military coherence, of Western Europe and North America. I agree wholly with the position you have taken, Mr. Chairman.

Chairman BOGGS. Mr. Clayton, would you care to comment?

Mr. CLAYTON. Mr. Chairman, I agree with your remarks and I agree with Mr. Acheson's remarks on this subject. I think one of the great things that the Western industrialized nations have to face and have to undertake for the future is the relations between the industrial nations and the underdeveloped nations. The underdeveloped nations of the world form half the population; that is, the non-Communist underdeveloped nations of the world form half the population of the world, and they feel that they are, in a sense, left out in this great economic and political world situation. They feel that they are on the outside looking in, and something will have to be done by the industrial nations which will give the underdeveloped nations a feeling that they are a part of the whole big world, and in order to do that, I think the industrial nations have to first be together, they have to first be in unity, and in order to do that, the United States has got to make some kind of trade partnership with the Common Market.

Chairman BOGGS. Professor Wallich, do you have a comment?

Mr. WALLICH. Mr. Chairman, as an economist, I cannot presume to have judgments on the political importance of the Common Market. I believe it will be one of the really great developments of the day.

In the economic sphere, I think it is important partly because it increases growth, but perhaps not as much as all that. Germany, France, Italy would be growing very fast even without the Common Market. But it creates a real problem, as Mr. Clayton says, for those who are on the outside, and some accommodation must be found; otherwise, we shall have a trade split.

Now, whether or not the United States ought to tie up first, in some form, associated form, with the Common Market and then jointly try to help the less developed countries, or whether, perhaps, it would be more helpful to try to do these things together, try to bargain down the tariff of the Common Market for the benefit of everybody, ourselves and the less developed countries and Japan, and for the outsiders in the Commonwealth who may face similar problems, I am not sure. I would feel that perhaps we should consider the following: We are, I think, with respect to the less developed countries, somewhat in the same position that the British are with respect to the Commonwealth. If we tie up more closely with the Common Market, there is some danger that the less developed countries will be, as Mr. Clayton said, on the outside looking in. I would hope that we can find a way of bringing down the tariffs in the Common Market and simultaneously open the Common Market to the imports from Japan and the raw material imports from the less developed countries.

Chairman BOGGS. Since the inception of the trade agreement program, the arguments which have been advanced here and which are now being advanced before a subcommittee on the House side, have been repeatedly urged. They are not new. The question of the net of imports and exports is one that we have considered on the Ways and Means Committee, which has had original jurisdiction on this subject, for a long time.

Now, the information which I have, and nobody has stated this, is that if we went for the whole theory of free trade—and the thing we have been talking about here is reciprocity of some kind or another—the number of jobs affected would be relatively small. The number of jobs gained might greatly exceed that figure. As a matter of fact, for whatever it may be worth, I doubt if there has been a country in modern times more protectionist than France. Yet France has seen the decline of these internal tariffs since it signed the Treaty of Rome, and among all the problems that France faces today they do not face an economic problem. There is more prosperity, probably, in France than at any time in the past.

The point I am making is that the studies both before this subcommittee and before the Ways and Means Committee over a period of years failed to indicate this terrific impact of imports. As a matter of fact, the Department of Commerce made a study, Senator, in 1958, when we last faced the question of the extension of the trade agreements program, and it was demonstrated by studies conducted in congressional districts throughout the United States that, with the exception of two or three districts in Pennsylvania and West Virginia, the stake in exports of all the districts in the United States was way above any impact that imports had had on these districts.

Now, we have had all this discussion about the escape clause; and, despite the fact that the escape clause has been in the law since 1947, the number of times that it has been resorted to are relatively small—I think something a little over 100—and the number of times that any action has occurred is very small. It is, I think, less than 20. In most cases, the Commission has recommended no action at all.

The point I am trying to make, and I would like to get some comment on this, is that the impact of a so-called liberal trade policy on jobs at home seems to me to be always exaggerated, and we seldom point out the net advantages that occur, not only in employment, better relations between our neighbors and our allies, and so on. I know that this is an economic question, and Professor Wallich may want to comment on that first.

Senator BUSH. Will you yield for a question?

Chairman BOGGS. Surely.

Senator BUSH. I think you are right about the use of the escape clause. I confirm what you say about the report—I recall it very well—by the Department of Commerce. It came up at the time we had the Trade Agreements Act up for reconsideration, I believe. We did extend it. I guess you and I voted for it.

Chairman BOGGS. Right.

Mr. BUSH. On the other hand, I wonder whether the lack of its use has not been due to the fact that there has been, pursuant to the policy laid down by the Randall Commission and adopted by the Congress, that our revisions of trade agreements reductions of barriers have been on a gradual and a selective basis that have forestalled the use of these revisions of the act to a very large degree.

Is that not true?

Chairman BOGGS. That could be true. We have made a rather complete analysis of it in a report made to this committee quite recently, one just filed, which I call to your attention. I am not going, at this time, to attempt to diagnose the reasons why this so-called remedy has not been used. I suspect they have been unable to show injury.

Senator BUSH. That is right, and the reason has been because of the gradual and selective use of protective devices through the Trade Agreements Act, through the GATT.

Excuse me.

Chairman BOGGS. It is perfectly all right.

Mr. Wallich, would you care to comment on the thesis that imports do not account for the great impact on American industry?

Mr. WALLICH. I think the impact is sectional, more industries get a heavy impact, and it is very easy to be liberal at the expense of somebody else. We must not disregard this. At the same time, in a country as big as this, it is hard to do anything that does not hurt somebody. But in a country as rich as this, we can afford to compensate for these injuries.

Now, here is a figure in the same document to which I referred earlier, on U.S. commercial policy, on page 2, which says that for every billion dollars of added imports, fewer than two workers in a thousand would lose a job. That is quite a bit, nevertheless, two in a thousand.

On the other hand, for the exports we would gain, there would be some commensurate, probably a larger gain. I say "larger" for two reasons.

First, our exports are larger than our imports. Second, if the Europeans cut their tariffs by 10 percent and we cut ours by 10 percent, in absolute terms, their cut is more. They will be cutting more, and we ought to get some advantage.

I would think also that we could afford to bargain very hard and expect some cooperation from the other side. Ever since the war, and even before the war, our bargaining has been of a kind where we gave them concessions and we accepted concessions that often were more apparent than real, because the tariff concession was nullified by quantitative restrictions against our imports.

Well, they have had the better of the bargain in this sense as long as they were the needier side, and it does not seem unfair now to suggest that the advantages of the bargaining ought to go to our side.

Senator BUSH. Well, Mr. Chairman, may I comment on that?

Chairman BOGGS. Surely.

Senator BUSH. I wonder if the fact that our exports have done so well has not been largely due to the enormous export subsidies that have been in effect and are in effect today?

Now, I have raised the question before this, if we are going to go at this thing on a fair basis, are we going to withdraw these subsidies from the exporters at the time we are withdrawing them from the manufacturing industries?

But is it not true, Professor Wallich, that our export subsidies are greatly stimulated, particularly in the agricultural field, by export business?

Mr. WALLICH. Yes, Senator Bush, this is certainly true. We raise prices domestically on our agricultural products, and then we have to subsidize them in order to sell them abroad. Our agriculture actually is extremely productive, and we could undersell the Europeans in their own market if they would just let our agricultural products in. But a lot of our products we subsidize, and a good part of them we give away through Public Law 480, for instance. If you will turn to one of the other documents that discuss food policy, the suggestion is made that we should have taken advantage of the fact that many countries are short of food while we have these unhappy surpluses. I have recommended here today, in effect, that we give a semisubsidy to exports by providing for accelerated depreciation.

This is a semisubsidy, because the tax is only postponed, it is not forgiven in the end. I think it is a legitimate kind of subsidy.

Senator BUSH. Would it seem to you appropriate, rather than to let some of these countries go by the board, that if we are going to reduce import restrictions, we subsidize the wage differential between high-cost manufacturing and the low-cost manufacturing of the Common Market countries? This we do in the shipping business, where we subsidize our U.S. shipping by taking care of the labor differential between our country and the much lower wage rates of competitive countries in the shipping business.

Now, if that is good in that industry, would it not be an alternative that should be thought about in this connection, rather than let these companies go out of business and find some other way for them to get back into business?

Mr. WALLICH. I think, Senator Bush, that in the shipping industry it is not a good thing, and I venture to say that we should not do it elsewhere except in this very limited sense of a tax advantage, for this reason: If we begin to look to wage differentials in favor of the other side, we would also have to look to interest rate differentials in favor of our side, raw material cost differentials in favor of our side, and all the other items that, in effect, permit us to sell more abroad than we buy.

Whatever the reasons, we are pretty successful in the export business. Some of this, to be sure, is subsidized, but we have shown that we can compete, and even in such industries as the automobile industry, it has been proved that by better product design, by turning out what the consumer really wants, the industry is able to fight back.

I would suggest that perhaps we ought to take a leaf out of the book of the Common Market countries. They are going through this process of lowering tariffs with a vengeance, much more than is proposed for us.

How do they do it? They do have some trade adjustment. They have a social fund for adjustment in labor; they have a European fund that helps industry. Perhaps there is something that they are doing that we could learn from.

Senator BUSH. Do we have evidence—I have not seen any yet—that this so-called trade adjustment policy is practical in these countries that have adopted them?

Mr. WALLICH. I have not studied it, Senator Bush. If they are not doing it, however, they must have found some other way of living with these very large tariff reductions.

As the chairman said a minute ago——

Chairman BOGGS. Just to interrupt you, I asked these people who are running the Common Market in Brussels, including Dr. Hallstein. The reason they have not done it is they have not found any need for it. It is a very simple answer; it is not complex.

Senator BUSH. I would think that is the reason. My point was has it been demonstrated as being a satisfactory alternative?

Chairman BOGGS. My point is that it has been so successful that these people are being picked up in other employments, and they are making more money than they ever made before in their lives.

Senator BUSH. That is true, but the reason for that, I believe, is that they are on a competitive basis, one with the other. Wage rates are within a very narrow range. It would be very different in the wage differentials between our country and theirs. This is the thing that concerns me.

Chairman BOGGS. Well, Senator, it may be interesting that Canada, for instance, has a wage rate in some industries which is considerably lower than our own, and Canada has cost factors that you would consider lower than our own, both raw material and labor. Yet, if you propose to Canada, at the moment, that they remove all tariffs on American products made with labor which is considerably higher, they will say no, because of the productivity factor and because of the fact that we have this vast mass market. This is one of the things that is contributing to the new era in Europe. There was no more protected economy than that of France. Here they have suddenly had competition from Germany which they were terribly afraid of. The net effect of it has been that their industry has been greatly strengthened.

So we are talking about an economic theory which, in practice, at least in the last 20 years, has worked the other way.

Mr. WALLICH. May I make a comment, Mr. Chairman?

Chairman BOGGS. You certainly may.

Mr. WALLICH. One thing about the trade adjustment proposals is that they contain nothing that we are not doing already. The loan provisions, for instance, that have been talked about are very similar to what is being done on a small scale under the depressed areas legislation. SBA loans, retraining, accelerated depreciation are things with which we have had experience since 1954. If there were something sensationally new here, I would be much concerned, as Senator Bush is, whether it would work. But what has been suggested so far is not really new.

The question one might raise is: Is this enough? Or would, in many cases, more drastic forms of adjustment aid be needed?

Chairman BOGGS. Let me ask this question to the panel, if I may.

Now, we have certainly established the fact that the Common Market is there and will continue to be there. The second fact is that this year, or next year, 1962, existing legislation in this field expires. So we are confronted again with the necessity for doing something.

Assume the existence of the Common Market and the entrance of the United Kingdom, and assume that we do nothing. Let us take the opposite side of this coin. Just let matters drift. Do not extend even the existing trade agreements program.

Is it not conceivable that the economic effect upon the United States in losing the export markets which we now have in Europe, both of manufactured articles and agricultural commodities will be quite drastic indeed, and that the minus effect of doing nothing will greatly exceed anything that might result from a positive program?

Would that be a fair statement?

Mr. CLAYTON. I think it is, Mr. Chairman, and I believe it is so fair that we could stand it just about 1 or 2 years, when we would be compelled to make application to the Common Market for a trade partnership with the Common Market in order to save our export business.

Chairman BOGGS. Is it not significant that in 1957, when the Six signed the Treaty of Rome and England held back and formed EFTA, and then the Common Market countries reported a growth of something approaching 7 percent and England 2 percent? Was it complete altruism that induced the Government of England to apply for membership in the Common Market, or was it just simple preservation?

Mr. CLAYTON. It is very significant, and while British reserves of dollars and gold were going down in a way to cause considerable alarm in London, French reserves of gold and dollars were going up.

I am fairly familiar with the textile industry of France. In the beginning, the French textile industry, which was highly protected, were very fearful about the Common Market. They really worried about it a great deal. But they have found out since the Common Market got well underway that they could even sell cotton textiles in Germany, and they have been doing so, so that so far as I know, everybody in France today is in favor of the Common Market.

You spoke of labor and of the possible displacement of labor by a liberal trade policy, cutting tariffs and perhaps reducing them to zero. I think that undoubtedly, the fears of people who fear that there will be great unemployment result from that policy, those fears are exaggerated and I think that the Common Market, which is, in effect, economically speaking, a United States of Europe in the beginning, that the Common Market experience shows that those fears are not justified, because the countries of the Common Market have practically no unemployment, except Italy; that is, Sicily and in the extreme southern part of Italy.

On the contrary, they have more jobs than laborers in several of the countries.

In Germany, they have brought in 200,000 or 300,000 Italians to take the jobs that they had nobody to fill.

Chairman BOGGS. One of the points that I am trying to establish, Mr. Clayton, is that unless we have some authority to negotiate with the Common Market, we could lose a great many of the markets we now enjoy.

We talk about agricultural commodities. Ones that come to my mind immediately are rice, tobacco, or others. As this common tariff comes to encompass all of Western Europe, some of these commodities are confronted with barriers that they did not have heretofore. So we are almost compelled to have some authority to negotiate, is that not so?

Mr. CLAYTON. It is entirely true, I think, Mr. Chairman.

Chairman BOGGS. There is only one other observation.

Senator BUSH. Mr. Chairman, do we not have authority to negotiate under the Trade Agreements Act?

Chairman BOGGS. Not with the Common Market. We have an authorization to negotiate on an item-by-item basis over a 4-year period at 5 percent per annum, not to exceed 20 percent.

Senator BUSH. I mean, do we not have the policy——

Chairman BOGGS. You know that is not practical. It does not mean a thing.

Senator BUSH. I do not know that it is impractical. Our exports have gone up since the Randall commission in the last 8 years. Our imports have, too. Our trade balances have improved substantially during the past 9 years, or 8, or whatever it is. I do not think the policies have failed as yet.

Chairman BOGGS. Let me just comment on one other subject and I shall be finished for the time being. The business about wage rates and the so-called slave wage areas of the world—the interesting thing as I see it about the study of our trade patterns is the fact that we carry on most of our trade with the developed areas of the world, where wage rates come closer to our own. Our best customer and also the country from which we buy most is Canada, and Canada has a wage rate which is more comparable to ours than any other place on earth. Yet the amount of trade carried on between the United States and Canada goes into several billions of dollars.

On the other hand, the amount of trade carried on between the United States and, let us say, Pakistan, which is an undeveloped area of the world, is insignificant, despite the fact that the wage rates in the textile mills in Pakistan may be considerably below the wage rates in textile mills in North Carolina and New England.

Our second best customers are Western Europe, this area we are talking about. I think the reason for that is pretty obvious. These people have means, they have money, they are able to buy things and use things and they have a desire and a demand for these things. I think that if we have the proper authority to negotiate with Western Europe, the ultimate effect will be greatly increased trade rather than less trade.

Would that be a fair assumption?

Mr. CLAYTON. I think so.

Mr. ACHESON. Probably.

Chairman BOGGS. I have no further questions, Senator Pell.

Senator PELL. I would like to return to one point that Professor Wallich made a couple of times.

That is, you referred to the advantage of accelerated depreciation. Are you saying that advisedly, as opposed to the tax credit concept that the administration had for encouraging new plant investment, or do you believe that the accelerated depreciation is better than the tax credit concept?

Mr. WALLICH. I did not mean to say anything adverse to the tax credit concept, and if in lieu of accelerated depreciation, we could give a tax credit, I think that would be fine. But I am suggesting that it be limited to a tax credit on the equipment used in the export industry. This is not in conflict with doing the same at a moderate rate all across the board, but an additional and large tax benefit would have to be given, I fear, to the export industries if this proposal is adopted.

Senator PELL. As an economist, which do you think is more efficient, the tax concept or the accelerated depreciation, and which would be more expensive to the Government?

Mr. WALLICH. I think the tax credit is substantially more effective, Senator Pell. George Terborgh of the Machinery and Allied Products Institute has just developed a comparison of the two and, granted the tax credit is more expensive, because you do not recoup the revenue on it ever, the immediate impact is considerably greater.

Senator PELL. And on a more general line, would I be correct in assuming that the panel agrees that while there is no question but that we have to eventually go into some sort of program that we are discussing today, that in order to go into it effectively from an economic and a political viewpoint, we should both make a step in the direction of removing subsidies from agricultural products, and also have a substantial trade adjustment program, and that without those two conditions being met, from an economic and political viewpoint, the radical reductions typical of trade barriers will not work.

Would any of you be in disagreement with that thought?

Mr. ACHESON. Well, I would—I think what we all said earlier about the agricultural program was surely that this thing has to be faced up to, and it would be more effective if it were done. But the chances of getting something through would be much better if you keep the field narrower. I think as a practical matter, that is the answer.

Senator PELL. From a political viewpoint, there should at least be a step taken in that direction?

Mr. ACHESON. Well, I do not know; I am not a politician. You are. If you can take one, I am all for it.

Mr. Clayton, I know, will want to go further than I.

Mr. CLAYTON. Well, I disagree so completely with the agricultural program of our Government that I do not know whether I should speak on the subject at all or not.

Senator BUSH. You will find some very sympathetic listeners.

Mr. CLAYTON. I rather think I would be wiser to hold my peace.

Mr. WALLICH. I share Mr. Clayton's feelings about the agricultural program, and I am very unhappy to see that in the fiscal 1962 budget, there is a $1.2 billion increase over fiscal 1961 for agriculture. But until and unless that whole program can be straightened out, I would hesitate to recommend taking off the agricultural export subsidies, because these exports do help in the balance of payments, and we cannot spare them now.

Chairman BOGGS. Any further questions?

Senator BUSH. No, sir.

Chairman BOGGS. Thank you very much, Secretary Acheson, Secretary Clayton, and Mr. Wallich.

The committee will adjourn until 10 o'clock tomorrow morning.

(Whereupon, at 11:20 a.m., the subcommittee adjourned to reconvene at 10 a.m., Wednesday, December 6, 1961.)

FOREIGN ECONOMIC POLICY

WEDNESDAY, DECEMBER 6, 1961

Congress of the United States,
Subcommittee on Foreign Economic Policy
of the Joint Economic Committee,
Washington, D.C.

The subcommittee of the joint committee met, pursuant to recess, at 10:09 a.m., in room 4221, New Senate Office Building, Hon. Hale Boggs (chairman of the subcommittee) presiding.

Present: Representative Boggs, Curtis, and Senator Bush.

Also present: William Summers Johnson, executive director; and Richard J. Barber, clerk.

Chairman Boggs. The subcommittee will come to order.

I am very pleased to have Congressman Curtis deliberate with us this morning.

We begin the third day of hearings on the problems of European integration. We are fortunate to have this morning two very distinguished men who are authors of a report on this subject, Mr. Theodore Geiger and Mr. Robert R. Bowie.

We are also fortunate in having two distinguished panelists to discuss the problem, Mr. J. Frederic Dewhurst and Mr. S. Clark Beise. I need not review the qualifications of these gentlemen.

Mr. Bowie is director of the Center for International Affairs at Harvard and Dillion professor of international relations. He has a distinguished career as a lawyer and in various branches of the Government of the United States. Mr. Geiger is chief of international studies of the National Planning Association. He has had many missions both for Congress and for the executive branch of the Government.

Mr. Beise is president of the Bank of America, having served here in the Office of the Comptroller of the Currency some years ago, and in many other capacities, both in Government and in business.

Mr. Dewhurst, we are very happy to have with us today. He has made previous studies for the committee, and also has been director of two studies on American needs and resources, one published in 1947 and the other published in 1955, and a more recent study of European needs and resources published this year, 1961. He has been executive director of the Twentieth Century Fund, and has held other very responsible positions.

Senator Bush. I would like to make a short statement.

Chairman Boggs. By all means, Senator.

Senator Bush. Mr. Chairman, I wish to make a short statement before the hearing opens for the record.

Mr. Chairman, I join in welcoming these distinguished witnesses I am sure they will be very helpful to the committee in considering this very important problem.

I regret that this is the last day on which I can be present at the current set of hearings scheduled by the Subcommittee on Foreign Economic Policy. As a member of the minority of this subcommittee and of the parent Joint Economic Committee, I was not consulted on the scheduling of these hearings, and not until late last week did I learn that it was planned to continue them through the balance of this week and next week. I have not yet been provided with a list of the witnesses to be heard next week.

Under the circumstances, it was impossible to alter commitments into which I had already entered and rearrange my own schedule so as to be present continuously throughout these hearings, which I regard as highly important.

In the first 2 days of these hearings, we have heard impressive testimony from able witnesses concerning the necessity, in terms of allied unity and the cold war, of finding a satisfactory adjustment of our trade relations with the nations of Western Europe and with the underdeveloped nations. I am in agreement with many of the sentiments which have been so eloquently expressed about the military and international political implications of the actions we may take. I share the concern of the witnesses about the danger of the free world becoming divided into competing trade blocs—a prospect which can give satisfaction to our Communist enemies.

But I am not yet satisfied that the administration is prepared to face squarely the important domestic problems which will be encountered if sweeping across-the-board tariff reductions are made and a new trade and life adjustment program is substituted for the existing peril point and escape clause provisions of the Trade Agreements Act. We have yet to learn the details of the program apparently under consideration.

What evidence have we that such an adjustment program can successfully be carried out? If the experience in attempting to deal with the depressed areas of chronic unemployment in this country is any guide, it is a long and painful process to attempt to create a new basis for employment in communities once a former source of employment is destroyed.

Of even greater concern to any humane and compassionate person is the prospect of the social upheaval and disruption of family life in communities in which are located industries which are vulnerable to import competition and which are the major sources of employment in those communities. For a government which has previously extended a measure of protection to the workers in those communities against low-wage competition from abroad to suddenly withdraw that protection and substitute an untried trade and life adjustment program seems callous indeed.

In New England, we experienced a difficult transition period following the exodus of a major portion of the textile industry to the South. This was a problem created by internal domestic competition, and the exodus took place primarily because of the lower wage rates prevalent in Southern States. As Governor Herter pointed out is his testimony, in New England we have successfully replaced the textile industry with electronics and other new industries. But the transition took 20 years to accomplish, and the cost in human terms to the lives of the families affected by the destruction of the jobs of the wage earners involved was enormous.

Are we faced with a comparable problem because of the wage differentials between the United States and the industrial nations of Western Europe and Japan, especially as they affect products with a high labor content?

Are we to be asked to face another 20-year transition period, with all the human suffering involved, while we attempt to replace destroyed jobs in these industries with new sources of employment?

Nor am I satisfied that the administration is prepared to face candidly the problems involved in world trade in agriculture. Every witness who has appeared before this subcommittee to date has admitted there is a glaring inconsistency in our foreign economic policy because of the farm program.

We heavily subsidize agricultural production, and the subsidies involved have increased by $1,200 million a year since the administration came into power. We heavily subsidize agricultural exports, by direct cash payments as well as by the foreign aid shipments involved in the Public Law 480 program. And we impose rigid prohibitions against the importation of agricultural products from abroad.

Is it fair to ask the industrial manufacturing segment of the economy and the thousands upon thousands of workers whose employment may be adversely affected to bear the entire burden of tariff reductions? Should not agriculture also be asked to bear a fair share of the sacrifices involved?

I may say, Mr. Chairman, I see no evidence at all that there is any intent to deal with this troublesome agricultural subsidy program in connection with the matters under discussion before this committee and as discusssed in New York today by the President.

The Common Market came into being before the nations of Western Europe were prepared to face the agricultural problem. I observe it is a major source of friction between its members, and that our Secretary of Agriculture is concerned because new barriers may be raised by the Common Market countries against our agricultural exports.

I raise the question whether we are ready to make sweeping adjustments in our trade policy for manufactured goods before we have accomplished long overdue reforms in a domestic farm program which one witness before this subcommittee has described as "horrible beyond the imagination" in its effects upon our world trade policy.

Additionally, I question whether the administration is prepared to come to grips with the problems involved in protectionism, both here and abroad, of energy resources. This country has imposed quotas on imports of oil, especially residual fuel oils. These have had adverse effects upon our relations with other nations, particularly in Latin America, and an adverse effect upon competitive costs of industry in my own State of Connecticut and the entire Northeastern part of the United States. The nations of Western Europe practice protectionism for coal. Are we and they prepared to move toward freer trade in this area?

Finally, I question whether the administration is ready to make the broad and bold adjustments in tax policy which are necessary if our manufacturing industries, with their higher wage scales, are to modernize plant and equipment so as to be able to compete more effectively in world markets. The evidence seems clear that the rapid economic growth of West Germany and other Common Market nations is attributable in large measure to tax policies which encourage free enterprise to invest heavily in new plant and machinery. Is the administration prepared to recommend tax reforms which would create a similar climate of enterprise in this country?

I raise these questions, Mr. Chairman, because I believe it is important that this subcommittee obtain the answers before we consider making any recommendations. I observe that the witnesses scheduled for the balance of this week all represent what may be described as the free trade or the freer trade side of the issues with which we are confronted. I agree that it is important that they be heard, and that this aspect of the problem be fully understood. But I believe it is equally important to call witnesses who are competent to discuss the questions I have raised, and that an opportunity to be heard is given to representatives of the industries and workers who may be adversely affected by the program which the administration apparently intends to propose. I would suggest that if such witnesses be called and I hope they would be before the committee closes its investigation, Mr. Chairman, that we call local representatives of the industries and workers, union leaders who represent localities and industries that are going to be affected directly by the new "trade and life adjustment program."

I shall examine carefully the record of the remaining days of the current set of hearings, which I understand the chairman intends to conclude on Friday of next week. I respectfully suggest, Mr. Chairman, that instead of adjourning the hearings at that time you consider a recess until after the Congress reconvenes next month. At that time we should have more knowledge of the proposals the administration intends to make. We are entitled to know in specific detail the administration's proposals, and the answers it may have to the questions I have raised, before we proced to write a report based on these hearings.

I should hope that the committee would meet as a committee and discuss the terms of the report if one is to be written, and that the opportunity to offer supplementary views should be given to any member so desiring.

I thank you, Mr. Chairman.

Chairman BOGGS. Does that conclude your statement?

Senator BUSH. That concludes my statement.

Representative CURTIS. Mr. Chairman, may I make a brief statement at this time?

Chairman BOGGS. Certainly.

Representative CURTIS. In light of Senator Bush's statement, I think that I should say this, that I join in much of what he says, and I was not going to speak at this time, but I think it is appropriate to say that I have been very concerned about the fact that these hearings and the papers have been set up in the fashion they have without full consultation with the minority. I have been disturbed at the manner in which the publicity has been handled by the committee. It is contrary, in my judgment, to the rules of our committee.

I still believe that a great deal of advantage can be derived from these studies, because I have gone over the list of witnesses. They are excellent people. I do feel, however, as Senator Bush has pointed out, that there has not been a careful attempt to gain balance.

The exclusion from consultation with the minority looks like it was not an oversight, but was somewhat intentional. I hope that in the future, the Joint Economic Committee or any of its subcommittees will give a great deal more care to the preparation, as I believe we have in the past, to the kind of format, the witnesses, the papers, and so forth, a great deal more care to preserve the balance, abiding by the rules which do permit the minority to have their say in getting witnesses, commenting on other witnesses. I shall have much more to say at a later date.

Chairman BOGGS. Well, I would be very surprised if the gentleman did not.

I would just like to make the observation that on September 12, a letter was directed to all of the members of this subcommittee, including the distinguished Senator from Connecticut and the distinguished gentleman from Missouri, in which we set out the fact that these hearings would be held for 2 weeks beginning on December 4 and continuing through next week. We also set out the fact that we were having a meeting, scheduled for Friday, October 6, in which we would discuss the panels and the panelists, and we invited the members of the subcommittee to participate and to make suggestions.

There has been no effort, either directly or indirectly, to deprive anyone of any right to be heard. There has not been any effort to exclude the minority or the majority. These hearings are not designed to promote any particular point of view, and the panelists that have been asked to testify, as far as I know, are distinguished Americans who are attempting to give honest opinions to this subcommittee, in order for this subcommittee to help in any way that it can the legislators who have a responsibility in this area.

It is obvious that this a matter upon which people disagree. I must say that in the field of trade and tariffs, this is not new in the history of the United States. Such disagreement has been in existence since the first days of the Republic.

I might say further that as far as I know, the business community, let us put it generally, has supported what one would call liberal trade policies as against protectionist trade policies. I remember last time, the U.S. Chamber of Commerce was quite active in supporting the extension of the trade agreements program. I think, although I am not certain about this, that the National Association of Manufacturers also supported it. By and large, the American labor movement has supported the freer trade concept—not free trade, but reciprocity in trade.

With all due respect to my distinguished friend and colleague, Senator Bush, the arguments he has advanced here are just about as old as this debate is. I have not heard a new argument advanced by the Senator, and I say that in all respect to his distinguished career.

Senator BUSH. Mr. Chairman, I do ask the indulgence of the chairman to make a very brief supplementary statement.

Chairman BOGGS. Without objection, it is so ordered.

Senator BUSH. Let me say first that I have the greatest respect for our chairman, and as I have said, it does not indicate any lack of confidence in him or his lack of fairness or anything else. I have the highest respect and esteem for him. He has been a long-time advocate of free trade, and I respect him for all that, but he has questioned what I said in my statement, which I now repeat.

I said I was not consulted on the scheduling of the hearings, not until late last week did I learn it was planned to continue them through the balance of this week and next week. This statement I still stand upon.

In the letter which the chairman referred to, which was sent to me on September 12—I do not recall getting it, but I do recall making a note of the dates, December 4, 5, and 6 in my book, so I must have gotten the letter. He said in that letter, above his signature:

> Accordingly I have nominated the dates of December 4, 5, and 6, Monday, Tuesday, and Wednesday and the dates December 11, 12, and 13 of the following week, plus any additional dates of that week needed to complete the hearing.

Now, again, I point out—I do not want to be small about this, but he did not indicate at any time to me until I got here in Washington on Monday that these hearings were going to continue through this week. As a member of the minority, I felt and I feel that all of us in the minority are entitled to that much consideration. If hearings are to be extended, we should be consulted. If we are outvoted, that is one thing. But I do feel that the purpose of having a minority in committees like this is so that they can be heard.

I may say with respect to the whole operation of the Joint Economic Committee since I have been a member of it, there have been too many instances of the disregard of the minority, and I have objected to that in the full committee to the chairman, Mr. Patman, and to other members of the committee.

I do not wish to belabor the point further and I shall not. I mean no personal offense or question of the chairman's integrity. I do think that his staff might have better supported him on this, and I hope that in the future, the requests which I have made at the closing part of my statement concerning consideration of the report and so forth might be given the chairman's personal consideration and the consideration of the committee.

I apologize to the panel for interfering with their testimony, which I am very much interested in, and I apologize to the chairman for delaying the meeting further. I shall have nothing more to say. I simply wanted to correct the record in support of my statement that I was not consulted on the scheduling of the hearings. I was notified that they were going to be held, and there was no opportunity to discuss it.

Chairman BOGGS. Senator, I would simply like to say that you know for many years, I have had the highest regard for you.

Senator BUSH. I appreciate that. There is no personality involved here, sir.

Chairman BOGGS. I must say further, sir, that I regret more than I can tell you that you will not be with us tomorrow and the next day. The contribution you have made to these hearings for the first 2 days has been very, very significant. I mean this sincerely. You brought out these issues that must be developed if the hearings are to have any meaning. I certainly assure you that no report will be filed without full consultation with you and the other members of minority.

I regret the fact that that September letter did not mention the latter 2 days of this week. What happened, of course, was that the interest in the matter became so great that we were pressed to have other people, and the time was so limited that we had to use these 2 days. Frankly, I did not like the idea, myself. As a matter of fact, I have a speaking engagement in New York tomorrow which I scheduled several months ago which I had to cancel, and I do not like to do that.

I think we did send out a later notice indicating that we might have to use these 2 days. But I can assure you that as far as I am concerned, I shall tell the staff in your presence and in the presence of Congressman Curtis that we are most anxious to consult with you, with Mr. Curtis, with Senator Javits, and the other members of the minority and we shall do so before any report is filed.

Senator Bush. I thank you, Mr. Chairman, for those assurances, which I am sure are sincere. Again I state my respect for you and admiration for your integrity and ability, and all the nice things.

Chairman Boggs. We are very happy to start the hearings this morning with Mr. Bowie. I might mention that Mr. Bowie, among other things, was Assistant Secretary of State under President Eisenhower.

STATEMENT OF ROBERT R. BOWIE, DIRECTOR, CENTER FOR INTERNATIONAL AFFAIRS, HARVARD, AND DILLION PROFESSOR OF INTERNATIONAL RELATIONS

Mr. Bowie. Mr. Chairman and members of the subcommittee, I appreciate the opportunity to appear, and I need hardly say that the hearings you are holding and the studies you are making seem to me most important. I do not have a formal or written statement, but I would like to underscore some of the ideas in the report which Mr. Geiger and I have submitted to you.

To avoid duplication, Mr. Geiger and I have divided the task. I shall deal with the somewhat broader aspects. Then Mr. Geiger will deal with some of the more specific aspects.

I do not come as a spokesman for any given point of view, and I certainly would not attempt to speak on behalf of the administration. I was invited by the committee to submit a report together with Mr. Geiger and, in doing so, in cooperation with a number of other experts that we drew on, we have tried to give you our disinterested judgment as to what is the nature of this problem and what are some of the implications for the United States.

I am sure that some of the problems that Senator Bush had mentioned are serious ones and deserve serious consideration. It is not for me to try to deal with those; but they do underscore the importance of trying to understand and see this situation in its true perspective. That is what I want to address myself to.

The primary point I want to make is that economic policy today cannot be considered in isolation from the larger issues of our times;

and that this is especially true with respect to what we do regarding the European community, and particularly the European economic community. Inevitably, a discussion which involves trade and economic matters tends to focus on specific issues and specific difficulties, but we cannot possibly arrive at wise decisions in this field if we do not recognize their relationship to the larger problems of our epoch.

So, without apology, I would like to direct your attention to this wider framework which you doubtless already know, in order to underscore and stress the relationship of the trade aspects to these broader issues.

We are living through a period of profound transformation of the entire world order. Over the last decades, the old order has been undermined by the ending of colonialism, the impact of two world wars, the growth of Soviet power, the rise of communism, and the development of the new nations. If we see our times in perspective, we realize we are engaged in a struggle to try to create a viable new order which will provide a congenial environment for free societies, both industrialized and developing.

That, in historic terms is the real nature of the contest with the Communist bloc, and the Soviet Union in particular. The industrialized Atlantic nations have special obligations in regard to the effort to create such a world order. This obligation arises by reason of their vast resources, their trained people, their traditions, the fact that they have effective governments. They are the ones that control the resources for defense, for assisting new nations, for promoting higher living standards for their own people.

Herein lies the fundamental importance of the European Community which is now emerging. The creation of the European Community is itself a response to this changing world in which we live. It represents a judgment by the countries of Europe which have been torn by such devastating wars that they must find ways of transcending the narrow nationalisms of the past and forming some sort of an integrated, unified Europe which can play its part in the world. And if Britain and others join, as is now in prospect, this new entity in Europe can become a vitally important influence on the world scene. This is why the United States, over the last decade and even earlier, has welcomed the uniting of Europe.

Indeed, the Congres was in the forefront of this support. In the legislation for the Marshall plan, it repeatedly endorsed the prospect of a unified Europe, both politically and economically. In this, it seems to me, the United States showed wisdom and foresight regarding what was needed for our times.

But if this new entity does emerge, then cooperation between this new community and the United States becomes essential for both of us. We have got to find ways of working together as partners in dealing with the challenging tasks which face the free world. To do so calls for considerable adaptation in both point of view and in policies on the part of both partners.

In the first place, we must not overlook the fact that this European entity still has much to do before it becomes effective. The Common Market has been remarkably successful so far, but there is much still to be done in creating common policies and common actions within even the Common Market. There are the many problems of British entry and the relation between Britain and the Commonwealth, and how Britain will fit into this entity. Finally, if Europe is to act as an entity it will have to forge newer instruments for common action and cooperation than those which are now in existence. So there is much to be done simply to make an effective partner in Europe.

But as it comes into being, both of us will have to readapt our thinking. The experience of World War I and World War II demonstrated the abiding interest of the United States in what happens in Europe, and this interest was given expression in such early postwar actions as the Marshall plan and NATO. But in that first decade after the war, the principal form of common action was common action with respect to the needs of Europe. It was addressed primarily to trying to meet the urgent needs of Europe for defense and for recovery.

Now we are moving into a changed situation. The need of Europe and of the United States for one another continues to be just as vital, but their cooperation has to move onto a somewhat different footing. Now this partnership must be directed toward genuinely common problems which both of us face. Those problems relate to growth within our own societies, they relate to the provision of common defense throughout the world against Soviet and Chinese aggression, and they related to problems of how to create viable societies in less developed countries.

All of these challenges call for a wide range of common activities if we are to cope successfully with them.

An adequate U.S. trade policy is one of the essential links in this partnership. There are many other forms of economic cooperation to which we must also address ourselves, and Mr. Geiger will talk about certain of these. But in the field of trade we must be able to do our share in facilitating trade between the European community and the United States, and between these two entities and Japan, and the less developed countries. Expanding trade is going to be necessary for the continued healthy growth of the industrial economies, and the reasonable access to their markets will be essential to enable the developing countries to help themselves.

If we are to achieve these two purposes of facilitating growth within our own societies and facilitating the growth of the less developed countries, then adequate will be needed to bring about reciprocal reductions by the United States and the European communities of present barriers of trade.

Now it would, of course, be a mistake to minimize the fact that this is going to call for adaptations and adjustments. It is undoubtedly going to involve some hardships and difficulties for individuals and firms. But it is essential to see this in perspective. The choice is not between avoiding that kind of hardship and having an ideal arrangement without it. The failure to create liberal trade conditions could ultimately lead to stagnation and division within the free world, and to sap its capacity to cope with the tremendous tasks that it faces. If we are to avoid that alternative, then we must be prepared now to take the steps and make the sacrifices which are necessary for an adequate response.

In other words, we must think of trade and other forms of economic cooperation in precisely the same way as we think of necessary sacrifices for our security and for our independence. Everybody knows that it imposes hardships. It certainly imposes burdens, but we are all prepared to accept these because we understand the relationship between those sacrifices and the long-term interests of the Nation and of the larger community of which we are a part.

We must come to see the trade and economic aspects in precisely this same perspective. We must view these problems, not in narrow trade or even economic terms but in terms of the future basic security and welfare of our country.

Thank you very much, Mr. Chairman.

Chairman BOGGS. Thank you very much.

Mr. Geiger, would you care to proceed?

STATEMENT OF THEODORE GEIGER, CHIEF OF INTERNATIONAL STUDIES, NATIONAL PLANNING ASSOCIATION

Mr. GEIGER. Mr. Chairman, members of the committee, let me begin by saying that the views I express here this morning are my own and are not necessarily those of the National Planning Association. I should like to try to supplement Professor Bowie's remarks by reference to some of the specific points made in our report.

First, with respect to trade policy, this is a subject which has been talked of at great length in the previous 2 days of the hearing, and I am sure will receive the major attention in the remaining days, so I do not want to go into it in detail now. I would, however, like to make one point. The choice that lies before us is one which requires us to take positive steps. If we do nothing—that is, if we make no changes at all in our existing trade policies—the worst that everyone fears will happen. It is not a question of choosing a negative course, of becoming more protectionist, of deliberately trying to reduce our trade relations with Europe. This will happen inevitably if we merely continue present policies unchanged. Once the Common Market is enlarged, once its common external tariff goes into effect for most of Western Europe then many of the export markets in the individual European countries where we now have free entry or low duties will be cut off from us.

For example, we have a very substantial market in Great Britain at the present time for wood and paper products of various kinds. On most of these there is no tariff and American goods come in freely. I believe that the total of our exports to the United Kingdom market amounts to about $300 million a year. Once Britain goes into the Common Market, and the common external tariff then goes into effect, there will be duties of about 15 percent on these products. This would automatically give this very large and important market to other producing countries which were full or associated members of the enlarged European Economic Community.

If we do nothing about our trade policy, there will be a substantial loss in our exports to the enlarged Common Market. This means that the only real choice ahead of us is to take positive action, to make the changes in trade policy necessary to insure that we do not lose our present markets in Europe. Such positive action will also enable us to realize the potential increases in our exports which will be made possible by the enlargement of the Common Market.

By positive action I mean reciprocal tariff reductions between the United States and the enlarged Common Market. Based on the trend of the 1950's, such reciprocal tariff reductions would probably result in a greater rate of increase of American exports than of American imports, which would in turn be of substantial help to our balance of payments.

The loss that we could sustain in employment from a decline in our exports to Europe is substantially greater than the loss in employment that is likely to come about in consequence of any increase of our imports from Western Europe. Those who are concerned with the employment situation and with the well-being of individual American business firms and employees must also look at the potential loss of exports and the increase in unemployment that would result if we do nothing to induce the Common Market to lower its trade barriers in return for reciprocal concessions on our part.

I agree with Senator Bush about the necessity of looking at various other aspects of U.S. policy. The problem of agriculture, for example, to which he has called attention, is a major one. Again, I believe that this is a problem where the potentialities for making progress lie in taking our positive action, not in continuing present policies unchanged.

We have tried for over 30 years to solve the problem of American agriculture within a strictly national context. So far, we have had very little success. The possibilities for making progress lie in joining with the other countries which are the major producers and consumers of Temperate Zone products, in a coordination of national policies covering not only international trade in these products but also domestic levels and patterns of production and marketing. The countries involved would be the members of the enlarged Common Market plus Australia, New Zealand, Canada, perhaps Argentina, and Uruguay, and of course the United State. Together, this group of countries could begin to make progress in insuring faster growing and more orderly markets for Temperate Zone agricultural products than any one of these countries will ever be able to do by itself on a strictly national basis.

There are other potentials for making progress by joining more closely and cooperating more effectively with the enlarged Common Market. In the military field, for example, the burden of maintaining American bases and American troops in Europe could be substantially lightened by a coordinated policy with the European countries whose ability to pay more of the costs has already been, and will continue to be, greatly enhanced by the rapid economic growth of the Common Market.

Similarly, the burden of foreign aid could again be substantially lightened by a much better coordinated policy with the enlarged Common Market, and a greater effort on the part of the European countries which they can now afford to make in consequence of the gains that they are deriving from the Common Market.

Another major problem which confronts us on which we are unable to make progress within a strictly national context is the improvement of international monetary arrangements. This is becoming more and more of a difficulty and frustration for the United States. As the country whose currency is in greatest use in the international monetary system, we have, since 1958, faced a growing dilemma of how to reconcile domestic economic policy and the achievement of many important foreign-policy objectives with the need to maintain external confidence in the dollar. This is not a problem we can solve by ourselves. It is a problem which we can only solve by the closest possible coordination and development of common policies with an enlarged Common Market. If we join with them in such an effort, we have the chance of solving this problem constructively. If we do not, we will be confronted with a succession of dollar crises which will put us into a straitjacket on domestic policy, and may compel us to reduce some of our important international commitments.

In all of these fields, the enlargement of the Common Market provides us with opportunities for making progress on the many difficult problems that confront the United States. In all cases, such progress can only be made by a much closer coordination of policy, a much greater willingness on our part to integrate our economy with theirs.

May I make one last point which, to my mind, is basic to everything I have said. That is the necessity of maintaining an adequate rate of growth in the American economy. With a rate of growth which enables us to absorb our unemployed into productive occupations again and to have a high rate of capital investment, all of the adjustments in trade and other policies will be less difficult to make. In fact, I am convinced that they will be impossible to make unless we can achieve a more adequate way of economic growth. In this respect, I think that the lesson of the Common Market is a very important one for us.

Back in 1948–49, when, in carrying out the mandate of the Congress, the Marshall plan agency—of which I was a member—began to use U.S. foreign aid as a means of fostering the integration of Western Europe, we were told by those in the U.S. Government who disagreed with this policy that our efforts would only result in creating in Western Europe what they called a stagnant, high-cost, soft-currency area. I remember those terms well, because they were continually being thrown in our faces by those people in other U.S. Government agencies who were opposed to the economic unification of Europe.

Well, the result of the economic unification of Europe has been quite the contrary. Europe has had a rate of growth double that of the United States in recent years. European currencies, far from being "soft," now are the "hardest" in the world, and the monetary reserves of the enlarged European Common Market will be about $7 billion greater than our own. Europe's production, far from being high cost, has become a matter of concern to many people in the United States because its costs are more competitive than those of some American industries. Indeed, one wonders in the light of these achievements whether the Europeans might feel that the term, "stagnant, high-cost, soft-currency area" could with more justice be applied to the economy of the United States than to their own.

I think the lesson is a clear one. Just as Europe avoided the danger of stagnation through closer economic integration, through the lowering of trade barriers among the European countries, which stimulated their rate of growth, their investment, and their employment, so I think that we, too, can achieve the same results by action along the same lines. The extent to which we can open our markets to the Europeans in return for the opening of theirs to us, the extent to which we can more closely coordinate our monetary and other economic policies with those of Europe, will help to determine whether we, too, will have a more satisfactory rate of growth and will enjoy many of the benefits of economic integration which Western Europe has increasingly been experiencing.

Chairman BOGGS. Thank you very much, Mr. Geiger.

Mr. Beise, we shall be glad to hear from you, sir.

STATEMENT OF S. CLARK BEISE, PRESIDENT, BANK OF AMERICA NATIONAL TRUST & SAVINGS ASSOCIATION

Mr. BEISE. Mr. Chairman, members of the committee, I, too, am here at the invitation of the committee, which I received the latter part of last week, asking me if I would be willing to appear and express my views before this committee.

Chairman BOGGS. We are glad to have you here. We welcome you.

Senator BUSH. I congratulate you upon your mobility.

Mr. BEISE. I represent no groups or points of view, and the opinions I express are strictly those of my own.

It was nearly two centuries ago that the drafters of our Constitution specified that all tariff duties shall be uniform throughout the United States and that there shall be no duties or other restrictions on the movement of goods from one State to another. With free trade among the States and with a common external tariff, private enterprise has flourished, our Nation has advanced to world leadership, and our citizens have attained the highest standard of living yet achieved anywhere.

The European Common Market to me represents an attempt by the six European nations to adopt measures our forefathers wisely established for us from the outset of the Union formed by the States.

The Common Market, as presently constituted, represents a tremendous and rapidly growing block of producers and consumers. If Britain joins, as seems likely, the combined population of the group will be considerably larger than our own. And while their total output would still fall far short of that of the United States, the rate of growth in their output may exceed ours by a substantial margin, as it has in recent years.

I think we should applaud the constructive aims of the founders of the Common Market. At the same time, we should recognize that the Common Market will create for our own country many opportunities and many problems. Or, perhaps more accurately, it will create many challenges; challenges which, with foresight and determination, we can turn into opportunities, but which, without foresight and determination, will become chronic sources of disturbance politically and economically, both in our domestic and in our international affairs. What is most important is that we recognize, from the outset, that the challenges will exist whether we face them or whether we do not. Ignoring them will serve only to aggravate the dangers and destroy the opportunities.

What are these challenges? They fall into two realms—the economic and the political—but the two blend into each other, and can be summed up by two succinct words, "increased competition."

We have heard much about the competition between the political ideology of the Russians and of the United States, and of the competition between the Russian collectivized economic system and our private enterprise system. I would think that many Europeans have been somewhat annoyed by this bipolar picture of world politics and economics, and have wondered if it does not leave them more or less in a satellite position that neither their history nor their aspirations make acceptable. More importantly, they have decided to do something about it. They have decided to create a third major force in world affairs.

The British historically have had grave misgivings about linking their destiny too closely with the destinies of the Continent, and have cherished the values of the British Commonwealth. Yet, now they have decided that they, too, must join the Six in their efforts to bring forth a new Europe that eventually will be capable of being a world force comparable to that of the United States.

We should not complacently assume that the international political and economic views of the Common Market nations in the years ahead always will be similar to ours, or even necessarily compatible with ours. Nor can we safely predict that their attachment to the values of the private enterprise system will be as firm as our own. In some respects, Europe already has moved further toward socialism than we like to admit.

But by the same token, this third center of power can be a great source of strength for the free world. The countries comprising the European Economic Community are close friends and allies of ours. They are fellow members of NATO and of OECD. It has been our Government's policy to encourage Europe to become stronger and more united, and we have spent billions of dollars to make this objective a reality. A strong and dynamic Europe can help combat the lure of communism; it can better provide for its own military defense; and it can contribute more generously to the realization of the aspirations of the underdeveloped and new nations of Africa, Asia, and Latin America. It could become an even closer ally and partner of the United States. It could pave the way for an eventual economic integration of the entire Atlantic community of nations.

Thus, it can become either the beginning of an eventual unity or an eventual cleavage of the free world. The outcome will depend in large measure on our own performance. We must demonstrate that our private enterprise system, supported by enlightened Government policies, can be dynamic and competitive, and can offer more satisfying rewards to its members than can a communistic or socialistic system.

There will be no more convincing way of achieving this demonstration than to permit European goods to compete with ours in our own markets and to insist that ours be permitted to compete in their markets, and in both cases without the impediment of high tariffs and other artificial restraints on trade.

American businessmen and farmers will be faced with increased competition from Common Market producers whether we like it or not. The only question, therefore, is how we respond to it, and whether we welcome it or bemoan it. I think that the best interests of our Nation and of our Nation's businessmen dictate that we tell the Common

Market nations that we will welcome increased competition from them in our home market if, and only if, they will give us freer access to their market. And I mean freer access for our agricultural products as well as for our industrial goods.

American businessmen and farmers cannot afford to be squeezed out of the rapidly expanding European market by high tariffs and quotas which apply to nonmember countries but not to member countries. Yet this is precisely what is likely to happen if we do not do something about it.

But it stands to reason that the Europeans are not likely to reduce their tariffs on our goods materially if we are are not willing to take corresponding action.

If we take reciprocal action of this sort, what will be the consequences for American industry and agriculture?

Obviously, such action would help American and European exporters and the people who produce the products that would be exported in greater volume. It goes almost without saying that these would be the low-cost producers competing in the world markets; otherwise they would not be able to compete in the home territory of their oversea competitors.

On the other hand, some of our domestic producers undoubtedly would be hit, and even hit hard in some cases, by the increased imports that would enter the United States as a result of a lowering of our own tariff duties and would further augment the difficulties which these low-cost producers will encounter. These, of course, would be the higher cost producers in the international field.

So our high-productivity industries would generally benefit, and would expand their output and employment, while our lower productivity industries would have to contract, or at least grow more slowly, unless they did something to remedy their low productivity. Taking our country and our people as a whole, we would gain: consumers would have higher incomes, lower prices, and better products; labor would receive higher wages; and the shareholders would receive larger dividends on their investments.

Given the Communist threats to our national survival and the many strains that leadership of the free world places on our economy, do we really have any reasonable choice but to use our resources and manpower where they will be most productive?

The Russians have forced us to subject our economy to strains which would otherwise not exist, and to make economic adjustments more rapidly than we might like. The Common Market will make the need for adjustments even greater. Regardless of whether we enter into a reciprocal reduction of tariff duties or not, the rapidly mounting productivity of European industry will make itself felt on our imports and our exports, and, I might add, on other items in our balance of payments. The only question is whether we will take measures that will enable us to compete with the Europeans more effectively—in their home markets by negotiating reciprocal tariff reductions, and in all markets by appropriate domestic policies.

What do I consider to be appropriate domestic policies, especially in the light of the expected increased competition from abroad? First, I would mention noninflationary monetary, fiscal, wage, and price policies. Second, I would mention much more generous depreciation allowances for tax purposes.

I would recommend special governmental assistance to industries and communities hard hit by imports to help them over a transition period. Fourth, we need an export credit program equal to the best that our overseas competitors have available to them. This, I believe we now have in the recent legislation enacted which permits the Export-Import Bank to engage in these transactions.

In mentioning what I consider to be appropriate policies to enable us to meet greater competition from abroad, I do not wish to appear to minimize the many problems that would be presented in devising effective and equitable solutions. I merely am convinced that the necessary adjustments will be less painful than the alternative consequences of an America which reveals itself to the world as being less dynamic, less resolute, and less farsighted than this new force called the Common Market.

As I have already stated, the challenge and the competition will confront us in any event. The only question is whether or not we use them to strengthen ourselves and the free world. If we succeed, the concept of an economic alliance of nations need not be limited to Europe. Eventually, it could cross the Atlantic and encompass the United States and Canada, and perhaps other countries to the south and west of us. The Organization for Economic Cooperation and Development (OECD) in which the United States and Canada are full members, might well become the institution through which such a development could evolve. And if this should come to pass, what hostile forces could ever challenge the free world successfully.

Chairman BOGGS. Thank you very much, Mr. Beise.

Mr. Dewhurst.

STATEMENT OF J. FREDERIC DEWHURST, FORMERLY DIRECTOR OF THE TWENTIETH CENTURY FUND'S SURVEY OF EUROPE'S NEEDS AND RESOURCES, TWENTIETH CENTURY FUND

Mr. DEWHURST. Mr. Chairman, members of the committee, inasmuch as I have reached the happy state where I am on no payroll, public or private, it goes without saying that I am not speaking for the Twentieth Century Fund, with which I was associated for many years, or for any other organization.

I should like to make a few comments about the kind of trade structure that might result from an expanded Common Market in Europe, with the levels of tariff protection contemplated by the market, and how this structure might be modified if levels of protection were lowered in both the Common Market and the United States.

Western Europe is often described as "the workshop of the world," which converts imported raw materials into finished goods for her own consumption and for export to the rest of the world.

Some 80 percent of Europe's imports consist of primary materials, and about 80 percent of her exports are manufactured goods. Excluding trade among themselves, the countries of Western Europe export to the rest of the world about 50 percent more manufactured goods than does the United States. Western Europe is our own most important trading partner and accounts for an increasing portion of our foreign commerce. One-third of our exports go to Western Europe, which accounted for half of our total trade surplus during the year ended June 1, 1961. Our merchandise exports to Europe exceeded imports from that area by $3 billion, which, of course, helped to reduce our large deficits with Europe for services, defense expenditures, and capital investment.

Europe will undoubtedly continue functioning as a "fabricator-in-transit" and her imports of primary materials will continue to rise—probably about as rapidly as her gross national product, or perhaps between one-third and one-half over the next decade. Europe's imports of manufactures are also expanding, but here there are likely to be important structural shifts.

Western Europe is likely to expand its imports of semimanufactured products and simple finished goods, especially those items which require either a large energy input or a large labor input. Goods requiring large amounts of energy in their initial transformation put a strain on one of Europe's weaknesses: high-cost coal and a shortage of most other energy sources (with the notable exception of hydroelectric power, particularly in Switzerland and the Scandinavian countries). Until nuclear power becomes cheap and plentiful, or unless extensive deposits of gas and oil are discovered, Europe will continue to suffer from high energy costs. As for products requiring heavy labor input, most of the industrial countries of Europe for several years have been faced with a tight labor market. This situation is likely to continue because of the very slow growth of the labor force, and labor can be expected to be an increasingly expensive element in production over the next decade.

There are also political reasons for European countries to accept imports of simple manufactures from their former colonies, as the breaking of imperial links has brought relatively little disruption in trading relationships. The new countries will continue to supply the mother countries with raw materials, as in the past, and increasingly with such simple manufactured goods as textiles and primary metal products.

At the other extreme from raw materials and semimanufactures we can expect European countries to continue to buy from the United States specialized types of equipment, such as jet aircraft, heavy earth-moving equipment, and so forth, possibly in increasing volume.

It is in between these extremes of simple goods, on the one hand, and of highly specialized manufactured products on the other hand, that the Common Market will impinge on trade if its external tariffs remain at their contemplated levels. In the past, Europe has been an important market for a wide range of manufactured goods, particularly those produced by capital-intensive methods and supplied mainly by the United States. Apart from the American headstart in the manufacture of many of these products, such as automobiles and household durables, and the impact of war on European industry, there are other reasons why our exports of these products were able to enter the European market in spite of substantial tariff protection.

First, the European market was limited in size by the low level of income. This meant that the European manufacturer hesitated to make the investment needed to produce and market something new, even with considerable tariff protection against imports. Second, the European market was fragmented into small national markets, in most of which a European manufacturer might have to compete on equal terms with an American manufacturer. Finally, with a big home market to supply, the American manufacturer could afford to be an innovator and experiment with new products—but not the European with his limited market.

The Common Market is going to change this. In place of small national markets there will soon be a consolidated market of nearly 250 million people, and perhaps by the end of the decade more than 300 million people, with total national income and gross national product approaching very closely our own.

The European market will be a bigger and richer market in other ways as well, for full employment, higher personal incomes, and the coming of the welfare state are bringing additional millions of people into the market for consumer goods.

Innovation will no longer be left to the Americans because this bigger, healthier market will do for Europe what it has already done for the United States. Behind a considerable tariff wall, European producers will be able to fill their own needs for these products, even though it will be a long time before they are fully competitive with American industries for many items.

This is not all the story, of course. Increased imports of primary materials and simple manufactures into Europe will have to be paid for by increased exports to the rest of the world.

Europeans will undoubtedly be larger exporters of complicated capital goods such as machinery, equipment, and specialized components than they have been in the past. Beyond this we can expect European manufacturers of the more standardized articles to become more competitive as their whole market expands and they make necessary investments in cost-reducing plant and equipment. My own guess is that we can look forward to a rise in European exports of manufactured goods over the next decade of perhaps $8 or $10 billion.

This is some 50 or 60 percent more than Europe has been exporting recently and 80 or 90 percent of the value of our own exports of such goods in recent years. Much of the increase will be in capital equipment, but a considerable part of the increase is likely to be in manufactured goods that will compete with our own goods in third markets around the world.

This is not an entirely pleasant prospect to American exporters, but it would be a delusion to think that it will not happen. The European countries require a larger volume of imports to expand their commerce and they will continue to pay for their imports by exporting manufactured goods.

What effects might be expected if tariffs were lowered both in the Common Market and in the United States? It would be foolish to contend that the reduction, or even elimination, of tariffs on manufactured goods would halt the developments described above as being likely in the Common Market. However, it seems to me that a reduction of tariffs on both sides would result in a much more limited and selective expansion of manufacturing in Europe. This would mean that we would continue to have markets both in Europe and in other parts of the world for the things we produce most efficiently—and in spite of all the comment about pricing ourselves out of the market, there is a considerable range of manufactures in which we excel.

In view of our present high unemployment rate, maintaining and expanding our markets for capital-intensive goods may not seem a very direct method of overcoming that problem. And it cannot be denied that lowering our own tariffs, in the short run at least, would create additional difficulties in industries where wages are a large part of total cost. For this type of manufactures I expect that some "adjustment assistance," which has been described by others before this committee, would be required.

However, this argument can be carried too far. Tariff protection itself is no guarantee against unemployment and, in fact, our most highly protected industries are certainly not our most profitable ones. In these industries, cost-cutting and laborsaving investments are likely to continue, whether or not tariffs are reduced.

Another aspect of this problem seems to me more significant. What can really cause a threat to employment is a continuation of our balance-of-payments difficulties. Unemployment in the United States can only be corrected in an economy expanding at a more rapid rate than we have achieved in recent years. What we have encountered recently is a problem familiar to the United Kingdom and other countries—a good growth rate expands the demand for imports and unless these are paid for by a commensurate growth of exports our external balance comes under pressure. We are then forced—in order to avoid a drain on our gold and foreign holdings—to take some action to restore the balance. But almost any such action tends, directly or indirectly, to choke off the expansion and we are back where we started, with a growth rate inadequate to maintain full employment. The United Kingdom really has had to face this situation half a dozen times since World War II.

I can think of nothing better calculated to keep our balance of payments in difficulty than inhibiting the growth of the market for the kinds of goods we produce most efficiently. We shall be doing exactly that if we fail to take the action needed to open foreign markets, especially the rapidly growing European market for these goods.

If we fail to do so, we foster the expansion of the same industries behind tariff walls in Europe. These industries will not only supply the European market but will compete with our own goods in third markets and at competitive prices. Here it is well to recall the strong commerical ties between Europe and some of the rapidly developing parts of the world, the former colonies.

After the experience of the last few years it would be foolish to pretend that our economy is immune to the effects of external imbalance. Let me give one piece of statistical evidence to indicate what is an important source of trouble. The physical volume of world exports increased between 1953 and 1960 by 54 percent. Our exports increased in volume by only 20 percent and our exports of finished goods declined by 11 percent—speaking here of physical volume.

Senator Bush. In what period is that, sir?

Mr. Dewhurst. Between 1953 and 1960.

Had our exports of finished goods merely remained steady in physical volume, our external difficulties would have been greatly alleviated. If they had been only 10 percent more in 1960 than in

1953—not too much to expect in a rapidly growing world economy—our balance-of-payments problem would have been limited to that resulting from short-term capital movements, and some of those, of course, are stimulated by an unfavorable basic balance.

It is unlikely that we can have a sustained period of economic expansion unless exports of manufactured goods can make more of a contribution to our external balance. It seems to me this can come about only in a larger, and less protected, world market. This means primarily lower tariffs on manufactured goods.

As for specific tariff rates, a valuable first step would be to simplify our tariff structure by reducing the number of different rates applied to different kinds of imports.

It is very difficult to make a case, economic or political, for more than two or three different rates on dutiable goods, and it should be our ultimate intention to have only one. Whether that ultimate single rate should be 10 percent, which Alexander Hamilton thought was about right, or 5 percent, or zero, I do not profess to know, but I do believe that it would be a distinct advantage to us, to our European allies, and to the Atlantic Community and the rest of the free world, first to reduce the number of rates we now employ and then to get on as quickly as possible with the negotiation of mutually profitable, across-the-board reductions. We do not have much time to lose. If investment in Europe continues at the speed of the past decade or anything close to it, we will see a rapid development of manufacturing industries competitive with our own, and consequently with less inclination on the part of the Common Market to lower its own tariffs.

Thank you, Mr. Chairman.

Chairman BOGGS. Thank you very much.

Senator Bush?

Senator BUSH. Thank you, Mr. Chairman.

Yesterday—no, Monday—Mr. Clayton and Secretary Herter were before the committee and I raised this question:

> How can you justify being so inconsistent as to do nothing about the agricultural import situation, but still insist that we should adopt this new scheme of giving the President authority to cut tariffs all across the board on manufactured products, regardless of whether they have a high labor content or not? How do you justify that distinction?

Mr. Herter answered:

> You can't. It is an illogical position, based upon political considerations. You just can't justify it, and, very frankly, I am completely out of sympathy with our agricultural policies.

Now, I want to put that question to you gentlemen for any comment that any of you may wish to make, and I hope perhaps each of you will have some comment on it. You admit that there are going to be likely, severe hardships in certain areas, not only upon companies, corporate entities, but also upon many thousands and thousands of families that are employed in these companies.

If this is so important, why is it not important to treat all segments of our economy with fairness, justice, and equality. How can you justify asking one segment of the economy, because it may be somewhat smaller, let us say, than to go right across the board and insist that all segments of the economy make some sacrifice, and we have been hearing about sacrifices that have to be made if this big program is to be adopted.

I would like to know what your justification is of this discrimination.

Mr. Bowie?

Mr. Bowie. Well, let me first disqualify myself. I make no pretense to be an economic expert, or an agricultural expert. What you have asked is partly a technical question, but I am not quite sure I understand the premise of your question.

I would assume that, despite our agricultural programs, a very radical adjustment has been going on for a number of years, and people have been moving out of agriculture and into industry. That appears to be one of the characteristic features in the South today. I would have supposed that in the last decades, the basic readaptation of agriculture may have been at least as great as you would need to foresee in most industries as the result of the kind of tariff changes we have been talking about.

Second, my own impression is, and this is only a laymen's impression, that the feature of American agriculture which is most interesting is the very intensive application of capital as compared to almost any other part of the world, and that relatively, despite again the appearances created by the agricultural programs, American agriculture in many respects is pretty efficient.

Senator Bush. But do you think it is heavily subsidized or not?

Mr. Bowie. Well, my impression is that it is subsidized in that the levels are higher than they would be if based on world prices.

My impression is, however, that, in terms of productivity, many segments of agriculture are quite efficient, and that the problem arises partly from trying to maintain certain types of producers who are not as efficient as the industry as a whole.

Is that correct?

Mr. Dewhurst. I think that is true.

Senator Bush. There has been a greater productivity, production per man-hour in agriculture. That has been sensational indeed.

Still we continue to subsidize this area of our economy very heavily.

I think, for instance, of the export subsidies. Take cotton, where we sell cotton to overseas at 8 cents, 8½ cents a pound below the domestic market. This goes into textiles that come back into this country in competition with our own textiles.

Now, do you think we should continue to subsidize the export of cotton so that it may be manufactured and brought back here in competition with our own industry?

Mr. Bowie. There is no question, of course, that the agricultural program does create some problems of disparity, such as you describe, but I do not see why those are unmanagable nor do I quite understand the import of your question, which suggests that agricultural programs create a reason why we should not take intelligent action in the industrial field. It seems to me only to stress that we ought to take more intelligent action in the agricultural field, too. But I am not qualified to say what that action should be.

Senator Bush. The import of the question, of course, is that this is a discriminating proposition we are faced with. In other words, we are going to ask sacrifices to be made, and everyone admits that, by a certain segment of the economy but not by another one which is far more heavily subsidized, at a tremendous expense to our Government and to the taxpayers. It seem to me——

Mr. BOWIE. My understanding has been that everyone considers that some program to facilitate adjustment and adaptation and transfer out of industries, which may be inefficient industries, was a vital part of any extensive program such as has been discussed.

I personally feel this is so.

It is only fair that some of the people who have heretofore relied on tariff protection should be assisted if that protection is to be removed. I think it is equitable and fair that the economy as a whole bear part of that burden.

I do not think it is desirable, though, that to continue to protect businesses which are in fact inefficient.

Senator BUSH. I do not think the case has been made that it is only inefficient industries that are going to be hit by this program. There are many efficient industries that are going to be hit, not because they have not modernized and adopted all the new ways of economizing their production, but because of the tremendous labor cost differential between our country and, let us say, the Common Market and other countries.

As I said yesterday, you take the wage rates in the Common Market areas and they are within a small bracket, one with the other. They vary from 40 to 70 cents an hour as against $2.29 an hour average in the United States.

You cannot call this inefficiency on the part of those companies that pay this tremendous labor rate diffierential.

Do you consider that evidence of inefficiency?

Mr. BOWIE. I think, sir, that the most persuasive evidence is that cited by Mr. Dewhurst, namely that in spite of these differentials in wages, the United States has in fact exported in recent years something like $3 billion more to Europe than it has imported from Europe. This demonstrates that the greater availability of capital and research and technology and innovation, which really is the strength of our economy, has been sufficient more than to compensate for the different levels of wages.

Indeed, the different wage levels themselves are a reflection of the differing levels of productivity within the different economies.

Senator BUSH. The increase in our exports has not come from those industries that have suffered this tremendous disadvantage because of the high-cost labor content, and the high labor differential.

Mr. BOWIE. I would leave that question to the others, but I would suppose, just as a guess, that the places where we have had the most advantage in imports have been in industries with high wage levels.

Is that correct?

Senator BUSH. I think the committee would be interested in seeing some evidence of that.

Mr. BOWIE. I turn to my betters here to give that evidence.

Senator BUSH. Specific illustrations. This would be very encouraging.

Did anyone else want to comment on this question?

Mr. DEWHURST. There is one comment I want to make, Senator, and that is if we are talking about horse-trading with the Common Market and arranging for across-the-board reductions on duties and tariffs, we simply will get nowhere by that procedure with European agriculture, because the Common Market is now committed so firmly to a managed agriculture, just as we are, here, I guess. They are having such difficulties in arranging for Common Market management of their own agriculture, that as a practical matter, you just would not get anywhere by saying, let us make reciprocal reductions of duties on agricultural products. I have always thought our own agricultural policy was wrong and getting steadily worse, with subsidies and supports, until I was engaged in this European study. I thought we were the outstanding sinners in the world in agricultural policy. Well, every European country, with the exception of Denmark and to some extent of Holland, has such a complicated, confused, and elaborate system of subsidies and price-fixing and everything else affecting agriculture as to make our policy look like a fairly simple procedure.

Representative CURTIS. Amen.

Mr. DEWHURST. So we are both committed, it seems to me and I think wrongly in our case, to a managed agriculture, and I do not think you can approach the question of tariff reductions in agriculture in the same way as with manufactured goods.

Now, it is true that this leaves certain injustices; I agree with you in saying that in many ways, it is not fair to not ask sacrifices of our agricultural people.

Representative CURTIS. I ask the Senator to yield.

I am astonished to hear you say we are committed to these agricultural managements. I certainly hope we will keep the possibility that maybe that is one of our basic errors. Why do you say we are committed to this program of managed agriculture?

Mr. DEWHURST. Well, you see, since the 1930's we have certainly been committed to it and have engaged in it more and more.

Representative CURTIS. Maybe I am just dealing in semantics, but your use of the word "committed" I was afraid that you implied by that that since we had done it, therefore, there was a commitment to continue doing it.

You are saying in commitment that we have been doing it. I agree that we have, but what I worry about is that there be any implication that that necessarily should suggest that we continue.

Mr. DEWHURST. No, I certainly am not suggesting that. I merely meant that both under the Republican and Democratic administrations we adhered to a policy of subsidized and managed agriculture.

Chairman BOGGS. May I mention that under Secretary Benson there was no substantial change in these policies?

Senator BUSH. May I also mention that he did not have a chance with the Congress?

Mr. DEWHURST. I did not mean to imply that we ought to subsidize and manage our agriculture—merely that we do.

Representative CURTIS. I want to take exception and do not want to get into a political argument, but certainly Secretary Benson was not committed to such a thing and, as I understood his theories, it was just the opposite, that we ought to get away from this kind of thing.

Mr. DEWHURST. That is right, I think his intention was to move gradually away from that to a freer agriculture, but unfortunately, he did not get very far.

Mr. GEIGER. May I suggest that one of the reasons he did not get very far is that I do not think the United States can unilaterally abandon its managed agriculture. If our major trading partners and our major competitors in the agriculture field continue to have complex systems of managed agriculture, we cannot abandon our own. Therefore, I feel that we can only make progress on this problem if we are willing to join with the European countries and with Australia, New Zealand, Argentina, and Canada in developing some sort of coordinated agricultural policy covering all of the temperate-zone producing and consuming countries in both their domestic and their international trade aspects.

Chairman BOGGS. It would seem to me that the record—excuse me, just again to make an observation—without defending or criticizing the agricultural policies, it seems to me significant that we in the United States suffer primarily from a society of abundance insofar as agriculture is concerned.

This is quite different from what goes on in the Soviet bloc countries, particularly now in Red China. So whatever shortcomings there may be in these policies, they have at least produced for the United States and our friends around the world, the greatest abundance of foodstuffs and fibers that the world has ever known.

So there must be some merit somewhere in some of these policies.

Mr. DEWHURST. Certainly it is true, Mr. Chairman, that our agriculture is far more efficient than European agriculture. For example, there are close to—I think something like 25 percent of the labor force in agriculture in Europe compared with less than 10 percent here, and we are producing a surplus for export, while Europe is managing, approximately, to feed itself.

Chairman BOGGS. And Russia and China have deficiencies.

Mr. DEWHURST. China is starving and Russia has certainly not any abundance.

Senator BUSH. If we have a surplus, it seems to me we ought to be seeking ways in which we can improve the export of agricultural products, possibly by letting other agricultural products in here. I mean we are talking about this in the manufactured field, but we ignore this other tremendous industry. As far as we have been able to determine, the administration does not intend to come to grips with admitting any agricultural products into this country under the new trade program. But I shall not belabor that any further. I do not want to take too much time unless somebody has some urgent comment to make.

I would like to move on to another subject a minute. Has anybody made any estimate of the amount of subsidy which would be involved in the so-called trade and life adjustment program? Would it approach in any way the subsidy that we make for agriculture?

Have we any estimate at all what this might involve?

We are asked to accept a trade and life adjustment program without knowing really what it means, what it encompasses except in very broad terms, but nobody has had time to make an estimate of the cost of it.

How much of a subsidy is involved in this program? Does anyone have an estimate of that?

Mr. GEIGER. I do not know of any estimate, Senator, but I think that some work has been done on this subject in the Department of Commerce and other places, possibly in conjunction with the Area Redevelopment Act which was passed earlier this year. I might just mention the experience of the Common Market in this field.

When the Common Market was set up, a readjustment fund was established to take care of problems that would arise as a result of the lowering of tariff barriers among the members. Very few applications have been made to this fund, and very little has been spent from it in the last 4 years. My guess is that this is the result of the high rate of growth that has characterized the Common Market, of the new employment and investment opportunities that have existed in it.

Senator BUSH. They have not had to face the problem. That is the reason, is it not?

Mr. GEIGER. Well, they have in a few industries; for example, some readjustment assistance has been given to the Belgian coal mines.

Senator BUSH. In what form?

Chairman BOGGS. Well, excuse me there; certainly France has faced the problem. They had the most protected manufactured industries in Europe, and these tariffs have come down on a great many of those items.

Mr. GEIGER. But the problem has been faced not by help to these French industries from the European adjustment fund.

Chairman BOGGS. No, because they have had prosperity.

Mr. GEIGER. By prosperity that is right.

Senator BUSH. I don't think that that fact that nothing—Europe has not seemed to find the need of it, the fact that Europe has not seemed to find the need of it is due, as Chairman Boggs says, to the fact that there has just not been a need; their prosperity has been so great and their employment factor has been so high, and their unemployment factor so low.

Now, we are faced, and constantly reminded of the unemployment, unenviable, unfortunate, persistent unemployment factor in this country.

So what we are being asked in this program, this trade and life adjustment program, to face is another addition to the unemployment problem and without any estimate of how we are going to deal with it, what the budgetary effect may be. It is a very vague proposition.

Mention is made of the Area Redevelopment Act, but certainly there is nothing to be learned from that so far. The only applications they have had of any importance at all are applications to borrow money from the Federal Government at a subsidized rate to improve local public facilities, such as sewers and public utilities of that type. But there has been no, so far as I am aware—and we shall get a report on this in the winter, of course—but there has been no development of new industries within these distressed areas or any possibility of such being done at the present time.

Now, that is a pretty weak reed to lean on, it seems to me, when we are talking about the possibility of forcing out of employment many, many thousands of people in this new trade concept. This is one of the very disturbing things about this, gentlemen, and I hope that because of your deep interest in this you will give some thought to this aspect of it. This concerns a great many thousands of peoples.

Now, Mr. Beise, you mentioned in the course of your remarks the adoption of anti—I think you said noninflationary monetary and fiscal policies, is that right?

Mr. BEISE. That is right.

Senator BUSH. Would you expand on that a little bit for the information of the committee?

What type of policies do you have in mind within that area to help meet this unemployment situation?

Mr. BEISE. I think that our monetary policies are going to have to be such that the application of them will not serve to increase our costs further, and thereby hamper our ability to compete with foreign countries.

Senator BUSH. How will you bring that delightful situation about?

Mr. BEISE. First, we must strive to have a noninflationary fiscal and monetary policy. During the next fiscal year, I think that it is very important that we maintain a balanced budget. Secondly, our wages and price movements must not impair our competitive position internationally. Wages at least must be contained within our increased productivity. It is important that these matters be sufficiently discussed to bring about a public understanding of the importance of these two factors and their impact on our economy. Thus, we can by appropriately conducting our domestic affairs, maintain confidence abroad—confidence in the dollar.

Senator BUSH. You would place great stress upon the need of balancing the budget?

Mr. BEISE. Yes, sir.

Senator BUSH. What other aspects of monetary and fiscal policy—what about monetary policy? What are your views about that?

Mr. BEISE. Well, I think that the monetary policies must be consistent with the national objective of not providing more funds than are necessary to conduct the business that is necessary to conduct, because if we create excess funds, then we have a situation in which inflation can take effect.

Senator BUSH. Do you think that the free movement of interest rates in accordance with the laws of supply and demand is permitted here in your remarks? In other words, I should put it the opposite way.

Should interest rates be arbitrarily depressed by Government action?

Mr. BEISE. I think that rates, to be true rates, would have to be free from any artificial barriers or obstructions.

Senator BUSH. Right.

The thing that disturbs one here is that we have this balance of payments problem which is, I think, the most serious problem facing us today, because upon the solution of that depends so much else, including the ability of this country to finance the protective shield for the whole free world. I am afraid that what—I did not make this as a conclusion, but as a fear in a way, a suspicion perhaps, that what we are trying to do in this new trade program is to come to grips with the balance-of-payments problem, which is not caused by our balance of trade policy, which shows a substantial surplus of approximately $5 billion last year.

What we are trying to do is to stretch that out and make it $6 or $7 billion in order to absorb a $2 to $3 billion balance-of-payments problem which is caused by other important obligations that we have undertaken, to wit the military commitments overseas, the big foreign aid program, investment program overseas, and our largely unrestrained travel program which creates a billion and a half of that deficit by itself.

And I wonder, and this is something that I think this committee will have to consider very carefully and Congress will, as to whether we can come to grips with the balance-of-payments problem only by trying to improve our exports over imports, improve our trade balance when that, in itself, involves very substantial sacrifices in just one area of the U.S. economy and social life.

This is something, Mr. Chairman, that I hope our committee will consider when we have a chance to review this testimony.

I have no other questions.

Chairman BOGGS. Thank you, Senator Bush.

Mr. Curtis?

Representative CURTIS. First Mr. Chairman, I would like to take up just a couple of housekeeping items and apologize to the panel for this, but I understand that next week the schedule is such that we only have one witness who is named and that requests have been made to some of the Departments to testify and that they have not yet replied.

I would like to ask the chairman if that is the understanding, that you have no further information than that at this time?

Chairman BOGGS. My understanding, Mr. Curtis, is that the response to some of the inquiries here relative to the administration's program is that we have asked administration people to come up and make their position known if they feel that they can at this time.

Now, Secretary Ball will be here on Monday—rather on Tuesday.

What other administration witnesses will be here next week, I do not know at this time.

Representative CURTIS. What requests have been sent out?

What departments have been requested to testify, or has this been a blanket invitation?

Chairman BOGGS. Labor, Agriculture, Commerce; I think we asked the President's economic advisers.

Representative CURTIS. And that was the reason for having the hearings for next week?

Chairman BOGGS. Correct.

Representative CURTIS. Now, one other thing. Apparently the format is not that we are holding hearings at this point on the paper prepared by Messrs. Bowie and Geiger, is that correct?

Chairman BOGGS. No, that is not correct.

Representative CURTIS. Then could I ask Mr. Beise and Mr. Dewhurst, have you had a chance to read the paper prepared by Messrs. Geiger and Bowie?

Mr. DEWHURST. Yes; I have.

Mr. BEISE. No.

Chairman BOGGS. If you will excuse me, the main subject of discussion today is the impact of the Common Market.

Representative CURTIS. I understand, but I knew that the paper had been prepared and our procedure in the past has been that when we have these panels and papers prepared that the hearing was to be on the paper. I am not saying this in any critical sense, I am just trying to get the record straight. I just wanted to understand and inasmuch as Mr. Beise said he has not read the paper, I can see that I was in error. I have not read the paper either, I might say, because it did not get to the committee—rather, the committee did not publish it until a little less than a week ago, I believe.

Now, to the substantive matters, if I may.

The thing that impresses me in the discussions to date, and as Senator Bush has brought out, all of the discussion has been directed to almost one sector of an economy; that is, the manufacturing or production. Agriculture seems to be left out in the balanced consideration, and I presume also other raw materials such as mining.

But there are two great areas that it seems to me are most important to evaluate our problems both in trade with the European Common Market and our own economy, and that is distribution and service, and in the mention of the shift of employment out of agriculture and—I believe it was Mr. Bowie who used the words "into industry"—actually into distribution and service.

The employment and manufacturing sector, at any rate, has somewhat declined, although its efficiency and productivity has increased.

As I view many of these economic problems of our own and other countries, they are in the service and distributive fields and, indeed, I thought one of the real reasons behind the European Common Market and one of the reasons it was very wise was that with a larger market, better distribution and better service could be accomplished as far as the manufactured or produced products were concerned, and therefore, they could get into mass production and the efficiencies that result from it.

Much of the cost of a product today, as far as the consumer is concerned, is in the distribution and the service end. I wonder if anyone would care to comment on that observation, because I would dislike approaching a grave problem solely from the standpoint of just the production costs, manufacturing costs, when it seems to me in sophisticated economies the distribution and the servicing is such an important part?

Mr. DEWHURST. You are speaking of the American economy?

Representative CURTIS. I am talking of any economy. Now, in fact, there is a lot of misunderstanding I think on whether the U.S. economy has grown, in the concentration on the gross national product, which reflects largely manufacturing and, because of its techniques, does not measure well increased facilities and sophistication in distribution and services. In fact, it is in the distribution, the broader distribution, that one moves a society forward very markedly.

In other words, it deals with the more people in the society that can use the product—in our economy we do not have carriage trade. We can advertise our products on television, mass media; and in some of the less developed economies, and I have seen some of them in South America for example, this kind of mass advertising is not as important and is almost meaningless, because the distribution including servicing, is so minor.

So I say it is not just our economy, it is any economy. Sometimes one of the ways of impeding the flow of the free marketplace, or the free flow of goods, is through an attack on the distribution or servicing end of the economy.

Mr. DEWHURST. Mr. Curtis, the European businessmen look upon American distribution as one of the most efficient parts of our economy, and they are imitating it very rapidly. I mean chainstores are spreading, and supermarkets, and are proving very popular in spite of all the allegations before us that the Europeans would never accept them, that they wanted their little shops and so forth. I have never seen one of them that was not crowded, during shopping hours, at any rate.

On the other point, I would like to say this: You say that by using gross national product as the measure of economic progress, we understate the contribution of the distribution and services.

Representative CURTIS. Yes.

Mr. DEWHURST. I do not know if that is true or not, but I do know that the people in Commerce who get up these figures would probably question that statement. They claim that they measure distribution, and the value added by distribution, and the value of services.

Representative CURTIS. There is an attempt to, but I think by and large my statement is pretty accurate, that real questions are raised as to how accurate GNP is for that kind of a thing.

In other words, it involves a study of the techniques in that particular economic statistic.

I think that is one of the greatest and best statistics we have, do not misunderstand me. But I think we have burdened it with something that was never intended when we attempt to weigh economic growth as measured there, because this was one factor that was very difficult to measure.

Consider the shift described if you build a school building; it would show up very heavily in the GNP as opposed to an increase in teachers' salaries. The increase in teachers' salaries show up some, but the other kind of construction would show up much more heavily.

But, in any event, I merely posed the question because I was trying to get at this question of relating an economy to its whole. Here in our trade discussions, it seemed to me Senator Bush's remarks were quite pertinent in pointing out that we are sort of setting aside the agricultural sector.

I would suggest there is also a setting aside of other production, such as extracting industries, and then I would point out that I think we have also been sort of ignoring and setting aside this tremendous distributive field and the service field, which are the two areas which have been growing extremely rapidly in the United States; just using the employment index, the number of people employed demonstrates that the shift has been from the blue-collar worker to the white-collar worker. The real decline in manufacturing is in the blue collar.

Now, those kinds of things, in my judgment, have to be considered when we discuss societies or economies in competition with each other. If we attempt to go into this very complicated subject of international trade solely from the standpoint of production and talk in terms, really, of solely removing the tariff, we are not getting the complete picture.

The other very obvious thing is substance, and the reference—I have forgotten who made it—to the fact of managing agriculture, and I had to push them down; do not these countries abroad pretty well manage manufacturing, too, in that sense, as far as international trade through license quotas, subsidies, of all sorts?

One of the subsidizations is in the field of servicing, for example, financing, giving terms on financing, which in other markets seems to be one of the critical things, and I think it was Mr. Beise who made the recommendation that we have to do something in the export credit program.

There is a method of regulating or, rather, subsidizing or impeding or interfering with or regulating, or whatever you want to call it, foreign trade.

My essential comment, for any comment you want to make, is that I think we are approaching this, as I have listened, from entirely too narrow a base. I have had a chance to read a couple of papers, and we have certainly been listening to this subject for many years in the Ways and Means Committee. I am convinced we are looking at this entirely too narrowly. We are not going to get the answer by looking at production and the manufacturing sector and limiting it to just a certain conventional type of trade regulation. It is a great deal more sophisticated.

Mr. DEWHURST. Of course, the Common Market Treaty, Mr. Curtis, provides for a steady reduction of tariffs until they are finally eliminated among members, but also the removal of other restrictions on trade between the member countries——

Representative CURTIS. That is right, and it becomes very important in discussion groups like this to try to spell out our restrictions, because there are some acute ones, sometimes; health measures, for instance.

Mr. DEWHURST. Yes, between the States.

Representative CURTIS. Certainly, but I do think it is very important that we start identifying some of these measures, and I suspect there are several in the services and in distribution. I suggested one, credit and financing.

Other kinds of state—by "state" I mean the governmental sector—subsidize in various ways. This committee, a few months ago, put out a little study on governmental subsidies. All we did was just try to list all things that might be called a subsidy, whether it was due to different tax treatments or whatever, but the purpose was to try to identify them.

In this kind of thing I think we almost need to do that too, just go through the list the best we can and figure out various ways that have been devised, because the mind of man is pretty ingenious, of getting into this area of trade restrictions; and not just because something has been called a way of restricting trade and eliminating it, like tariff, which is the usual one. Let us get across the board and see what we are talking about, if we can.

Above all, this idea of thinking that we can ask one sector in our economy, manufacturing to bear a load and then just say, well, we are committed to managing agriculture, where agriculture is really raw materials in some instances. This is true at least as far as fibers are concerned, and we can get into other chemical raw materials, and certainly the extractive industries, which, in our country, have subsidies.

Take our Wool Act, for example. Also what we are trying to do with lead and zinc, and then we get into taxes.

All I am pleading is that in this kind of panel discussion and in this kind of work that the Joint Economic Committee is engaged in, we should start with a much broader concept than I think we have in the press releases I have read, and the few papers I have had a chance to glance at.

We have it on a very narrow basis, in my opinion, and it has to be pretty productive to come up with some intelligent answers.

Mr. BOWIE. Mr. Curtis I completely agree with your point, but I do not think it is properly taken with respect to the report that we have submitted.

Representative CURTIS. That may be, Mr. Bowie, as I say; we have not read your paper.

Mr. BOWIE. Our chapter 2 makes quite clear the point mentioned by Mr. Dewhurst; namely, that the Common Market is a much more radical attack on the problem than tariffs. What they are trying to do is create a dynamic economy. They have to recognize quite a number of things which have bolstered a stagnant or unduly protected economy, which did not have to face up to competition. The significant thing which has happened in Europe in the recent period has been that vast numbers of these traditional kinds of supports for a stagnant or highly protected economy have been gradually undermined as a result of the forces set in motion by measures taken under the Common Market and earlier.

I think Mr. Dewhurst will agree that the character of the French economy has undergone the most radical transformation from top to bottom.

We have been doing a study, in the center of which I am in charge, of France in these terms, and it is remarkable to see what has happened in a decade there to overturn completely the traditional picture of French economy.

I think this is going on in other parts of Europe, but I do not know the situation as well there. I think that is what is in the minds of people in the Common Market. They do not put their whole emphasis on tariffs. If you read the treaty, it covers a vast range of subjects which are designed to strip away the main supports.

Representative CURTIS. I do not feel that about the Common Market. As early as 1957 I was personally strongly behind the concept for many of the reasons expressed here. I would be very interested in reading your paper.

What I have been directing attention to is, as far as this country is concerned, our trying to evaluate our trade policy vis-a-vis the Common Market or wherever. Certainly outside the Common Market there still remains this mass of trade restrictions, or whatever we want to call these various things that affect international trade.

Chairman BOGGS. Will the gentleman yield?

Representative CURTIS. Yes, just as soon as I finish this one point.

What I would like our attention directed to would be the whole concept, and then when Senator Bush brought up the point on agriculture it cannot be dismissed nor can the Common Market countries dismiss it—they know it is a tough problem. All the countries in GATT, almost, as has been pointed out here, have reservations on agricultural products.

But I think the European Common Market knows that they have to face up to it, but I am talking for our discussions of the overall programs.

Yes, I yield.

Chairman BOGGS. I would simply like to say that the subcommittee has not been unaware of that. It happens today that we are discussing the impact of Common Market, but we have had comprehensive papers submitted on Japan, for instance, about which we shall talk this afternoon, which is peculiarly affected by the emergence of the Common Market, and our relationship to the Common Market. We have a paper on the developing areas, or the undeveloped areas, however you might want to describe them, in connection with the agriculture policy, without us trying to dissect the many problems involved there.

We have written two papers on that, published under the common title of "Food and People."

Then we have another paper on the whole question of East-West relationships insofar as trade is concerned.

So that we are trying to put this into perspective. As I have said earlier, we have not come in here with any preconceived notions.

Representative CURTIS. And all the more reason then, I would think, if the discussion here this morning is on our relations to the European Common Market and others that this factor of agriculture should be considered unless the committee feels that that should not be discussed or should not be a part of this consideration, as it certainly is a part of the concept in the European Common Market. I judge that the panel was, in effect, dismissing it on the basis that we have developed a managed program, and we are committed to it—I could hardly accept that. That would be what some of the European countries might have said to each other in regard to their own agriculture programs when the Common Market concept was developed.

I again say this concentration in the field of production without some development of service and distribution is my reason for this.

Chairman BOGGS. Well, if you look at their paper, and I know all of us have been terribly busy during the recess, you will note that neither Mr. Bowie nor Mr. Geiger have ignored the agricultural impact by any stretch of the imagination. It is one of the principal things discussed in that paper.

Representative CURTIS. But when Mr. Dewhurst made that statement, I watched the other panelists. Maybe they did want to comment then, but I assumed they were satisfied with the answer, and that is where it was left. Maybe we could go back to Senator Bush's comment—should we?—in viewing our problems in the context of reciprocal trade which is before us, and these other economic things. Should we not get into this agriculture sector, and is not there something that ought to be done there?

Mr. GEIGER. Mr. Chairman, may I say for Mr. Bowie and myself that our report goes into the subject of agriculture in every one of its chapters. It is our feeling that there is as much to be done in the field of agriculture as in any other problem area.

Chairman BOGGS. Senator Bush has another question. I am committed to Mr. Beise to let him get out of here early, and I want to stand by that.

Senator BUSH. If Mr. Beise has an engagement, he is free to go as far as we are concerned, I think. But I do have one question.

Representative CURTIS. I am finished, really. I was just posing this. This is more posed to Mr. Geiger and Mr. Bowie because of the subject in the latter part of the paper.

Senator, as I understand the Common Market setup from reading about it in the press, the object there is to reduce internal tariffs and finally eliminate them over a period of years, but it will maintain the external tariff, and I have seen the figure 20 percent frequently mentioned, I think, as a figure. Well, it does not make any difference what it is, but let us say it is 20 percent, just for purposes of our discussion.

The Common Market countries, contingent countries, are doing just what the United States did 170 years ago when it put in its Constitution of the United States that there should be no barriers between the States. So they have just come around to that 170 years after we did, and they are now talking about more integration and eminent statesmen have spoken of the United States of Europe as an ultimate objective, a desirable one, and so forth.

Now, the question is this that I have to ask: If the Common Market sets itself up as a mutually protective society, admitting maybe as associates the United States or the United Kingdom or whatever, how is this going to affect, and let us say that we are going to be an associate member, how is this—well, you frowned. What did you mean by that?

Mr. GEIGER. That is not what we have suggested, Senator.

Senator BUSH. This language has been used here before. Maybe it is inexact.

Mr. BOWIE. We have not used it.

Senator BUSH. It might still be correct.

In other words, work out an accommodation with them which would give them the advantages and give us the advantages as though we were members of the Common Market. Let us say we join the Common Market. I do not think the administration has gone quite that far in its recommendations.

If, let us say, we are closely associated with the Common Market, subject to its regulations on trade and so forth, what effect is this going to have on our relationships with Latin American countries like the Argentine, for instance, and with India and with other countries within, say Africa?

How are they going to feel about our agreement to support protective tariffs against them but agree to waive them with the Common Market countries?

Mr. BOWIE. Sir, that is not at all the kind of thing we are proposing. We have not suggested that in the least. On the contrary we have tried in the report to make clear why an adequate program by the United States is necessary for the protection not only of our own direct interests, but also of the interests of these other countries in which we have so important an indirect interest.

To assure that the new Common Market does not follow a protectionist or closed kind of a policy, we must have some leverage, we must be able to negotiate hard with them for a liberal policy which will make their market available for the newer countries as well as for us. But the price of that is we should be prepared to follow a comparable policy.

Senator BUSH. Does your plan encompass the so-called most-favored-nation's business?

Mr. BOWIE. Yes, sir; we do not assume we should join the Common Market or enter into discriminatory arrangements with the Common Market. We should apply the most-favored-nation's provisions as heretofore. We should not enter into discriminatory arrangements with them, but rather use the authority we think we should have as leverage for a general lowering of tariffs for the general benefit of the non-Communist world.

Senator BUSH. So if they agreed to reduce the tariff on beef or eliminate it, we could ship beef in there and the Argentine could ship beef into our country?

Mr. BOWIE. That would be the effect, but I do not see that as one of the most likely early steps.

Senator BUSH. I am not being frivolous. The effect would be as you see it, to expand the philosophy of the Trade Agreements Act, only changing the negotiating means, the negotiating media to accomplish the Common Market. In other words, instead of sitting down with 40 nations with restricted authority from our own Government, you sit down with the Common Market without such restricted authority and try to work out agreements across the board.

Am I right?

Mr. BOWIE. I think that is a fair thumbnail description. Fundamentally, we feel that the creation of a common market makes it more urgent to be able to have an effective program of negotiated reductions, and also opens up new opportunities to do so on a mutually profitable basis.

Senator BUSH. You do not envision any hazard in this to our relations with other free nations?

The British are somewhat concerned about, if they should join the Common Market, if the United Kingdom should join, they seem to be troubled about the effect this may have on the Commonwealth members.

There seems to be some real concern about that among thoughtful people, in Britain.

Now, you do not visualize that any deals you might make in the Common Market would aggravate our relationships with other free countries which are not in it, such as members of the British Commonwealth?

Mr. BOWIE. No, sir. I think the problems for the British arise because the British are contemplating joining the Common Market. This would mean suppressing the tariffs which exist between them and the other members, while keeping the external tariff. This discrimination I think we all feel is justified because of the political consequences of creating a new entity in Europe which can be an effective and dynamic partner with us, not just for economic purposes, but for the whole range of tasks we face in this terribly challenging period of the next decade. That, admittedly, results in changes in the relationships between Britain and the Commonwealth, as we have described it in the report. This situation, however, does not arise for any suggestions we have made as to the proper policy for the United States with relation to the Common Market. We do not envisage the United States becoming associated in the technical sense of that term as used in the treaty, nor becoming a member, because this would involve just the thing you fear, the creation of discriminatory arrangements between us and the other parts of the Common Market. We do not think that is feasible in terms of the wider responsibilities of the United States nor is it necessary, in our judgment, in order to cope effectively with the problems or to take advantage of the opportunities arising from the creation of the Common Market.

Senator BUSH. In other words, it is feasible for us to make deals with the Common Market, even though not joining them?

Mr. BOWIE. Yes, sir.

Senator BUSH. In various items or across the board without doing any injury to our other international trade relationships.

Mr. BOWIE. Indeed, we would hope if properly used, it would benefit the other nations as well.

We should use this power to facilitate the entry of other types of products from the less developed countries in order to use trade as well as aid as a means of economic development.

This is just as necessary for the less developed countries as an adequate aid program. A partnership arrangement with the Common Market will make it easier for them to open their markets in this regard if we are prepared to do likewise. If we both are, then the burden on any of us is much less than it would be if we tried to cope with this by ourselves.

So our feeling is that if we can get a forward-looking program, we can utilize it both as Mr. Curtis wants, to promote dynamic economies on our side and on theirs, and also to encourage trade which will facilitate growth in other parts of the world. We must not close ourselves off from the rest of the world, but, on the contrary, use this program as a lever to pry open their markets and to let them pry open ours, not only for the benefit of the nations in the Atlantic group, but also for the benefit of the other countries that are at least as dependent as we on trade for their well-being.

Chairman BOGGS. I do not want to detain the panel. I just want to ask one or two questions and I shall not have any others.

It seems to me that some of the questions have been on the theory of what happens if we legislate in order to deal realistically with the Common Market. Now, by the same token, suppose we do nothing?

The trade agreements program is about to expire and, as limited as it is, it is due to expire at the end of this fiscal year and let us suppose we do nothing. Is it not fair to assume that the effect upon American industry, the American export market, the American workmen, the American employee, the American capital, would be much more drastic than if we adopted a program that was meaningful? Would that be a fair assumption?

Mr. GEIGER. Yes, sir, I think we would agree with you completely.

Chairman BOGGS. I have had some people tell me, and I say this not in any partisan sense at all, that unless we are in a position to negotiate with the Common Market with the growth rate now in effect in these six countries, and with the anticipated growth after the United Kingdom joins—and my impression after visiting in England and talking with Mr. Heath and the others is that they are going to join—unless we are able to do this, we could suffer tremendous losses and it could have a very drastic effect upon our position as a world power.

Is that a fair statement?

A fair assumption?

Mr. GEIGER. I think it is completely, sir. Not only would we suffer losses in terms of our export trade and employment at home, but I think a gulf would gradually be opened between us and the Europeans which might have disastrous political and defense consequences in the longer run.

Chairman BOGGS. And whether we like it or not, and I think most people who examine the question like it, the Common Market is here. It is a going concern; it is no longer a theory.

Is that not right?

Mr. GEIGER. That is right.

Chairman BOGGS. So we are confronted as Members of the Congress of the United States with a new force on earth, one which can be a force for great good or conceivably a force which could become very competitive with our own and, in the process, might be, rather than remaining as our allies, something other than that.

This is something I would rather not contemplate, but it is within the realm of possibility, is it not?

Mr. GEIGER. Yes.

Chairman BOGGS. Now, reference has been made to these adjustment programs, and incidentally, that is the subject of one of our panel discussions. From what I have learned about the Six in Europe, the reason these adjustment programs that they have adopted have not been put into effect is because the Common Market in itself has so stimulated business activity in Western Europe that rather than having unemployment, they have full employment. Labor, for instance can move from southern Italy, where there was a surplus of labor, to northern Belgium where there is a scarcity of labor, or any other place within the Six without the formalities and the immigration requirements that heretofore prevailed.

So that the reason these adjustment programs have not been used is because the creation of this great new trading area has brought about prosperity that these people did not dream of.

Is that not right?

Mr. GEIGER. That is correct.

Chairman BOGGS. Now, without being unduly optimistic, and I frankly admit that I am inclined to be that way on occasion, it is not beyond the realm of possibility that if we negotiate meaningfully with the Common Market and if we keep the Common Market looking outwardly rather than turning inwardly, the same effect could transpire insofar as we are concerned. Rather than have a great displacement in American industry, we could have great prosperity as a result of this development in Europe. Is that not right?

Mr. GEIGER. That is right, sir.

Chairman BOGGS. We have developed a great many new markets in Europe in recent years for our manufactured goods and it would seem to me that if we can overcome these difficulties—and certainly agriculture is one of them and I would be the last person on earth to say otherwise. I can think of many examples. For instance, Senator, rice, which happens to be produced in my area, when the Common Market comes in, will face a common external tariff around this whole area of countries which it does not face right at the moment.

This could have a drastic effect upon this market which the farmers now enjoy.

Representative CURTIS. And if you start exporting precooked rice, this 1-minute rice, you might take it. That is why I say we have to get into this business of——

Chairman BOGGS. I am not arguing the point. I agree completely. The point I want to make is the Common Market is here, it is a going concern, it is growing at a higher rate than our own rate of growth, much higher than the United Kingdom. It is apparently successful.

As a matter of fact, this morning I read in the press a new general proposal to make it a much more close-knit political unit, to make it really a United States of Europe. So we would be, in my opinion, most unrealistic if we did not approach it from this point of view.

Just one other observation, and this is not said with any preconceived notions, but the highest tariff we ever passed was the Smoot-Hawley tariff rates back about 1929 or 1930. Shortly thereafter, we experienced the greatest depression that the country has ever known. There may not have been any connection between the two and I am not maintaining that there was. In any event it did not create prosperity in these industries which were supposed to be protected by it.

Having made that speech, I have nothing else to say.

Representative CURTIS. May I make one observation to try to clarify a point?

I think you are raising something of a strawman here. The people I have talked to who are concerned about this, their concern is not along the lines you expressed. I think there are fully aware of the situation of the Common Market and our need for negotiation. The question is around the word "negotiate" and what we are going to negotiate?

If it is going to be this narrow concept that you can negotiate just around manufactures and have a disregard for agriculture, the extracting industries, all the services, and all the things that get into distribution, that is the concern, and I am concerned myself to be sure that when we talk about negotiations we talk about it in terms of modern economics and not terms of economics of the frontier days of the 19th century when possibly you could concentrate on manufacturing and apply the tariff at the manufacturing level. Lord knows what is that level where you start applying the process that can be the be-all and end-all of trade negotiations and discussions.

I think the fear among our businessmen, as I have talked to them, has been this undue, they feel and I do too, undue concentration on tariff as opposed to all the other things that enter into a sophisticated economy and can be utilized very neatly and unobtrusively as a much more effective trade restriction than the tariff.

Chairman BOGGS. Thank you, Mr. Curtis.

We are going to have to recess now. The committee will recess until 2 o'clock.

Before doing so, I would like to thank Mr. Bowie and Mr. Geiger and Mr. Beise and Mr. Dewhurst for their wonderful contributions that they have made here this morning.

(Whereupon, at 12:40 p.m., the committee recessed to reconvene at 2 p.m. the same day.)

AFTERNOON SESSION

Chairman BOGGS. The committee will come to order.

We begin this afternoon's hearings on the interrelationship of Japan and Western trade policies. We are fortunate to have this afternoon a very distinguished expert on Japan, who is the author of a recent report submitted to this committee. I refer to Mr. Warren Hunsberger. We have as his panelist Mr. Jerome B. Cohen.

I might say, without trying to outline the distinguished careers of these two gentlemen, that I would like just to mention a few highlights.

Dr. Hunsberger is an economist and educator. He is presently professor of economic programing at the Institute for International Development of the Johns Hopkins School for Advanced International Studies, here in Washington. He has served on many missions for the ICA and other Government departments. He has been on special missions to Japan on numerous occasions. Some time ago he was economic adviser to Fortune magazine with respect to Japan. He is just completing a broad study of Japanese trade for the Council of Foreign Relations.

Mr. Cohen is also an educator, an economist. He has recently written books on Japan, the most recent being "Japan's Postwar Economy." He is also the author of "Economic Problems of a Free Japan," "Japan's Economy in War and Reconstruction." He is dean of graduate studies at the Bernard Baruch School of Public Administration, in the city of New York. He, too, has had wide experience both in and out of the Government.

We are happy to have both of you gentlemen.

Mr. Hunsberger, we would be glad to hear from you first.

Senator BUSH. Do you gentlemen have a prepared text or not?

Mr. HUNSBERGER. I have a prepared statement, Senator Bush.

Mr. COHEN. I do not.

STATEMENT OF WARREN S. HUNSBERGER, PROFESSOR OF ECONOMIC PROGRAMING, INSTITUTE FOR INTERNATIONAL DEVELOPMENT, SCHOOL OF ADVANCED INTERNATIONAL STUDIES, THE JOHNS HOPKINS UNIVERSITY

Mr. HUNSBERGER. Mr. Chairman, if it is acceptable, I would abbreviate my written statement somewhat in order to save time. I would appreciate it if the full text of the statement could be put into the record.

Chairman BOGGS. Yes, without objection it is so ordered.

(The statement referred to is as follows:)

JAPAN 20 YEARS AFTER PEARL HARBOR; QUESTIONS FOR U.S. FOREIGN ECONOMIC POLICY

(Statement by Warren S. Hunsberger, professor of economic programing Institute for International Development, School for Advanced International Studies, the Johns Hopkins University)

Mr. Chairman, 20 years ago tomorrow Japanese military forces attacked Pearl Harbor. The long, bitter, and costly war that followed did not end until thousands of American lives had been lost, until Hiroshima and Nagasaki had been seared and largely destroyed by atomic bombs, and all other principal Japanese cities—with the single exception of the ancient capital of Kyoto—were devastated by more conventional means.

The militarist clique that led Japan into war against the United States and our World War II Allies told the Japanese nation it had no other choice than imperialist aggression if Japan was to be great and was to provide for her people jobs, an adequate level of income, and reasonable scope for their energies. These militarist leaders pointed to American immigration restrictions and to trade barriers enforced by the United States and many other countries against Japanese goods. The Japanese people followed, as they are accustomed to follow, strong leadership. Their acceptance of such propaganda was made easier because the United States and other countries did in fact discriminate against Japan in many ways.

Now Japan is a different country from what is was 20 years ago. Japan has changed even more than the United States in these two decades. The Japanese people have rejected the militarists who led them to aggression, war, destruction, and defeat. Pacifist sentiment is strong. Japanese armed forces are small, and there is determined opposition by the Socialist political minority against Japanese self-defense and against cooperation with the United States in defense measures.

The tremendous energy of the Japanese people, now 95 million strong, is today being devoted to peaceful pursuits. Japanese literature, drama, music, and art are flowering. Japanese industry, agriculture, and commerce are booming as never before. The economy is growing at a rate that probably exceeds that of any other country in the world. The Japanese Government is very friendly to the United States and cooperates with the U.S. Government in many ways. In fact, despite its antimilitarist mood, Japan is today the principal ally of the United States in Asia, and a major bulwark against the Communist threat.

My chief concern in appearing before you today is the implications for U.S. foreign economic policy of Japan's position, problems, and plans for further rapid economic growth. I believe that American trade policy may prove the decisive element in determining whether or not Japan continues its present friendly and cooperative attitude toward the United States.

The Japanese nation has had great difficulty in finding a place in world affairs. For over two centuries the policy was to avoid contacts with other countries. Then in 1853 the United States took the lead in forcing an end to Japanese isolation. A U.S. naval expedition under Commodore Matthew C. Perry in two visits, that year and the next, succeeded in opening Japan to trade and other foreign relations. In 1868 a new government acceded to power, dedicated to modernizing Japan for the purpose of preventing future foreign interference. Modernization succeeded extremely well, and before long the purpose had become domination of neighboring areas rather than defense of the Japanese islands. Quick wars were won over China in 1895 and Russia in 1905. Japan became an ally of Great Britain and sided with the Allies in World War I.

During the 1920's this drive to power was checked by a combination of external pressures, internal factors, and the tragedy of a great and destructive earthquake. This period saw democratic forces for the first time challenge the rule of military leaders. A party government headed by a civilian and friendly to the West was in office when the great depression brought Japan such economic havoc as to upset the precarious social and political balance. Older Americans today remember the Japanese military aggression that began in Manchuria in 1931, spread to China proper in 1937, and swept over the Pacific and southeast Asia after 1941. But most of us forget, or never knew, that economic depression imported from the United States and Europe was a leading factor in precipitating the Japanese military orgy.

In September 1945, when Japan surrendered aboard the U.S.S. *Missouri*, anchored with a vast armada not far from where Commodore Perry's little squadron had stopped 91 years earlier, the question arose all over again: What is Japan and what part will Japan now play in world affairs? Japan had tried isolation and had been forced to abandon it before internal political forces, which were already working in this direction, could bring about the opening of the country through its own decision. Japan had tentatively tried some aspects of democratic government, but before it was strong enough to hold its own against serious challenge, Japanese democracy was engulfed in the world depression. Then Japan had tried large-scale military, political, and economic aggression, only to go down in defeat before the might of aroused enemies.

Now what was Japan to do? Where would the cotton, rice, wheat, salt, iron, and other essentials come from to make up for the deficiencies of Japan's narrow islands? What could Japan offer in exchange, and who would now buy Japanese goods? Japan's former colonies were taken away by the United States and other victorious powers. The outrageous conduct of Japanese troops in China and other conquered areas had removed for some time the possibility of friendliness on the part of nearby Asian peoples. Europe was exhausted and unable to offer much aid to Japan, even if Europeans had wished to do so. Russia had suffered too severely to be able to help a great deal, and it soon became clear that the U.S.S.R. was casting covetous eyes on Japan. As the cold war set one camp against another, Japan's postwar prospects were further clouded. The United States alone was able to help Japan to its feet and assist in the painful and uncertain process of finding a new path for Japan to follow in the postwar world.

The United States did move to help before long. Despite the bitterness of the war just ended, American forces, which dominated the occupation as they had previously dominated the fighting against Japan, soon began to provide much-needed aid to relieve suffering, disease, and unrest. The new tragedy of Communist aggression in Korea in 1950 brought another war, one that required a large allied effort, and again the United States bore the burden with very limited help from other members of the United Nations. Japan was the forward base area, and huge expenditures proved extremely valuable to Japan as a source of employment, income, and foreign exchange, and Japanese economic recovery was given a strong boost. After the Japanese Peace Treaty took effect in April 1952, American troops were permitted to retain bases in Japan. Although fighting in Korea was stopped the next year, some of these bases have continued in use to the present day as part of the worldwide defense against the Communist military threat. Military procurement and expenditures by military and other official personnel in Japan have provided a declining but still significant flow of needed dollars to Japan.

Japanese trade recovered slowly after the war, and the end of the occupation found foreign trade less advanced along the road to recovery than domestic agriculture and manufacturing were. But in the second half of the 1950's Japanese trade reached such levels as to make possible a phenomenally high rate of economic growth in Japan. The leading country in Japanese foreign trade—and by a wide margin—is the United States. This country has sold to Japan cotton, wheat, soybeans, scrap iron, coking coal, many kinds of machinery, and much more. In the years 1956–60, the United States supplied 34 percent of total Japanese imports, and these sales constituted a little less than 6 percent of total U.S. exports. Movements in the other direction made up 25 percent of Japan's total exports and nearly 6 percent of U.S. imports. During the past 5 years Japan has forged ahead of Germany and the United Kingdom in U.S. trade and is now our second trading partner.

Despite recent expansion, trade remains a major factor limiting Japanese economic growth. Imports are necessary for production and expansion. The amount that can be imported is limited by Japan's ability to pay, which in turn is limited by the proceeds of Japan's exports. Three times in the past 10 years the Japanese Government has had to impose severe restrictions on expenditures abroad, in order to conserve dwindling foreign exchange supplies. The most recent of these restrictive policies was adopted late in September of this year, less than 3 months ago. Between the end of April and the end of October foreign exchange reserves declined by a quarter. Much of the deficit has been in trade with the United States. During the first 9 months of 1961, U.S. exports to Japan totaled $1,317 million, imports only $762 million, leaving a balance of $554 million that Japan must pay for somehow. The September restrictions will reduce the deficit in the months to come by checking Japanese purchases from the United States.

Such deficits followed by import cuts have occurred in a cyclical pattern in the past decade. When the Japanese economy is booming, imports, especially from the United States, have risen sharply, until it has become necessary to check them. If Japanese resources had been greater, imports would probably have been permitted to run at high levels for longer, until other forces, perhaps internal to the Japanese economy, checked the boom. As it has happened, each of the three posttreaty booms has been stopped by foreign exchange difficulties. Each time it has been imports from the United States that have risen most sharply during the boom and have had to be cut most severely in subsequent efforts to conserve foreign exchange.

Now Japan is embarked on an ambitious program to double the Nation's production and income by 1970. It seems quite possible that the critical element in the success or failure of this plan will be the balance of payments. Will Japan be able to export enough to pay for the imports the plan requires? The answer to this question depends on many factors, but one of the most important is the quantity of Japanese sales in the United States. It seems quite likely that Japan will buy in the United States as much as Japanese resources permit. American export products likely to share most in the expansion of the Japanese market are machinery and agricultural products, followed by scrap iron, coal, and other commodities essential to the Japanese economy.

Whether American automobiles and consumer manufactured goods will find a large market in Japan is not yet clear. Japan does not regard such things as necessities and will resist spending scarce dollars on them as long as there is danger of future shortage of funds to buy essentials. The U.S. Government and the International Monetary Fund have pressed Japan to liberalize import restrictions, and a broad relaxation of Japanese direct controls is now taking place as a result. But Japan cannot spend money it does not have, and if foreign exchange should be very scarce in the future, controls of one sort or another will be necessary. It seems likely that the United States will be the country whose exports will gain the most if Japan prospers and has ample foreign exchange during the 1960's. On the other hand, stringency in Japan is likely to bear most severely on American export sales.

The conclusions I reach, Mr. Chairman, are the following:

1. Japan's strongly favorable political orientation and support of American policies seem likely to continue if Japanese prosperity continues.
2. If Japanese exports in the 1960's grow at about the rate called for in the 10-year income-doubling plan, it seems likely to succeed. This plan calls for sales in the United States to reach $2.8 billion a year by 1970. In 1960 the total was $1.1 billion, but this year is expected to be only about $1 billion.
3. If Japanese exports fall significantly behind the plan targets, the success of the plan will be endangered and with it the projected level of U.S. exports to Japan and possibly even the political stability of Japan and its friendliness to the United States. It is not possible to predict political events definitely on the basis of economic events, but it seems clear that, as happened in 1931, severe economic adversity might well at some point lead to political upheaval. It is to be hoped that no such situation will arise in Japan during the 1960's, and the present unprecedented prosperity is a a long way from adversity. Now that there is no appreciable militarist faction, it is not at all clear what form an explosion might take, if there were to be one. But it would be folly to assume that present-day Japan, with its growing stake in the fruits of modern industry, would not in time experience some sort of upheaval if the economy should persistently fail to perform at expected levels.

Mr. Chairman, my recommendations are as follows:

1. The U.S. Government should carefully avoid any but the most necessary interference with imports from Japan. I would regard as unjustified any individual import barriers not required for strategic reasons or to prevent serious market disruption. I would deem also unjustified a totality of tariffs or other import barriers that prevented Japan from at least approximately reaching its target for sales in this country. It seems quite possible that Japanese exports may be needed in excess of present targets. Japanese producers and traders should, I believe, be permitted to make such sales here as they can win in open competition by high quality, low price, and satisfactory service to American purchasers. The U.S. Government should not intervene unless there is serious difficulty for some American

interest. And if serious difficulty should threaten some segment of the American market, other courses than import restrictions should be considered seriously before import barriers are imposed.

2. The U.S. Government should support Japan's reasonable demands for acceptance and status among the leading powers, where Japan belongs and can contribute a great deal. The United States should continue to support Japan's efforts to remove the discrimination against Japan which 15 countries now engage in by invoking article 35 of the General Agreement on Tariffs and Trade. The United States should also support Japan's request for admittance to full membership in the Organization for Economic Cooperation and Development.

3. The U.S. Government should continue to press Japan to follow liberal policies in international trade; to avoid discrimination not only against American goods, but in general; and to contribute much more than in the past to economic development of the less-advanced countries in Asia and elsewhere.

Mr. HUNSBERGER. Mr. Chairman, and Senator Bush, 20 years ago tomorrow Japanese military forces attacked Pearl Harbor. The long, bitter, and costly war that followed did not end until thousands of American lives had been lost, until Hiroshima and Nagasaki had been seared and largely destroyed by atomic bombs, and all other principal Japanese cities—with the single exception of the ancient capital of Kyoto—were devastated by more conventional means.

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Now Japan is a different country from what it was 20 years ago. The Japanese people have rejected the militarists who led them to aggression, war, destruction, and defeat. Pacifist sentiment is strong, and there is determined opposition by the Socialist political minority against Japanese self-defense and against cooperation with the United States in defense measures.

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My chief concern in appearing before you today is the implications for U.S. foreign economic policy of Japan's position, problems, and plans for further rapid economic growth. I believe that American trade policy may prove the decisive element in determing whether or not Japan continues its present friendly and cooperative attitude toward the United States.

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During the 1920's this drive to power was checked by a combination of external pressures, internal factors and the tragedy of a great and destructive earthquake. This period saw democratic forces for the first time challenge the rule of military leaders in Japan. A party government headed by a civilian and friendly to the West was in office when the great depression brought Japan such economic havoc as to upset the precarious social and political balance. Older Americans today remember the Japanese military aggression that began in Manchuria in 1931, spread to China proper in 1937 and swept over the Pacific and southeast Asia after 1941. But most of us forget, or never knew, that economic depression imported from the United States and Europe was a leading factor in precipitating the Japanese military orgy.

In September 1945, when Japan surrendered aboard the U.S.S. *Missouri*——

Senator BUSH. Are you going to explain that statement a little later?

Mr. HUNSBERGER. I would be glad to, Senator Bush.

Senator BUSH. That is a very interesting statement. Do you wish to go ahead and come back to it?

Mr. HUNSBERGER. I prefer to come back to it, if it is all right.

In September 1945, when Japan surrendered aboard the U.S.S. *Missouri*, anchored with a vast armada not far from where Commodore Perry's little squadron had stopped 91 years earlier, the question arose all over again: what is Japan and what part will Japan now play in world affairs?

Where would the cotton, rice, wheat, salt, iron, and other essentials come from to make up for the deficiencies of Japan's narrow islands? What could Japan offer in exchange, and who would now buy Japanese goods?

Japanese trade recovered slowly after the war, and the end of the occupation found foreign trade less advanced along the road to recovery than domestic agriculture and manufacturing were. But in the second half of the 1950's Japanese trade reach such levels as to make possible a phenomenally high rate of economic growth in Japan. The leading country in Japanese foreign trade—and by a wide margin—is the United States. This country has sold to Japan cotton, wheat, soybeans, scrap iron, coking coal, many kinds of machinery, and much more. In the years 1956–60 the United States supplied 34 percent of total Japanese imports, and these sales constituted a little less than 6 percent of total U.S. exports. Movements in the other direction made up 25 percent of Japan's total exports and nearly 6 percent of U.S. imports. During the past 5 years Japan has forged ahead of Germany and the United Kingdom in U.S. trade and is now our second trading partner.

Despite recent expension, trade remains a major factor limiting Japanese economic growth. Between the end of April and the end of October this year, foreign exchange reserves declined by a quarter. Much of the deficit has been in trade with the United States. During the first 9 months of 1961, U.S. exports to Japan came to $1,317 million, imports to only $762 million, leaving a balance of $554 million that Japan must pay for somehow. The restrictions imposed in September of this year to prevent the rapid outflow of their reserves will reduce this deficit by checking Japanese purchases in the United States. They are running out of money, and they are going to cut down their purchases from us.

Senator BUSH. Is that deficit offset to a considerable extent by military expenditures?

Mr. HUNSBERGER. In part, sir, but apparently only in part, this year.

Senator BUSH. Have you any estimate of that figure for the 9 months?

Mr. HUNSBERGER. I have the detailed statistics for earlier years. I don't have detailed statistics for 1961.

Such deficits followed by import cuts have occurred in a cyclical pattern in the past decade. When the Japanese economy is booming, imports, especially from the United States, have risen sharply, until it has become necessary to check them. Each time it has been imports from the United States that have risen most sharply during the boom and have had to be cut most severely in subsequent efforts to conserve foreign exchange.

This year Japan embarked on an ambitious program to double the Nation's production and income by 1970. It seems quite possible that the critical element in the success or failure of this plan will be the balance of payments. Will Japan be able to export enough to pay for the imports the plan requires? The answer to this question depends on many factors, but one of the most important is the quantity of Japanese sales in the United States. It seems quite likely that Japan will buy in the United States as much as Japanese resources permit. American export products likely to share most in the expansion of the Japanese market are machinery and agricultural products, followed by scrap iron, coal, and other commodities essential to the Japanese economy.

The conclusions I reach, Mr. Chairman, are the following:

(1) Japan's strongly favorable political orientation and support of American policies seem likely to continue if Japanese prosperity continues.

(2) If Japanese exports in the 1960's grow at about the rate called for in the 10-year income-doubling plan, it seems likely to succeed. This plan calls for sales in the United States to reach $2.8 billion a year by 1970. In 1960 the total was $1.1 billion, but this year is expected to be only about $1 billion.

(3) If the Japanese exports fall significantly behind the plan targets, the success of the plan will be endangered and with it the projected level of U.S. exports to Japan and possibly even the political stability of Japan and its friendliness to the United States. It is not possible to predict political events definitely on the basis of economic events, but it seems clear that, as happened in 1931, severe economic

adversity might well at some point lead to political upheaval. It is to be hoped that no such situation will arise in Japan during the 1960's and the present unprecedented prosperity is a long way from adversity. Now that there is no appreciable militarist faction, it is not at all clear what form an explosion might take, if there were one. But it would be folly to assume that present-day Japan, with its growing stake in the fruits of modern industry, would not in time experience some sort of upheaval if the economy should persistently fail to perform at expected levels.

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(2) The U.S. Government should support Japan's reasonable demands for acceptance and status among the leading powers, where Japan belongs and can contribute a great real. The United States should continue to support Japan's efforts to remove the discrimination against Japan which 15 countries now engage in by invoking article 35 of the General Agreement on Tariffs and Trade. The United States should also support Japan's request for admittance to full membership in the Organization for Economic Cooperation and Development.

(3) The U.S. Government should continue to press Japan to follow liberal policies in international trade; to avoid discrimination not only against American goods, but in general; and to contribute much more than in the past to economic development of the less advanced countries in Asia and elsewhere.

Thank you.

Chairman BOGGS. Thank you very much.

Mr. Cohen, we will hear from you.

STATEMENT OF JEROME B. COHEN, DEAN OF GRADUATE STUDIES, THE BERNARD BARUCH SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION, THE CITY UNIVERSITY OF NEW YORK

Mr. COHEN. Mr. Boggs, gentlemen, I am perhaps the most naive professor to come before you, because I didn't even bring a press release. So I will very briefly state my position. After the excellent paper by Dr. Hunsberger, there is really no need for elaboration of the economic facts concerning our relationships with Japan.

I would note that the tremendous economic growth and expansion, the strides toward prosperity that Japan has achieved in the last 10 years, have surprised even those of us who were optimistic in the early fifties of the outlook for Japan. The growth is more than the most optimistic would have expected, and today we have a Japan which is surprisingly prosperous, well off from an economic point of view, with a stable conservative government, its industry entirely rebuilt, and having made great strides in trade expansion. We look upon this country today as one that has achieved a full measure of recovery.

In her trade relations, to review them very briefly, with respect to four areas—in trade with South and Southeast Asia, while trade has expanded Japan has been somewhat disappointed because the countries of South and Southeast Asia don't have the purchasing power to buy the quantity of goods that Japan would like to sell. The limited progress of economic development, the political disruption has caused a very slow growth of trade in this area, as I think you know.

Furthermore, in the products that are sold, Japan now encounters great competition. In heavy goods, industrial equipment, she faces vigorous competition from West Germany, from Great Britain, from the United States. And in consumer goods, she faces vigorous competition from India, from Communist China, and other newly emerging countries that are specializing in light, cheap, consumer goods.

In trade with Europe, this is the area where Japan encounters perhaps most discrimination. And her future relations with Europe will depend very much on what the Common Market does with respect to its common external tariff vis-a-vis Japan.

In the trade with the United States, as Dr. Hunsberger has pointed out, Japan buys more from us than she sells to us. The trade has expanded quite rapidly. The gap, the difference has been made up in large part over the last decade by U.S. special procurement expenditures, and other funds which we have provided. That is why they were able to buy more than they were able to sell to us.

The fourth area that is of some concern is Japanese trade with Communist China, with East Asia. This is virtually nil at the present time. It was fairly extensive in the thirties. Some Japanese look with longing on the reopening of this trade. I think a realistic appraisal of the prospects are, however, that there are such problems and economic malfunctioning in Communist China that for this country to be able to trade with Japan would require long term credits from Japan, which the Japanese, I suspect, would be unwilling or reluctant to extend. And then there is the question as to what the Chinese would use to pay. The commodities which they sold in the thirties are in good part unavailable. In turn, some of the things which Japan sold Communist China in the thirties, China would no longer take. So I would say that even if there were no political restrictions on this trade with Communist China, the Japanese trade would not be very great or very extensive.

This does not negate the fact, however, that I think the United States should trade extensively with Japan.

To sum up, I would say that in the context of expanding world trade, which we have had for over a decade, Japan has done extremely well. In the context of the continuance of such expansion, she will continue to do well. At this point Japan can take care of herself.

Therefore, I think that Japan ought to be treated as an equal, in both directions—that is, that we ought not to discriminate especially in favor of her, nor do I think we should especially discriminate against her, nor should any other country.

I think the danger that is faced in the future is in the event of trade stagnation. If trade should stagnate, should not continue to expand, then you would have a difficult economic problem for Japan, and this difficult economic problem would perhaps possibly induce political change in Japan which might be unfavorable, both to the Japanese and to us.

So that, really, the problem of Japan becomes one of a broad problem for all of U.S. trade policy, because if we continue to have expanding world trade, and trade liberalization, the special problem of Japan will be taken care of. There will be no special problem of Japan. It is only if we should raise sharp prospective barriers and thus cause a diminution of world trade, that we might then cause serious political and economic dislocation in Japan.

Thank you, Mr. Chairman.

Chairman BOGGS. Thank you very much, Mr. Cohen. May I direct a question to both of you.

What are the possibilities for some type of regionalism in Asia, with particular reference to Japan?

Mr. COHEN. Well, I think this is fairly remote, largely because of the great diversity of the problems of Asian countries, and also because the very slow development makes it unlikely that extensive regionalism could be developed in the near future. By this, I mean I don't think that a Marshall plan for Asia is feasible or possible, nor do I think that a common market for south and southeast Asia is feasible or possible. However, I would say that certainly the Japanese should be encouraged and can participate more extensively than they have in the economic development of south and southeast Asia. They can do more than they have been doing, and they should be encouraged to aid the economic development of the independent countries of south and southeast Asia.

Mr. HUNSBERGER. Mr. Chairman, members, you will probably all remember there was something once called the Greater East Asia Coprosperity Sphere, and many people dream still about some economic interrelation between Japan and other Asian countries that goes back to this. I am surprised how often I find Japanese who seem to dream of being the factory for Asia, and having a cooperative arrangement where Japan will be in a way the dynamo, and the others will be the cooperators. I don't think that kind of cooperation is possible. Even if there had never been the Japanese outrages, and the abuse of the people in the other Asian countries, I don't think that it is likely that one dynamic country can cooperate easily with other countries that are far less dynamic.

So you have a political problem that the people don't have very much in common with one another, and you have a historical background that makes it even more difficult than it would have been otherwise.

I made a survey of the major articles of Japanese export and import, looking to see what portion of the goods Japan exports and imports goes to or comes from southeast Asia. It is remarkable how little does.

Japan's leading imports are cotton and petroleum. These do not come from southeast Asia. Some petroleum does, but Japan's main petroleum supply comes from the Middle East. Cotton comes mostly from the United States—some from Pakistan and other countries. Further down the list, wheat doesn't come from southeast Asia, it comes from the United States, Australia, Canada, and so forth. As I went down the list, I was surprised to find how incomplete a regional arrangement between Japan and southeast Asia would be.

So, unfortunately, it would be very hard to have such an arrangement now.

If you would add China, however, to this group—and the Japanese did try to add China to it, when they were trying to run things their way—then you would have a different picture, because China can produce cotton, although they are just now so hungry that they won't devote more land to cotton than the minimum for their own needs, certainly under present circumstances. China can produce wheat, and that is one of Japan's major imports. So the region would make somewhat more sense if China were added.

Even so, you don't find in this region the petroleum that Japan needs to import in tremendous and rapidly growing quantities. You don't find in this region the scrap iron. You could find iron ore, but the resources would have to be developed. You could find coking coal, which they now get mostly from the United States. But all of this would take a long time to develop.

So my conclusion is that, under present circumstances, I don't see very much of a regional market or cooperative arrangement in this area, if it would be exclusive of world trade. Certainly we Americans would gain much more by multilateral trade, whereby we will sell our coal and our wheat and cotton to Japan, and not have any restrictive arrangement that would give preference to producers in Asia.

Now there might be a circumstance, sir, that would make it desirable for us seriously to consider some regional arrangement. I hope this circumstance won't become a fact. That is the possibility that the emerging European market exclude outsiders, among others, the United States and Japan. If we and the Japanese, as well as Australia, Canada, and southeast Asia, were to find ourselves seriously excluded from the European market, we might find some sort of cooperative arrangement around the Pacific desirable. I would regard this as a stopgap, until the Europeans became more reasonable.

Chairman BOGGS. What effect do you see on Japan insofar as the Common Market is concerned—the European Common Market?

Mr. HUNSBERGER. The Japanese look upon the European market, I believe, with both hopes and fears. They very much fear being shut out. They fear that this market will grow large enough to take care of many of the needs that the Japanese would like to provide with their exports.

Chairman BOGGS. Are they frightened about some of the third countries, that the Common Market may move in and take some of those markets?

Mr. HUNSBERGER. They are. The Common Market, the Japanese feel—and I think with a good deal of justice—is likely to have its principal producers develop large powerful units. With these the Japanese would be likely to have difficulty competing. So this is the fear side of the Japanese approach toward Europe.

The fear side is sharpened by the fact that the leading countries of Europe are now seriously discriminating against Japan, as Dr. Cohen has said.

Now the hope side, of course, is that if the Japanese could get inside that market, it is a vast market, it is a rich market, and it could absorb a good deal of the exports that the Japanese need to sell in order to finance their planned economic growth.

Senator BUSH. That is the Common Market you are speaking of?

Mr. HUNSBERGER. The Common Market.

Chairman BOGGS. You talked about discrimination. Do the Common Market countries discriminate against the Japanese more or less than we do?

Mr. HUNSBERGER. I think the American record of restrictions against Japan is by and large a record we can be proud of. The Common Market countries have a more discriminatory record.

Chairman BOGGS. We have a favorable balance of trade with Japan. Do the Common Market countries enjoy a similar balance?

Mr. HUNSBERGER. It is on a much smaller scale. Our trade, you will remember, is about a quarter of their exports and about a third of their imports. The whole continent of Europe takes about 10 percent of each. Japan has run a small surplus of exports in recent years with Western European countries, but a small import surplus with the six countries of the European Economic Community.

But, sir, as Senator Bush mentioned earlier, the United States is providing purchasing power to Japan, not just by buying their goods, but also by military expenditures. So the imbalance with the United States is not so sharp when you take into account the so-called invisibles.

Chairman BOGGS. And most of our sales are either raw materials or agricultural commodities.

Mr. HUNSBERGER. Or machinery, sir.

Chairman BOGGS. How much American cotton does Japan take?

Mr. HUNSBERGER. I have some numbers.

This is a Department of Commerce report that is in the preparatory stage.

United States exports to Japan, for the last several years—raw cotton was, in 1960, $215 million, sir.

Chairman BOGGS. What is that in terms of bales?

Mr. HUNSBERGER. In terms of bales, 1¾ million bales—1,749,000, precisely.

Chairman BOGGS. This, I presume, was the largest single customer for American cotton.

Mr. HUNSBERGER. I understand that is so; yes, sir. I didn't bring those figures. Japan has for a long time been——

Chairman BOGGS. What is the total volume of Japanese textiles imported into the United States?

Mr. HUNSBERGER. Referring to the same Department of Commerce report, textile fibers and manufactures of all kinds, including raw silk and everything else, in the year 1960, the amount was $279 million.

Senator BUSH. Well, now, Professor, is there, in addition to that, much in the way of Japanese textiles that comes in through the Hong Kong market or not?

Mr. HUNSBERGER. Yes, sir. Most of the Japanese textiles are not coming in just from transshipment. They are going to Hong Kong and the cloth that goes to Hong Kong is being made up into more finished garments, I believe.

Senator BUSH. You think the figure you cited includes all the Japanese manufactured goods, including those that go through the Hong Kong market?

Mr. HUNSBERGER. No, sir. This figure, as I understand it, is only direct imports from Japan.

Senator BUSH. How much would you estimate is involved in the other, or have you any basis for that?

Mr. HUNSBERGER. I have looked at the figures, sir. I am sorry I didn't bring them with me this afternoon. My impression is that the amount of Japanese textiles that come to us by roundabout routes would be a good deal less than this. So if we took the total, it would be far less than double the direct shipments.

Senator BUSH. Thank you.

Chairman BOGGS. The amount of cotton, of raw cotton, the price of raw cotton in textiles, at least insofar as the United States is concerned, is a relatively small item in the production of the commodity, of the article, isn't that so? So that a figure which balances—what was it—$215 million?

Mr. HUNSBERGER. The raw cotton was $215 million, sir, in 1960.

Chairman BOGGS. And the total amount of imports in terms of dollars?

Mr. HUNSBERGER. Of textiles of all kinds—that was $279 million, of which cotton textiles—cotton manufactures of all kinds were $75 million.

You know, sir, that those are under quota. The Japanese have agreed, after discussions with the U.S. Government, to limit their sales of cotton manufactures in the United States.

Chairman BOGGS. So this means that in order for them to dispose of the $215-odd million worth of raw cotton they had to find markets way beyond the market that they enjoy in the United States?

Mr. HUNSBERGER. Yes, sir.

Chairman BOGGS. So that if the Common Market moved into some of the markets they have in southeast Asia, for instance, taking only the field of textiles, this would be quite disastrous to them, would it not?

Mr. HUNSBERGER. It would be serious. The Japanese would probably agree with your word "disastrous," sir. I am more optimistic about the resilience of the Japanese economy.

My suspicion is that they are correct in estimating that their cotton textile exports will be a declining share of total exports as the years go by. They do look forward to some increase in the absolute total. But their increases of other kinds of exports will be much more rapid, they expect, and I think that is right.

Senator BUSH. Will you yield for just a question there?

Will it not be true that the Japanese are in a good position to compete in the Eastern Hemisphere with any cotton textile importations from the West? In other words, from the cotton market? It seems to me they would give the Common Market a very hard time out in southeast Asia, and all through the East. Will that not be true?

Mr. HUNSBERGER. This is true.

Senator BUSH. They are in a very strong competitive position price-wise, quality-wise, as you say.

Mr. HUNSBERGER. I think we should point out, however, that cotton textiles include a wide band of individual items. And the competitive situation with respect to one may be very different from that with respect to another.

You probably know that the Japanese are already noncompetitive with the Indians and some others of the newly developing countries on the coarsest yarns and the crudest fabric constructions. But in the more complicated fabrics, we can beat the Japanese in some markets, and the Japanese can beat some of the less developed countries.

The Japanese, therefore, have within the wide band of cotton textile products a group in which they are really the world leaders.

Senator BUSH. Well, would their disadvantage in respect of India, let's say, in these coarse yarns, be caused by the fact that the Indians are a lower priced labor market than the Japanese, or not? This type of goods would have a high labor content, obviously.

Mr. HUNSBERGER. Yes, sir.

Senator BUSH. So it would seem, then, as though the Indians, whoever supplied these coarser yarns, might have an advantage—would be because of the lower priced labor involved, is that right?

Mr. HUNSBERGER. Yes, Senator. The Department of Commerce this year prepared an analysis of some kinds of cotton cloth constructions, using Japan, India, two European countries, and the United States as the basis for the analysis. Your point that labor costs are an important factor was brought out in that study. But, of course, there are many other factors, too: The costs of the cotton, the quality and the grading of the cotton. American cotton succeeds not only because of the cost, but because when you get a bale of a certain kind of American cotton, you know what is in it.

The Japanese have bought our cotton sometimes when it cost them more than cotton might have cost them if bought somewhere else. I am told that part of the reason is the reliability of the grading. The Japanese have mixed different kinds of raw cotton, very skillfully. And if you are going to mix them carefully, you have to know what you are mixing.

The cost of the cotton, the management of the mills, the efficiency of the machines, and a wide variety of other factors, are all reported in this Department of Commerce study.

While labor costs themselves are important, some times the labor costs are high in the low-wage countries, and lower in the high-wage countries. There are a number of cotton cloth constructions where lower wage Indian labor costs more than higher wage Japanese labor, and you could, of course, find some where much higher wage American labor costs less than the Japanese.

Chairman BOGGS. Go right ahead, Senator.

Senator BUSH. Well, Mr. Chairman, I want to join with you, and I am sure I speak for Mr. Curtis, too, in complimenting you both about your very comprehensive grasp of this most difficult situation. It is very comforting to feel that we have such authorities to advise this committee in connection with this very difficult problem. I can't

77636—62——9

help but feel that the sincerity of your statement reflects an objective and thoroughly responsible point of view, on a very important matter.

I certainly agree with your estimate of it. It is going to pose, and it does pose constantly, and it has during recent years, very serious problems to the United States.

So I am sure that I am only one that is grateful to you for these presentations. And we may have to see more of you as the year goes on, next year.

Mr. HUNSBERGER. Thank you, sir.

Senator BUSH. Now, I just have two or three questions.

Do you see any complications in our relationships with Japan if we join the Common Market or do whatever we are supposed to do in connection with this new trade policy that is being sort of vaguely outlined here? You see my point?

Supposing they look upon us—our actions cause them to look upon us as an ally or partner of the Common Market, which seems to be the direction in which we are being pushed. Now, how would that affect our relationships with Japan, Professor, in your judgment?

Mr. HUNSBERGER. This is a difficult question. I will address myself to it as well as I can.

I believe that the main answer——

Chairman BOGGS. I wonder if I could just elaborate on the question a little bit, so you can comment on the whole range of the question.

The implication of Senator Bush's question was association or joining the Common Market. I would like to add as one factor—and that would eliminate either association or joining but add the factor of the Government—of the President having the power to negotiate with the Common Market, which is different from being a member or an associate.

Mr. HUNSBERGER. Japan, of course, is like the United States, now outside of this market, but if this market should grow larger, or if its association with other countries—in this case we are talking about association with the United States, a tremendous market—should be such that the Japanese have a harder time getting into either Europe or the United States, then the Japanese would be in trouble.

I would think that the key to the answer to this question lies in the external tariff of the European Common Market, and of any other countries that associate themselves, loosely or tightly, with the Common Market.

If this external tariff, and the other trade barriers leaves room for Japanese exports, then the Japanese have the opportunity that their vigorous people yearn for.

If, on the other hand, the trend is one where, in fact, the trade is limited, and Japanese exports don't grow the way the Japanese people want, or they feel as though they are being kept out, a political problem arises. I think we need to look at both of those questions. Because the Japanese feel very much alone out there in the Pacific.

Senator BUSH. I don't blame them. I think they have a right to. That is a fact which complicates our problem very much indeed, because of the importance of our partnership with them, political and perhaps military in nature—makes it an exceedingly difficult problem.

Well, I want to deal with some of the difficulties that I see of another nature.

In your statement, on page 8, you say—your recommendation is as follows:

The U.S. Government should carefully avoid any but the most necessary interference with imports from Japan.

Well, what would you regard—how would we interpret this language—"most necessary interference with imports from Japan"?

How are we to determine that? What does that mean?

Mr. HUNSBERGER. I gave the beginning of the answer in the next sentence. Let me start with that.

Individual import barriers might be required for strategic reasons.

Unless you would like to, Senator, I won't go into what those might be, I acknowledge there might be strategic reasons, and if there are I am not quarreling with those.

Secondly, there may be barriers required to prevent serious market disruption.

Now, my emphasis on the word "serious," sir, is aimed at avoiding frivolous imposition, because orderly marketing on the one hand, or market disruption on the other hand—these are phrases that could be interpreted in many different ways.

I find our foreign relations with Japan a serious business, and I would hate to have a segment of the American economy, whose welfare could perhaps be promoted by some other method than import barriers, cause unnecessary friction in our international affairs.

Senator BUSH. Well, now, you say:

Japanese producers and traders—

this is in the same paragraph—

should, I believe, be permitted to make such sales here as they can win in open competition by high quality, low price, and satisfactory service to American purchasers.

In other words, if I interpret that correctly, so long as they offer in our market high quality, low price, and satisfactory service, they should compete to their heart's content for our market, is that right?

Mr. HUNSBERGER. To the extent that——

Senator BUSH. Except in the strategic.

Mr. HUNSBERGER. Except for these serious reasons, I would like to see that, yes, sir.

Senator BUSH. Well, let's get down to the serious reasons. You say in the next sentence—

the U.S. Government should not intervene unless there is serious difficulty for some American interest. And if serious difficulty should threaten some segment of the American market, other courses than import restrictions should be considered seriously before import barriers are imposed.

Now, perhaps you will explain what that means.

First, what is serious difficulty for some American interest? Going out of business would certainly seem like one to me—being forced out of business because you couldn't possibly compete. Would you agree with that?

Mr. HUNSBERGER. I am not happy to see an American business, an American locality, or an American industry decline.

Senator BUSH. Of course not.

Mr. HUNSBERGER. On the other hand, there is some decline, there are some going out of business, every day, as part of the growth processes of our economy.

My problem here is to accept these changes that are healthy, but to agree with the need to slow down or stop or help with those things that may not be necessary.

Now, the real problem, therefore, lies in these words that take a great deal of definition—serious, or healthy, or vigorous growth.

I would like very much to be able to look a Japanese in the eye and tell him, "No, it isn't true, as your politicians have sometimes said, that we Americans unreasonably impose barriers."

I would like to be able to say, "No, you people are given a fair chance in our market."

And, of course, I would be able to look in the eye the Americans who have to compete with these people.

I don't think that this is a matter that has a simple answer. I think that we have to look at many different aspects. Sometimes some American interests, I believe, are going to have to accept some sort of trouble. We now have a growing move toward trying to meet this trouble by other means than import barriers.

Senator BUSH. Well, Professor, I again say I am deeply impressed with the sincerity of your position. But we have got to find out what these words mean—like "serious difficulty." So I am going to try to give you an example. I have got to find out, the committee, other committees who are going to make law on this subject have got to find out what we mean by serious injury, serious difficulty.

Now, let me give you an illustration that may help you point this up.

Here is an industry called the rubber footwear industry. I happen to know something about that, because there is a plant in my State which employs about 7,500 people. It belongs to the U.S. Rubber Co. There are other plants in Indiana elsewhere—Goodyear, Goodrich, and others, are in the rubber footwear business. I don't know how big the industry is, and that is not the point here.

But here is a busines up there that I know of that employs 7,500 people, does an enormous business, and they make galoshes and rubbers and sneakers and all kinds of attractive rubber footwear. And they very greatly modernized their line. I think anybody that buys these rubbersoled shoes realizes in recent years there has been a revolution in the style, attractiveness, and the quality. They have moved ahead in great shape.

But the Japanese can make and have made and do make a footwear line that is just as good. You can't tell one item—one of theirs from one of ours, because they have imitated them so perfectly. But they are able to lay those down in the American market at very substantial reduced prices, so much so that no consumer who is interested in saving money could possibly prefer buying the U.S. item on the basis of quality or anything else. He would be justified, if he wanted to save money, in buying the Japanese article for $1.50 instead of paying $2.50 for the American item. And the difference that they are able to sell him is in that order of magnitude, which is very great.

Now, if we say to the Japanese, "We are not going to impose any barriers or any restrictions upon the shipment of rubber footwear," I don't believe it would be many years, with their inventiveness, with their genius, with their productive ability, before they would be able to completely displace the American offerings in that market, because there would be no incentive for anyone to buy anything but the Japanese article, because it is just as good—at a very substantial difference in price.

Now, there is an illustration.

Do you consider that a matter of serious difficulty, or something—a matter that our Government should take cognizance of? Should we offer some protection to the American manufacturers in this kind of a situation, or not? Or should we recognize that if we don't this whole industry goes down the drain in about 10 years, it will go out of business?

Now, I would be glad to have your comment.

I don't ask this frivolously. I am very anxious to get a correct answer—because, like yourself, I appreciate the gravity of the situation—not only the importance, but the gravity of the situation in our relationships with Japan.

Mr. HUNSBERGER. Senator, you know this industry better than I do. What I answer comes from the studies I have made, not from an intimate knowledge of that particular industry.

I think perhaps I can make a more useful answer if I go back to some of the things that I have said before, and then work toward this.

I believe the Japanese have done us a service in telling us the magnitude of their hopes for this market.

We are not talking about large numbers of American industries possibly being devastated, destroyed, damaged. We are talking about a total which they now estimate at $2.8 billion worth of sales a year by 1970. Now, they may be wrong. This figure could be wrong by a good deal in either direction. But at least it is a serious effort on their part to tell us where they are going.

Now, of this total of $2.8 or so billion, some portion is likely to be in production where going American industries cannot compete in open competition.

Senator BUSH. Go out of business.

Mr. HUNSBERGER. Yes, sir. My position——

Senator BUSH. My case won't meet your test of serious difficulty.

Mr. HUNSBERGER. I would need to know more about the stability of the company and the industry, of the alternatives for them in other products. I would need to know more about the situation and the localities concerned. But I would say this, sir:

I would hope that we could avoid any sort of protection that would go on and on and on, and make us pay $2.50 for something where we had the alternative of buying for $1.50. If there is that kind of differential, I would hope that the protection we provided, if it proved to be necessary to provide some protection, would be diminishing protection so that in time we would get the advantage of the $1.50 price.

Senator BUSH. To what extent do the Japanese use protective devices in their trade policies?

Mr. HUNSBERGER. Too much, sir, from my point of view.

The Japanese are afraid, and their policies show it. Our Government is pushing them, I understand from my conversations with our officials, to liberalize their trade. And my last recommendation, sir, is that we should continue to press them to follow liberal principles.

My feeling, however, is that we cannot get them to go very far without at the same time having these other things happen that are in my first two recommendations.

Senator BUSH. When you say too much to your liking, that they are too protective to your liking, could you illustrate that by some cases, perhaps?

Mr. HUNSBERGER. Yes, sir.

American automobiles are, I understand, virtually completely excluded from the Japanese market. Now, I am not here to sell the American style and size of automobiles.

Senator BUSH. Having traveled on the roads over there, I have some sympathy with that.

Mr. HUNSBERGER. I am not the one to judge whether these are right or not. But I do share with our automobile men and our officials the idea that the Japanese consumer should be given a choice. And if our producers, with their high wages, and all the rest, can outproduce the Japanese, they should have a chance to do so. And this is the other side of what I have said, when I say I think that open competition should permit American purchasers to buy at low prices.

Senator BUSH. Well, has that protective device in connection with automobiles due to the fact, perhaps, that they wanted to build up an automobile industry of their own, so they could take care of their needs in that respect, and develop the type of car that we have not been offering until very recently? Do you suppose that had anything to do with it? They have traffic problems.

Mr. HUNSBERGER. They do, sir. This is one sign that they are a highly developed country. They have traffic jams that would appall anybody. It takes a long time to get from the Tokyo Airport into the center of the city.

Senator BUSH. Have they actually now developed their automobile industry to an extent where they can pretty well take care of their needs and at reasonable prices, and what comparison of prices do you happen to know would obtain there?

Mr. HUNSBERGER. I think the best thing I could answer would be this:

The fact that they have maintained this protection is a reflection of their feeling that they cannot compete without the protection. They are hoping, however, in a few years, to be able to. But they regard this as what the economists call an infant industry, one that is growing, and in time will be able to compete. Of course, they sell a few cars in this country, Datsuns, and so forth, and I believe we don't keep them out. I wish they on their side would permit open competition there.

Sir, I had a paragraph in my statement I did not read. Perhaps it would be appropriate for me to read that now, in this connection.

Senator BUSH. All right.

Mr. HUNSBERGER. Whether American automobiles and consumer manufactured goods will find a large market in Japan is not yet clear. Japan does not regard such things as necessities and will resist spending scarce dollars on them as long as there is danger of future shortage of funds to buy essentials. The U.S. Government and the International Monetary Fund have pressed Japan to liberalize import restrictions, and a broad relaxation of Japanese direct controls is now taking place as a result. But Japan cannot spend money it does not have, and if foreign exchange should be very scarce in the future, controls of one sort or another will be necessary. It seems likely that the United States will be the country whose exports will gain the most if Japan prospers and has ample foreign exchange during the 1960's. On the other hand, stringency in Japan is likely to bear most severely on American export sales.

I feel that automobiles—and then I say consumer manufactured goods, a whole range of them—are the items that will prosper most if the Japanese have money to spend, money to spare beyond the need for essentials. And these are the very things whose sales I am afraid will continue to be restricted when the Japanese are short of foreign exchange.

Chairman Boggs. I might say—not to interrupt Senator Bush—that some years ago a subcommittee of which I happened to be chairman, of the Ways and Means Committee, spent several weeks in Tokyo looking into these very matters. At that time, Senator, the restrictions were much more rigid than they are now. They are still too rigid. I am glad you are developing this point. But then a great many American enterprises had gone to Japan and built their own plants—Singer Sewing Machine for one, and General Electric for another—and they were confronted with the problem of repatriating profits. They were unable to convert the yen into dollars and transmit the dollars back to the American stockholders. I think some of these restrictions have been lifted.

But to the point that Senator Bush is developing—that is a very significant point in this whole picture.

Maybe Mr. Cohen would like to comment.

Senator Bush. I would be delighted if he would.

Mr. Cohen. I think, looking at it very broadly, if Japan continues to grow and expand and increase her trade, this will redound not only to the political benefit of the United States, from the standpoint of our national purposes, but to our economic benefit as well. That is, we will find a larger market in due course in Japan, if Japan continues to prosper and expand. I think it is just inevitable that they will relax their barriers, and will buy more of our products. We are now their principal customer. And they are a very important customer of ours in the foreign field for many, many agricultural exports, which we have a desperate need to export. And so with the growth and prosperity of Japan, it seems to me we can only benefit.

Senator Bush. You spoke, Professor, of Japan and using exchange controls. Do they still use exchange controls?

Mr. Hunsberger. Yes, sir. This reference to the monetary fund and the U.S. Government has to do with our hopes that they will rapidly dismantle these controls. The agreement—I guess I shouldn't call it an agreement, it is not officially so, although the press reports it that way—the Japanese Government, in July of this year, following the annual consultations with the Monetary Fund, announced a hastening, an acceleration of their decontrol program. The present schedule is that by the end of September next year, 90 percent of all their imports, measured on a 1959 base, will be what they call liberalized. That is, those imports will not then be subject to quantitative controls. They will be allowed to come in under the so-called automatic approval.

Now, the Japanese still have their foreign exchange law. They are not promising to change the law. They are only promising to admit almost all goods—90 percent, by then—under the automatic procedures of the law.

I believe that this situation reflects their fear. And I think there is some justification for the fear, sir. At the end of April of this year, they had foreign exchange reserves of $2 billion. By the end of October they were down a billion and a half. This is a pretty rapid drop.

Senator BUSH. Of course, one of the things we want to avoid is exchange controls.

Mr. HUNSBERGER. Yes, sir.

Senator BUSH. And yet Dr. Wallich yesterday presented some views that suggested that if we do run our gross national product up to $600 billion, it would result in a $4 billion increase in imports, and a $2 billion increase in exports, and would thus aggravate an already unhappy balance-of-payments problem, you see. So the thing we are talking about right here would seem to have a bearing on the very thing he is talking about. And as we would help Japan to alleviate their own balance-of-payments problem, we seem to face some risk of aggravating our own, at a time when so much depends on our own—not just our own domestic economy, or our own ability to finance this enormous defense burden. But it involves the defense of the whole free world, which is dependent on the integrity of the American dollar, confidence in the American dollar, and so on. So that I keep coming back, unhappily, in my thinking about this, to this unpleasant fact—that we have got to be careful that we don't move in a direction that is going to further aggravate the problem which I believe this whole trade program is designed to alleviate. I think that we are trying to, as I said this morning—trying to make up for the deficiencies in our balance-of-payments problem, caused by other factors, such as military, foreign aid, travel, investment abroad, and others, by widening our trade balance in favor of exports.

Maybe you read in the magazine Foreign Affairs, the October issue, a very interesting story, and a leading article, by Senator Fulbright, of Arkansas, a member of this Joint Economic Committee.

Chairman BOGGS. And of the subcommittee.

Senator BUSH. And of the subcommittee—and chairman of the Foreign Relations Committee of the Senate, and certainly one of our most eminent internationalists of a proven nature, as Americans go, certainly. And he said, in that article, the following:

> The United States continues to bear a disproportionate share of the burden of world responsibility, a burden, I fear, which overtaxes our own considerable resources.

That is a very weighty statement. And one which impressed me very much indeed.

It is because I am mindful of this fact—and I think he is right about that—that I think we have got to be exceedingly cautious in not to move in a direction that is going to further add to our burden of world responsibility, and further overtax our resources, considerable though they be, you see.

So this is why I say the situation that you are discussing is not only important, but a very grave one indeed.

Mr. HUNSBERGER. I think there are two things I might say in this connection that might be useful.

First of all, the Japanese I don't think are part of our balance-of-payments problem, to the extent I don't believe now the United States is pouring into Japan any more dollars than are coming back. The evidence we have for the year 1961 is that the flow is the other direction. You remember I read that figure of $500-and-some million of trade deficit, and you asked me how much of this was covered by military. My impression is that this year they are sending more dollars here than we are sending there. Now, in the long run they can't afford to do this. They don't have other sources of dollars enough to let them keep on doing this. In general, the dollars that go from the United States to Japan come back.

Senator BUSH. Does Japan enjoy at the present time a favorable trade balance?

Mr. HUNSBERGER. No sir.

Senator BUSH. They are eating into their reserves.

Mr. HUNSBERGER. Yes sir, very rapidly this year. And as a result of that, late in September this year, they imposed for the third time in 10 years a series of severe restrictions in order to conserve their reserves.

One of the things that is unpleasant about this for America is that it is these American marginal exports that get cut down. When the Japanese have a boom, they import not only raw materials, but some semifinished products. When they run short of money, they cut those off.

The reserve source of supply is usually the United States. So we get the advantage when they are buying a great deal, and our exports get cut when they are cutting down.

Now, there is a second thing that I think is important here. Japan can help in this aid business. Japan can help carry some of this burden Senator Fulbright was disturbed about in the quotation you read. I hope that we and the Japanese will continue to be friendly enough so that Japan will pick up a good share of this burden in a way that will please both them and us.

Senator BUSH. Are you aware of any efforts that are being made by our Government to induce them to accept a share of this responsibility?

Mr. HUNSBERGER. Yes sir.

You know of the Organization for Economic Cooperation and Development, the OECD. Even though Japan has not been admitted to this Organization, they are allowed to be on the giving committee of this Organization, that is they are members of the Development Assistance Committee.

Senator BUSH. Very generous of the Organization, I would say.

Well, have they availed themselves of that privilege?

Mr. HUNSBERGER. I don't think one could call Japanese foreign policy generous. I don't think you could call most countries' foreign policies generous. But the United States has certainly been generous at certain times and in certain ways, and I think we should be proud of it. I feel that the Japanese will move in this direction as they feel able. They feel, for instance, that the billion dollars worth of reparations obligations that they owe to countries that were mistreated during World War II is a part of such a contribution. I don't know that that is exactly right, but they count it that way. And in their own calculations of what they can afford to do, they have to take this into account.

They have participated in the consortia that have helped India and Pakistan, and in years to come, I would expect a larger flow of capital from Japan for this kind of purpose.

Senator BUSH. Why shouldn't Japan be admitted to the OECD? Why do they not invite Japan to be full-fledged members, instead of just giving them the privilege to contribute?

Mr. HUNSBERGER. I think this is a psychological problem, sir—although I have not been close enough to the details of what has gone on in the OECD so that my answer would be a firm one. But I will give you the best impression I can.

The OECD is a modification of what used to be the Organization for European Economic Cooperation. It is one step to add the United States and Canada, and make it an Atlantic organization. It is a good deal bigger step to take in a country as far away as Japan.

Japan cannot be called an Atlantic power. You would have to stretch your geography pretty far for that.

Japan is a low-wage country, and this worries people. It worries Americans, it worries Europeans. I don't know exactly how much conversation there has been between American officials and European officials on this subject. My understanding is that the United States tentatively mentioned Japan for membership in OECD, and the Europeans said firmly "No," and we have been rather quiet since. My fear is that we may have to go fairly slowly on this matter. I believe Japan should be in the OECD. But I believe it is even more important that the OECD succeed than that we immediately bring in Japan, or any others that ought to be members.

Senator BUSH. I will yield now, Mr. Chairman. Thank you.

Chairman BOGGS. Thank you, Senator.

Mr. Curtis.

Representative CURTIS. Let me assure Senator Bush I do share his original comments, along with the chairman's, on these discussions and the paper.

One thing I want to clear up, that I think I must have misunderstood or certainly got the wrong interpretation—your comment when you were talking about Japan's original concept of the southeast Asia area has been a legitimate area for marketing their manufactured products, and then you were pointing out that Japan did not actually take much from that area. Of course that is looking at trade as sort of bilateral. It seems to me there are a lot of reasons why this should be a perfectly good area and proper area for Japan to develop a market for its manufactured products.

Mr. HUNSBERGER. This is an important question, and one that won't go away. But I will try to make myself clear. I hope I have not mistated myself.

I certainly agree with you, sir, that we should not speak in bilateral terms. Trade is more likely to be healthy and to grow, if we deal with it multilaterally. But if the trade between Japan and southeast Asia is multilateral, then what are we talking about in a regional arrangement? Usually a regional arrangement has in it some element of special advantage for the members.

Representative CURTIS. I see, you were thinking only in that context.

Mr. HUNSBERGER. Yes, sir.

Representative CURTIS. But in the overall context of Japanese economic development, you would feel that southeast Asia was an area where their markets would continue to increase, would you not?

Mr. HUNSBERGER. I would expect so. But the remarkable record of the 1950's suggest that the Japanese trade with southeast Asia may not grow as fast as trade with the highly industrialized areas. As Dean Cohen said, those countries in southeast Asia just don't have the purchasing power to buy Japanese goods in the quantity that the Japanese are trying to push them out.

Representative CURTIS. Or anyone else's goods.

Mr. HUNSBERGER. That is right.

Representative CURTIS. In other words, that is the nature of an underdeveloped area—it isn't much good to anybody, including themselves.

Mr. HUNSBERGER. Except as they develop.

Representative CURTIS. Yes, as a potential.

Mr. HUNSBERGER. So this gives the Japanese a heavy stake in the development of this area. I made a tour through southeast Asia in 1958, asking people, Americans, local people, and Japanese, what the Japanese were doing there. I had the feeling that the Japanese were a bit too cautious. They were still impeded by what happened between them and southeast Asia during the Pacific war and they were afraid to go back. Secondly, a number of countries were severely discriminating against the Japanese at the time. These wartime feelings of bitterness are declining, and more and more the Japanese have opportunities there. I think the Japanese might be able to do more than they have been doing in promoting trade, in exploiting the opportunities there. But in general, I would say the Japanese have been very vigorous all over the world in doing whatever they thought they could do. But contrary to expectations, the Japanese have found that their trade with the underdeveloped areas, whether Asian or otherwise, has grown less rapidly than their trade with the developed countries.

Representative CURTIS. I have just returned from South America, with one of our other subcommittees of the Joint Economic Committee, and listening to this I cannot help but think that there are a great many similarities between our problems with South America, in the sections that aren't developed, and Japan's problems in Southeast Asia.

Mr. HUNSBERGER. I think that is right, sir.

Representative CURTIS. You see an analogy there. Well, then, that clarifies the one thing that I was sure, after I listened to the discussion further, that I had mistaken—and you were just limiting your comment, if it were one of these regional agreements there would be the limitation that Southeast Asia would not actually provide Japan with raw materials or other products.

Mr. HUNSBERGER. I would certainly not urge the Japanese to hold back from efforts to promote trade with Southeast Asia. They live near there, they have much to offer Southeast Asia, and I would hope that as the years go by, they will develop more and more skill in applying their own talents in this direction.

Representative CURTIS. Now, there is another area—I don't want to develop it at length, but I certainly want to mention it in the light of developments that I tried to mention this morning—and that is when we talk about trade, we have such a concentration on products, and disregard the areas of service and distribution. I was looking through these papers to see if I could get the figures. One area where I know Japan does quite well is in shipping. Don't they gain some advantage there, or are they usually handling just their own products in their own bottoms. How do their great activities and great abilities in this area fit into this economic picture?

Mr. HUNSBERGER. The Japanese merchant marine is, I believe, sixth in the world now.

Representative CURTIS. Yes. I think you list it as fourth or sixth. I saw your figures here.

Yes, Japanese is fourth in——

Mr. HUNSBERGER. The fleet is smaller than those of the top maritime nations, the United States, United Kingdom, Norway, and Liberia, but ahead of all others. That makes it fifth in the world.

Representative CURTIS. Well, I love that Liberia in there. That is the United States essentially, is it not?

Mr. HUNSBERGER. I have looked into this, Mr. Curtis, in connection with Japanese export ships, because, as you know many of the ships that are registered in Liberia are built in Japan. Japan is the world's biggest shipbuilder these days. I was trying to find out if we could not call those Liberian ships American instead of Liberian. The shipping people told me no. They told me that a corporation that has its headquarters officially in Liberia, or a ship that is registered in Liberia, may actually be owned by people of many different nationalities, Greeks, Norwegians, Americans, and many others, and any simple effort to say that it is mostly American would be an oversimplification, and not accurate. But it is true, sir, that the two deputy commissioners of maritime affairs of Liberia have their offices in New York.

Representative CURTIS. Well, we in the Ways and Means Committee view it from the tax angle—I suspect you won't be far wrong from calling it American.

But to get back to the situation, it seems to me that shipping is one of Japan's economic strengths. I was just curious to see how much of a strength it is.

First you agree it is one of their strengths.

Mr. HUNSBERGER. My distinguished colleague here, Dean Cohen, wrote in the great book about World War II in the Pacific, the economic side of it, that the Japanese started the war with 6 million tons of shipping. They added during the course of the war, by building, salvage, capture, and so on, about 4 million more tons, having a total during the course of the war, but never all at once, of 10 million tons. On the day of that famous ceremony aboard the U.S.S. *Missouri*, they had less than 1 million operating—a little bit over 1 million afloat. Now that figure has gone up to 6 million plus again. So they have come back, so far as the size of the fleet is concerned, somewhere ahead of where they started at the beginning of 1942.

This carries approximately half of Japan's foreign trade. But even when the Japanese run their own ships, they incur heavy foreign exchange expenditures for fuel, and for certain other purposes. So that the shipping account in their balance of payments runs a heavy deficit, even so.

Representative CURTIS. I see. The way their accounting procedures go. I can see that. It becomes a great item in cost when one contemplates the whole process of marketing a product abroad. I have been disturbed—the approach here seemed to separate one aspect of the economic process, with an emphasis on manufacturing, without the consideration of the whole.

Then I had another question. Japan seems to be so logically suited to develop somewhat the way England has, where a great deal of their activity is in what we call the service field, or distributing field, even. But in insurance—I don't know what they are doing there, or what they might do.

Mr. HUNSBERGER. It is a very small item in their balance of payments.

Representative CURTIS. What of banking and other aspects there. And whether or not the future of Japan might lie somewhat too far in a distributive point, along with the manufacturing process.

Would you care to comment on the whole economy of Japan as it might develop in these areas so that we don't just think in terms of manufacture, which I am afraid most of our discussion has been directed to?

Mr. HUNSBERGER. I would be glad to. Perhaps Dean Cohen would like to speak first to that. You know he is the author of the principal book published in the United States on the Japanese postwar economy generally.

Representative CURTIS. Yes, I pose the question to the panel.

Mr. COHEN. Well, I think this is an area in which Japanese earnings are going to grow. They have rebuilt their merchant marine very rapidly. They are expanding their trading activities. The trading firms have opened offices all over the world now, and reestablished themselves. And with these trading functions go banking and insurance, which they are prepared to extend. I don't think that this can fail to be increasingly an asset in their favor.

It has been a decade of very rapid growth. Of course, in the beginning of the decade they had virtually no merchant marine at all, so they have done wonders in virtually rebuilding it, in developing an extensive carrying trade. As you know, there has been a surplus of cargo space in merchant marine in the last couple of years, and this has detracted somewhat from their six million ton merchant fleet. But given an expansion of world trade over the next decade, I would think this would become an important asset.

Mr. HUNSBERGER. One of the interesting difficulties with Japanese shipping is the nature of the Japanese economy and its imports and exports.

Somewhere on the order of 6 tons come into Japan for every ton that goes out. Your big ore carriers, your big tankers, your big coal carriers, tend to go out in ballast. And even your general cargo ships go out high in the water, after having come in deep down to the Plimsoll marks. So you have a problem of making this shipping pay its way, having such a heavy ballast element. You don't have what transportation people like, which is a full load both ways.

Representative CURTIS. If I may interrupt just a minute. Of course, that is using an accounting process by separating shipping from what I am trying to direct attention to, a process of taking a raw material, manufacturing it, and then shipping and distributing it to the customer. Now, the cost items go all along there, however you break up your accounting.

One of the factors, of course, in our manufacturing distribution is the cost of shipping. Now, whether you do it through your own fleet, or do it through an independent, or whether your Government comes in, as of course our Government does, and subsidizes the fleet itself, and increases the cost, and brings in a lot of defense costs into this thing too, I am trying as much as I can in these studies to direct attention to the economic process. Sure, if they use an accounting system of an independent merchant marine, and possibly subsidize the manufacturing—not manufacturing in this area, but at least the trade process of the country—that would be a factor. I suspect, though, that Japan is doing very well in the shipping area. However, in the accounting process there may actually be a loss, as is pointed out, in the way it is set up. But I suggest, relating to our shipping costs, it probably is a very substantial plus item for them in competition. And I am commending them for it.

Mr. HUNSBERGER. They want very much to expand. And one of their complaints against us concerns our efforts to ship on American vessels.

Representative CURTIS. Exactly. It is legitimate—I mean, whether the gripe is legitimate, certainly pointing up that factor is very legitimate. That is what I meant this morning when I said that if we are going to talk with intelligence, and I hope we do, or think with intelligence on this process of trade, we have got to broaden this base, and not think just in terms of what we are when we talk about tariffs, really, of just the manufacturing process. It involves all these other areas, where the ingenuity of man has figured out ways of putting in barriers, subsidies, and whatnot.

Mr. HUNSBERGER. I believe this point of thinking of the whole relationship, in this case the relationship between Japan and the United States—not just pieces of it—is a very important advance over what we have done in the past. I think that we need to consider the whole thing. More broadly than that, we need to think of the problems Japan causes and all of the other problems together, before we try to decide. If we don't, we would be deciding an issue because it affects Japan, and thinking only of our relations with Japan. This is not enough. We have to think also about the American producers concerned.

Representative CURTIS. I am really most pleased with this discussion and your presentation. I have a great admiration for the Japanese people—they have always been good workers. And here again they have demonstrated it. They have a system—political and economic—that is a real incentive to this process. And, as far as I am concerned, I could not agree more with their prosperity and the efforts that they are putting out. If they do not result in success, it is going to be a very unfortunate thing for the United States and the things we stand for. It is very important for us to get the facts out on the table. The Japanese I have talked to are very sophisticated in understanding these matters. And if we will get everything out on the table, I suspect there are some solutions, and good solutions, for all of us.

Chairman BOGGS. Senator Bush wishes to inquire again.

Senator BUSH. Mr. Chairman, I want to go back to just two points that we did discuss. First, the question of—that I would call, I guess, discrimination against the Japanese by the European Common Market people.

Now, isn't it true that the basis of their discrimination is because the Japanese, because of the low wage costs, and the big wage differential between Japan and these countries—they compete very severely with this particular Common Market that is trying to build itself up? Isn't that the basic reason there for the exclusion of Japanese goods?

Mr. COHEN. We had a session in New York a week ago—the Committee for Economic Development is making a study of Japan and United States economic relations. They have a subcommittee under Mr. Zellerbach. They had a session in New York, and there were about 15 European businessmen and European officials participating in this session. This was one of the questions that came up: Why is it that there is this discrimination in Europe? And one of the main points that each one in turn, as we went around the table—Sweden, Italy, Germany, and so on—was the wage question—the fact that they felt that Japan was a lower wage country, and therefore that they could not effectively compete. This undoubtedly is one of the largest factors in the European attitude toward Japanese goods.

It was pointed out there that you cannot just look at wages alone; that labor costs involve a number of things, and the Japanese wage structure especially is very complicated. The actual money wage is only part of the picture. They get a housing allowance, they get a year-end bonus, a family allowance, et cetera. You have to add all this up. Furthermore, in addition to wages the cost of capital and the cost of materials play a part in the cost of a product. The European businessmen acknowledged this was true; they were aware of it. But their people felt that the wage question was the big issue in their minds.

Senator BUSH. The other question is sort of related. I want to go back, Professor, to our illustration about the rubber footwear business. Your conclusion there was that in a situation like this, in the interests of improving our relations with Japan, or saving our relations with Japan and/or helping Japan to sustain itself in this competitive world, with their rapidly growing population, and its essentiality to us in the security program, that in a case like that perhaps it would be better if we let the competition take over, and in 10 years they would put us out of the rubber footwear business—nevertheless there would be gains from that that would compensate.

Now do you think, rather than surrender a market like that entirely to Japan, it would be better to surrender part of it, as we have done in connection with certain items, by voluntary agreements in recent years. You are familiar, no doubt, with these more so than I. But I think of the textile arrangements, the one on velveteen in particular, and the stainless steel flatwear case. And through these voluntary agreements we said, in effect, "All right, you have done well, you have come into our market with good merchandise, just as good as ours, but you are murdering some of our industries, so we will agree with you. We will agree to give you a share of our market, but reserve the balance to ourselves and others."

Now do you not think that there is some merit in that—rather than surrendering the entire market, over a period of 10 years, let us say?

Mr. HUNSBERGER. I think the Japanese have helped us out by being willing to undertake these voluntary restraints.

Senator BUSH. They certainly have.

Mr. HUNSBERGER. This makes for peace and harmony in a situation where there might be a good deal of acrimony.

Senator BUSH. I wish to applaud them for that, and I do.

Mr. HUNSBERGER. My concern has to do with the quantities involved.

Senator BUSH. With what?

Mr. HUNSBERGER. With the quantities. If the Japanese total sales in this country are enough, whatever that means, then it is not particularly objectionable if certain of the markets are restricted somewhat. But we have to be careful about the "enough." I have cast my presentation in terms of their targets, as they see them. If they are meeting those targets, I think a good deal of this kind of modification of the competition process might be justified.

But I must put in a "but" there, sir. I don't like to see basic economic forces interfered with, except for good reason. There is always the danger that when we get down to the actual bargaining, we may restrict too much. This is what I fear.

Now if the Japanese reach their sales targets, they won't have much grounds for complaint against us, I feel. We may, however, have a basis for complaining ourselves, when we are not living up to our own traditions of free competition. We are a competitive society, and we live in a world where our enemies are not competitive. When we stop short in applying competition, and the reasons are not good, I am afraid we are giving ammunition to our enemies who do not believe in competition in the first place.

So, in general, I think that the Japanese restraint on exports is helping out, and I am pleased that we are dealing with a country that is cooperative in this context. I am afraid some of the other countries we will have to deal with as the years go by may prove to be a good deal less cooperative in this regard. I hope we will not push them too hard. And I would hope as the years go by that we consumers could buy our footwear at the lowest world prices, that such protection as we might provide to American producers would not be permanent, but temporary, before full competition is permitted.

Senator BUSH. Well, you do not exclude the possibility, or even the desirability, of such devices in certain cases if, as you say, the reasons are good enough. Now we must not reject entirely out of hand then the fact that this is a device which has been used successfully—accepted by the Japanese successfully—and that suggests that it doesn't necessarily have to apply just to the Japanese, but in similar situations, with other nations with whom we want to trade freely, it might have some merit.

In other words, instead of saying come in and take over our whole market, we say we will share it with you on a reasonable basis. This presumes that the industry itself is not an obsolescent, inefficient industry, but is suffering, you might say, only from the very large wage or compensation disparity which we know is very, very great—even including the contingent benefits that go with the Japanese level, the Japanese wage level.

Well, I am glad to hear that you have not disapproved, I take it, of what we have already done in that connection with the Japanese.

Mr. HUNSBERGER. We live in a real and difficult world. We have to find solutions that are often not ideal. As an economist, I am not keen on limitations to competition. But in certain cases, it seems to me they are better than the alternatives. I think I should add, sir, that—I believe this is true—the Japanese cotton textile people, and some others in Japan, feel as though the way we have dealt with them this year is not fully fair to them. Here is a case where we were bargaining about the limitations, and many Japanese seemed to feel that we maneuvered things in such a way that they got the poor end of the deal. And some of my friends tell me that we Americans lost some Japanese friends this year unnecessarily.

Senator BUSH. What case do you have in mind there?

Mr. HUNSBERGER. You know that in July, in Geneva, sir, there was an international meeting at which it was agreed that certain kinds of quantitative restrictions on cotton textiles in international trade would be permitted. The importing countries were to negotiate with the exporting countries, and if the bilateral negotiations for a short-run arrangement did not succeed, then the importing countries were permitted, by this GATT meeting in Geneva in July, to limit the imports to the level of 1960. The cotton textiles covered in this agreement are divided into a number of categories. The Japanese were not happy about the way it worked out. American representatives went to Japan in August for bilateral negotiations with the Japanese. The preparation for this meeting was—yes, the Japanese had been limiting their sales before, and they have had to accept limited sales here while other countries were achieving rapid increases. Our representatives are reported to have indicated they intended to see that the Japanese were treated fairly. That seemed to mean they would get a larger share next year.

So when our representatives arrived in Tokyo in August, the Japanese expected a large increase, and what they finally got was a very small one. They were asking, I believe, for a 30-percent increase over this year's quota level, and what finally came out was about a 6-percent increase. They felt they had not been treated right.

Senator BUSH. This is last summer you are talking about?

Mr. HUNSBERGER. Yes, sir.

Senator BUSH. Did the American negotiators initiate that compromise?

Mr. HUNSBERGER. Yes, sir.

Senator BUSH. The policy is changing a little rapidly here, isn't it, from then?

Thank you.

Chairman BOGGS. Thank you, Senator Bush.

Just one observation. Implicit in what both of you have said, I presume, are the great political aspects of a strong Japan on the part of the United States, not only economically, but politically and militarily, and a strong Japan cannot be overemphasized. Isn't that fundamental?

Mr. HUNSBERGER. I agree, sir. We are talking about trade which is today about $1 billion coming into the United States—in 10 years from now, if the targets are met, at an annual rate approaching $3 billion. This is small money compared to our defense program.

Chairman BOGGS. And if Japan were to fall, or go Communist, any hope of southeast Asia, for that matter the whole of India and Pakistan, would be somewhat remote; isn't that so?

Mr. HUNSBERGER. I hate to contemplate that possibility, sir. It would be very unfavorable indeed for the United States.

Chairman BOGGS. Well, both of you have been extremely helpful to the committee. We thank you very much for coming.

The committee will recess until 10 o'clock tomorrow morning.

(Whereupon at 3:45 p.m., the subcommittee recessed to reconvene at 10 a.m., Thursday, December 7, 1961.)

FOREIGN ECONOMIC POLICY OF THE UNITED STATES

THURSDAY, DECEMBER 7, 1961

Congress of the United States,
Subcommittee on Foreign Economic Policy
of the Joint Economic Committee,
Washington, D.C.

The subcommittee of the joint committee met, pursuant to recess, at 10:05 a.m., in room 4221, New Senate Office Building, Hon. Hale Boggs (chairman of the subcommittee) presiding.

Present: Representative Boggs (chairman).

Also present: William Summers Johnson, executive director; and Richard J. Barber, clerk.

Chairman Boggs. The subcommittee will come to order.

We continue hearings this morning on the foreign economic policy, the topic this morning being underdeveloped countries.

We are fortunate in having a panel of four distinguished experts, two of whom, Dr. Mikesell and Mr. Bean, have written study papers for the subcommittee. In addition we have Mr. Warren Lee Pierson, and Mr. Paul R. Porter.

I won't attempt to outline the many contributions, both public and private, of these four gentlemen except to say that Dr. Mikesell has been very active in and out of the Government. He has been on the White House staff, a consultant to the Pan American Union, a member of the staff of President's Council of Economic Advisors, a member of the faculty of the National Law College; he has written a number of books on U.S. economic policy.

Mr. Bean is known, among other things, as an election expert. I am glad to see him here in his capacity as an economist. He has been connected with the Department of Agriculture in various capacities for a good many years, with the Bureau of the Budget—more recently a consultant to the food-for-peace program.

Mr. Pierson is a lawyer and a business executive, chairman of the board of the TWA, former president of the International Chamber of Commerce, very active in the International Chamber, active in American finance and economic affairs. Some years ago, he was President and General Counsel of the Export-Import Bank, and special counsel to the RFC prior to that.

Mr. Porter is a corporation executive, president and director of the Porter International Corp. He has been with the ECA, the mutual security program, and other economic missions connected with the Government of the United States.

So we have a great wealth of talent here this morning.

We will start with Dr. Mikesell.

I expect Congressman Curtis here momentarily, but I thought we had better move along.

STATEMENT OF RAYMOND F. MIKESELL, W. E. MINER PROFESSOR OF ECONOMICS, UNIVERSITY OF OREGON

Mr. MIKESELL. My name is Raymond Mikesell, professor of economics, University of Oregon.

I would like to summarize briefly the major points that Mr. Allen and I have made in our study of economic policies toward less developed countries. First, there is need for a cooperative approach to the problems of less developed countries, which will include not simply the provision of technical and financial assistance, but provide the opportunity for a steady rise in export earnings, sufficient to meet the requirements for economic growth.

Trade and aid are not alternatives, but both are necessary to the realization of our objectives in these areas.

Second, there is a need for better cooordination of the manifold activities of the large number of economic assistance agencies currently operating in individual developing countries. In the past our aid efforts have been too diffuse and piecemeal and have not been directed toward the achievement of specific economic and social goals. What we have said on this point is not new, but is well known to members of the administration. For example, Harlan Cleveland, who is now Assistant Secretary of State for International Organizations, provided specific testimony on this point in the course of hearings before the Senate Committee on Foreign Relations in February 1959. Moreover, some steps are being taken by the new AID administration for dealing with this problem, but much more needs to be done. In our study we have made specific suggestions for the creation of machinery designed to coordinate the assistance activities at the country level of the score or more of U.S. governmental, multilateral, and other national agencies operating in individual developing countries.

A third point relates more to the whole philosophy of our assistance to the less developed countries and to cooperation among free world countries generally. What we are suggesting is that our emphasis should be shifted from the essentially defensive motivation of national self-preservation to one of desire for positive achievement. I have often thought that a basic source of the remarkable strength that communism has shown in the postwar period, lies in the loyalty of its adherents to the positive goal of creating a new world economic and social structure—a goal which they have virtually made into a religion. They are cast in the role of creators of a new world order which promises a better life for the masses of people who live in poverty and to whom the present order offers little hope. We, on the other hand, have too often been identified as the defenders of the Old World order with all of its evils and frustrations for the bulk of the people who live on this side of the Iron Curtain.

We once fought a bloody war under the slogan of "Making the World Safe for Democracy," but we forgot that winning the military battle was only the first step and that democracy in the fullest sense of the word requires continuous creation and achievement and not just preservation of what we have. The fact is that the bulk of the people in the so-called free world have never known freedom and democracy in any meaningful sense of the terms. Indeed, it is we who have something new to sell. What Mr. Khrushchev is selling is older than the tyranny of the pharaohs.

Can we not somehow create a loyalty to the democratic way of life under which people can realize their economic and social aspirations as freemen rather than as slaves of a monolithic state? Cannot the desire to contribute to the success of a civilization built on individual freedom and opportunity provide the basic motivation for our foreign economic policy? Why can't we mount a crusade for a New World order based on freedom instead of simply engaging in a defensive cold war against communism?

I might add that in the alliance for progress program we have captured something of the spirit, I think, of what we have in mind. But this needs to be broadened.

One final point which relates to what Messrs. Herter and Clayton and Congressman Reuss have been saying in their excellent reports: We cannot do this job alone. The resources of all the industrially advanced countries must be mobilized and coordinated to achieve our economic and social goals for the free world. Foreign assistance, military defense, and the opening up of our markets to the products of other countries will inevitably cause balance of payments deficits and hamper our economic growth unless our goals for the free world are tackled cooperatively with the other industrially advanced countries. But the United States can avoid large and continual balance of payments deficits only if certain other countries do not have surpluses.

During the 1950's, countries of Western Europe which were members of the OEEC and of the European Payments Union demonstrated that they could deal with the problems of individual country deficits and surpluses cooperatively. A balance of payments deficit was not regarded solely as the problem of the deficit country, but they looked also to the countries that were experiencing the surpluses and asked that they take appropriate steps to reduce these surpluses. We are now a member of a larger club, the OECD, and I believe that under our leadership it is possible for us gradually to free our trade with the rest of the world while at the same time achieving a high rate of growth. High levels of trade and economic growth go together. Trade restrictions which stifle trade among nations, stifle growth as well. Moreover, as the nations of Western Europe and Japan have shown, high rates of growth tend to increase a country's competitive advantage in world trade.

In looking at the figures, I find a rather high correlation between growth and productivity, or output per man-hour for the industrialized countries during the postwar period.

Thank you very much.

Chairman BOGGS. Thank you very much.

Dr. Bean.

STATEMENT OF LOUIS H. BEAN, ECONOMIC CONSULTANT, FORMERLY ECONOMIC ADVISER TO THE SECRETARY OF AGRICULTURE, 1933–40, 1947–52, CONSULTANT TO THE DIRECTOR OF THE FOOD FOR PEACE PROGRAM

Mr. BEAN. The purpose of this statement is to call attention to a particular segment of our agricultural export program that is in danger of falling short of promises and potentialities. I refer to the feeding programs authorized under titles II and III of Public Law

480, particularly the programs under title III carried out by the voluntary relief agencies. The danger arises from several sources, two of which I want to point to particularly.

One is the general view among economists and others that the sound way to close the nutritional gap is by means of long-range economic projects that create jobs and purchasing power. The other difficulty is that our available products, chiefly wheat and feed grains to not provide the necessary low-cost animal and vegetable proteins. Neither of these dangers need prevail.

With regard to the first, it may be said that economic projects and industrialization are not substitutes for feeding programs. Feeding food to undernourished children who in a few years become part of the labor force and help determine productivity is as much economic development as is, for example, feeding fertilizer to undernourished soil.

Furthermore, economic projects of any magnitude cannot be planned or executed fast enough to close the nutritional gap of underdeveloped countries in a few years. Poverty and malnutrition are likely to remain for many years to come because much of the prospective benefits of economic and technical assistance in agricultural and industrial production is offset by rapid increases in population. Ten years hence the less developed countries will show an increase in population of about 350 million (25 percent), the Russia-China bloc an increase of about 220 million (20 percent) and the industrialized West including Japan, an increase of about 55 million (10 percent). Even if one takes an optimistic view of the trend of production of cereals, pulses, root, and tuber crops in the less developed countries, their per capita consumption 10 years from now will still average only 40 to 45 percent of the per capita consumption of these products in the industrialized countries, and that is about the present level of relationship.

With regard to the second problem, the limited supply of our foods available for foreign feeding programs, the point that needs to be stressed is that there are now available supplementary sources of low-cost high protein foods that may be used as additives to low protein diets, or as beverage where milk is too costly or not available.

It may come as a surprise to many that our available supplies of food are not adequate for a stepped-up food-for-peace feeding program. It is generally agreed that the need in less developed countries is for high-protein foods, and that the need is concentrated among infants and children of preschool age. For an enlarged foreign feeding program we do no have an abundance of wheat and flour, but not of nonfat dry milk which represents, in terms of costs to the Commodity Credit Corporation, about 45 percent of the total, the largest item in our foreign relief programs. To increase the supply on nonfat dry milk would be costly. It would at the same time bring on an unwanted supply of butter. The hard fact is that the prospective increase in the production nonfat dry milk over the next few years will hardly supply the rising domestic demand.

We must therefore turn our attention to other possible sources of high-protein foods in both beverage and solid form for infants, preschool children and older persons if we are to fulfill our promise of a greater food-for-peace program.

Fortunately we are now in a better position than ever before to plan our foreign feeding operations on a stepped-up, stable, continuing basis. Once our nutritional requirements are spelled out in terms of the basic elements of proteins, calories, and fats the range of our supplies is no longer limited to stocks of wheat and corn and uncertain quantities of rice and nonfat dry skim milk. In addition to the low-protein items of wheat, corn, and rice, we can draw upon the high-protein commodities, soybeans, cottonseed, peanuts, and sorghums, to supply high-protein diets but also as beverages.

The food processing industry has in recent years made great strides in food preparations, and nutritionists have tested them clinically and have found them satisfactory for infants and adults.

Two examples will suffice. The Institute of Nutrition of Central America and Panama has had developed a mixture chiefly of cottonseed flour, corn mesa, and sorghum, primarily for use in Central America (as a beverage for children and as a food additive). This mixture (Incaparina) tested both for its biological value and acceptability is now licensed by Incap for commercial production. It illustrates a successful low-cost protein mixture of good biological value.

The other product that has come to the fore among the high-protein foods is soy flour which is also available as a food additive and as a soy milk. These products, too, have been tested for their biological values. In fact, soy milk has been available under doctors' prescriptions for the past 25 years for infants and adults allergic to cow's milk.

Incidentally, I am told that 7 to 10 percent of the U.S. population is allergic to cow's milk.

It is important to note first that as a new source of high-protein food, our soybean crop now ranks fourth among our cash crops (being exceeded only by corn, wheat, and cotton), and that still larger soybean crops appear to be in prospect. Second, soy flour as a high-protein source, when mixed with other cereals can reduce the cost per unit of protein required by about 50 percent. And for beverage use, soy flour, made nutritionally equivalent to nonfat dry skim milk, can be had for about half the cost of nonfat dry skim milk.

The carryover from the 1961 soybean crop, now estimated at about 60 million bushels, if converted into flour for beverage use, could take care of the entire deficit of animal protein measured in terms of nonfat dry skim milk, in the diet-deficient countries outside the Russia-China bloc.

This is merely an illustration of what I seem to see as the potentiality in the fact that we now have a new large so-called surplus commodity, soybeans.

These and other recent food developments have not yet been taken into account in the food for peace programs. Knowledge of them is spread out in many corners of government, but it has not yet been centralized for efficient use by the responsible agencies. Therefore, in order to make full use of this wider range of available foods in a more effective, expanded foreign food aid program, a great degree of central direction is needed. That direction could be obtained in large measure by the following action:

1. The food for peace office should request the responsible agencies to draw up a balance sheet of food needs for the less developed countries and match them with current and potential supplies of animal and vegetable proteins, pulses, cereals, and vegetable oils, with special attention to the new sources of low-cost vegetable proteins.

2. It should request these agencies to prepare a long-range 5- or 10-year program of feeding operations, on the assumption that these operations will for some years to come be a continuous outlet for our low-cost high-protein foods.

3. It should also set up short-range specific quantity goals, such as doubling the present volume of food donations, or doubling the number of recipients, or doubling the rate of feeding in 1963 or 1964. This is in line with the suggestion of Professor Mikesell that in the broader front of foreign trade we ought to have positive specific aims.

4. It should present these short- and long-range goals to the voluntary relief agencies on the assumption that they will make the necessary arrangements abroad for carrying out the enlarged programs.

The significance of this suggestion is that at present, when we attempt to find out what our feeding program should be, we get responses from the field which are not related at all to any purpose on the part of the Government here. And I suggest that this device of setting a specific quantitative goal would make it possible for us to see a program in quantity desired and in the steps required to carry it out.

5. Similarly, processors should be asked to submit proposals as to new low-cost products to be included in the expanded and regularized program.

6. Consideration should also be given to making foreign food aid a part of foreign policy operations rather than part of the agricultural production adjustment and price-support programs.

A quantitative goal of this kind would make it possible for the responsible agencies to bring together the latest usable knowledge in food technology, in available foods and in nutrition, now nowhere centralized. It would also make it possible for food processors who have developed products that could be used in the food-for-peace programs to plan their capacities and figure their costs more realistically. It would make it possible for our Government agencies and the voluntary relief agencies to plan their activities more effectively not only in feeding programs but in assisting in developing the supply and uses of indigenous products and in establishing small-scale vegetable beverage plants and other food processing enterprises. Thus our donation programs could accomplish a great deal more to meet the world's needs in aid and ultimately also its needs in trade.

Thank you.

Chairman BOGGS. Thank you, Mr. Bean.

Mr. Pierson.

STATEMENT OF WARREN LEE PIERSON, CHAIRMAN OF ALL AMERICAN CABLES AND RADIO, AND CHAIRMAN OF GREAT WESTERN FINANCIAL CORP.

Mr. PIERSON. Mr. Chairman, my name is Warren Lee Pierson. I served as President and General Counsel of the Export-Import Bank from 1934 to 1945. From 1950 to 1952 I represented the State Department in London as U.S. delegate to the Tripartite Commission on German Debts.

My present activities include serving as chairman of All American Cables and Radio, chairman of Great Western Financial Corp., and as a director of several companies having important oversea business and holdings—International Telephone & Telegraph Corp., Wah Chang Corp., Fruehauf Trailer Co., Molybdenum Corp. of America, and others.

I appreciate the opportunity to appear before the Joint Economic Committee in the roundtable discussion of "Economic Policies Toward Underdeveloped Countries." I assume I was invited because last summer I was chairman of the Citizen's Committee for International Development, a group of private individuals interested in the passage of legislation setting up the administration's new AID program.

I am familiar with some of the studies and reports that have already been prepared for this committee by distinguished economists, Government officials, and foreign trade experts. While I am in complete accord with much of what they have proposed, I feel that no useful purpose would be served by repeating their recommendations. Therefore, I shall base my observations primarily on my own experience.

I am in favor of U.S. foreign aid. But I would say that the prime need of our country in this respect today is to stop trying to be all things to all nations.

If we really believe that the day of private enterprise is over or has not yet dawned in the underdeveloped countries, let us lend them the money they need to buy out the private investments we already have there and leave them alone to work out their neutralist, Socialist, Communist, or local dictatorial destinies.

But if we believe the economic system that made this country great and has rebuilt war-ravaged Germany and Japan still holds promise for other countries as well, then let us boldly adopt and adhere to a policy that is consistent with our great tradition, our heavy responsibility, and our unrivaled opportunity to serve both others and ourselves.

Such a policy should rely wherever possible on methods and objectives that distinguish our system from that of the Communists.

Loans from our Government to other governments can be matched in every detail by the Russians or Chinese, if they so desire—and, whether derived from them or us, they will be used by the recipients to further public rather than private undertakings.

But our private U.S. investments abroad cannot or will not be matched by the Communists because such investments encourage private local industry, and new private local sources of wealth, stabilize and improve local standards of living, and strengthen local middle classes—all of which are pillars of our democratic way of life, not of communism.

Private U.S. investment in foreign countries reduces their need for direct aid from our Government, and our Government's need for taxing private U.S. industry and citizens to provide that aid. This strengthens the economic sinews of our way of life both at home and abroad. Private investment, being motivated by profit, tends to gravitate toward those parts of a nation's economy that bring the highest rate of return and thus represent the best combination of capital, natural resources, and manpower. Moreover, such investment is normally accompanied by technical and managerial skills that are quite as important, if not more so, than the capital itself.

Successful private investment is no "one-shot" operation. As the many surveys by the Department of Commerce show, American companies abroad reinvest heavily in the further expansion of their enterprises. They pay high wages comparatively, and have an enviable record of developing local managerial and technical skills. The local savings they make possible are normally channeled into further productive capacity, housing, and services, all of which contribute to raising the general standard of living.

Finally, private loans are normally liquidated out of the wealth they create, whereas intergovernmental loans have a long history of partial or complete repudiation—often with bad blood on both sides.

Having said this, I find it necessary to recognize the fact that a disappointingly small portion of America's increasing private investment abroad goes to the less developed countries, other than investment in the extractive industries. This is the natural corollary to the demonstrated risk of doing business in and with those countries. I would like to suggest the following steps—by no means all inclusive—toward stimulating the flow of private funds into underdeveloped countries.

1. Protection of investment: While I would not challenge the right of any country to expropriate a private American business, our Government should do all in its power to discourage its use and to secure prompt and adequate compensation when used.

2. Better business climate: Any country hoping to qualify for assistance from our Government should be required to encourage our private investors by sound fiscal and monetary policies, equitable taxes, and other measures required for healthy business enterprise.

3. U.S. tax incentives: Just as we have a right to expect countries that want our capital to take the steps necesary to encourage private enterprise, so may we expect our own Government, by its tax laws, to provide incentives to private investment overseas.

4. Guarantees: More important I think than any other single step our Government could take would be to adopt a program of adequate guarantees to private investment abroad. There are signs that the new AID legislation recognizes this fact, and I welcome the development.

I think we all agree that there should be an element of risk involved in the undertakings of private enterprise. The new legislation provides for this by limiting the amount of the Government's guarantee to 75 percent. However, the $19 million limit to each guarantee needs reexamination, as does the $90 million limit on the program as a whole.

5. Government loans: Although I prefer the guarantee route, I would not rule out the possibility of direct loans to private business for investment abroad. I have not mentioned the Export-Import Bank in this regard because its support of the American business community is well known. I am sure this support will continue.

Finally, I should like to venture from the field of business and finance, with which I have been familiar for many years, into the realm of political philosophy where, frankly, I must rely on instinct. But having admitted this, I will state it as my conviction that our U.S.

program of foreign aid will never achieve ultimate triumph over communism unless it turns from the defense to the offensive.

It is simply not a sufficient answer to the needs of our time that we try to strengthen private enterprise on a country-to-country basis. I am sure the most nationalist leader of the most backward country knows deep in his heart that his ultimate choice must be between the free world and the Communist. Therefore, to offer him the development of his own country by private enterprise is not enough. We must offer him the opportunity to join a movement that is bigger, better, more forward looking, and—above all—stronger and more certain of ultimate victory than anything behind the Iron Curtain.

I submit to you that nothing less than a union of the free can be our answer. Somehow, and soon, we of the free world must raise this banner for the underdeveloped and uncommitted nations to follow. I do not presume to tell you how this should be done. But I note from the "New Look at Foreign Economic Policy" submitted over the names of Christian Herter and William Clayton, that it is no longer a matter of partisan politics in this country, for which I am grateful.

Whether we join the nations of the European Common Market or they join us, or, together, we form what I have called the union of the free, I am certain that our common action is necessary to preserve our own position and win the underdeveloped nations to the cause of a better future in partnership with us.

It has been a pleasure to address you, and I thank you again for the privilege of stating my views.

Thank you very much.

Chairman Boggs. Thank you very much. Mr. Porter.

STATEMENT OF PAUL R. PORTER, PRESIDENT OF PORTER INTERNATIONAL CO.

Mr. Porter. Chairman Boggs, my name is Paul R. Porter. I am the president of Porter International Co. The company provides management consulting services in the development of international business. We have organized investments for various American companies in Europe and in the less developed countries. We have also helped foreign companies establish investments and manufacturing licenses in the United States.

My remarks are directed to the admirable paper of Dr. Mikesell and Dr. Allen. Their paper, the Herter-Clayton paper, and some others presented to this committee, deserve comparison in importance and cogency to the Federalist papers of Hamilton and Madison.

The current papers, which respond perceptively to the major changes in technology, popular attitudes, and power relationships that dominate our era, make a significant contribution to shaping the great ideas which will give purpose and form to the evolving community of free nations.

Development is not a patent of the underdeveloped nations. Perhaps the most significant economic and political development of this century is the emergence of the free nation community which we now begin to see on the horizon. One would be foolhardy to prophesy now the form which this evolving community may assume. But one can be confident that its lifeblood will be commerce between its member nations. An economic community which in due course may embrace the United States, an enlarged European Common Market, the Commonwealth Nations, Japan, the alliance for progress as it acquires reality, and new nations of Asia and Africa can achieve a vitality, strength, and prosperity which no hostile bloc can challenge.

An evolution of this character is a strong possibility even if we should resist it. But it is a prospect we should welcome and lead. We should begin now to shape our trade and international investment policy to this perspective and as an instrument of its achievement.

Turning now specifically to the Mikesell-Allen paper, and particularly to the section concerning the role of private foreign investment, I offer three comments.

First, the authors are to be congratulated for the effective case they make that American private investment abroad stimulates American exports.

The relationship between export and foreign investment is admittedly complex and variable. In terms of some goods in some markets at particular times they may be opposing forces in the balance of payments. But broadly and historically one promotes and sustains the other. Both are interacting forces of growth, domestic as well as international.

The discussion of the relationship between exports and foreign investment on pages 61 to 63 of the joint committee print of the Mikesell-Allen document is pertinent and persuasive.

I was greatly encouraged by the speech which President Kennedy made yesterday to the National Association of Manufacturers. I find myself in hearty agreement with all of the major objectives. I disagree, however, with one minor theme, which suggests measures to restrict or to discourage American private investment in Europe. It is my view that the balance-of-payments outlook is and will continue to be serious. It is also my view that the most effective and enduring solution will be achieved through an expansion of exports rather than a curb on foreign investment.

In order to achieve an expansion of exports to the European Common Market, the administration needs greatly strengthened bargaining power in the forthcoming trade negotiations.

It would be unfortunate in an effort to negotiate a more open door for American exports were accompanied by a partial closing of the door, by our own volition, to U.S. foreign investment. It will be more difficult to make an effective case to our trading partners for a freer flow of American goods if at the same time we initiate a contrary policy for the flow of capital.

I do not believe that a curb on American investment in Europe will increase our exports. The net effect may be the opposite. Neither do I believe that a curb on investment in Europe will cause more capital to flow to the less-developed countries.

I hope that this committee will conclude that any limitation imposed by the U.S. Government on private investment abroad should be held in abeyance pending the outcome of the trade negotiations which Chairman Boggs has characterized as of momentous importance.

My second comment concerns the proposal that the United States reduce tariffs on both primary commodities and manufactures from the developing nations without reciprocity. My comment is critical with respect to an implication that may be drawn from this proposal, namely, that there need be no reciprocity at all. Probably this is not the author's intent but the proposal should be clarified.

I support the position that the terms of trade between the industrial and less-developed nations must be modified in favor of the latter, which means, among other things, a temporary acceptance of tariff protection of their infant industries while we accept more of their goods. In the context of trade alone we cannot realistically ask for matching concessions.

But this does not mean that we should ignore reciprocity in a broader context. We would damage both our national interests and those of the community we hope to create if we did not ask those who may benefit from sacrifices we impose upon ourselves to respond by measures within their means to a common purpose. Within their reciprocity should be measures to assure the benefits of economic development to all segments of the population, to generate local savings and their productive employment, to accord equitable treatment to foreign investment, and in due course to reduce their own trade barriers.

We do not have the resources or the luxury of choice to assist other nations merely because they are underdeveloped. Our assistance—whether given as grants, loans, trade benefits, or special inducements to private investment—should be reserved predominantly for those nations which have set their development on a course which will make them responsible and constructive members of a free world community.

Mr. Pierson and I did not compare notes on what we would say, but I am happy to find we are so completely in agreement.

My final comment concerns measures to increase private foreign investment in the less-developed countries. In the words of Dr. Mikesell:

> As has been the case with past administrations, President Kennedy's new AID program rightly stresses the importance of the role of U.S. private investment in the economic growth of developing countries.

The potential role is indeed important. Yet I believe it is not unfair to say that despite some useful piecemeal measures, including some new ones incorporated in the recent foreign aid legislation, the promotion of private investment continues to be more a slogan than a policy.

The measures for its promotion are mainly derived as a byproduct of foreign aid legislation. They consist of guaranties against abnormal risks, loans, and recently added, a partial underwriting of feasibility studies made by potential investors. Until now at least these incentives have been separately administered, and at a relatively low level. Whether they will be employed passively or vigorously by the new AID agency is not yet indicated.

In any event they fall short of a policy. An effective policy would include tax incentives, as recommended by Dr. Mikesell. Also as I have noted earlier, trade benefits which may be granted should be related to investment policy.

There are some policy goals which are obviously beyond the power of the United States to achieve alone. The most important, which is necessarily long term, is the creation of international order in laws and practices affecting private investment. The situation today is a jungle.

The essential condition of order is that the ground rules which apply to private investment should not be subject to retroactive unilateral change.

Order in this area cannot be imposed. It can only be created as a gradual growth based on an enlightened give and take by investors and by the governments of both capital exporting and capital importing nations.

The nature of the undertaking requires a supranational institution as initiator, mediator, and counsel. Probably best suited for this purpose is the World Bank—to use its informal but meaningful title—or its affiliate, the International Finance Corporation. Probably also the function should be closely related to the administration of a system of multilateral investment guaranties, an idea now under consideration by the Bank.

It would be helpful if the U.S. Government, as a member of the Bank, would encourage the Bank to assume leadership in creating a greater degree of order in international practices affecting private investment.

Chairman BOGGS. Thank you very much, Mr. Porter.

We will have a 5-minute recess before the questions.

(At this point a short recess was taken, after which the hearing was resumed.)

Chairman BOGGS. Mr. Mikesell, on this business of investment, as you probably know, I have been considerably interested in the matter for some time.

Now we have had proposals before the legislative committee, which deals primarily with the subject, which seeks to—I presume the best word to use is—"discourage" further investment or accelerated investment in so-called developed areas, and these areas are defined, as a matter of fact, in H.R. 5, which was a bill I sponsored some years ago. The developed areas were defined as Western Europe, with the exception of Greece and Turkey, Italy at that time and Japan and Canada. The rest of the world was defined as underdeveloped.

The problem that I immediately pointed out, and I think is still quite a definite problem, is that by denying of markets that are profitable to American investors, it is quite difficult, if not impossible, to get them to go into markets that are unprofitable.

We attempted, and we are still trying to work out some formula, whereby profits derived from the profitable operation, such as Western Europe, might conceivably be channeled to the so-called underdeveloped areas.

Have you had a chance to look at this overall-picture—particularly Europe, insofar as the other areas of the world are concerned?

Mr. MIKESELL. I am not a tax expert, and I prefer not to get into that side of it. I begin by saying that I think that, in agreeing with what Mr. Porter has said, there is a very close relationship between trade and foreign investment, and that any efforts to deliberately slow the flow of foreign investment, quite apart from the matter of tax equity, because I don't want to get into that, are undesirable.

Now as to question of the relationship between—which I believe you are getting at—the relationship between investment in Europe and the investment of European subsidiaries in the less developed areas——

Chairman BOGGS. Right.

Mr. MIKSELL. I have seen a few figures on this. I think it is very difficult to determine just how much investment by American subsidiaries in Europe goes into the less developed countries. I think if it is possible to encourage that type of investment through a foreign business corporation, or other tax incentives, I think this would be highly desirable to do.

Whether it is possible to separate these operations in such a way that you can give incentive to European subsidiaries of American firms to invest in less developed areas, through these arrangements, I am not quite sure that I know all of the difficulties and all of the pitfalls that might exist.

I will say that if it is possible, I think it is highly desirable.

I do know that there is an interrelationship between our investments in the developed areas in Europe, and their reinvestment in the less developed areas. It may be that the foreign business corporation law can be rewritten in such a way as to take care of that problem. I can't answer more specifically than that, because I haven't studied it sufficiently.

Chairman BOGGS. Would the other members of the panel care to comment?

Mr. PIERSON. Mr. Chairman, I think that if the administration proposals with respect to taxing of foreign corporations are carried out, it will lessen future investment of American subsidiaries in underdeveloped countries. I know from my own experience some such investment that has been taking place, and is now being planned.

The other matter on taxes—and I am no expert, either—if American companies are obliged to repatriate earnings annually to the United States by their foreign subsidiaries, they will ipso facto soon be noncompetitive in the country in which they are operating, because they will not be able to expand or use those funds for further development or research. Furthermore they—the foreign subsidiaries—will not be making any investments in underdeveloped countries.

Chairman BOGGS. I might point out that the tax argument, insofar as Western Europe is concerned, is largely theoretical, because the tax rates in Western Europe, by and large, are substantially the same as in the United States. So that the notion that there is any great tax differential or preferential treatment derived therefrom is one that doesn't bear close examination.

It would seem to me, just in the general context of things, that unless we do have the power to negotiate meaningfully with the Common Market countries, that the tendency to invest behind common tariff walls that may be erected around the trading area will be increased rather than decreased. Wouldn't that be a general situation that you could subscribe to? I mean, if you can't get in by exports, you are inclined to get in directly, are you not?

Mr. MIKESELL. Well, that is certainly something that has happened. I think it will continue to happen. I think certainly the existence of discrimination will tend to increase the amount of foreign investment. On the other hand, I think that we are going to see in any case a considerable amount of foreign investment—that there is a close relationship between foreign investment and trade. The pattern is that we develop an export market for a new product. Then we either license or begin to assemble that product for the market abroad, to take account of economies abroad. We begin to produce some components abroad. And perhaps produce the entire commodity eventually. But meanwhile this gives rise to an increase in demand for certain other specialized products which we export from the United States.

I don't think that—I think this point was made by Mr. Porter, and we tried to make it also in our paper—that there is a sharp differentiation between trade and investment. It isn't a matter of a company's deciding whether it is going to export or whether it is going to produce abroad wholly on the basis of the tax advantage or of where the commodity can be produced most cheaply.

I think there are a large number of complex factors which determine whether a company is going to be able to maintain its market in a particular area by exporting or by investment. This is a complex decision, and has to be made by individual companies. But the case studies that I have seen of foreign investment do not reveal a very simple relationship here. In order to maintain a market, a company has to make certain types of investments in any case. And if you discourage companies from making foreign investments, then they are likely to lose the foreign market entirely in many cases, and directly or indirectly this means losing exports.

Chairman BOGGS. What measures would you recommend to prevent effects upon the underdeveloped areas that might not be particularly beneficial.

Mr. MIKESELL. Well, I view with considerable concern the discrimination involved against Latin America and Asia arising out of the European Economic Community, or perhaps a broadened European Economic Community with Britain and some of the other European countries joining.

I think that continuous efforts—and I know they have been made in recent meetings of GATT—to get the Common Market countries to reduce or eliminate their discrimination in the importation of primary commodities as between less developed countries. I see no desirable reason for such discrimination. I think that this will tend to create more tension in the less developed world. And I think it ought to be eliminated.

This may be one of the reasons why we should—there are others, I know—but this may be one of the reasons why we should seek some kind of an association with the European trading bloc. And certainly if that develops in the future, one of the important things that we ought to try to do is to eliminate all discrimination against the imports of primary commodities into Europe and elsewhere in the industrialized countries.

Chairman BOGGS. How do you envisage this joint enterprise, insofar as aid is concerned? What role do you see the OECD playing in all of this?

Mr. MIKESELL. Are you speaking now of aid?

There are several levels of cooperation.

First, there is the level at which discussions are going on at the present time, in which such questions as how the division of the aid burden should be determined. For example, should it be determined on the basis of national income or should the balance of payments play a part? There is a great deal to be done in this area.

Another field which the OECD must be concerned with is the question of multilateral versus bilateral aid—should we be moving toward multilateral assistance?

Chairman BOGGS. Should we?

Mr. MIKESELL. Well, I have indicated in our paper I thought this was desirable, that we move more in the direction of multilateral aid. I think that this provides, first of all, an easier way by which we can determine the relative burden and the contribution of various countries. Secondly, I think it relates to this problem of coordination at the country level that I am very much concerned about—this continual multiplication of agencies, regional, national, and international. The existence of a large number of agencies puts the burden, in a sense, on the officials of the countries themselves, and they shop around to see where they can get help for this or that project. In addition, we are not mobilizing our efforts in a particular country when a score or so of agencies that are operating in that country. I think that a multilateral approach would be of assistance here.

Thirdly, there is the question of how we can influence countries in self-help measures. There are a number of very difficult and delicate political problems involving charges of interference—in trying to influence and use our aid as a means of getting countries to undertake the kinds of reforms that we want them to undertake and that they must undertake if our aid programs are going to be a success. Here again, I think that multilateral agencies, particularly those where there is representation by the less-developed countries themselves—particularly, I think, regional agencies, such as the Inter-American Development Bank, and the OAS, are in a better position to advise countries, to bring pressure to bear on them, in order to get them to undertake the self-help and reform measures that they should.

These are some of the reasons why I think that we ought to be moving toward a multilateral type of assistance.

Chairman BOGGS. Any other members of the panel care to comment on that?

Mr. PIERSON. I think, Mr. Chairman, on the multilateral question, that it should be confined largely to the capital expenditures abroad. I talked a lot about private investment. But I am not naive enough to believe that it is going to handle the big projects. We know it will not. But if you let the multilateral group handle the moneys which are to be utilized by private investors, we may find that we are holding the short end of the stick. There may well be a tendency to discriminate against established American firms now operating abroad.

Chairman BOGGS. Let me direct a general question to the panel.

Where, if anywhere in the world, have these aid programs been most successful, and if so, why? Eliminating Western Europe.

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Mr. PORTER. Mr. Chairman, one of the developing countries where the aid program was undertaken long enough ago that it is possible now to form fairly good judgments about its effect, is Greece. The program with which I had been associated as head of the mission there at one time was a very large aid program. While I was there, we were administering aid which represented nearly 20 percent of the Greek total national income. Happily it was a success. Today, Greece is a very stable country, stable politically and stable economically with a lesser rate of inflation in the last 7 years than we have had in the United States. It is becoming an attractive area now for private investment. Quite a few European companies are establishing themselves in Greece as an entry to the Common Market, because Greece, as you know, is now an associate member of the Common Market.

It is interesting that even some Japanese companies are apparently beginning to move into Greece as a means of approaching the Common Market, and also some American companies have gone there. I would say Greece does point out a very good example of where an American aid program has been highly effective in an underdeveloped country, in helping that country to move constructively toward an identification with the industrial countries.

One very important part of that program was insistence upon self-help. That, I think, has been realized.

Chairman BOGGS. Would you say that that should be a condition in all of these programs?

Mr. PORTER. I would.

Chairman BOGGS. Mr. Bean, you touched on one of the great problems of these times; namely, the fact that in the underdeveloped countries population is increasing at a very rapid rate, and the population in the so-called developed countries is increasing at a less rapid rate. As a matter of fact, as I understood what you said, the rate of increase in the capacity to produce food exceeds considerably the population increase in the developed countries, and does not equal the population increase in the underdeveloped countries.

This is one of the real questions before the world. What concrete suggestions do you have in this connection?

Mr. BEAN. The question of the control of the world's population would take me out of my range.

Chairman BOGGS. Not necessarily. It is how you distribute the world's food.

Mr. BEAN. With regard to food aid and population, two observations come to my mind that I picked up when I had occasion to visit the Far East early this year. One was that as a country industrializes, develops rural electrification facilities, people find other ways of spending their time than breeding.

Another observation that I picked up from an American woman doctor who spent her lifetime with village women in India, is that given some certainty that the first few children will not die, there would be a tendency for fewer children in the family—mothers now think they have to keep on producing because they don't know how long their first children will survive. Therefore, a nutrition program to cut down infant mortality might conceivably serve ultimately as a check on population growth.

Chairman BOGGS. In the food-for-peace program, this today is exclusively an American program, is it not?

Mr. BEAN. It is very largely that. Some contributions come to UNICEF from other countries as well as from the United States.

Chairman BOGGS. Well, we have many areas in the world that are surplus food producers, do we not?

Mr. BEAN. Yes, there are quite a number, producers of particular products, that find themselves in the export business, in competition with us.

Chairman BOGGS. Wouldn't it be well to consider making this a multilateral program?

Mr. BEAN. Yes, I personally would favor our food for peace programs in wheat to be worked out in conjunction with, say, Canada and Australia.

Yes, I would favor working these projects out in cooperation with other countries who have interests similar to ours. But I think to have effective programs that we may be proud of them the next year or two, would probably depend on our keeping the predominant lead in the relief field.

Chairman BOGGS. Have you had a chance to study the Communist agricultural system?

Mr. BEAN. Only in the most general way.

Mr. Chairman, there is an item in the paper today which your question reminds me of. Mr. Khrushchev says that Russia has learned the are of war from Sweden, but its agricultural programs it is developing along American lines.

Chairman BOGGS. Mr. Johnson tells me that you have made some studies on what would be required to double our protein contribution to these underdeveloped areas, both costwise and otherwise. Would you mind giving us the benefit of that thinking?

Mr. BEAN. If you take the current estimates of annual protein shortages as the Department of Agriculture has recently estimated them for the diet deficit countries, the amount is, I believe, 1,800,000 tons in terms of nonfat dry milk. If you set aside the Russia-China combination the shortage is 1.1 million tons. To help meet the shortage we are contributing about 300,000 tons of dry skim milk at a cost of about $100 million.

Nutritionists tell us that the human system can get along entirely satisfactorily with only vegetable proteins, provided you make sure that they contain the proper kinds of amino acids, which the elements in proteins and that soy milk can be used where milk is not available.

I am advised that soy flour for beverage purposes can be had for about half the present cost of nonfat dry skim milk. Consequently, we could double the present donations of protein by adding 300,000 tons of soy flour for beverage use, and this additional quantity of vegetable milk would cost only about $50 million, or about half the cost of the same volume of nonfat dry milk.

Another point I would like to make is that the time has probably arrived for taking a good look at our relief programs for the possibility of substitutiong lower cost items. A large part of our relief is in the form of wheat and flour. The nutritionists now point to many ways in which we can lower the costs by substituting for wheat lower cost items, which can be derived from several other cheaper sources. Without this review this is about as far as I think I can go in giving you an estimate of costs of doubling our present protein contributions.

Chairman BOGGS. Mr. Pierson, we talked about the subject of guarantees on investment. Have you given any thought to any specific guarantee program?

Mr. PIERSON. Well, Mr. Chairman, yes, I have. The present law of course provides for a guarantee program. But it depends upon the interpretation that the administrator makes of the law. The question is, How broad will the guarantee be?

Now simply a guarantee against confiscation by a foreign government is not enough. On the other extreme, you can't expect a guarantee which will assure you a profit, no matter how poorly you operate. But there is something else—there is what I call creeping confiscation, which must be covered if we are going to have any successful investment of many types of projects. It is most easily illustrated when we talk about utilities, because the way some of our foreign-based utilities have been destroyed has been due to the refusal of the host government, notwithstanding the great inflation of the currencies, to increase the rates. I can give you more examples if you care to listen to them.

If we are going to continue public utility programs abroad, and if this activity is regarded by our Government as desirable from the standpoint of an assured increase of exports, the guarantee will have to cover that situation. Otherwise, no experienced utility company will or can afford to invest abroad.

Mr. PORTER. Mr. Chairman, may I add to that comment by Mr. Pierson?

Chairman BOGGS. By all means.

Mr. PORTER. I think that the guarantee program that the United States has maintained now for about 10 years has been a very useful one, as far as it has gone.

As of the first of this year, there were 170 U.S. companies that had taken advantage of it in 215 different guarantee contracts, for a total guarantee commitment of about $440 million. There has been a recent addition to the guarantee program which has provided for an all-risk guarantee at 75 percent of the total coverage. And I think that is a useful experiment that should be watched closely.

But I think that the type of approach that we have had in the last 10 years is now rapidly becoming obsolete. It has been a bilateral approach, involving negotiations between the United States and approximately 40 foreign countries. Well, that was all right when we were the only significant exporter of capital. More recently, the Germans and the Japanese have also inaugurated their own guarantee programs.

I think it is not difficult to foresee the great confusion that would result if, say, a dozen capital exporting nations are each involved in trying to negotiate bilateral agreements with 30 or 40 developing nations. I think we are coming to the time when a multilateral system of guarantees will be more effective. A multilateral system would also recognize the responsibility of the developing countries in the program and would help enlist their cooperation against defaults by any one of the developing countries.

The question arises, who could administer such a multilateral program?

It would seem to me that probably the best institution for it would be the World Bank, or the International Finance Corporation. It might be desirable that all participating countries would subscribe to a guarantee fund, somewhat in proportion to the subscriptions that they have made to the World Bank or to the IFC. I think it is in that direction that we should start to move. Otherwise, I foresee a tremendous amount of confusion, and all the difficulties of the multiplicity of administration that Dr. Mikesell has described so very well. I think it is a subject that might be explored further by this committee.

Mr. MIKESELL. If I might just add a word.

Chairman BOGGS. By all means.

Mr. MIKESELL. This subject is being studied by the World Bank at the present time. There have been discussions on it in the U.N. I would imagine that it would be coming to the fore fairly soon.

I think it is highly desirable. There is just one danger in all multilateral efforts of this kind, and that is that the type of agreement might be so watered down that it would not meet all of the requirements to deal with some of the problems that Mr. Pierson has mentioned.

We still may need, under some circumstances to maintain for special purposes an all risk guarantee program on a bilateral basis. But I would hope that in place of our regular guarantee program, which applies not in these very special circumstances where the all-risk guarantee program might be applied, but for the regular program which applies to the less-developed countries generally for virtually all types of investment we might substitute a multilateral system. And this is being studied by the World Bank, and certainly a subsidiary of the World Bank would be the ideal organization to undertake it.

Mr. PORTER. Mr. Chairman, I would agree with Dr. Mikesell that we should not rely exclusively upon a multilateral system which might establish itself at such a low common denominator that some of the guarantees we now provide would be lost. But I think we could have a large part of the guarantees provided multilaterally.

Chairman BOGGS. A collateral subject, but one, I think, of pertinent to this whole question of developing nations, is the question of price stability for commodities.

Now, we recently made quite an advance to Brazil, and a decline in their cost of coffee wiped it out for all practical purposes.

Do you see any answer to this problem? I direct that to you, Mr. Mikesell, because I know you have made quite a study of this.

Mr. MIKESELL. Well, Congressman, I have always been puzzled about the problem of the international commodity agreements.

I think there is a great deal of confusion, to begin with, as to just what it is we want them to accomplish.

We talk about stabilization of commodities. To an economist stabilization means ironing out the peaks and the troughs in recurrent movements of prices. That is, movements as a result of cyclical or perhaps accidental factors.

But this gets mixed up with the question of fixing prices, or of fixing ranges which may be at levels which depart from long-term trends.

Theoretically, it is possible to have a commodity agreement which, if there is enough foreknowledge, you can do the job of ironing out the peaks and the troughs. But practically, so often what we have seen have been agreements in which there is an attempt to fix prices, or fix them within a range, without regard to long-term trends, and by and large, the history of those efforts has not been successful. Something happens—you don't control production, surpluses build up some place or other, either in the domestic economies or in an international stock, if you have one, and the thing breaks down.

While I wouldn't certainly take a doctrinaire position against a commodity agreement for individual commodities, I can't say that I am very enthusiastic about them.

At the same time, I recognize the severe hardship on less developed countries when they have sharp fluctuations in their exchange proceeds. And it is for this reason, that in our report we have tended to favor some kind of compensation scheme which would provide special loans to countries on the basis of shortfalls in their foreign exchange earnings, from a 3-year moving average. These loans should not cover the complete shortfall, but cover a part of the reduction in earnings from a 3-year average. The loans then would be repaid if and when there is a reversal of this movement. Such an operation is not a true insurance scheme, because I think it may very well turn out to be a net loss, or because there are some commodities that may have a long downward trend.

But at any rate, I think this loss would not be excessive, and would help to deal with this problem that many countries are facing with very sharp fluctuations. But I think it also ought to be combined with our development planning and with encouragements to countries to diversify their exports. They would be encouraged to do so because they would have to bear a portion of this shortfall themselves, and since it would be on the basis of a moving average, they would not be guaranteed over any period of time their exchange earnings. But they could still have a continual decline in their exchange earnings from their basic commodity exports.

This is the essence of a U.N. expert's report on this subject of compensation for commodity fluctuations. And I must say that I favor this type of solution over the individual commodity arrangement in which you try to deal with each commodity, either throught a buffer stock scheme or quotas. I think because of political and other factors that it is very difficult to have such arrangements which do not in the end seek to set prices which are out of line with long-run trends, tend in the end to be disappointing, and perhaps tend to discourage the very kinds of adjustments that are necessary if this problem is going to be dealt with properly.

Chairman BOGGS. One last question, and I will let you gentlemen go.

As you know, the AID program is one that creates considerable debate in these quarters. How do you envisage this program? Do you see this with us for a long time to come, with the population problems in some of these countries? When does a country like India, for instance, get to a point where it doesn't require any further aid?

This is a question that we must deal with here all the time. Would all of you mind commenting on that.

What are the pluses and minuses of the AID program?

Mr. MIKESELL. Well, I might say a word first.

Chairman BOGGS. You gentlemen are free to comment amongst yourselves if you like.

Mr. MIKESELL. I think we made a great mistake several years ago—the beginning of the former administration in 1953—in viewing the problem of economic development as a short-run problem, that aid would be off our backs within a year or so. I think this represented a complete misunderstanding of the problem.

This is a problem which is going to be with us certainly as long as I expect to live. And I think that as a challenge to our civilization, we have got to think of it in terms of generations. The nature of the problem will change. Many of these countries have high rates of population growth in relation to their growth rate, and they need help to get to the place where their level of living is going to increase at reasonable rates. Then we have got to look, eventually, in the longer run, to the problem of reducing the disparities between levels of living in the richer countries and those in the poorer countries of the free world if we are going to live together in this world of peace. The fact is that even if we do all that we hope to do in the next 10 years or so, the disparities between levels of living will be even greater than they are now. I think that in addition to dealing with poverty, and then getting countries so that they have some hope of increasing per capita incomes and levels of living at a later stage we have got to think of this problem of the disparities. And this is a long, long-run problem that is going to be with us, I think, for generations.

Chairman BOGGS. Mr. Bean.

Mr. BEAN. May I supplement Dr. Mikesell's comments with two or three figures that buzz in my head when this kind of question comes up, especially "how long."

As far as I can tell from playing around with figures on national incomes, and industrialization, I have this general impression.

For a country to double its per capita income, there must take place over some span of time, a shift in industrialization of approximately 20 percentage points, plus or minus. In other words, a country which today is 80 percent agricultural, if it can do what is necessary to get a shift in that proportion, from 80 down to 60 percent agricultural, the chances are that it will accomplish a doubling of its per capita income. If a country 60 percent agricultural, can industrialize to the point where it can become 40 percent agricultural, then its per capita income will tend to double.

Now, how long does it take to double the per capita income of a country?

If you look at the U.S. experience, which has had all kinds of favorable advantages in industrialization—resources, immigration, free institutions, and all that—our rate, during the decades when we were an agricultural country, say 70, 60, or 50 percent agricultural, our rate of industrialization proceeded at something like 5, 6, 7 percentage points per decade, depending on whether or not the decade was one of prosperity or recession. So in 10 years a country like the the United States was able to move from, say, 60 percent agricultural to 55, and in another 10 years to 50.

That, however, did not double per capita income, because it takes approximately 20 percentage points shift to double per capita income.

So our experience, with all our favorable assets, has been one where we have tended to double our per capita income in a span of much more than 10 years—in fact more than 20 years. I don't have the exact figures, but it is of that general nature.

Now, the meaning of all this arithmetic, when applied to a country like India, is something like this.

India's per capita income today is, let's say, $100, compared with our $2,000 or better. Assume the objective is to double India's per capita income. If you use the American experience, then you cannot see India's per capita income doubling in 10 years. It will take longer than that. And when it has gone from $100 to $200, food shortages and malnutrition will not have been wiped out. Calcutta will still be a large city of mass poverty.

This is the hard, simple arithmetic underlying this problem of industrialization in order to raise living standards. And that is why I favor doing all one can to speed up the closing of the income and nutritional gaps.

Chairman Boggs. Of course, this doesn't take into account any advances scientifically and industrially that may bypass some of these.

Mr. Bean. Well, in this discourse all I have taken into account is the kind of scientific advance that we have had the benefits of. Whether or not it is possible to speed up the process, because we have much greater knowledge and vaster reaches, potentialities—yes, I would imagine that the rate of progress could be speeded up. But it still means we have a job to do in the next 10 years in providing both economic and food aid.

Chairman Boggs. Mr. Pierson, would you care to comment?

Mr. Pierson. Congressman Boggs, I was afraid you would ask the question. I had quite an education last summer in trying to enlist some of my distinguished friends to join me on the citizens committee favoring foreign aid. At that time I thought I would rather be espousing it as a citizen than as a Member of Congress. So I know what is back of your question.

I do think that we are going to have some form of foreign aid with us a long time. But I do also feel that we should gradually try to become a little more discriminating in how we provide it, and not try to accomplish the impossible. If we find a country which obviously is hostile to everything we stand for, I think we can go very slow about giving that country foreign aid. It wouldn't do any good. I would be quite definitive about that. I think that ultimately foreign aid should be tied to trade—an effort should be made to benefit underdeveloped countries through trade advantages rather than outright grants or gifts. The latter are not always understood, they are seldom really appreciated, they may sometimes even be suspect. Whereas, if we could, in cooperation with the European countries, the Common Market, and the Outside Seven, and others, work out reasonable reciprocal trade advantages throughout the free world—including the less developed countries—all concerned will benefit; and we can discontinue the present aid missions.

Mr. Porter. Just as a summary, Mr. Chairman, I would say, first, I regard foreign aid as quite essential to us. I think it will be with us a very long time.

Secondly, it should be regarded as only one tool. A great deal more can be accomplished than has been done through increase in trade with the developing countries. A great deal more can be done through private foreign investment. I think we have been quite deficient in the development of these other tools.

Thirdly, I agree also that we should be selective, and that our aid should be concentrated where it will do the most good.

Fourthly, it should always be related to self-help.

Fifthly, there should be a substantially larger contribution by our European allies to the total burden.

And finally, I think there must be a parallel effort to increase the public awareness of the tremendous implications of the present rate of population growth.

Chairman BOGGS. Thank you very much.

Gentlemen, we could continue for some time, but we promised to let you out in 2 hours. I think the 2 hours are either up or mighty close to it.

On behalf of the subcommittee, I would like to thank all of you. You have made a very fine contribution to our discussion.

Thank you very much.

The committee will recess until 2 o'clock this afternoon.

(Whereupon, at 12 noon, the subcommittee recessed, to reconvene at 2 p.m. the same day.)

AFTERNOON SESSION

Chairman BOGGS. The subcommittee will come to order.

We continue hearings this afternoon on foreign economic policy.

The topic this afternoon is assistance for the readjustment of domestic industries.

We are fortunate to have this afternoon a panel of four very distinguished experts—we did have four. One, unfortunately, cannot be with us.

We have Dr. Otto Reischer, who has written a study paper for the committee on this subject. We have, in addition, Mr. Charles Percy and Prof. Roy Blough. I regret to say Mr. Walter Salant, who was also to be a member of the panel, has found it impossible to be with us today. He sent his apologies.

Dr. Reischer is a consulting economist, practicing in Washington, formerly a member of the economics faculties at Rugers University, University of British Columbia, Michigan State University, and lecturer for the University of Virginia extension division.

Mr. Blough is an eminent economist and educator, currently professor of international business, Columbia University Graduate School. He has been Director of Economic Affairs for the United Nations and a member of the President's Council of Economic Advisers.

Mr. Percy is president of Bell & Howell. Mr. Percy testified before the Ways and Means Committee many times on similar subjects. He is Vice Chairman of the Board for the Committee on National Trade Policy, and was at one time a member of the Mutual Security Administration. He has served in other distinguished positions, both in and out of Government.

Gentlemen, it is a pleasure to have all of you here.

Dr. Reischer, we would like you to be first.

STATEMENT OF OTTO R. REISCHER, ECONOMIC CONSULTANT, WASHINGTON, D.C.

Dr. REISCHER. Mr. Chairman and members of the subcommittee, I am honored by your invitation to present to you my views on trade adjustment and to participate in the discussion of assistance for readjustment of domestic resources with the members of this distinguished panel.

Before proceeding with my statement, however, I would like to pay tribute to the distinguished Senator from New York, Senator Javits a member of this subcommittee. Senator Javits over the years has done so much to advance the discussion of adjustment assistance that the concept of "trade adjustment" has practically become a household word. If in my report I seem to have given less space to the Senator's efforts in this area than may be his due, it is because of inevitable limitations on time in preparing the study. There is no intent to detract in any way from Senator Javits' splendid exertions on behalf of the cause of freer trade without undue hardship. As a matter of fact, I did have the honor some 2 years ago of testifying on trade adjustment before the Small Business Subcommittee of the Senate Committee on Banking and Currency in connection with a bill Senator Javits had introduced for the relief of small business units injured by increased competitive imports resulting from a lowering of trade restrictions. The measure unfortunately was not enacted.

Now to my statement. After a short summary of my report, "Trade Adjustment in Theory and Practice," which has been available to you gentlemen and to the public for some time, I would like to deal only with two points. These two points have given rise to comments, both in the press and in private conversations, comments which I feel are based on a misunderstanding of my proposals for trade adjustment. I shall try as best I can to clarify and to justify them. The first point concerns the size of the program. The second point deals with the possibility of interphasing readjustment and temporary protection.

Here, then, is the summary of my report. The fact that freer trade benefits the economy is generally accepted. But as a result of reciprocal reductions in trade barriers between the United States and other industrial nations, some U.S. industries will be hard pressed. To assist them in shifting over to new lines of production and to more efficient methods of manufacture, Federal assistance will be needed. This will tend to solve the short-term problems that such shifts entail. Moreover, by easing in the transition to lower tariffs, such a program of assistance becomes all the more important, for it will permit further reductions in tariff barriers, reductions that are essential if America is to remain a leading competitor in the world market.

I conclude that a program to aid individual business firms would be the least costly kind of program, and would require no new Federal bureaus or State agencies. I propose that workers and communities adversely affected would receive help through the area redevelopment program now in effect and the manpower development and training program, if this is enacted, and I hope it will be enacted.

I also propose that the Tariff Commission be given jurisdiction over the proposed trade adjustment program, because of the Commission's experience in conducting escape clause and other investigations provided for under present laws.

Other Federal departments, such as the Department of Commerce and the Department of Labor, would give technical assistance and advice to those firms hurt by freer trade, and the Small Business Administration would provide loans to firms needing to make adjustments.

I have taken a position against the fast depreciation write-off for firms undergoing adverse effects of freer trade. I would prefer a tax carry-forward.

The best form of assistance would be a special tax carryover, appropriate for new enterprises. A carryover would be more effective in accomplishing the objective desired under the readaptation. It would give the enterprise a good start in its new pursuits by keeping burdens down at the outset but letting the enterprise revert to a less favored position at the end of the transition period when the enterprise is again able to hold its own against competing producers at home and abroad.

When a specific firm is injured or threatened by imports, it would petition the Tariff Commission to receive assistance through a specified transition period. The assistance would end when adaptation is completed and the harmful effects have been cured.

In my report I do mention, but I do not recommend, the proposition that where necessary the Government provide a temporary respite from the entry of imports in order to give the adjustment measures time to take effect.

This, by the way, is one of the points that I would like to enlarge upon later on.

I then go on to give three illustrative applications of the proposed trade adjustment program.

The first illustration deals with a manufacturing industry. It shows budgetary savings likely to be achieved in the leather glove industry in upper New York State. The savings would involve reduced unemployment benefits and related public assistance expenditures by Federal, State, and local governments.

My second example applies trade adjustment to the woolgrowing industry.

In this industry added complications would be caused by the price-income support program for domestic raw wool producers now in effect. I cite various methods to overcome these complications, and note the savings to be achieved by trade adjustment.

The third example, an adjustment program for lead and zinc mining, includes a programing device for temporary or permanent closure of submarginal mines. This involves a Federal purchase program of mineral and surface rights. The mines acquired by the Government would be retired from production, with owners and/or operators receiving assistance payments for a stated number of years, while they are shifting to other lines of production.

Now to the two points I mentioned at the outset.

There has been some concern about the seemingly niggardly proportions of the trade adjustment program I have outlined in my report. I have been indirectly accused in an editorial that appeared in the New York Times last week ("Behind the Tariff Wall," New York Times, Nov. 26, 1961) of practically vitiating the efforts toward freer trade by only advocating "some limited assistance" for readjustment to increased competitive imports. A similar sentiment has been voiced by friends of mine in the camp of organized labor.

I nevertheless persist in my view that a trade adjustment program should be relatively unobtrusive, therefore relatively small, and relatively easy to administer. This is the reason for my suggestion that the program be centered on the individual business enterprise.

Let me quote at this point the relevant paragraphs from my study submitted to this subcommittee, "Trade Adjustment in Theory and Practice," pages 29–30:

THE CASE FOR A PROGRAM CENTERED ON THE INDIVIDUAL FIRM

The central figure in the readjustment picture is the producer himself. If the individual enterprise can adjust, and if adjustment assistance to freer trade can be given at the enterprise level, no new machinery other than existing Federal and State facilities will be needed to help workers and communities bear the burden of increased competitive imports. Successful readjustment of business enterprises would tend to take care of the immediate economic difficulties, workers, and communities, too. The individual company could be given added financial assistance which would enable it to carry its workers on the payroll during all or most of the transition period. If an entrepreneur affected by increased competitive imports were relieved of responsibility for his workers, he might decide to close down his shop altogether. Readjustment for workers and for the community affected would then become even more onerous.

Readjustment and the responsibility for its being carried out would best be fixed in one focal point—the entrepreneur. The more closely a readjustment assistance program is focused on the individual firm, the less costly it is likely to be in money terms and the easier it could be administered. With the enterprise at the center of the program, assistance to workers and communities because of injury by imports has lost much of its erstwhile urgency, particularly in view of the depressed area legislation already passed by Congress and related other measures still pending.

I have reference here to the area redevelopment program, which under the able direction of Bill Batt now has been in operation ever since last spring. I also have in mind the manpower development and training program (S. 1991), principally sponsored by Senator Clark of Pennsylvania, and passed by the Senate last August. From what I gather, the House version of this bill (H.R. 8399) is to be taken up by the House of Representatives early this coming session.

As I have pointed out in my report, I advocate concentrating adjustment assistance on the individual business firm on the assumption—and this is a point I should like to underline—that both area development and manpower training and development programs are in full swing and available to support any trade adjustment program that Congress may pass.

Import readjustment is a relatively minor economic phenomenon. It is not a continuous process.

The changeover to a situation of freer trade—perhaps it would be better simply to speak about free trade without the customary delicate qualification—the changeover, then, to a situation of free trade is carried out, and there an end. Domestic competition merges with foreign competition. We all know that the problem of fluctuating employment is a thorny one. But remedies for dislocation should not be designed to "overkill." That would happen if a trade adjustment program were designed along the lines of the MacDonald proposals of 7 years ago.

In one of the drafts of the Area Redevelopment Act considered by Congress last session, a provision for trade adjustment for depressed localities was included. I don't know why that provision did not get into the law as it now stands. But I will say this: With a 4-year depressed area program worth about $450 million in operation, it would be unwise to set up another program that might directly compete with it in a number of instances.

The $450 million set aside for area redevelopment is no small sum. The $655 million provided for in the Senate version of the manpower development and training bill, also for 4 years, brings the sum total of these assistance bills to over $1 billion.

A number of experts, for whose judgment I have the utmost respect, maintain that all this is not enough. Well and good. But this is still no reason to set up a rival organization duplicating or triplicating activities undertaken by these programs. I have not studied the question thoroughly, but I would suggest that if there were need for more help both for communities and for workers adversely affected by increased import competition, then these two programs should be enlarged or supplemented accordingly. But the trade adjustment program should be kept small and viable—comparable to a power handtool, if you will—compact, lightweight, but utterly effective when used with skill in the right place at the right time.

This is my considered judgment. I prefer to adhere to the concept of trade adjustment as a technique of "adaptive intervention": The Government steps in, and then gets out. It puts the enterprise on its way, "coasting upward," into self-sustained growth, to use contemporary terminology.

And there is this danger: Aside from clogging the drains, too much assistance could actually take the place of protection. Then the shoe would be on the other foot. Exposed to a high-powered system of trade adjustment, we would have a latter-day Abdera [1]—people would tremble lest trade restrictions ever be imposed again, for then there would be no longer any reason for adjustment assistance.

The other matter, Mr. Chairman, I would like to bring before the subcommittee is my view of the suggestion of interphasing, or coupling trade adjustment and temporary tariff increases, and import or export restrictions. In my study I mentioned this idea at the tail end of the section dealing with the operations of my proposed trade adjustment program. I did not advocate such coupling at that time.

Leaving aside political complications on which I am not competent to pass judgment, I now say that there definitely should be no interphasing of adjustment and protection.

If we want free trade, let us not clutter up the docket with measures designed to have the very opposite effect from what the U.S. economy really needs.

You will recall the tale of the sorcerer's apprentice. The boy gets fed up with cleaning up. He pronounces the "automation formula". Broom and bucket comply, and instantly hell breaks loose. "The

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[1] The ancient city of Thrace, birthplace of the philosopher Democritus, the stupidity and ignorance of whose people was proverbial.

ghosts I've roused I cannot quell," the boy cries out in anguish. Let us beware that 5 years hence we do not find ourselves beset with the burdensome consequences of this "escape clause to the escape clause."

We must have free trade eventually. We also must have a trade adjustment program to keep the door open to imports. But let us fix the door so that our thumbs don't get caught in it.

Thank you very much.

Chairman BOGGS. Thank you very much, Doctor.

Mr. Percy, we will hear from you, please.

STATEMENT OF CHARLES H. PERCY, PRESIDENT, BELL & HOWELL CO.

Mr. PERCY. Mr. Chairman, I think it might be helpful if I mentioned a few things about the company I represent, because we have had some experience in this particular field. We are a publicly held company with 18,000 stockholders, 7,000 employees, and sales of about $114 million.

The relationship of our U.S. investments to our oversea investments is in the order of 30 to 1. So that we are quite concerned—primarily concerned with our investment and our employment here in the United States.

I am appearing at your invitation, and very happy to participate in this panel. But I am not an authorized spokesman for any particular group. And I know that my own views do not parallel those of other businessmen.

I have had some experience in the reduction in tariffs.

We had several years ago a reduction of 40 percent—from 25 percent to 15 percent in one fell swoop—in the tariff that existed on motion picture cameras. I certainly would not advocate any kind of a reduction of this type for any other industry. We have managed to survive it. We still have an American photographic industry. It has been growing since the reduction. But I think a tariff reduction of this magnitude is most unwarranted, unnecessary, and should not be borne by, I think, any industry.

The relative position of the United States seems to me to be this: We have contributed billions of dollars to the rebuilding of Western Europe, as well as certain other developed nations, such as Japan. we have unused resources in the United States both in the form of unemployment and productive facilities. To the extent that these resources are not fully utilized the relative strength of the free world is diminished. We are now for the most part a low tariff country. Many countries, particularly in Western Europe, have a condition of overemployment. Their currencies are now convertible. They are pledged in international organizations, such as the GATT, to remove restrictions against imports whenever the balance-of-payments reasons for such restrictions disappear.

Although these countries have gone a long way in this direction, much remains to be done. As we continue gradually to reduce our tariff barriers we have every moral and economic right to insist that restrictions against American goods be removed even to a greater degree. So that our combined resources in the free world are better utilized than they are right now.

I should say I am not an expert on the procedural intricacies of the Trade Agreements Act. I will confine my remarks to the broad aspects of foreign trade policy and to the relationships that can and should exist between Government and industry in this area.

There is a role that Government can and must play because both Government and industry have been involved in our foreign economic policy since our founding as a nation. The actions of Government in this regard have a direct effect upon industry.

It is my feeling, however, that the net effect of tariffs and other trade restrictions on American industry have on occasion been exaggerated.

Technological change occurring continuously and the day-by-day effect of domestic competition upon most American manufacturers is an economic fact of life that concerns most business managers much more than the impact of imports. The adverse effect upon a buggy whip manufacturer of the invention of the automobile is profound. I doubt if there is much that Government could or should do for any particular company because of this technological change. And yet both capital and labor are vitally affected. The buggy whip manufacturer as well as the worker in this industry could well be told that as profits and employment decline in his industry, they are expanding in another. It is very difficult, however, to be completely objective when it is you that is affected. And yet, the economic necessities of life are such that adjustments must be made.

I have advocated over a period of many years a freer trade policy because I have believed a gradual removal of restrictions from trade can be borne by American industry and will have less of an adverse effect upon industry in the long run than other types of economic pressures, primarily domestic, placed upon business in the normal course of events in a free competitive market. I wish to emphasize, however, that the reduction in tariff rates should be spread out over a sufficient period of time to enable industries to adjust to the results of change in competitive conditions. I have advocated a freer trade policy, however, because I believe it essential to the national interest that we have such a policy.

America's industry did not become great by being sheltered. It achieved greatness because of the intelligence and pioneering spirit of its people.

It became great through huge expenditures for research and development, new and imaginative ideas in manufacturing and merchandising. It is great because it firmly believes that there is one way to succeed—to give the consumer the best possible product for the best possible value. This, and this alone, will keep American industry vigorous and healthy in the years to come.

A case can be made, however, for those industries which are more adversely affected than others by imports. Normal competitive forces exist that any company must be prepared to withstand as a risk of doing business in a free society. An industry that is affected as a result of tariffs being reduced or import quotas being removed is adversely affected however by an action of Government. I will try and deal with some broad principles in making a case for such industries, leaving to the experts the application of specifics to these principles.

I would like to make it perfectly clear, however, that if Government assistance to private industry is applied, I would be reluctant to have my own company ever make use of it.

I would be reluctant to give any impression to company management and our people that Government is somehow going to solve our problem. I think this would sap their initiative and enterprise. I think we have a job, in our company, as has every other company, to look ahead, to forecast the economic conditions we are going to face, and anticipate Government actions. And certainly the reduction of trade barriers has been a policy enunciated by every President of the United States in my lifetime, and I think probably will be for the lifetime of anyone living today in business.

The voice of business is constantly raised against Government intervention in free enterprise. We will continue to adjust the affairs of our own company to the national interest without requesting special help from Government. If it is in the national interest to continue gradually to remove trade restrictions for goods coming into our country as well as for American goods going to other countries, as I believe it is, we will adjust our corporate affairs as best we can to meet these new conditions. Our photographic and optical business is subject to severe competition from such highly developed countries as Japan, West Germany, and Switzerland. Further intense competition from these areas will mean further risk taking on our part, hard work, and considerable ingenuity in order to compete successfully. The job for us, or any others so affected, will not be easy. But if there is any area where sacrifice can be made by management and labor alike in the interests of our own security and our own future standard of living, it is in this area of foreign trade policy.

I think the sacrifice will be a short-term adjustment, because it is a sacrifice short term, for our long-range best interest.

For the most part, I believe that labor and management do support a freer trade policy and will be willing to share the burden of adjustment that this will impose upon us. But, if the Congress can devise any means of lightening to a degree this burden without endangering our clear-cut objective to have American business vigorous and strong enough to compete freely in world markets, and it will not be unduly complicated or costly, I would not be reluctant to see this kind of help given to others.

The question is, What are the proper responsibilities of public authorities for reassigning productive resources when they fall out of employment? Whether the Government has a responsibility to provide a remedy depends upon the nature of the disorder—for example, whether the maladjustment in question is localized in certain areas or is traceable to temporary causes which will soon remove themselves. Therefore it is desirable to begin by considering the background of the question. My hope is that, by looking into the nature of the problems of resource allocation as it confronts us, we will be enabled to choose the best of the following possible courses: (1) The Government seeks to prevent the maladjustment or disorder from occurring; (2) the Government allows the maladjustment or disorder to occur, but then seeks to provide a remedy; (3) the Government does little or nothing, allowing maladjustments and disorders to find their own remedies through the free market.

The resources I will be discussing will be capital and labor. The primary disorder we are here to consider is the disemployment of either or both these resources. Our special concern is with disemployment—and hence the possible need to reallocate—arising out of international trade activities. But our international trade activities are affected by our productivity in comparison with the productivty of industry abroad, so we will have to bear in mind some developments that look, at first, like purely domestic events, developments like extensive automation.

Certain American labor can be put out of work by a net saving of labor through automation and mechanization. I do not believe that anyone is prepared to say that this situation should be met by laws to forbid increases in productivity. Also, if the displacement of labor is severe and prolonged, as it can well be where whole classes of skills are made obsolete, Government has already determined that it would not stand by and tell everyone concerned to sink or swim as well as he can. Government can do this only by seeing the unemployment that arises from automation as being counteracted by increased employment through wider consumption within the United States as well as increased exports resulting from improved productivity. Since Government cannot possibly anticipate in detail how these two tendencies will eventually balance off, I conclude that the market must first be given a certain amount of scope to operate freely. Then, if the costs of a long, violent reallocation of capital and labor to new employment via bankruptcies, protracted idleness, and demoralization are going to be excessive, suitable public action can be taken.

I should like to explore further the application of this pattern to international trade and international capital movements. To the extent that American workers lose jobs because of increasing imports or loss of exports (due to increasing comparative costs) it might be thought that the remedy is simply to cut off our economic relations with the rest of the world. Entirely apart from this loss of jobs through the cessation of exports, everyone knows that such a course is absolutely impossible for political reasons.

Moreover, everyone must know that American capital moves abroad in response to particular opportunities just as foreign capital comes to this country for precisely the same reasons. International free movement of capital is an essential part of any liberal system of international trade and finance. Any efforts to restrict this free movement are at least as injurious to the international economic system as restrictions on trade in merchandise. American investors and American workers simply must face the competition that comes from abroad just as they demand that domestic competition be allowed to do its legitimate work, which is to lower the price and improve the output of goods and services.

Let me say in this connection that the true criterion of cost is not dollars or cents per hour of labor, but rather total labor cost per unit produced.

Before World War II, Bell & Howell sold a movie camera for $49.95, the lowest price camera we had ever made. At that time we paid our workers an average of 40 cents an hour. After the war, we doubted we could ever again produce a camera at this price. Yet today, with an average hourly labor cost of five times as much, we are now selling a movie camera for $39.95, a camera with more features than our previous model.

The only way we can do it is by selling 10 times as many of those, which the relative reduction in price and the increasing market created has brought to us.

When we import goods and services, we in effect put foreigners to work for us, under conditions advantageous to both the buyers and the sellers. We have never thought it immoral to let foreigners fight and die in our mutual interest; it would be strange if we refused the benefits of their ingenuity and industriousness in commerce.

By the export of capital we do precisely the same thing as by the import of their goods: We get the benefit of the skills, the energy, and the frugality of foreigners.

I believe it would be wrong for the U.S. Government to put prohibitive hindrances in the way of products entering or capital leaving the country until other measures, which I believe are intrinsically better, have been given an extensive trial.

I do not claim that capital has a sacred right to migrate without reference to the public good, any more than a citizen has a sacred right to travel without a passport. Nor do I believe that there is such a right belonging to importers to bring in foreign merchandise. But a fundamental institution of our country is the private ownership of the means of production. As a nation we attach great importance to the safety of that institution, not just because it is the source of private profits but rather because it is intimately connected with the system of individual liberty we value. And I believe that there is therefore a strong presumption in favor of free economic activity in the market. I do not believe that business enterprise is guilty until proved innocent, but the reverse. I am perfectly willing to admit that there are occasions for restraining and guiding the free action of the markets for goods and services. I am perfectly unwilling to admit that this is how we ought to begin our attack on every problem.

More concretely: Our labor and our capital are scarce resources, valuable now for a double reason. As at other times, they are the source of our comforts and necessities, of our justly famous standard of living. But also, unlike other times, they now are at the foundations of our national security.

I take it for granted that now more than ever before it is important that we make the best possible use of our capital and labor, applying them with maximum efficiency every way we can.

If an opportunity arises for exporting capital and obtaining a larger flow of goods from it when applied abroad than at home, I believe the opportunity should be seized. If by importation, which means exchange, we can obtain a commodity with the output of less labor than if we made it for ourselves, I believe we ought to import, other things being equal. I do not believe that freer trade is a sacred doctrine to which there are no exceptions, for example, to protect a vital defense industry. But I do believe that there is a strong presumption in favor of the freedom of international trade, and especially in the present circumstances, because of the increase it gives to the productivity of the labor and capital that enter into foreign trade, and because of the pressure that it exerts on the remaining resources to be competitively productive.

Now let us suppose that significant amounts of labor and capital find themselves out of employment, as a result of the transfer of employment abroad.

The question before this committee is whether it is a responsibility of Government to help find useful work for the dislocated factors of production, and if so by what means. In my opinion, there are two reasons for believing that the Government does have some responsibility. In the first place, the Employment Act of 1946 is the law of the land, and it commits the National Government to just such an obligation.

In the second place, the duty of the National Government to provide for the common defense appears to me now to oblige our authorities to make the fullest possible use of all our productive resources in the interest of national security.

We haven't run out of things to do in this country. There are certainly consumers that need more housing, that need the better things of life, and certainly more individuals need more and better education.

The tasks of civil defense, industrial dispersion, and military manpower buildups are sufficiently urgent so that the waste of resources ought not to be viewed with indifference, even if the well-being of the unemployed workers and their families were not of pressing importance.

I do not sympathize entirely with the objections to Government activity on the ground of economy alone. The price of the safety of our institutions is not to be haggled over; I believe we are very fortunate if the price can be paid in money alone.

It seems to me that if Government adopts the broad attitude I have been trying to describe, it will have taken a step toward clearing up a longstanding difficulty.

In 1776, Adam Smith wrote in "The Wealth of Nations' that "defense is of much more importance than opulence." He made this remark while making a concession to protectionism. He conceded that, although free trade might be very good for the civilian standard of living, it could be bad for the defense industries, such as shipping.

I believe that the tension between free trade and defense is not as severe as even Adam Smith thought it to be. I believe that if we permit a broad range of freedom in international trade, allow the resulting problems to show themselves, and then move in with determination to pick up and put to use the resources freed by the strengthening of economic ties with our trading associates—who happen incidentally to be our allies—we can have freer trade and strong defenses too. Those defenses would rest on a very solid foundation. Close bonds with economically healthy allies, high productivity of our factors of production wherever employed, vigor in the system of private enterprise, and a reasonable degree of public concern with the operation of the economy.

One of the things we have learned since the 1930's is that the cost of letting the free market solve all its own problems by the operation of economic laws is a greater cost than people are willing to bear. And I see no reason why anyone's health or well-being ought to be sacrificed to the slow grinding of remote and ponderous forces when relief can be had with decency.

However, I would be reluctant to see such a strong program of Government intervention announced that it could be subject to interpretation that industry does not have responsibility, and that every maladjustment and every difficulty caused by domestic competition and technological change would be roped in under the banner of difficulty with imports, when application is made for Government assistance.

I think it is the responsibility, however, of the directly affected parties to demonstrate clearly that substantial and lasting injury has been or will be sustained before action is taken to ease the adjustment.

I do not believe that either freer trade or protectionism is a sacred watchword, or that it is possible to be consistent on public issues only by adopting either of them and making a ritual formula out of it. I believe that the sanest form of consistency is to be had by taking the national safety as the watchword and judiciously combining freer trade with regulation to suit the conditions. I do not believe that equal amounts of freer trade and regulation would produce the best combination. I hope I have shown why there is a presumption in favor of freer trade.

But above all I hope I have shown that, in whatever I have said, I have been guided by the belief that the strongest and highest presumption, beyond freer trade and protection, is that in favor of the common good.

This common good can be best served when labor and management take the initiative in making all adjustments necessary that are within their power to make. We must look upon Government assistance only as a last resort, supplemental to our own determined efforts to keep our trading position strong. This trading position must be solidly established on economic, rather than political foundations.

Thank you.

Chairman BOGGS. Thank you very much, Mr. Percy.

Mr. Blough.

STATEMENT OF PROF. ROY BLOUGH, PROFESSOR OF INTERNATIONAL BUSINESS, COLUMBIA UNIVERSITY GRADUATE SCHOOL OF BUSINESS

Mr. BLOUGH. Thank you, Mr. Chairman.

I do not have a prepared statement and will speak from notes, if I may. I wish to express my appreciation for being invited to take part in this panel discussion. I was very happy to accept the invitation because I consider the proposals which the President and the Under Secretary of State are making with respect to the new trade policy are a very vital necessity to the country, both with respect to its foreign policy and its national security and with respect to the future of its domestic policy.

Before I go any further, I would like to congratulate Mr. Reischer on his study. I find myself in slight disagreement—perhaps he will consider it more than slight—on a few of the recommendations. But in general I think he has made an admirable treatment of the subject.

I do not share the view that the trade program, which would lead to reduced trade barriers, would necessarily lead to free trade. I do not expect to see general free trade in my lifetime and I think it unlikely that we shall be entering into Common Market relationships which would give complete free trade in our relationships to other countries.

I do think—and I certainly hope—that we shall have freer trade as we go along.

One reason I do not think we shall have completely free trade is that within a Common Market area you need to have some central jurisdiction which can take care of conflicts which arise among the parties to the agreement. This the European Common Market is finding necessary. And they are finding it necessary to develop what is called the harmonization of policy—public finance policy, tax policy, hidden subsidies, cartelization, antitrust. These are the types of things which, when you take down all trade barriers, can be used as instruments of competition by different governments. There is always some tendency on the part of each Government to participate in this competitive game.

So I think that as we go into the trade program—which, as I say, I am very strongly in favor of—one of the things which will need to be done, either through negotiations in connection with the trade program, or in some other way, is to remove hidden subsidies, or hidden burdens, or to make an effort to secure substantial equalization of them, so that it will not be Government action which is responsible for an industry in one country being able to produce some product at a substantial advantage over that of another country.

As I understand the situation in Germany, for example, a substantial part of the tax on German business is in the form of a turnover tax, a sort of a sales tax. And this turnover tax, as I understand it, is not applicable to exports, although it is applicable to internal sales of products.

Now, we have no such tax. But we have a corporation income tax. It would be comparable, for example, if we were to grant several percentage points of exemption or reduction in the Federal income tax on profits from exports. I am not suggesting we do this. I do not consider it desirable. But this is about what Germany is doing. And this is what I am talking about when I say there are certain hidden subsidies. There may also be hidden penalties. For example, some people say our international competitiveness is impaired because our tax system is more burdensome on business than are the tax systems of Europe. I do not know whether this is the case, or not, but I think it is a matter that deserves study.

This is a different area from your immediate topic and I do not want to spend any more time on it. But I would like to emphasize that a successful trade program, in which there is a continuing reduction of trade barriers should be accompanied by a study of other types of subsidies and penalties, and by negotiations of agreements which will harmonize them so that we will not have unfair competition of this character. The other program that I think is necessary to go along with the trade program is the facilitation of rapid adjustment and adaptation of business to changing conditions.

I believe an important characteristic of the next few decades in world trade and production is going to be a relatively rapid change in comparative costs and comparative advantages among different countries.

Already, of course, there is a great deal in the newspapers about how the Common Market is creating a very big market, which opens the door for mass production industries. We are likely to suffer competition in industries where we never had much competition before. Also, while for the time being the economic development of the less developed countries, is not giving rise to much manufacturing competition, it is bound to do so. Mexico, I believe, is already selling some manufactured goods to the United States; Brazil clearly can or will be able to before very long. India has to a considerable extent replaced the United Kingdom in textile sales in much of southeast Asia, and in turn is now being subject to local competition there.

These things are going on. And add the fact that the Soviet Union is in the picture and may very well enter into active competition in the future. This presents a special problem which I think you have had up and will have up for discussion.

I think it all points to the necessity for business being a great deal more flexible and a great deal more adaptable in the future than it has been in the past.

The reduction of tariffs and other trade barriers is, of course, a particular development which makes necessary adjustments of this character. But even in the absence of any changes in tariffs we shall have to make a continuing series of adjustments. American business will need to become much more adaptable and dynamic in making such adjustments in the future than has been the case in the past.

Now, when we look at this problem of adjustment to import competition, what we have is a reconversion problem, which is somewhat similar to the reconversion problem at the end of the war. Of course, there are a good many differences. War contracts were largely involved. Most companies had been in lines of business before the war to which they could return. But reconversion, nevertheless, meant a very substantial adaptation. This was facilitated by both Government action and private action. The Reconversion Act of 1945, which provided extensive carry-forwards, carry-backs, renegotiations, and so on—I am happy to have had a part in the studies that led to this act—was the governmental side of this, making it easier to readjust the business without heavy losses, and by having in effect the Government share to a substantial extent in the losses.

On the private side, the Committee for Economic Development was set up very largely for the purpose of bringing to the attention of the businessmen of various communities the realization that there was going to be a serious reconversion problem, of stirring up local interest in the subject, and of getting people to think about into what they could reconvert, and how to go about it.

Now, that reconversion was, I think, relatively painless. And these two factors had a good deal to do with its success. There was a third factor, which I think was even more important, and which I would like to emphasize as a basic factor in the present picture. The reconversion after the war was relatively easy, because there was strong demand, and a full employment economy.

I would say that to maintain a relatively full employment economy, with a good deal of dynamism in it, is better as a trade adjustment program than anything the Government could do in the way of special measures. I am not against special measures, as I shall indicate. But if you want to put your emphasis on the one most important thing with respect to trade adjustment, it is that we have strong demand, increasing productivity, and as rapid a growth as is feasible, so that the adjustments can be more readily made.

What is the point in retraining an unskilled man, giving him skills, if there is no job for him? I am not sure there is any advantage in changing an unskilled, unemployable into a skilled unemployable. The new skill can be used only if there is a demand for that skill. That means we need an active economy. I am not suggesting how to get that. That is another story. But I think we should have in mind at all times its importance.

Then I would emphasize legislation easing the burden of readjustment loss, carry-backs, and carry-forwards and the like. If additions to present law are needed, they could be readily provided.

Next, I think we should rely on general incentives for investment. In this connection, I would like to emphasize the investment allowance which was proposed by the President last year. That is the first time in history that any administration, to my knowledge, has been prepared to offer businessmen more than 100-percent deduction from original cost as a tax allowance. I wasn't really greatly surprised that the businessmen didn't snap this up, because all new ideas are bad ideas, even if they are good for you. I shall be surprised if this year, having had a year to think about it, they do not insist on having it pushed forward.

But anyway, whether that method or some other method be used, I think that general incentives to invest, which facilitate moving into new lines of business, are of importance. They can be put into the tax laws without any particular favoritism, either for or against the companies that are having difficulties on account of trade.

Then I think that we should have in mind that at least in all of the proposals that I have heard about the proposed new trade program, it would mean a phased reduction in tariffs, not a sudden reduction. An industry should not find itself faced with a very large sudden reduction. But a phased reduction, in which you have a period of years over which tariff reductions gradually take place, gives an opportunity to use up your capital, not replace it, move into another industry gradually, shift your workers into the other line of business, and so on. Having a little time for this process is very important.

I would not object strenuously to some continuation of escape measures, although I have not favored the way in which the escape clauses have developed and have been used. There may be a few occasions where the phased reduction will need to be supplemented by temporary restoration of higher rates.

All such increases, however, ought to be for a limited term of years—say 5 years—with the amount of the additional protection being reduced progressively over the 5 years, so that you might start out with a particular amount of increased protection, which let us call 10, and at the end of a year it would go down to 8, and a year later to 6, and then 4, and then 2, and then disappear.

Defense essentiality also ought to be recognized in any trade program, but with caution. In the past, defense essentiality has been a grossly misused term covering all sorts of nonsense in addition to the real thing.

The escape clauses, and defense essentiality, would presumably be handled by the same agencies as today, with appropriate modifications to remove abuses.

On the other hand, when we come to more comprehensive adjustment legislation, I find myself very doubtful about one major and central point. That is the determination of the amount of the injury, and even a definition of the situation in which there is sufficiently serious injury from imports to justify any special treatment. I think the experience of the Tariff Commission has clearly demonstrated that it is almost the exceptional case in which it is feasible to measure injury from import competition. The Commission and its staff go through months of study and investigation of each case to try to sort out the causes of business difficulties, and then often do not know. I am not criticizing the Tariff Commission. I have no doubt they have tried hard to apply the law, and have done so as well as could be expected. But I think there have been basic misconceptions in the law.

As I read the Trade Agreements Act of 1934, the theory of the act seems to have been: We will get Europe and other countries to reduce their tariffs, and we will reduce ours, and this is not going to hurt anyone. But if it should hurt anyone, then we will do something to stop the injury. Of course, I am just paraphrasing the language.

This may have been realistic at that time. But I think it is completely unrealistic today. Some businesses inevitably are hurt by competition, whether it be foreign or domestic. Under the conditions of competition, there are some industries in which the United States probably cannot compete successfully at all with foreign production. There probably are some industries in which the United States has an enormous advantage, and can capture a large part of the foreign market. In some agricultural products, for example, we have tremendous advantages.

In the general manufacturing field, competitive advantage depends on raw material costs, transportation costs, wage differentials, and many other factors.

When we look at the different manufacturing industries we find that in most of them there are wide differences in costs and profit margins among different firms, due to location, efficiency of operation, closeness to raw materials, and so on.

Now under domestic competition the high-cost firms either disappear or shift over to something else, or become efficient and are no longer marginal. Greater international competition will in some industries result in more firms being marginal. If these firms do not either find a way to become more efficient or to get into another line, they will have to drop out, and that will hurt.

For other industries increased foreign markets will result in less firms being marginal. Thus it is not the case that either all or none of one product is imported and that we capture either all or none of the foreign market for another product. Usually some companies can meet competition and others cannot. In some industries it is easier to compete with foreign producers than in other industries.

So that I think we ought not to assume that we have an open-and-shut case here, industry by industry, that in industry A we can compete while in industry B, we cannot, and so on. This may be true for some products. But, in general, I think we can hold part of the domestic market, whatever the foreign competition, and that we can take part of the foreign market, whatever the foreign competition. And we can have both imports and exports of manufactured products even within the same industry.

For this reason, plus some others, I have considerable misgivings about any special program of aid for firms or industries, communities, or individuals, that is based on determination and measurement of injury from additional import competition. I think that we have some existing programs for depressed areas, small business, and unemployment, which certainly ought to be extended to cover, if they do not now cover it, the cases where import competition is responsible for the problem. I think it is probable that those programs ought to be made better and more comprehensive than they are. But I don't see that there is any particular reason for trying to deal with the import competition cases differently from these other problems. And even if there were a reason for doing so, I doubt that it would be practical to do it.

A great many adjustments have to be made by business and individuals, due to such factors as automation, the movement of a plant to another location, competition by new and better technology, a change in consumers' tastes, and so on.

Aside perhaps from a change in consumers' tastes, I think you can find cases arising from any of the causes that can be traced to governmental action. To be sure in many cases the relationship is so distant as not to be significant, but in numerous other cases Government is a highly significant factor. A highway is built, and a man's business is ruined by that highway. Zoning ordinances are changed. The 18th amendment was passed, and a whole industry was destroyed with no compensation. There are changes in taxation. There is the military draft—if you want to go to the ultimate.

In all of these cases, people's legitimate expectations have been disturbed to their disadvantage by action of the Government. Foreign trade is by no means the only case where this happens. In fact, you could very well say that what the tariff laws have done is to give a special privilege to certain groups presumably for the public interest. And while it is unfortunate that these groups will be hurt when that privilege is taken away—also in the public interest—I don't think there is a moral issue here.

I think there is a human problem, a political problem, and an economic problem. The political problem I am not going to speak to. The only thing I would say is that the trade program is so important that it simply must go through, even if at the cost of some action for which there may be no other justification.

The human problem is one with which we all ought to be concerned. But that human problem doesn't differ substantially from the human problems caused by any of the other kinds of adjustments that I have mentioned.

The economic problem is: How can we, without any more harm to particular groups than necessary, get the benefits in national security, in our foreign policy objectives, in cheaper goods for our consumers and industries, in the expansion of our export industries, and all the rest—how can we get these at the least cost in loss of capital, loss of profits, loss of jobs? And this is where the trade adjustment problem comes.

To summarize, I would emphasize the importance of full employment and dynamic growth. I would emphasize the use of general measures of taxation—carry-backs, carry-forwards, tax incentive legislation. I would emphasize the phasing of the tariff reductions, and if necessary provide some special temporary escape protections. And I would emphasize adequate programs to promote and aid in the adjustments of industries, communities, and individuals suffering because of changed conditions. Trade adjustment is just one among a number of such conditions, so I would largely combine it with them as the subject of more adequate programs.

Chairman BOGGS. Thank you very much, Mr. Blough.

We will have a little time for some further discussion, if you gentlemen would like.

There are several things that I must say trouble me about this whole concept. You have touched on a good many of them.

The experience in the Common Market, from what we have been able to ascertain, is that they have actually brought about full employment. They are expanding at a growth rate considerably ahead of our own. So that the readjustment problem that was anticipated when the Treaty of Rome was signed has been infinitesimal compared to what it might have been.

As a matter of fact, there are many theories now that you can get anywhere in the Common Market, that the very creation of the Common Market has eliminated the necessity for these adjustments—just as you pointed out that training a skilled worker for another skilled job that didn't exist wouldn't really help the situation very much.

That leads to this question.

Much of our discussion has been on how we go about adjusting to the changed conditions brought about by the creation of this new European Community.

What would be the effect—and I address this question to all of you—if we do not attempt to adjust to the new European Community? In other words, if we lose the export market that we now have in Europe, and if we lose the trade which we are carrying on both ways with the present members of the Common Market, and the anticipated members of the Common Market—is it not fair to assume that the readjustment problem would be much greater under those circumstances than if we did negotiate realistically with this group?

Mr. BLOUGH. My answer is quite clearly in the affirmative. I think there isn't the slightest doubt about it.

Chairman BOGGS. What would you say?

Mr. PERCY. I think the results would be disastrous, Mr. Chairman, because if we—the point of my testimony is simply this: If we vacillate in our policy, if we give the week, or those who would like to depend on someone else, any excuse for thinking that they can in the future, they are not going to be doing the things on their own behalf that they should be doing.

Chairman BOGGS. Let me ask you a specific question.

Mr. PERCY. The Common Market, I think, did not find it necessary to use the adjustment funds that were established, simply because of the firmness of the policy—this was going to be done, this is when it would be done, and it may even be accelerated. Everyone then used their own initiative and enterprise in adjusting themselves to it, and rapidly. I think if we have that same sort of firm national policy, I don't see any reason why American industry then would not recognize that it must tap these growing markets in Europe, and if it is to tap markets any place else in the world, it must be able to compete in the European market. And we must steel ourselves to become strong enough economically to be able to compete in those markets, and specialize in doing those things within the free world area that we can do best. If we don't anticipate becoming competitive with American-made products in Europe and in other world markets, I think we would become, in time, a second-rate industrial power.

Chairman BOGGS. Well, to state the question quite negatively, high tariffs or import quotas don't necessarily result in prosperity in a domestic market, do they?

Mr. PERCY. Would you repeat that question, Mr. Chairman?

Chairman BOGGS. I say the fact that the Government grants a subsidy, either by way of high tariffs or import quota restrictions, does not necessarily assure prosperity for a given industry which is so protected, does it?

Mr. PERCY. No. It might sustain it temporarily. But I would say that once you start to take that route, you are committed to the wrong course. I have never heard of any industries that voluntarily say that they would want their tariffs reduced. And the wails are always quite loud if there is any tendency to reduce them. So that I don't think is any kind of a permanent solution for them.

Chairman BOGGS. For whatever it may be worth, and it may have no correlation at all, the period immediately following the highest tariff Congress ever passed, namely, the Smoot-Hawley tariff, was also the period of the greatest depression that this country has ever known. The high tariffs may not have brought on the depression, and I would be the last person who would say that they did. But obviously they didn't prevent it.

Now, in your own business, you had a 40 percent reduction in some of your photograph equipment. What happened to some of your competitors? Domestic competitors.

Mr. PERCY. Well, some of them had a rough time of it. I think that almost all the domestic competitors survived. So far as I know, all of them are still in business today that were in business then. I think we all recognized that we had to work harder. I am sure they had the same educational programs in their companies that we did in ours, where we presented the economic facts of life to our workers. We recognized that we had to be more creative and ingenious in our engineering and development and research; we had to put more capital to work. We had to be more creative in our tooling. We had to take out labor in our product, and reduce our unit labor contribution to the cost of the product through increased capital investment. As we did this, we all seemed to tend to expand the general market. And though imports have increased, the general market, for a number of years after that tariff reduction, did continue to expand.

Also, we all diversified. I think almost every company in the industry has found a way to get into some other area, and use and find ways that they could get skills, that they could apply to photography, in other ways. We went into the electronic instrumentation business, in order to develop a larger technology in electronics, and which we have now been applying to photography. And this kind of product innovation we have been forced to do, has been really the best medicine we could take and administer to ourselves. I am not sure we wouldn't have done it otherwise. But I am not sure the recognition that we were facing increased foreign competition, brought out the best of creativity within our industry.

Chairman BOGGS. I think it was Mr. Macmillan—and I am sure that the quotation is not acurate—but he mentioned the Association of the UKWT Common Market, and he said that the brisk shower of competition would be good for British industry.

Now, in your own case, maybe the competition didn't have anything to do with it. But I follow your company, and I would say that it is a very succesful company. I am sure that is because it has a very able president. But in addition to that you certainly must have done something that you may not have done if you had not been faced with this competition.

Mr. PERCY. I think one other thing, Mr. Chairman, that we have done that other companies are doing—and this is a controversial area and again will require public understanding—is that we have decided that in order to compete and take advantage of expanding oversea markets in which as the standard of living increases the wants and needs of people over there become greater, we have built plants abroad. This is not a new policy. We have had manufacturing facilities or licensees abroad for many years. We have stepped this up and have recently taken a substantial interest and built a camera plant in Japan. We are competing there for a part of their domestic market. And so far our success has been quite good.

It has been interesting that some Japanese camera makers have called us unfair. They have said that we not only have employed our capital resources and our technical know-how, but have come in to take advantage of their low labor costs, then so-called cheaper labor. But I say to them this is a fair economic rule of the game—we will play fair in this country, and give you an equal opportunity to compete here. I think we have also been as persuasive as we can be with the Japanese Government, to make it recognize that if we are to be fair here, it must be fair over there, and remove its restrictions against the flow of capital, against the transfer of dividends back to this country, which we would reinvest in research and development, to build a better and stronger company in this country.

As we do this within the free world, I think it is vitally important that England, the Commonwealth, and all of Europe give Japan equal access to their markets, so that we can keep the whole resources of the free world in mind. As we specialize and concentrate on total free world resources, there will be adjustments necessary. But I cannot imagine anything more disastrous than to have the Communists, with a common market of their own, specializing and utilizing their facilities to the greatest and most economic end in a way that will make the most economic sense, and then have us set up smaller, more rigid trading blocs where we do not use the advantages of specialization that give us lower production costs and the greater utilization of our facilities.

Chairman BOGGS. Let me ask a question of Dr. Reischer on this—maybe the specific application of one type of adjustment program.

Let us assume that we take the case of camera manufacturers. Let us assume that there were 10 people in the business of manufacturing cameras and the imports fell with equal impact upon the 10. An examination of their statement at the end of a given period would show that five of them were doing very well, and the other five were not doing well. How would you distinguish between import competition, poor management, lack of salesmanship, and all of the other things that go into making one business successful and the other one unsuccessful?

Mr. REISCHER. Well, Congressman Boggs, first I would say that I am sure that among the 10 firms that you include in your question, Mr. Percy's company is not one.

Chairman BOGGS. I understand that.

Mr. REISCHER. As a matter of fact, if every company took the position of Bell & Howell, I wouldn't have had to write my study on readjustment assistance.

As far as the distinction, the process of determining the impact of imports on the less fortunate manufacturers is concerned, I personally would start with the procedures that the Tariff Commission has been forced to adopt in administering section 7 of the escape clause. It may be a bad job, as Dr. Blough pointed out. But the fact is that these people, the Commission and the staff, have been working on this problem now for 27 years—and they do have a body of precedents that can be applied usefully in order to find out whether imports inflict harm on these companies.

As far as eligibility for any adjustment assistance is concerned, I would say—and I have included this point in my paper—that there must be some sort of an efficiency investigation of the petitioning company. The Tariff Commission, or whatever other body may be established to administer the trade adjustment program, must go in there and make an industrial engineering and management survey, an efficiency investigation, if you will, to see whether these companies have been run efficiently. If they have been run inefficiently, then, of course, the Government, in my judgment, would have no responsibility to help them out. That is their own fault. It would be obviously a mess. But we can't bail out everyone.

Chairman BOGGS. There seemed to be some other elements as well. I don't like to mention specific industries, and in mentioning one I am not being critical in any way. But one of the industries that is frequently before the Ways and Means Committee, in connection with imports, is the plywood industry. And yet it has been demonstrated, I think pretty substantially, that the fact that the Japanese and Filipinos have been able to lay down plywood in the United States at a relatively cheap cost, has tremendously increased the demand for plywood. Whether or not this demand would have been what it is today if the price had been what it would have ben had this competition not existed is a question for debate. My own private opinion is that it would not have been.

So that this in effect has created a market which, without the competition, would not have existed.

Mr. REISCHER. Yes, indeeed.

Chairman BOGGS. Rather than show injury, one could very well point out there had been an advantage.

Mr. REISCHER. Certainly.

Chairman BOGGS. Now, just to be a little bit more specific—in all the years I have listened to this testimony, it seems to me I have heard about 10 industries, and really not many more than that. What industries do you list in your papers as being particularly susceptible to import competition?

Mr. REISCHER. Well, they are primarily the so-called labor-intensive industries, where the high wages that have to be paid are detrimental to the industries' financial success.

Now, for one thing, there is that textbook example of the leather glove industry in upper New York State, in Fulton County, which I also mention in my report.

Chairman BOGGS. We hear about leather good, pottery, certain rubber goods, textiles, glass, plywood.

Mr. REISCHER. Various agricultural products also for example garlic and candied cherries.

Chairman BOGGS. Well, in all of the years of the escape clause procedure—and I think that has been since about 1947—the number of hearings before the Tariff Commission is relatively insignificant in a country this size, with as many industries as we have. And the number of determinations of injury have been even less. Now would this indicate that either there hasn't been any injury, or that the affected industry feels there is no remedy anyway. What would be your theory about that?

Mr. REISCHER. Well, I suspect that in most of these instances there actually was no injury, and they just feel, as do the leather glove people, that it is less costly to maintain an office, or retain a public relations person in Washington, who from time to time comes before the Tariff Commission or before the Ways and Means Committee, to plead the industry's case for a tariff increase, rather than revamp operations, and make their industry more efficient. This is a well-known situation.

Chairman BOGGS. I will put my question in a different way and see what comments I can get out of the panel.

Is it better to set up some complex machinery to provide for injury which so far appears to be relatively small—and I am not trying to discount an injury, you understand—but in a gross national product approaching $600 billion, it is relatively small. Is it better to set up some complex machinery, to hold an umbrella over some of these industries, or is it not better to go through what Mr. Macmillan talked about, this brisk shower of competition, and see what happens?

Mr. REISCHER. Well, this actually, Mr. Chairman, is what I had in mind when I talked about the free trade. I don't mean to say that free trade ought to be started tomorrow—it should have been started yesterday. I also don't mean to say that our joining the Common Market would provide this free trade situation. But the fact of the matter is that when, in the Common Market, it had been made quite certain that tariffs were to be taken off, then industries, such as the textile industry in one of the Scandinavian countries which has always been considered extremely sick, all of a sudden rose up and become most efficient. It seems to me that we very likely will have the same situation over here, because I am quite sure that the talent and the drive that is exemplified by Mr. Percy, and his company, is not unique in this country. So I do feel that, in the first place, we ought to proceed to a free trade situation as rapidly as possible. Secondly, there should be no large and complex administrative machinery to ease this process.

Chairman BOGGS. You referred to the so-called MacDonald proposal in the Randall Commission report. For the purposes of the record, briefly outline what the MacDonald recommendation was.

Mr. REISCHER. As I recall this proposal it was essentially—it combined assistance to business enterprises, to workers, and to localities. It carried the standard provisions of tax relief and technical assistance and advice for the enterprises. There also were retraining provisions, increased unemployment benefits, and earlier entitlement for social security benefits for the workers. I think MacDonald also included moving allowances, in cases where a worker had to relocate in another town.

And for the communities concerned, MacDonald advocated a broadening of benefits available under then existing Federal programs. I believe that the measures MacDonald advocated for communities are now included in the area redevelopment program in toto.

Chairman BOGGS. There has been an effort made to correlate existing unemployment with imports. Do you know of any industries where unemployment is high primarily because of imports?

Mr. REISCHER. I would have to check the list of industries that have been petitioning the Tariff Commission, and have been found to have been actually injured by imports. I do not have that information with me.

Chairman BOGGS. Well, unemployment is running something like 6 percent now. How much of that 6 percent could be attributed to imports?

Mr. REISCHER. I just could not say offhand.

Chairman BOGGS. Well, would you say a small amount, a large amount?

Mr. REISCHER. I would say a small amount.

Chairman BOGGS. Mr. Percy, would you have an opinion on it?

Mr. PERCY. I would imagine that some of Detroit's problem came from imports of small automobiles. It would have been a tragedy to have prevented them from coming in, because I think this is one of the fine things that has happened to Detroit, and might be responsible now for its great prosperity in the automotive industry, in the large numbers of cars they are going to turn out now. They were almost forced into technological change there which was pioneered by the small compact car coming in from abroad.

The bicycle industry, I think, went through an adjustment period, where there was some unemployment because of imports. But I think their real answer came not from the increased tariff protection they received, but when they simply decided to take the best that they could of Europe. They started to buy some frames abroad. They then developed a new bicycle which was of medium weight, which had more strength than the lightweights coming from abroad, and yet not the big, heavy, high cost, more ponderous type they were building before. They came out with a much better model. I think they came back vigorously and competed more effectively.

Certainly I know of unemployment in the watch industry. Elgin, Ill., has been affected by this, and the Hamilton Watch Co. has been affected. I think both companies have had to go through readjustment periods. But the head of Hamilton, Arthur Sinkler, is a highly intelligent man. He has given great leadership to his company. I think they are finding ways that they can succeed as a company. And of course the Hamilton electric watch was another technological innovation which I think was probably hastened by competition from abroad, and which has helped that company substantially.

There are pockets of unemployment that could be traced to imports. But I think these are really relatively small, compared to the normal day-by-day technological change, domestic competition, automation, and many other factors. And I would enthusiastically support Mr. Blough's position in this, that it is overexaggerated.

Mr. Blough. Mr. Chairman, total imports are about 4 percent of the gross national product, perhaps slightly higher.

Unemployment is very widely spread in all kinds of industries. It is not only the manufacturing industries that are suffering from import competition that have unemployed workers. It is in industries that have substantial exports. Most industries other than manufacturing also are suffering from unemployment.

It would be hard for me to say whether 5 percent would be too high or too low for the proportion of unemployment which was caused by imports, but I would think it not too bad a figure.

Mr. Percy. It would be very small, Mr. Chairman, against the number of jobs that would be lost if we lost our trading position.

Chairman Boggs. That was my next question.

What do you think the employment impact would be if we lost our trading position?

Mr. Percy. The best authority I know on the subject, from private sources, is Peter Drucker—his article in the Harvard Business Review caused me to correspond with him. Congressman Dent has challenged me on the use of these figures, but Peter Drucker's analysis in the letter he sent to me was quite convincing. He traces a total of 20 million jobs to exports and imports; 5 million to exports, and 15 million jobs that are dependent upon our ability to continue importing. And of course we will, as a nation, become increasingly a "have-not" nation as far as raw materials are concerned. Ten to fifteen years from now we will depend to a much greater extent that we do now on imported raw materials.

Our trading position in the world and our ability to acquire these materials and bring them in to this huge productive capacity we have in this country, depends upon our maintaining a strong trading position throughout the world. I would accept his figures, which he maintains are far more conservative than figures that were developed by a previous congressional study.

Mr. Reischer. Mr. Chairman, I would like to go even a little further and say that one important remedy for our unemployment situation would be a substantial increase in our exports. And ways to do that, of course, would entail among other things accepting more imports.

In this general context, I would like to call your attention—perhaps it might be possible to include this as an exhibit in the hearings when they are printed—to the article by Henry Gemmill, in the Wall Street Journal, that appears today, "Protectionism versus Free Trade." He spells out the possible consequences of our not maintaining our trading position extremely clearly.

Chairman BOGGS. If you would like to have that in the record, you may offer it.

Mr. REISCHER. I would like to offer it.

Chairman BOGGS. Without objection, it will be incorporated in the record.

(The article referred to appears in the appendix.)

Chairman BOGGS. You might summarize a bit what that deals with.

Mr. REISCHER. We were talking here earlier about the consequences of protectionism in the United States. Also, the idea that wholehearted protectionism could reserve the entire U.S. market for U.S. manufacturers. But Mr. Gemmell points out that it would almost inevitably, I quote:

> Assure a contraction of total sales. Exports to Europe would be wiped out and not primarily because the Common Market would be able to erect its own protectionist wall in retaliation. But the Europeans, if they see American industrial production becoming helplessly overpriced, might soon decide that they need no wall against most manufactures.

This, I think is the crux of the article. I don't wish to take up time here to read the whole thing. But it seems to me that this is the most dramatic and clearly spelled out presentation of the dangers entailed in a protectionist turn, should this come about.

Chairman BOGGS. Dr. Blough, what measures would you recommend to assure greater prosperity so that this adjustment problem would not occur?

Mr. BLOUGH. Mr. Chairman, prosperity will indeed help the adjustment problem although it will not obviate it. The problem of promoting economic prosperity and growth is, I suppose the No. 1 problem of the American economic policy at the present time. I fear I have no new answers to suggest, but perhaps it is worthwhile to review the situation.

The recovery seems to be moving nicely. I understand a very encouraging unemployment figure was announced by the President today in his speech at the AFL–CIO convention, where, incidentally, he also indicated in rather general terms the desirability of having some type of trade adjustment program.

While I do not make business forecasts—it is a full-time job—I have been sitting in on certain forecasting sessions and there is a certain degree of agreement among the forecasters—like eight eskimos sleeping in one bed, they all turn over at once. At least, that is often the way it seems.

At the moment there is a large measure of agreement that the outlook is favorable through 1962.

Now, whether or not the recovery and growth will be sufficient to get unemployment down to what seems to be a reasonable level—at the present time that seems to be considered to be around 4 percent of unemployment down to what seems to be a reasonable level—at the
I would not like to see measures taken to stimulate the U.S. economy
sufficient.

I would not like to see measures taken to stimulate the U.S. economy that would result in rising costs and prices, because this would cause problems with respect to our balance of payments.

I believe that stimulating productivity is perhaps the best approach to the problem—plus trying to maintain as high a level of demand as is feasible. And this means, I think, probably a cash deficit from time to time on the part of Government taken as a whole—Federal, State and local combined. Maybe it doesn't need to be very big; I hope not. It depends on how dynamic the business economy is, of course.

I think the stimulation of productivity calls for the attention of business to an aspect of research that by and large they have not gone into. Most research and development, if I am correctly informed, that has been done by private business, has been product research. Relatively little—although a good deal in dollars—relatively little has been productivity research, except as this may have been a part of product research.

Now, it would help if we could encourage businessmen to really go in heavily for productivity research and development. For those companies that are too small to do this themselves, cooperative, Government sponsored, or other types of arrangements for research could be provided. I believe also that the stimulation of investment—the type of measure proposed by the President last year is perhaps as good a measure as we are likely to find—is an aspect of it. I am hopeful that the dynamic qualities of the American economy will prove to be very strong.

I believe the trade liberalization program would increase that dynamism. Industrial investment in the United States would be stimulated by the opening up of new foreign markets, by lower costs of materials, and by a decline in the need to invest in Europe to get behind the European Common Market tariff wall.

Even the increased foreign competition, which worries so many people, would be a stimulating factor for many businesses. It would shake hidebound managements out of their complacency. It would bring competition to industries grown soft on a live-and-let-live policy. Lower prices would stimulate sales, and the help in preventing inflation would increase confidence.

U.S. businessmen pay the highest lipservice in the world to the blessings of competition. Now is the time for them to show they mean it.

Some persons may think I am too optimistic about the positive benefits to our economy from trade liberalization. I would urge them to have in mind also the prudential aspect. If the trade liberalization program is not enacted, the threat to our existing trade and prosperity is very great indeed.

Chairman Boggs. Mr. Percy, would you care to comment?

Mr. Percy. Mr. Chairman, I would like to say first how pleased I was that you have called these hearings, and the way you are conducting them.

Chairman Boggs. Thank you, sir.

Mr. Percy. I think they are in the national interest. I think it is exceedingly important that we debate this issue. And I hope you will give a couple of red-blooded protectionists a chance to talk to you, and have them have the opportunity to participate in a more leisurely discussion than we are generally able to in this type of hearing. The preparation of these papers, I think, is a great value, and the kind of research work the staff has put into the problem is important.

I think it is important because it is far more important than just the problem we are dealing with, which is narrow in many senses, and, as you have said, the impact one way or the other is not of overriding economic significance. But we know it is of tremendous political significance. And we know it is important because really it is a symbol of what we are as a nation today. We are at the crossroads as a country. We have to decide whether or not we are going to be the great people and maintain the great heritage that we have. It used to be said that as America sneezes, Europe gets a cold. We have had four such sniffles in recent years and, increasingly, Europe seems quite well protected against them—they don't even pay them attention any more. We are concerned that their economic growth seems to be greater than our own. They have a condition in Western Germany where they are importing labor. In Switzerland, for instance, 450,000 Italians were brought in. They have a negative employment problem, and we have millions of people unemployed in this country.

We cannot look at this with indifference. We have to decide as a team—labor, management, and government—to look at this as a great challenge. I think we have to say to ourselves: What kind of a people are we going to be, what kind of a nation are we going to be, and how are we going to face each one of these issues? We must face this issue, which is a great domestic issue, with great international implications, and face up to it realistically, and go through the "cold shower," if necessary.

We must face the music in the short run, and decide ourselves right here and now that we are going to be a great enterprising, building nation and lead the free world in the long run in this great struggle we are in. If we cannot so discipline ourselves, then we are lost as a people. I believe that the American people are going to face up to it. And I believe that the cries of the few truly protectionist pockets that are left are soon going to be as infrequent as the cries of the isolationists. I suppose every manufacturer would like the luxury of having a product that costs you a dime and you can sell for a dollar, and it is habit forming. But it is not good for the country. We are not going to have that kind of opportunity in the free enterprise system. We are going to have increasing competition. But we are also going to have great markets out ahead of us if we only prepare to take advantage of them.

Here we have worked for 15 years, the most generous nation in the world, to build these economies up, to get their standards of living up, to steel them against any possible type of ideology that might turn them away from the free market. Now we are not going to take advantage of it when we have achieved success. Are we going to be fearful, are we going to be timid, are we going to withdraw among ourselves, and just sell to each other at increasingly high prices? Are we going to have an ever-increasing round of inflation, an ever-increasing round of wage increases, with no relationship to the kind of productivity and economic contribution we make? Will management become soft? Will it look on its job as done now? We haven't started to build the economy of this country yet. There are great things to be done. And I think we have only begun as a nation—because we have these great challenges ahead.

We must face up, and make the adjustments, small as they are in total but great as they are to individual companies—I don't underestimate them a bit, because we have adjustment problems in our own company. But I think this can symbolize to the world that we mean what we say. We believe in the free enterprise system right straight through; we are willing to take the lumps as well as the benefits. And if we can solve this one trade problem—and I think you are contributing a great deal to the education of the country on it—if we can solve this problem, the next time we must make an adjustment, some sort of sacrifice can be that much more meaningful and will come that much easier to us as a people. And I think as a symbol this is a very, very important problem, one of the most important problems we will be dealing with in the Congress next year. Again, Mr. Chairman, I commend you on the hearings you have been holding.

Chairman BOGGS. Thank you, Mr. Percy.

Mr. REISCHER. I would like to associate myself with Mr. Percy's sentiments, both with regard to the chairman's handling of these hearings and with regard to the goals that we now have to attain.

I would like also to pick up one point Dr. Blough made with regard to productivity research, and tie this into the readjustment problem. This is a point I have made in an article published in the Columbia Law Review last March. The idea was that as a part of the adjustment assistance the Government might make available to firms injured by increased competitive imports, there could be established grants for market and product research by private firms.

There are many experienced private market and product research firms in existence. They could do the job as well, if not perhaps better, than a governmental agency. But it seems to me that the more important reason for having this job done by private firms is that the manufacturer receiving this type of assistance retains greater freedom of choice. And in that way I think the free enterprise philosophy could be maintained at a maximum level even in a governmental readjustment assistance program.

Chairman BOGGS. I thank all of you gentlemen for your appearance. You have been tremendously helpful to the committee. We will adjourn until 10 o'clock tomorrow morning.

(Whereupon the subcommittee recessed, to reconvene at 10 a.m. tomorrow, Friday, December 8, 1961.)

FOREIGN ECONOMIC POLICY OF THE UNITED STATES

FRIDAY, DECEMBER 8, 1961

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee of the joint committee met, pursuant to recess, at 10:05 a.m., in room 4221, New Senate Office Building, Hon. Hale Boggs (chairman of the subcommittee) presiding.

Present: Representative Boggs (chairman) and Senator Javits.

Also present: William Summers Johnson, executive director, and Richard J. Barber, clerk.

Chairman BOGGS. The subcommittee will come to order.

We continue hearings this morning on foreign economic policy. The topic this morning is "Trade With the Sino-Soviet Bloc."

We are doubly fortunate in that our distinguished colleague from New York, Senator Javits, has just completed a very intensive on-the-spot inquiry into this subject, so I am very pleased that you were able to come back with us today, Senator.

Senator JAVITS. Thank you.

Chairman BOGGS. We are equally fortunate to have with us Mr. Samuel Pisar, who has written a study paper for the committee on this subject and who was with Senator Javits; and in addition, Mr. Emilio Collado and Dr. Robert Loring Allen.

Mr. Samuel Pisar is an international lawyer, a member of the Washington, D.C., bar.

He was a member of the President's Task Force on Foreign Economic Policy, and adviser to the State Department, and consultant to the Senate Committee on Interstate and Foreign Commerce. He has served on the legal staff of the United Nations, and was a fellow of Harvard's Russian Research Center.

Dr. Pisar has published extensively in this field of Sino-Soviet trade and as I noted a moment ago, he has just returned from a trip to Russia.

Dr. Allen is professor of economics at the University of Oregon. Just recently, he was the coauthor of the subcommittee's study, "Economic Policies Toward Less Developed Countries."

He also contributed to the Joint Economic Committee's study, "Comparisons of the United States and Soviet Economies." Other than these two publications, Dr. Allen has written numerous other reports and books on this subject. He has served in many Government positions.

Mr. Collado is director of Standard Oil Co. of New Jersey and the chairman of the Committee of Foreign Economic Policy of the CED.

In the past, he has had extensive experience at the Department of State, and before his affiliation with Standard Oil, he was the Executive Director for the United States of the International Bank for Reconstruction and Development.

So we have a very distinguished panel, indeed.

We shall hear first from Mr. Pisar.

STATEMENT OF SAMUEL PISAR, MEMBER, LAW FIRM OF KAPLAN, LIVINGSTON, GOODWIN & BERKOWITZ, LOS ANGELES, CALIF.

Mr. PISAR. Mr. Chairman, Senator Javits, I have prepared a very brief written statement for today's hearings which I assume will go into the record. With your permission, I would like to feel free to make occasional departures from the text of that statement in this oral presentation.

Chairman BOGGS. It is so ordered, without objection.

Mr. PISAR. First, I would like to acknowledge my great debt to Mr. Leon Herman, senior specialist at the Library of Congress, for his very valuable help in the preparation of the published report which I was privileged to submit to the subcommittee last month. Mr. Herman is one of the country's foremost experts on Communist economics. His judgment and contributions have made this a much better report than it otherwise would be.

Now, permit me to say a few words about the report itself.

It is a pretty lengthy document, 104 pages, and contains a lot of factual and analytical material as well as a number of broad policy recommendations. In particular, I would like to draw the committee's attention to the two appendixes at the end. I understand that this sort of thing has not been previously published. One appendix contains a detailed list to indicate the massive campaign of procurement of Western technology and know-how on which Communist countries have embarked in recent years. It lists by industry the types of purchases that are being made at the present time in Western Europe.

The other appendix traces in detail the degree of dependence or interest in East-West trade that exists today in the various countries of the Atlantic Community and Japan.

It does so not only on a country-by-country basis, but also by industry, by commodity, and so on. This factual material is extensively analysed in the text in chapters VI, VII, and VIII.

As you know, Mr. Herman and I have had the unique privilege of accompanying Senator Javits on his recent fact-finding mission to Moscow, and other cities behind the Iron Curtain. While this trip has broadened and deepened my knowledge in this field, I feel that I have discovered nothing which contradicts or requires modification of the views and statements contained in the report.

The report itself points to two urgent fundamental needs in the area of foreign economic policy toward the Communist bloc which I should like to restate. First there is an urgent need to reassess some of our domestic policies and practices in regard to trade with the bloc.

Second, there is an urgent need to coordinate the disjointed and harmful policies in this area which are now operative on the level of the Atlantic Community.

The report does not advocate an indiscriminate boycott or curtailment of commercial relations with the bloc. I consider it useful to point this out because some of the newspaper reports and comments on my study, particularly in Europe, have unduly emphasized the strategic export control aspects of the several recommendations which I have made.

The fact is that many situations exist where Communist countries can be dealt with in normal commercial terms. Such situations should be welcomed. However, despite Soviet insistence to the contrary, trade cannot be divorced from the prevailing tensions of the international climate.

The record shows that a number of countries have been taken in by the Soviet slogan "Let's have more trade to ease tensions."

This is a very subtle piece of demagoguery. We have heard it in Moscow on our recent trip. We have heard it when Mr. Adjubei, editor of the Soviet newspaper Izvestia, interviewed President Kennedy recently. To this, there is only one correct answer, in my estimation: "Let us ease tensions first, and then we shall have more mutually advantageous trade." For the tensions do not happen out of thin air. We need only point to the boastful explosion of a 50 megaton bomb, the brutal squeeze on Berlin, on the United Nations and, more recently, on Finland to determine where the real source of tension is and what is the prospect of its removal through increased trade.

Since the death of Stalin, the Soviet Union has mounted an aggressive economic offensive disguised under the benevolent aspect of so-called peaceful coexistence. The success of this has been conspicuous. The Allied embargo on the shipment of strategic materials instituted at the time of the Korean war has undergone progressive erosion. The U.S.S.R. is engaged, as I have pointed out earlier, in the procurement of Western technology and know-how, and is thus improving and speeding up its industrial and economic development. In the process, it has been able to cause considerable friction among Allied countries and to play up quite a lot of competition.

As regards underdeveloped countries, the Communist trade and aid drive has been well integrated and cleverly attuned to the explosive mood of Asia, Africa, and Latin America.

Now, in figures, the total turnover of East-West trade has increased very considerably in the last decade, from $3 billion in 1950 to almost $10 billion, if you take the rates applicable in 1961.

Now, this increase is very considerable, but the figures do not tell the entire story. We must not lose sight of the fact that the Communist countries are operating, on a uniform basis, total state trading monopolies, and that they can and do use these monopolies with great facility not only for commercial purposes, but also for political and diplomatic purposes when the Government decides that these purposes should be predominant.

The materials presented in my report indicate that the newly found viability of some of the industrialized Western European countries has not always been accompanied by a sense of responsibility.

The voices that have too often prevailed in the councils of Government have been those of the ministries of economics and the boards of trade, rather than those responsible for foreign policy, national security or allied solidarity.

The hope of profit has too often been placed higher than the self-discipline needed in a contest for survival. Communist leaders profess to be realistic when they argue that the West is slave to its own cupidity and to its capitalist appetites. They assert with some contempt, that in order to turn a profit, Western interests will outdo one another to sell them the equipment and technology they need in order to build their industrial and military might and to prove the alleged superiority of their social and economic system over ours. Whether they are right in this or not is a very good question.

United States and Allied policy on trade with the bloc is at the present time out of step with the dynamics of the total East-West confrontation.

The concept of what is strategic is inadequate. The emphasis on military materials is misplaced. Export controls were instituted in this country in 1949. They were paralleled by export controls in other Western European countries. Since that date, the picture has changed considerably. The Soviet Union has demonstrated that it has nuclear capacity, that it has missiles, and that it has a very effective military establishment.

Military goods is not what they need most urgently. The contest has shifted into other areas, and the economic area has become particularly important. It is in this area that they are now busy building their power and influence.

We need only study Mr. Khrushchev's speeches of the last several years, the tight schedules he established for himself and the Communist Party for overtaking the West and the United States. For this reason, more attention is required to the significance of trade, particularly in its present patterns, between the Communist bloc and the Western alliance, and to the overall economic and industrial position of the Communist bloc.

U.S. export controls are notoriously out of step with those of our allies. Our definitions of what is strategic are broader and the items which we deny go further than those that are denied by Europe. Our position in this is a highly moral one, and in my opinion sets a good moral example for the world to follow.

Unfortunately, however, it is not effective. The present situation is that our policy on export control is largely frustrated because most of the items that Communist countries wish to purchase in this country are readily available to them in Germany, in England, in France, or in Japan.

At the same time, American exporters are deprived of an opportunity to compete with other Western exporters in the Communist markets.

Now, I submit that this does not make too much sense from the point of view of our balance of payments. Furthermore, my impression is that some of our allies are frankly delighted to have us out of that market, because many of the products that the Communist countries wish to buy to modernize their industry can probably be supplied and manufactured much more efficiently over here.

The next point I would like to make is that if we are to blunt the mounting Communist drive designed to divide the industrialized countries and to penetrate the underdeveloped world, the West will have to extend its strategy from narrow concern with the issue of export control to the wider objectives of concerted economic defense and initiative.

Herein lies a primary challenge to our foreign economic policy.

The facts indicate that East-West trade is more important for the Communist countries than it is for the free world. The value of the bloc as a source of supply to the free world countries is marginal. For the highly industrialized as well as the less developed countries, bloc goods are easily replaceable from other world market sources. The main attraction of the bloc to outside traders is its potential as an export outlet, and in recent years this attraction has been most potent in the case of nonmembers of the European Common Market in need of alternative export possibilities.

As regards the Soviet side of the equation, the significant fact is that there is no alternative within the bloc to the reservoir of technological innovation created by the energy of competitive economic enterprise in the West.

The Communist bloc is still trading with the industrialized West out of weakness rather than out of strength. They need the technology, they need the foreign exchange, they need to get rid of surplus. At this time the industrial West therefore has an overwhelming superiority in a potentially powerful bargaining position in such trade. The same is not true in bloc trade with underdeveloped countries. Here the bargaining power that faces them is weak and their strategy of economic penetration often determined by political and diplomatic factors is becoming increasingly successful.

The key to an effective economic startegy vis-a-vis the bloc is close coordination of allied policies.

The present patchwork of individual and contradictory policies cannot yield an adequate response. To achieve the requisite measure of policy alinement on the level of the Atlantic community, a determined and imaginative U.S. effort is urgently required.

This effort has been lacking in the last decade. The interest has also been lacking, and the reason for this, in my opinion, is that even under the best of political circumstances, trade with the bloc in economic terms is much less important to the United States than it is to some of our allies.

The result is that there has been a certain indifference on our part to exercise the leadership that should be in line with our over all responsibility for leadership in the free world, in foreign policy as well as in foreign economic policy.

I would like to limit myself to four points as to what is needed in this area, and I hope that in the course of the discussion, these points can be elaborated somewhat.

The first point is that U.S. policy must focus its attention on the need to coordinate security measurements in East-West trade, and to establish an effective multilateral Allied position on the shipment of strategic goods and the extension of export credits, which help to build the bloc's military and industrial power base.

The second point, or recommendation, if you like, is that we must set up with our allies a set of joint trading rules, ground rules, in order to reduce the Soviet bloc's political and economic advantage as a monopolistic state trader.

The third recommendation is that we must make plans to broaden markets and offer trade alternatives in the United States and in other Western industrial nations for the economically and politically vulnerable areas of Latin America, Africa, and Asia.

The fourth point is that we must take action to bring together the overwhelmingly superior but currently dissipated economic bargaining power of the Western alliance as a foreign policy tool to be used in disputes and negotiations with the Soviet Union.

Now, any new U.S. effort in this direction must be genuinely responsive to the legitimate needs and interests of our allies. This has not always been the case in the past. Above all, our strategy must be broadly based upon the positive foundation of vigorous economic momentum within the Atlantic community and a liberal foreign trade climate within the free world with ample alternatives to be more hazardous varieties of trade entanglement with the bloc.

One vivid impression I have formed while recently in the Soviet Union with Senator Javits is that Communist planners have a profound fear of the Common Market. In my opinion, this is not simply a fear of diminished exports or of emergent political unity in Europe. It is also a deep concern over the new economic vigor and vitality demonstrated by modern capitalist societies and the achievement of this vigor without the heavy price in human sacrifice which enters into the Communist equation for growth and development.

Communist dogma is moot when it comes to explaining the profound significance of this remarkable phenomenon. The partnership of an economically growing and viable Atlantic community may provide the most potent answer of all to Communist economics and ideology. It remains for us to reinstitute the leadership begun with the Marshall plan to channel this vigor, wealth and productive skill into effective economic strategy in order to insure the survival and growth of the type of free institutions which are responsible for this phenomenon.

Marxist doctrine is predicated on the inability of capitalist societies to cooperate for their mutual survival and advancement. We have, in essence, the choice of illustrating Marxist theory or confounding it. This is the crucial issue we are facing at the present time.

Thank you, Mr. Chairman.

Chairman BOGGS. Thank you very much.

Senator JAVITS. Mr. Chairman, I thank the Chair. I know our policy is not to ask questions or make comments until the panel is finished, and I shall, therefore, not do that. But I did want to emphasize one point which Mr. Pisar is making so that the other panelists for whom I have very high regard, and Dr. Collado, with whom I worked very closely, as will come out in the questioning, will perhaps comment. I would like to point up very sharply that what Mr. Pisar is adding to the present debate is another factor, and that represents my view too.

We are seeking a different trade policy. The President is advocating that. We are compensating for it with adjustment assistance.

The President again is advocating that.

What has not been advocated is that the very same people with whom we negotiate those two points should also be the subject of a negotiation on a unified policy on East-West trade. I just want to add that, Mr. Chairman, so that we might get from the other witnesses some observation of that, where just what he is talking about fits.

That is why it is so essential to our hearings, and I am so grateful to our chairman, who I would think has done an outstandingly fine job for including this subject in these hearings, because the very same people with whom we have to negotiate, the very same people, the very same give and take, Mr. Pisar is saying, must extend to this yet third subject, East-West trade.

Thank you, Mr. Chairman.

(The complete statement of Samuel Pisar follows:)

TRADE POLICY TOWARD THE COMMUNIST BLOC

Digest of statement by Samuel Pisar

The report which I was privileged to submit to the subcommittee points to the urgent need for (*a*) reassessment of domestic U.S. policies and practices in regard to trade with the Communist bloc; (*b*) coordination of the disjointed and harmful policies in this area which are now operative on the level of the Atlantic Community. The report does not advocate an indiscriminate boycott or curtailment of commercial relations with the bloc.

Many situations exist where Communist countries can be dealt with in normal commercial terms. Such situations should be welcomed. However, despite Soviet insistence to the contrary, trade cannot be divorced from the prevailing tensions of the international climate. A number of countries have been taken in by the Soviet slogan "let's have more trade to ease tensions." This is demagoguery. The correct position is, "let us ease tensions, and then there will be more mutually advantageous trade." For the tensions do not happen out of thin air. We need only point to the boastful explosion of a 50-megaton bomb, the brutal squeeze on Berlin, on the United Nations, and more recently on Finland, to determine the real sources of tension and the prospect of their removal through increased trade.

Since the death of Stalin the Soviet Union has mounted an aggressive economic offensive disguised under the benevolent aspect of so-called peaceful coexistence. Its successes have been conspicuous. The allied embargo on the shipment of strategic materials to the Communist bloc has undergone progressive erosion. The U.S.S.R. is engaged in an effective campaign of procurement of the very latest in plants, machinery, and technology in order to modernize its economy and improve its power position at the expense of ideas and know-how developed in the West. In underdeveloped countries, the Communist trade and aid drive has been cleverly attuned to the explosive mood of Asia, Africa, and Latin America.

The record shows that the newly found economic viability of the industrialized Western European countries has not always been accompanied by a sense of responsibility. The voices that have too often prevailed in the councils of government have been those of the ministries of economics and the boards of trade rather than those responsible for foreign policy and security. The hope of profit has too often been placed higher than the self-discipline needed in a contest for survival. Communist leaders profess to be realistic when they argue that the West is slave to its own capitalistic appetites and cupidities. They assert with thinly disguised contempt that in order to turn a profit Western interests will outdo one another in selling them the equipment and technology which they need to build their industrial and military might and to prove the alleged superiority of their social and economic system.

U.S. and allied policy on trade with the bloc is currently out of step with the dynamics of the total East-West confrontation. The concept of what is strategic is inadequate. The current emphasis on military materials is misplaced. If we are to blunt the mounting Communist drive designed to divide the industrialized countries and to penetrate the underdeveloped world, the West will have to extend its strategy from narrow concern with the issue of export control to the wider objectives of concerted economic defense and initiative. Herein lies a primary challenge to our foreign economic policy.

The facts indicate that East-West trade is more important for Communist countries than it is for the free world. The value of the bloc as a source of supply to the free world countries is marginal. For the highly industrialized as well as the less developed countries, bloc goods are easily replaceable from other world market sources. The main attraction of the bloc to outside traders is its potential as an export outlet, and in recent years this attraction has been most potent in the case of nonmembers of the European Common Market in need of alternative export possibilities. As regards the Soviet side of the equation, the significant fact is that there is no alternative within the bloc to the reservoir of technological innovation created by the energy of competitive economic enterprise in the West.

The key to an effective economic strategy vis-a-vis the bloc is close coordination of allied policies. The present patchwork of individual and contradictory policies cannot yield an adequate response. To achieve the requisite measure of policy alinement on the level of the Atlantic Community, a determined and imaginative U.S. effort is urgently required:

1. To coordinate security measures in East-West trade and reestablish effective multilateral allied controls on the shipment of strategic goods and the extension of export credits which help to build the bloc's military and industrial power base.
2. To set up joint trading rules with other free enterprise nations in order to reduce the Soviet bloc's political and economic advantage as a monopolistic state trader.
3. To broaden markets in the United States and other Western industrial nations for the economically and politically vulnerable areas of Latin America, Africa, and Asia.
4. To bring together the overwhelmingly superior but currently dissipated economic bargaining power of the Western alliance as a foreign policy tool to be used in disputes and negotiations with the Soviet Union.

Any new U.S. effort in this direction must be genuinely responsive to the legitimate needs and interests of our allies. Above all, our strategy must be broadly based on the positive foundation of vigorous economic momentum within the Atlantic Community and a liberal foreign trade climate within the free world with ample alternatives to the more hazardous varieties of trade entanglement with the bloc.

Following the submission of my report, I have had the unique privilege of accompanying Senator Javits on his recent trip to Moscow and other Iron Curtain cities. One vivid impresion I have formed in the course of this trip is that Communist planners have a profound fear of the Common Market. In my opinion this is not simply a fear of diminished exports or of emergent political unity in Europe. It is rather a deep concern over the new economc vigor demonstrated by modern capitalist societies and the achievement of this vigor without the heavy price in human sacrifice which enter into the Communst equation for growth and development.

Communist dogma is mute when it comes to explaining the profound significance of this remarkable phenomenon. The partnership of an economically growing and viable Atlantic Community may provide the most potent answer of all to Communist economics and ideology. It remains for us to reinstitute the leadership begun with the Marshall plan to channel this vigor, wealth, and productive skill into effective economic strategy in order to insure the survival and growth of the free institutions which are responsible for this phenomenon.

Marxist doctrine is predicated on the inability of capitalist societies to cooperate for ther mutual survival and advancement. We have, in essence, the choice of illustrating Marxist theory or confounding it. This is the crucial issue we are facing at the present time.

Chairman Boggs. Thank you, Senator.

Mr. Allen, we shall hear from you.

STATEMENT OF PROF. ROBERT LORING ALLEN, UNIVERSITY OF OREGON

Mr. Allen. Thank you, Mr. Chairman. I am here partly as a devil's advocate.

For more than a decade the United States has discriminated against imports from the Sino-Soviet area, has enforced a partial embargo on exports, and has narrowly restricted credit to the area. These policies were most vigorously applied in the first half of the 1950's. Allied cooperation helped to limit substantially the purchases of the Soviet area in Western Europe and the United States. During the past 5 years the scope and effectiveness of these measures have gradually declined. Allied cooperation has all but disappeared and the list of proscribed export items has steadily declined. There now arises a serious question concerning the appropriateness of present U.S. commercial policy toward the Soviet bloc.

The case for a continuation and reinforcement of strategic trade controls has been ably presented by Mr. Pisar in his report to this committee. My judgment is somewhat different. It is my belief that the usefulness of the strategic embargo and discrimination against the Soviet Union and Eastern Europe is almost ended. The United States should consider the elimination of these measures in return for suitable concessions from state trading nations concerning their trading standards and practices. The interests of the United States can better be served by concentrating wholeheartedly on the achievement of worldwide economic stability and development through reduced trade barriers, enlarged capital flows, and more effective economic cooperation.

To continue or strengthen the embargo and discrimination involves a profound misinterpretation of the economic and political relationships in the world today. The United States is the chief proponent of free and open societies in a world in which all doors—economic, technological, commercial, and political—swing both ways. Yet our restrictive measures would lock some of these doors. It is difficult for our allies and the neutrals to understand why such a great and powerful nation as the United States finds it necessary to stoop to petty interferences in the flow of mutually advantageous trade with nations with whom it hopes to live in peace.

It is often forgotten that trade is a two-way street and that the basic purpose of commerce is to import. The benefits from trade are obtained by importing goods more cheaply than they can be produced at home. Western Europe does not desire to export to the Soviet area simply to have another market, but rather so that imports from that area and elsewhere may be financed. We err in assigning too much importance to exports to the Soviet bloc while all but ignoring imports. For example, in 1959 the NATO countries and Japan imported nearly $2 billion in goods from the Sino-Soviet area of which nearly one-half was mineral fuels, manufactured goods, and machinery. These free world countries in 1959 imported nearly 60 percent more from the Soviet Union than they exported to it. It is idle to pretend that Western Europe imports almost yearly more than it exports to the Soviet area merely to find markets for export industries. Both sides benefit from this trade.

It is easy to exaggerate the effect of a partial embargo. Judged by its fruits it was not effective during the 1950's. The Soviet Union achieved high rates of growth and increasing levels of living, made important technological advances, and has now a military posture which is equivalent to the United States. Perhaps for a country which depends heavily upon trade or has specific requirements, such as foodstuffs, which cannot be met without imports, an embargo can be quite harmful. For a vast continental land mass which is largely self-sufficient naturally, an embargo is more an annoyance and imposes only some additional general costs.

It is important to keep in mind the economic processes involved in an embargo. When the embargo is imposed, the embargoed country is deprived of imports, but also does not need to export to pay for imports. Thus, must of the resources needed to pay for substitutes for goods previously imported are available in the form of released exports. The harm to the embargoed nation is thus only the difference between domestic and foreign costs.

A modern complex industrial economy is capable of producing nearly everything it needs. The Soviet Union is such an economy, now nearly as large and more advanced technologically than was the United States when World War II was concluded. If the Soviet Union chooses to import rather than produce at home, this signifies a cost reduction, not a critical lack in its economy. Faced with the loss of imports because of an embargo, the additional costs are simply absorbed in a slightly lower rate of growth. Indeed, it is possible that the loss of imports has been beneficial, forcing technological change and the search for mineral deposits which might possibly have come much later. When the West denied industrial diamonds to the Soviet Union, it developed an electronic device to do substantially the same job and also discovered diamond deposits at home. The "bottleneck" theory so popular during World War II and in the early days of the strategic embargo just simply does not hold up. The ability of industrial economies, such as the Soviet economy, to find substitutes implies that an embargo imposes only a small general cost.

An embargo is most effective as a once-and-for-all measure taken in advance of military hostilities. It is an accompaniment of war. For an open society it is meaningless in the absence of war. If an embargo is imposed and a short time later hostilities break out, then the embargoed country is simultaneously forced to produce domestically the items it formerly imported, mobilize its economy, and fight the war. Thus, the embargo may be helpful in weakening the enemy in the field. When the Western embargo was imposed, there was fear of war and hence the measure was justified. The fear did not materialize but the Soviet Union was forced to absorb the costs of the embargo and was put on notice that Western sources of supply could not be counted upon. It is unlikely that the reimposition of a strong embargo would have significant impact upon critical sectors of the Soviet economy, despite increased East-West trade in recent years.

One may entertain the notion that the Soviet Union is currently receiving greater gains from the open nature of our economy than it could ever receive from trade. Our technical literature, in journals and books, is open to all for the taking. Anyone can observe industrial processes and procedures, talk to our technicians, and receive the benefit of all save the classified military technology. More damage could be done to the Soviet Union by closing our borders to all outgoing economic and technical information, yet no responsible person has seriously proposed such a move.

Efforts to rejuvenate the strategic embargo also misinterpret the basic nature of the defensive alliance which holds the free world together. It is a limited, special purpose alliance, designed to resist Soviet aggression. Perhaps it should be otherwise, but problems other than the Soviet Union are at the center of attention of most of our allies. The problems of poverty, disease, economic advancement, maintenance of a stable economy and domestic tranquillity, and honoring national and international commitments are equally important goals of our allies. They do not regard their trade with the Soviet bloc as inconsistent with any of their goals and indeed look upon such trade as a positive contribution to their welfare. It is highly improbable that any of our allies would agree to cut off trade with the Soviet area, even if the United States agreed to pick up the bill.

A strategic embargo at this juncture in history would constitute a denial of much for which the United States and its allies stand. We are free and open societies and are proud of it. An embargo would isolate us as much as it would isolate the Soviet Union and would certainly be inconsistent with our recommendations to less developed countries to establish open democratic regimes.

In the pursuit of any policy it is necessary to balance costs and benefits. The benefits of a partial embargo and discrimination is a slight diminution in the rate of growth of the Soviet economy. It reflects our moral indignation at Soviet behavior and makes us feel that we are doing something to hurt a potential enemy, or at least that we are not helping him. Against these benefits must be set the costs of the program. The growth of the free world would also decline. When it was tried before, the embargo was a severe strain on the Western alliance. It would be an even greater strain if attempted today.

The costs of enforcing an embargo are quite high. Such discrimination enables the Soviet Union to ridicule the mighty and powerful United States as fearful of selling the Soviet Union anything but toothbrushes and laxatives. Discrimination amplifies the wrong image of the United States. While we try to open the lanes of commerce, reduce barriers to trade, provide economic assistance, and promote economic development, we also endeavor to isolate a substantial portion of the globe, refuse commercial amity, and deny the Soviet area the legitimate benefits of commerce.

The basic nature of Soviet strategy in the world impels them to attempt to take advantage of every weakness and vulnerability in the free world. Whenever a difficulty arises—trouble among free world nations, commodity surpluses, falling prices, balance-of-payments crises, and the ever-festering sore of economic backwardness—the Soviet Union endeavors to exploit it and to obtain some economic or political advantage. Rather than interfering with East-West trade, the United States should be pouring its whole effort, with missionary zeal, into reducing and eliminating the weaknesses within the free world so that the Soviet Union will have nothing to exploit. With a fervor unmatched except in our own revolution and in wartime we should, along with our allies, adopt and implement policies which can assure economic stability and development. The report of Secretaries Herter and Clayton and other reports to this committee point the way to progress in this direction.

One of the most troublesome aspects of trade with the Soviet area is that state-trading nations do not observe the commercial codes and trading practices employed by the major world traders. Through enlarged bargaining power, nonobservance of agreements, bilateral arrangements, unusual pricing policies, and other devices, countries in the Soviet area sometimes obtain unwarranted economic and political advantages and are often troublemakers in the world economy. Despite the considerable efforts of the Havana Conference, the General Agreement on Tariffs and Trade, and the Economic Commission for Europe no real progress has been made toward establishing mutually acceptable codes and operating procedures for trade between free- and state-trading countries. In addition to serious technical difficulties, the state-trading nations would have to make concessions and guarantees which they have been unwilling to do without concessions in return.

The present moribund embargo and discrimination may be an effective bargaining instrument in establishing such a code. The Soviet Union is clearly annoyed by Western discrimination, inveighs against it, threatens to retaliate, and has a propaganda holiday with it. The Soviet area would undoubtedly benefit by fewer restrictions, as would Western Europe. Thus, our trade restrictions against the bloc retain for us some bargaining power. It might be possible to trade the elimination or modification of these restrictions for an acceptable code of commercial behavior. The Joint Economic Committee could perform a valuable service in asking a group of experts to determine the trading standards and practices which could assure fair treatment and would be devoid of political implications for all trading partners.

Chairman BOGGS. Thank you very much, Mr. Allen.

Mr. Collado.

STATEMENT OF EMILIO G. COLLADO, DIRECTOR, STANDARD OIL CO. (NEW JERSEY)

Mr. COLLADO. I appreciate the opportunity to appear before you to discuss East-West trade. I know of no more important subject in our foreign economic policy. The free world must give urgent attention to the problems and issues raised by Soviet bloc trade, and the United States must take the initiative in developing a common Western policy on this subject.

Any brief review of statistics will reveal that in the postwar period the Soviet bloc under Stalin embarked on a program of self-sufficiency and a minimum of trade and contact with the West. In 1948, Soviet bloc exports to the free world amounted to only $2 billion per year. By 1953, they had actually declined to $1.6 billion per year. Under Khrushchev the approach has been quite different. Soviet bloc exports to the West have increased nearly threefold to $4.2 billion in 1960.

There seems to be little doubt that the present Soviet regime has carefully and accurately assessed the value of foreign trade. The Communists are using it as part of their declared economic warfare on the West.

Mr. Pisar and Mr. Allen—Mr. Allen in his book and Mr. Pisar in his report and remarks today—have given you a lot of background about this, and I shall not try to cover that material again. I shall make just a few points.

One of their objectives in foreign trade is to strengthen and accelerate their own economy. From the West they are today receiving strategic equipment, plants, and know-how which they find difficult to provide for themselves. For instance, in 1960 the Russians arranged to import large diameter steel pipe, special steel sheets and rolled steel shapes, synthetic fiber plants, tire cord plants, petrochemical plants, coal mining and sorting machinery, polyethylene and polypropylene plants, automation machinery, electric calculators, and similar highly technical goods. Such transactions not only strengthen their industrial machine but also provide the Communists with the latest Western technology and know-how.

In payment, apart from a relatively small amount of the simpler manufactures, the Communists supply mostly raw materials and commodities—in some cases at prices well below world market prices. In so doing they achieve a second objective, namely, the disruption of the normal flow of raw materials within the free world and the erosion of the price structure of such commodities. In time this price erosion will lead to economic and political deterioration of the countries producing raw materials. At the present time the most important of these raw materials is oil, now constituting 20 percent of Soviet bloc foreign trade. Since my company is in the international oil business, I should like to devote most of my remarks to the Soviet oil trade because our experience with oil should help to point up the challenge and dangers of the Soviet trade offensive.

Recently, there has been a rapid increase in Soviet bloc oil exports to the free world. Total crude oil and product exports have increased from virtually nothing in 1953 to 218,000 barrels per day in 1958, to 415,000 barrels in 1960, and to a current rate of about 600,000 barrels. About 70 percent of the total is going to Western Europe, now supplying 9 percent of European demand.

Most forecasts indicate that by 1965 the Soviet bloc will have 1 million barrels per day or more available for export. It is expected that the Soviets will continue to concentrate on Western Europe, especially after the completion of the COMECON pipeline system, and by 1965 exports to Western Europe could reach 700,000 barrels per day, or 11 percent of European demand.

Gurov, director of the Soviet oil export organization, in his speech at the 1960 Arab Oil Conference in Beirut, Lebanon, stated that Russia eventually intends to reach its 1930–33 market position in Europe, which was 19 percent.

The U.S. oil delegation to Russia in 1960 concluded that the potential for oil discovery and oil development there is tremendous. The Russians have the tools and technology to achieve their goals. In the foreseeable future, the Russians will probably be able to find and produce the oil necessary to support almost any export program they wish to undertake. Their oil and gas pipeline system now under construction—aided greatly by large barter deals for pipeline and equipment—is extensive and will facilitate their ability to export the oil.

A most comprehensive report of the petroleum industry in Soviet Russia has been prepared by this oil delegation for the American Petroleum Institute. This report is now at the printers and should be available within a week. I should like to make it available to this committee. I think the committee will find the entire report of great interest, particularly its discussion of the organization and functioning of the oil production and export system of the Russians. We shall present that to you next week.

Chairman BOGGS. Without objection, we shall make that a part of the record.

(The report referred to, titled "The Petroleum Industry of the Soviet Union," and authored by Robert E. Ebel, has now been published by the American Petroleum Institute, a copy of which is in the committee's files.)

Mr. COLLADO. The Soviets sell oil to the free world at prices which are designed to achieve their economic and political objectives. If it is considered expedient, their oil is sold at prices well below free world costs. For example, Italy is purchasing 12 million tons of crude oil over a 4-year period at $1 per barrel f.o.b. Black Sea. This is equivalent to 75 cents per barrel f.o.b. Persian Gulf, which does not quite cover the taxes and royalties paid to the Middle East producing countries. At the same time, the prices the Russians charge their captive satellite markets are higher by some 50 percent than the prices charged the free world. Furthermore, the sale prices for crude oil and oil products to the free world bear no evident relation to the cost of delivery. For example, an analysis of Soviet-published figures reveals that fuel oil which is sold in Sweden at $1.60 per barrel in some instances costs the Russians that amount for transportation alone, over and above production, refining, and marketing expenses.

It must be understood that the free world oil industry is incapable of engaging in commercial competition with an organism such as a Communist state which obeys none of the economic laws regulating commerce in the free world. The Soviets take full advantage of the free and competitive condition of the free world oil industry. At the same, time, their own internal market is insulated from the impact of a free world market. The distortions that this creates completely preclude any normal relationship of cost, taxes, supply, and demand to selling prices. For example, the Soviets levy little or no taxes on raw materials such as oil. In fact, there is evidence that they do not allocate all the costs related to oil. The free world oil industry, though having a competitive operating cost advantage on its production in the major exporting areas, pays the producing countries 50 percent, and in some cases more than 50 percent, of the sale value minus cost of production. These oil exporting nations depend heavily upon this revenue for their economic and political stability.

The dangers to the free world are self-evident:

1. Oil exports are being used to strengthen the potential of the Soviet bloc, and to expand its economic and political penetration.

2. By selling oil at artificially low prices, the Soviets are achieving both their objectives while sowing discord and suspicion in both the oil producing and consuming nations. They are trying to upset the confidences which countries have in the free oil industry and in the whole free enterprise system.

3. The Soviet oil offensive poses a direct threat to the oil producing countries whose economic and social progress depend heavily upon income from oil.

4. When individual countries or an area such as Western Europe begin to depend heavily on Soviet oil, the situation poses a serious economic and political threat. Countries trading with Russia face the danger not only of becoming dependent on Soviet oil for their

energy supplies, but also of gearing their export industry to the requirements of the Soviet bloc. The example of Finland, which was forced by its reparations agreement with Russia to orient its industrial exports to Soviet needs, clearly shows the dangers involved.

I have devoted most of my remarks to the problems involved in Soviet oil exports. It is perhaps justified to do so because this commodity today is under strong pressures and and has great strategic value. But the experience with oil also highlights the threat to the West inherent in the Soviet trade offensive. Now oil is bearing the brunt, but other goods and materials may well be involved in the future. Any approach, therefore, to the oil problem must be part of a general solution to the Soviet trade offensive.

What is needed to meet the challenge is a coordinated and unified free world economic policy. Anything less would be ineffective and self-defeating. To arrive at such a common solution, the United States should take the lead in forging an economic and commercial alliance to all of the countries of the free world, whether militarily committed or not. The objectives of this alliance should be to further trade within the free world and to regulate trade between the free world and the Communists in such a manner that damage to any one free world country, no matter what its stage of industrial development is minimized, and that trade advantages for all in the free world are maximized. In the course of such trade the industrial strength of the Communist world should not be increased at the expense of the free world.

In answer to Senator Javits' question, it is quite clear that in our approach to this problem, we must first deal with the major industrial countries of the West, and that it what we are proposing to do in our general trade policies. It would seem to me that the important question here is to have a general understanding with our friends in the Western nations on the whole range of what I would call liberal economic policy. This would include; the trade questions, the investment questions—should question whether, in reference to U.S. investment in Europe, everything that is now being said by U.S. officials and others is fully consistent with the overall liberal approach to international economic relations—the whole area of participation and cooperation with the Western European countries in development of the developing countries, and the whole question of providing suitable markets, increased markets, and relatively stable markets for the products of the developing nations, without which the other efforts in aid and developmental assistance can scarcely bear fruit. It is quite obvious that the Soviet trade aspect is an integral part of the whole problem and must be taken up simultaneously with the other aspects. I do not think we can divide our foreign economic policy into watertight compartments and talk about one part one day and some others the next day.

Returning to the Soviet oil aspect, I believe that to achieve the objectives which I have just outlined, the policy of such an alliance should include—

(*a*) Agreement to a comprehensive list of strategic materials, broadly defined, which would not be sold to Communists.

(*b*) Agreement on the manner and method with which technological advances and know-how would be made available to the Communist world and agreement on the amount of this knowledge to be passed on.

(*c*) Provisions to control the effect of Russian commodity and raw material supplies upon free world sources.

The West has recognized clearly the military threat of the Communists, and we have organized to meet this potential danger. It is alarming, however, that up to now the West has failed to assess accurately the dangers of the Communist economic attack. If we are to meet Khrushchev's callenge successfully, the United States must take the initiative in exposing the magnitude of the Soviet economic threat and in developing with the rest of the free world a purposeful and farsighted policy to combat this threat.

Chairman BOGGS. Thank you, Mr. Collado.

Senator?

Senator JAVITS. Thank you, Mr. Chairman.

Mr. Chairman, first let me express my satisfaction at the testimony which was given, and especially to Dr. Allen, who took, as it were, an unpopular view. I think, as the chairman said, we need devil's advocates, and I am grateful for the intellectual courage to lay such a proposition before us and, as it were, hold the mirror up to our own strong desire to somehow or other get a handle on the Soviet Union: which way may be superior in our judgment as to the best handle to get.

I just want to put you at your ease, Dr. Allen, because I am sure you know we understand the service which is rendered by the willingness to espouse an unpopular cause. There is no question about your knowledge that it is unpopular.

Secondly, Mr. Chairman, I would like to say that, although I have not been present in the course of the week since Monday, I feel that the hearings have been conducted with splendid contribution to the country's knowledge on this subject. I am very proud of the work the committee has been doing. I think the staff studies have stood up and the panels have shown a capability based upon those staff studies to make a real contribution to this work in the country.

I would be less than honest if I did not say that I think that this is the most critical element of the cold war other than actual military preparation. If we got any impression in the Soviet Union, it is certainly that the Soviets think so, too. They think they can beat us economically, and they think they can beat us especially in the newly developing areas. That is what they propose, and like all dictators, they are telling us about it, if we will only listen. I do not know how one could impress that more upon the people of this country, that telling us precisely how and precisely where they plan to beat us, if we would only listen, and while there is still lots of time and while we still have the effective power, I think, to win over them decisively.

I am very grateful to the witnesses, therefore, for the position they have taken, to the chairman for the way he has handled the matter, and to the staff contributors who have given such splendid papers.

Now, Mr. Chairman, as to specific questions——

Chairman BOGGS. Senator, I would like just to say I appreciate what you have said, No. 1, and No. 2, I think we are very fortunate that you have just come back from an intensive, firsthand study of these problems. I know that Members of Congress are frequently criticized for taking trips, but I have learned a long time ago that the only way you can learn about some of these things is to go there. You can read all the papers and listen to all the testimony, but there is nothing quite like a look-see, so I am delighted you have had this trip.

Senator JAVITS. Thank you, Mr. Chairman, and may I say it was the Chair that permitted me to go and facilitated it, and gave me the services of such splendid experts as Mr. Pisar and Mr. Herman, both of whom are here today.

May I ask these questions? Dr. Allen, in his excellent paper, somewhat negates himself. I am sure he understands that and he will not be hurt by my saying so. He starts by saying we cannot do much about it and if you cannot beat them, join them, in terms of any idea of embargo. I do not think any reasonable people contemplate an embargo that would be effective. It never works. It is unlikely it will work even against Cuba. But I think we are thinking now whether we have any bargaining power left.

Dr. Allen, you say yourself at the very end, "Thus our trade restrictions against the bloc retain for us some bargaining power."

Now, question: Do we have in the view of you gentlemen enough bargaining power, coupling our trade restrictions against the bloc with our trading position in the world, notwithstanding the Common Market and the adherence to it of the United Kingdom? Do we retain enough bargaining power, in your view, to carry through the policy which, as I see it, in effect all of you advocate, to wit, a policy of unified definition of what are strategic goods, of unified agreement on the trading rules which we shall demand and our efforts to implement that that is the decision we shall require as a condition of trade with the Soviet bloc?

Would you start, Dr. Allen?

Mr. ALLEN. Yes, I think we do have this bargaining power. The trade restrictions alone are not enough because they have been diminished seriously in the last few years. Our allies are not participating actively. But coupling the trading position of Western Europe with the Soviet Union with our general stature in international trade, I think that the free world does have the capability to establish a system of procedures, a code, if you will, which can take much of the economic and political sting out of trade with the Soviet area. We cannot do this without conferring some economic benefit on the Soviet Union from trade. That is the essence of international trade—benefit on both sides. Without eliminating trade, we cannot eliminate these benefits. But we can take unwarranted economic and political benefits away from the Soviet Union.

This is what the Soviet Union is getting away with now, in petroleum, in aluminum, in some of its activities in less developed countries, in bulk orders and switching sources of supply about, and so on. The Soviet area is getting an economic and political leverage far beyond the magnitude of its trade.

This should be our real goal, not to deprive the Soviet area of the legitimate benefits of international trade; these benefits belong to the Soviet area and it is entitled to them. But to prevent the Soviet area from taking any unusual advantage of the Western competitive system in international trade should be our aim.

Yes, I think we have the power. I do not believe that we, we the United States, Western Europe, Japan, have thought through the problem of establishing an international code yet. We tried to in Havana; we have wrestled with it in GATT and ECE. We still, however, need to figure out just specifically what kinds of guarantees we need in order to be satisfied that the Soviet Union cannot take advantage of us and cannot take advantage of the free world.

Then we have to negotiate with the Soviet area because these countries are the ones who can implement this agreement or not implement it. In order to negotiate with them, we have to have some bargaining power. We have it in the form of our importance in trade and in the form of the existence of still very severe restrictions on Soviet trade.

Maybe it will be necessary to bargain some of these away. I do not, myself, feel that we would be bargaining away very much if we modified some of our trade restrictions, because they are not very effective in any case.

Yes, I think we have the bargaining power to do something now.

Senator JAVITS. Mr. Pisar?

Mr. PISAR. Senator, before I answer your question, may I associate myself with your remarks about Mr. Allen's courageous and learned presentation? I feel very sincerely that this will help us reach a balanced judgment on this important subject.

Let me just add that we must not overemphasize the issue of export controls. It is one of the issues, but it is not the only and perhaps not even the most important issue.

Now, in reply to your question. I believe that at the present time, the United States has virtually no bargaining power left, economically, vis-a-vis the Soviet Union. Our restrictions have been in operation for more than a decade. We have consistently denied to expand our exports to the Soviet bloc in any significant way.

We have also closed down markets to many Communist products that might otherwise enter by denying them most-favored-nations treatment. They have learned to live with the situation.

Now, I believe that if we study the products that could enter, if most-favored-nations treatment were restored, we would find that the position would not change very drastically and we therefore have at the present time, in direct trade relationships, not very much to offer by way of a carrot.

Similarly, on the level of an Atlantic alliance, I believe that there is at this time little actual bargaining power left. There is no joint policy. The result is that Western countries buy and sell in competition with one another, dealing with the gigantic Soviet monopolies on an individual basis. They do not have the sort of position that they would have if they spoke with a unified voice. I believe that such bargaining power exists potentially, that it can be established if we can achieve a common policy on the level of the Atlantic alliance.

Now, in my report, I have tried to focus on this issue of bargaining power and leverage.

I have tried to trace the degree of importance of East-West trade to the bloc, by determining what they have been buying in recent years, what they have been selling, where their industrial bottlenecks are, where their plan for development would be aided by the currently evolving patterns of trade.

On the other side of the equation, I have looked at the degree of importance of East-West trade to Western European countries, and to the United States. I find on balancing these two sides that the importance of trade is greater for the bloc than it is for the West. I therefore conclude that if we could unify our policy on an Atlantic basis, we could find a considerable amount of bargaining power and leverage, not only in economic relations, but also in the broad area of foreign policy, and in specific East-West confrontation, such as Berlin, or what have you.

Mr. COLLADO. Senator Javits, I think my own reaction to your question falls more closely in the area of Mr. Pisar's view than Mr. Allen's. But I think I would differ somewhat with both of them, partly because I would rather consider this question in terms of economic potential, and not bargaining power, certainly in the limited area of direct trade negotiations with the Soviet bloc.

I am personally quite skeptical as to the utility of attempting to do much in the way of direct trade negotiations with the Soviet bloc in the near future.

It seems to me that it is probably true the United States has not much trade bargaining power of its own today with the Soviet bloc. It seems to me that the nations of the Western World still have, and will continue for a long time to have, a major economic potential, and the problem of this trade, as I think was brought out by all the statements—certainly I tried to point it out in terms of the oil trade—is how to keep the Western World trade and economic development and economic strength progressing and increasing at a satisfactory rate. The Soviet offensive not only has economic benefit to the Soviets internally, in terms of their economy, but also destructive tendencies in the world situation. Some of these tendencies are already evident and many more are potential dangers.

It would seem to me that where we would have great strength—and here I agree with Mr. Pisar—is proper coordination with the Europeans, Canadians, and the Japanese, and all the rest of them, in concerting our broad economic policies.

Again, I would like to say this is the whole range of economic policy and not only trade policy. I think our investments and our development programs are also involved in this.

In this area we can do many things by common policy with the Western nations, not necessarily involving a specific negotiation or even agreement with the Soviets. And I think we must move in that direction. If, incidentally, we are able to get the Soviets to come to a reasonable agreement with us, fine. But I wouldn't count on it.

Senator JAVITS. Mr. Chairman, I have already taken 10 minutes. I am perfectly willing to quit and take my turn.

Chairman BOGGS. I would just like to ask one question.

It is a fact that the Soviets use trade for a purpose which is quite different from that used by the free world, isn't that so? The example you gave about crude is a good one—the fact that oil is sold in the Western nations at a price considerably below that sold to the controlled countries.

Cuban sugar is another good example. Russia and the satellites are surplus sugar producers. Yet they are taking practically the whol Cuban sugar crop because of the political and not the economic implications.

It seems to me that the first thing is to show the difference in the type of trade that Russia carries on, as compared with the trade that we carry on.

In the case of the United States, for instance, these are decisions made by countless thousands of individual people—either individuals as such or corporate executives as such, more or less undetermined by any political considerations. In the case of the Russian satellites, this is quite a different type of operation.

So the thing that puzzles me about your approach, Mr. Allen, is how you would conceivably bring these two quite diametrically opposed operations together.

Mr. ALLEN. I am not sure I know the answer to that question. Obviously the U.S. volume of trade with the Sino-Soviet area is sufficiently small that that does not confer any great bargaining power. But other countries with whom we have alliances, other countries with whom we have friendly relations, do have a great deal more trade with the Sino-Soviet area.

Chairman BOGGS. That doesn't necessarily prove anything, though, does it?

Mr. ALLEN. They have the same kinds of troubles with Soviet trade that we observe in the international economy.

India, for example, thought it advisable in its trade with the Soviet area to establish special state trading organizations of its own. This is one response that can be used for trade with the Soviet area.

I am suggesting that it is possible, at this point, to think about an effective international code of behavior in commerce, to which the Soviet Union would agree, if the promise of economic advantage—not strategic advantage, the promise of economic advantage—were sufficient in terms of level and kind of their economics. I don't know that this is so. It can only be determined whether or not it is so after we, the free world, have decided what we wanted in the way of assurances about trade with the Soviet area. After we have made this decision—this would amount to our drawing up a code—after we have made this decision, then we would have to talk to the countries in the Soviet area, as to whether or not this was something with which they would agree. If they would, fine. If they would not, we are right where we are right now—with no agreement and with their playing the bull in the china shop in the international economy, and taking advantage of us politically all over the world.

I am merely suggesting that international commerce, the economic benefits of international commerce, may be of sufficient importance to the Soviet Union, that they will agree to behave.

Chairman BOGGS. I am not sure that your statement that we will be right where we are now is entirely pertinent. I would say that particularly in view of the emergent European community. Mr. Pisar mentioned the great concern that he discovered in the Soviet Union over the emerging Common Market. I suspect that that concern is because it is a viable growing productive economic unit, that has all of the characteristics for being much stronger than the Soviet system. So that the present may not be quite comparable to a year from now, 2 years from now. Russia has had a happy situation of being able to put one country against another one, or one group of countries against another group, to move into Latin America or Africa, or any other weak spot. This might not be as simple as it has been in the past—assuming the success of the Common Market, and assuming our ability to negotiate with the Common Market.

I would like to get Dr. Pisar to comment on that.

Mr. PISAR. I think that we should start by saying that by and large, the Soviets have been behaving themselves in trade. This is particularly true in trade with the industrialized West, where they still deal from a position of relative weakness. They have not been trying to take direct political advantage so far in any important way in their trade with Western Europe, apart from the industrial and economic advantages they are deriving from that trade. But, as you point out, Mr. Chairman, in trade with economically vulnerable or politically vulnerable areas, they have been very effective in translating economic and commercial factors into political gain. And a total national monopoly—those that run the Government also run all the business—is highly adaptable to these types of operations.

It is much more difficult for us to introduce Machiavellian methods in our trade. Business is decentralized. It is largely carried on for profit. And most of it is in private hands. One of our problems is how to harness the activities of private business to the purpose of Government policy when national or full world policy is at stake.

Now, the West has an overwhelming economic superiority. Normally one would expect it to have a commensurate amount of influence and bargaining power. This, however, is not yet so, because where we have the economic and industrial superiority, they have the superiority of organization.

For this reason, I feel that if our policy on trade and economic relations is with the Communist bloc, and the policy of our allies, drifts the way it is drifting now, or has been drifting in the recent past, the bargaining situation which we will have will be inferior. But if we can utilize the signs of vitality that are apparent from the experience of the Common Market, and if we can bring about the kind of partnership which is being debated in the country at the present time, we will be in a much better position, in the relatively near future, I believe, to establish conditions of trade with which Communist countries will have to conform if they are to derive the benefits they expect to derive from it.

Senator JAVITS. Will the Chair yield?

Chairman BOGGS. Yes, I am finished.

Senator JAVITS. The Chair is very kind.

I just wanted to add—because I think Congressman Bogg's question was so perceptive—these two questions to the panel.

You have been talking about economic negotiations. The West and the industrial world are not confined to economic negotiations. This can properly be an effective part of our interwestern political negotiations.

In other words, we bear heavy responsibilities for the West, militarily and diplomatically. I, for myself, think this ought to be just as important an element of what we want from our allies as what they want from us—to wit, protection from the great strategic Air Force and everything else we have got. And we ought to make it a condition, and we shouldn't be afraid of running the risk to make it a condition. I think it is that important.

And second, which again your answers lead to: one of the big rubs with East-West trade is not our relations with the Communist bloc. That isn't too critical. I think Dr. Allen is quite right about that. It is what they are doing to the newly developing areas. It is the fact that they are able to take over such important parts of their economies.

Now, question: Whether by preclusive buying, or by how we will regulate the markets which the less developed areas have in the industrial countries, which are far greater than anything they can do with the Communist bloc—it seems to me that there we have an enormous political responsibility to decide what we are going to insist on with them, too, in terms of the rules of the trade, which don't have to disadvantage them, but at the same time which have to use our power to prevent them from being exploited by the bilateralism which represents, as I see it, the greatest harm that the Soviet bloc is doing now to the free world.

Now, could we have some comment from the panel on that subject? That is the subject of whether there is yet another dimension to this unified policy—that we don't have to just depend on the economic relations of our own vis-a-vis the Common Market, or the Common Market vis-a-vis the Soviet Union, but this is a very critical political question, too, and can properly be put on that level, and negotiated as a very critical element of the defense of the free world in the cold war.

Mr. Pisar, would you care to lead off on that?

Mr. PISAR. One of the main reasons for the success so far of the Communist economic offensive is that the West does not have a coordinated economic policy, and that the underdeveloped world has been in a state of ferment.

The Communist countries, as regards the underdeveloped world have succeeded in penetrating economically. They have not done this on a broad basis. They have selected target countries, and increased their trade with these countries in a very substantial way. The result is that an increasing number of economically vulnerable countries are becoming dependent on Communist supplies and Communist markets. And this is the sort of relationship which is very difficult to undo.

If we look at Soviet policy since the Second World War, there is very little doubt that once this dependence and penetration is established, it will be used for political purposes, it will be used for increasing the present drift to so-called neutralism, and perhaps even beyond, to other types of realinement. It will be used for effecting the composition of Governments in these countries, it will be used in extending the Communist movement.

Now, I agree with you entirely that if we are to counter the offensive in these sensitive areas, the United States, the Common Market, the underdeveloped countries, the entire free world will have to negotiate inter se, and devise ways and means to provide alternatives to the vulnerable and underdeveloped areas for development and growth within the free world framework—by means of greater flow of capital, by means of greater export possibilities, and so on.

So I think that in raising this point, you are touching a very crucial issue which is not directly concerned with the trade we carry on with the bloc, or how we do it, or the trade our allies carry on with the bloc, but the kind of organization and alternatives we develop in the free world to eliminate or mitigate the dangers of this trade entanglement with the bloc, which is going on and expanding at this time.

Senator JAVITS. Would you say that it is fair to make the point here that in the OECD, of which we are a member, and of which there are additional affiliates, like Japan, through the Development Assistance Committee, we have a piece of machinery? We don't need another London Economic Conference, such as President Roosevelt contemplated before World War II. We do have a piece of machinery in which this very job can be done. Would you agree with that?

Mr. PISAR. I believe that the OECD has the necessary basic machinery which can be employed for the purpose we are discussing. And I also believe that the direction into which this machinery should move should not be economic warfare, or anything so sinister but, in the first place, a positive basis of alternatives and possibilities for growth.

Chairman BOGGS. If I may interrupt, it should take note of economic warfare, should it not?

Mr. PISAR. It should take note of economic warfare. And it should provide alternatives.

Chairman BOGGS. After all, as Senator Javits said in the beginning, the Russians have made it quite clear that they are waging economic warfare. Khrushchev has been quoted as saying "We will bury you" in the field of trade. I believe in taking them at their word.

Mr. PISAR. We must certainly take note of economic warfare, and they will employ economic warfare, and it will be increasing.

Chairman BOGGS. Well, they are employing it.

Mr. PISAR. They are employing it. But my point is that it is still very difficult for them, because they simply don't yet have the resources to divert to this purpose on a massive scale.

Chairman BOGGS. I think that gets us right to the point that Senator Javits made. Should not this be the subject of negotiations with the West as the other subjects are negotiated?

Mr. PISAR. Exactly. And now is the time.

But our approach to it must not be entirely negative with our allies, because it is not likely to succeed. It must also be positive.

Senator JAVITS. It is a fact, is it not, that we have yet another piece of machinery in respect of economic warfare, and that is article 2, the much unused article 2, of the NATO Treaty. NATO is a defense organization. It has got all these countries in it. And article 2 requires economic cooperation in the defense of Western Europe. Now, we have never employed that. One of the great frustrations which Secretary Spaak faced in the NATO was somehow or other the refusal of the western world to employ article 2 for its own defense. And it seems to me again here is an area, Mr. Chairman, in which the United States has to bestir itself, and take the initiative, with its allies, because here is also a correlative aspect of this very grave danger faced by the free world, which Dr. Collado has pointed out.

Now, may I ask you a question, Doctor?

You are essentially a private enterpriser. And I have worked with you very closely in the effort to develop a private enterprise echelon in foreign aid, both for the United States and for the Atlantic community.

Now, can you give us some view as to how private enterprise can fit into these very things we are talking about, bearing in mind that in our world private enterprise controls three-quarters of the economy, at least, which is so very different from the Communist world.

Now, how can we do what we all seem agreed must be done, and yet not have private enterprise responsible for perhaps an uncoordinated policy, because we have not tied it in?

Mr. COLLADO. That is a rather big order, Senator Javits. But if we talk about the underdeveloped nations—you referred to those—I think it is quite clear, first of all, that there is a large flow of private capital into the underdeveloped areas. We all know that this flow carries with it, in addition to the financial resources, a great deal of the management, technology, and the rest of what is necessary to enable private enterprise to use successfully the physical and human resources of the country to which it goes.

Now, this can be expanded.

The problem, I am sure, to which you are directing your question—because we have talked so much about it in the past—is what to do about the areas between the ones that private capital will go into, if it is at all welcome, and if there is any reasonable degree of economic incentive for going in, and the areas which, because of their very special governmental aspects, are almost certain to be handled by the governments. This is a big in-between area. And it seems to me that one of the big problems of the aid and developmental programs of the next 10 years is how to use the energies, the initiative, the incentive, and the inventive ability of the private enterprise system, which seems to work pretty well in this country and in Western Europe, (1) to aid the governments in the parts of the programs that they must carry out and (2) to share in and gradually fill out as much of the remaining areas as is possible.

Now, I know that all of the governments, the Development Assistance Committee of the OECD, our own new AID administration, and its new Director, Mr. Hamilton—I talked with him about this only the day before yesterday—all agree in principle that this is exactly what we want to do. The Senator himself has been the author of frequent pieces of legislation which have been enacted, which have directed that this be the policy of the United States. The problem of implementing this policy is a real one, and I think we are all wrestling with it. But it is important that business be invited and urged to move into those areas which open up and which are quite feasible for them.

Now, some of the areas will be difficult for business. The risks may be great, the possibilities of profit may be somewhat doubtful, the possibilities of risk from noncommercial or noneconomic areas or aspects may be too great. And for those areas we have a variety of guarantee programs. I think these will all have to be developed very much more.

Now, this is a difficult sort of thing to carry out on a big scale. But unless the Western World can do these things on a big scale, it is going to fall flat on its face.

I go back to some of your earlier questions. The economic potential of the industrial nations vis-a-vis the developing nations, the markets that we habitually—and you might almost say conventionally or traditionally—afford them, are enormous compared to anything that the Soviet bloc is doing. But we have yet from a propaganda or public relations point of view to make this clear—it is taken for granted, nobody says very much about it—and more importantly, we have not quite been able to obtain in a perfectly decent, cooperative, friendly, businesslike way all the advantages from that that we should. I quite agree with you. I think this is a very urgent problem, and there is no conceivable reason why the Western industrialized nations shouldn't use this to advantage in the overall struggle we are talking about.

Senator JAVITS. Now, may I ask one corollary question.

Do you gentlemen see any likelihood, or do you see any feeling on the part of the Western countries, other than ourselves, especially those doing extensive business with the Soviet bloc—like the German Federal Republic, which does a business approaching a billion dollars a year with them now, and the United Kingdom, which does a very extensive business with them—do you see any receptivity toward negotiating this common position that we are talking about?

Mr. ALLEN. If the implication is that their trade would decline, or that their trade would be regulated in some way, I suspect these allies are not very receptive.

If we are talking about some procedure by which trade with the Soviet area could be regularized, so that not only the United States, but Western Europe and the less developed countries, could feel a little bit safer in dealing with the Soviet Union, if some of the teeth could be pulled from the state trading mechanism of the Soviet area, then I think Western Europe would be receptive. They have been receptive. We have talked about these kinds of problems in GATT and the Havana Conference. They would very much like to see a common, not necessarily individual commercial policy vis-a-vis, but a common set of procedures, so that they could have some confidence that they would not be taken advantage of. They worry about commercial dependence, too; they worry about Soviet pricing policy. They probably worry about it a great deal more than we do, in fact, because they are the subject of it. So they would like to see these kinds of assurances forthcoming from the Soviet Union also.

On these grounds, yes, I think, they would be very receptive if we could figure out the techniques and methods by which we could organize the trading apparatus to bring pressure to bear on the Soviet area to observe the normal American amenities of international commerce.

Senator JAVITS. And you would agree that that would have to be tied to the accessibility of greater markets for the less developed areas in the industrial nations and to an acceleration of the aid to the development plans of newly developing areas, both.

Mr. ALLEN. Yes. I associate myself fully with what has been said in the last few minutes about the real problem that the United States and Western Europe face—the problem of economic development and prosperity of the less developed countries. This should be our real target, and our specific trade policy with respect to the Soviet Union and Czechoslovakia, and so on, are probably not terribly important. Our main job is to see to it that the less developed countries have adequate markets, have as much capital as they can usefully absorb, and pursue policies which are sound from an economic point of view. This is our real task—to promote and to assure, insofar as our resources permit, sound economic development.

I think that regularized trade, which might imply regulated trade also, with the Soviet area, could be a useful adjunct of a total policy whose principal aim was to promote economic development and prosperity throughout the world.

Senator JAVITS. Would any of the other members like to comment?

Mr. PISAR. One of the reasons why our allies are not receptive at this time to efforts to get our ducks in a row, as it were, is that our approach has not been the correct one. We have been saying to them over the years that they should not trade with Communist countries, because such trade is immoral. The truth is that we in the United States certainly don't need this trade. It would be marginally helpful, but we can do quite well without it. But to some of our allies, this trade is quite significant. Our indiscriminate approach—because that is in effect what we have been saying to them, that trading with Communists is dangerous and immoral, and that they should stay away from it—has not been the correct approach. I believe that we should be more selective and sophisticated about it. We should emphasize the common dangers of indiscriminate trade with the bloc on an individual, bilateral basis. Our allies have basically the same interests in these areas as we have. They are as much worried about Communist penetration of underdeveloped countries as we are. They are equally worried about the Communist oil offensive, price disruptions as in tin and alminum and so on. And it is these things, the common dangers, that should be emphasized in our approach to the formation of a common policy.

Now, in order to be in a position to approach our allies correctly, the situation at home should also be reviewed. I believed that what we need is a total new policy package in this area at home and abroad. There are many administrative and legislative obstacles here at home which make it difficult for us to have the proper approach to our allies, so that in order to have receptivity on the other side, we must devise a new policy package which will first clean up the confused and inconsistent situation at home and then make the correct approach on the level of the Atlantic Community.

Chairman BOGGS. In your visit to Russia, why do you think they are concerned about the Common Market?

Mr. PISAR. Well, I haven't heard them say anything explicit on the subject. I believe they are partly concerned because it would mean fewer export possibilities. I believe that they are deeply concerned because they see in it an incipient type of Europewide political unity.

Perhaps their gambit on Berlin is in some way determined by this fear. They feel if they can get some kind of a lever on Germany, they may perhaps offer Soviet Union and Eastern markets to Germany, and make it more difficult to bring about this European unity of which they are so afraid. But here I am straying outside my area of competence.

But fundamentally, my impression is that they are afraid of the Common Market because Communist leadership, Marxist doctrine are perplexed on the subject. They cannot explain what is going on.

They have been saying, in their theory, that the West is on the way down, that it is losing its vitality, that it is going to strangle itself. And suddenly out of the blue, they see this tremendous vitality, at a much lesser price in human sacrifice than is the case in their system.

Now, if you look at their situation, they have certainly made great advances, great educational, economic, and technological advances. But industrially they are still behind. Economically their proclaimed hope is so far no more than to catch up with us. Agriculturally they can hardly feed themselves. The Chinese food program has failed. They produce less food than they did years ago. The Soviet Union is having serious difficulty with its agricultural program. And only a few days ago, from newspaper reports, Mr. Khrushchev said to Ambassador Thompson in Moscow that in agriculture "we are trying to learn from you." So what do you have? You have signs of a growing vitality in modern capitalism. You also have rapid growth on their side, but it is not all that it is made out to be in comparison to what is taking place in the West today.

Senator JAVITS. Now, this leads to the next question, and that is the question of credits. You have used the word "carrot," Mr. Pisar, before, and I assume you alluded to the famous analogy of the carrot and the stick.

Now, what does the panel think about the utilization of enhanced credits which would enable the Communist bloc to buy more, as a carrot in this situation?

Could we have Dr. Collado start that?

Mr. COLLADO. My own feeling on this is a very simple one. So long as I feel that the Russians are determined to wage economic warfare, and this economic war goes way beyond any of the mutual benefits of international trade, I see no reason for exaggerating the benefits to them by extending credit.

Senator JAVITS. Dr. Allen.

Mr. ALLEN. I think I sympathize with this. Certainly governments should not be involved in granting credits. We have legislation which prevents the extension of export credit under most circumstances to the Soviet area.

This doesn't really bother me very much—the fact that we restrict credit. And I don't think it is terribly important to the Soviet area.

The really important problem with respect to credit is in Western Europe. They have extended quite a very substantial amount of a kind of credit a bit beyond commercial credit. It is really intermediate term export credit. I don't have a figure, but I will just take a guess —that it is several billion dollars in the last 2 or 3 years, which has been granted by Western European countries—France, Germany, Italy—to various Soviet area countries.

I think this is a pretty risky business. And this is one reason why I feel that we are badly in need of some standards of behavior, because these West European countries are going way out on a limb in extending credit to the Soviet area. They are taking a chance. They want the market, and they want the imports that the Soviet area can provide. And this is one way to promote trade, certainly.

But I would be a little bit uneasy about the terms and the specific aspects of these credit extensions. I would like to see some unified policy with respect to export credits in the framework of the Atlantic Alliance—not necessarily that would say to the Europeans that they cannot extend credit to the Soviet area, but that if they do, there should be some minimum standards adhered to in the extension of this credit.

Mr. PISAR. I have a small departure from this, and I am afraid that this leads me again too far afield into foreign policy.

I would certainly not change our credit policy at this time and I would try to get our allies to look at the credit problem a little more our way. When I used the word "carrot" earlier, what I had in mind also applies to the area of credits. Credits is something which we could conceivably extend, if the climate were right, if a proper negotiated settlement of some kind could be achieved with the Soviet Union, with appropriate guarantees which would make their policy less aggressive.

Now, in such circumstances, I would consider credits feasible. They could even be used as an incentive to bring about the kind of restraints in their general foreign policy which we would like to see. I think this is particularly significant in view of Mr. Khrushchev's program for Soviet economic development. He has set out for the country at the recent 22d party congress a very ambitious program for development over the next 20 years. I believe he means it. And in order to help him achieve this peaceful development, we may find it expedient to play ball, provided we can get proper guarantees—and I mean effective guarantees—that the blackmail and aggressiveness in their foreign policy will be removed.

Senator JAVITS. Well, are we not in this difficulty, gentlemen. We seem to be agreed that strategic goods, which will really buttress the military potential of the Communist, should not be shipped. That seems to be inherent in the views which are generally expressed—though we may have to make some compromises in order to arrive at a uniform policy. But even in terms of nonstrategic goods, if you are going to couple it with rules of trade and credit, and greatly enlarge this market, are we not fortifying the Communist regime by enabling them to more definitely succeed with their people? Or—and I ask this question—or must we assume that they are pretty firmly entrenched anyhow, and this is not going to make or break them? And that on the contrary it may be an inducing cause to come to terms with the free world, in addition to the other causes which we have been trying to utilize for this purpose.

Would you like to start on that one, Dr. Allen?

Mr. ALLEN. Well, I think I agree with your proposition, Senator. Certainly no one is contemplating the shipment of military items or highly strategic items. This is a matter of military security. This is not a matter of commerce.

What I am speaking of is the great bulk of trade. We often deny any great American trade with the Soviet area. But it is very interesting that American exports and imports to the Soviet area are larger than most of the NATO countries' exports and imports to the Soviet area. Much of this is accounted for by Polish trade, against whom we do not discriminate, incidentally—although the provisions of the embargo still apply.

But I think this general area of commercial policy is an area in which we can come to terms and attempt to force the Soviet Union to observe the standards of commerce which have been built up over a very long period, centuries of trade, which have generally assured that the trade provides only the benefits of trade—that is, the margin of economic benefit.

I do not believe that we can deprive the Soviet area of this legitimate economic benefit from trade. It helps them. I don't think there is any doubt about it. But it also helps us.

In order to deprive the countries of the Soviet area of the benefits of trade, we would have to eliminate the trade itself, and if we wanted to go even further, we could just close our borders, and then they would get no benefits of technology or anything else. But I don't really think this is the kind of image that we want the United States to have in the world. This is not the kind of policy we are pursuing with respect to the less developed countries, or with respect to our allies.

Our commercial policy, therefore, can be a part of an effective tool to convert, we hope, the Soviet Union into a respectable member of the commercial family of nations.

Senator JAVITS. Dr. Collado, would you care to comment?

Mr. COLLADO. Well, I am finding it difficult to find an exact way to express what I would like to say.

It seems to me very clear that the whole history of the last 15 or more years does not suggest that we are likely to find the Soviets receptive to discussions of what I would call normal commercial economic relationships, any more than I would consider the diplomatic and political relationships normal.

It would seem to me that any of the special attractions that we may have to offer, both in our own interests and in the interests of other free world countries, in normal trade within the free world, just are not really suitable subjects for discussion in their applicability to Soviet trade under today's circumstances.

I can see how credits could be a carrot. But I would like to think that the Soviet motivation that we are supposed to influence by the credits had gone a lot further in the direction we hope it will eventually go, before we started using the carrots.

I think this is a question of timing. I don't think these carrots are going to change the Soviet motivation. If there are real signs that the motivation is changed, then I think we can begin to act more normally.

Senator JAVITS. Or that the motivation will change with the use of them.

Mr. COLLADO. Well, I would like to have somebody explain to me how you construct these appropriate guarantees that we talk about. If I were a little more sanguine, I might be a little more sympathetic to the direction.

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Senator JAVITS. Would it be fair, then, to sum up for the panel the following.

Generally speaking you gentlemen do not favor an embargo on trade. Generally speaking you do not favor a relaxation of the restrictions on strategic trade, whatever compromises we may have to undertake to get a unified policy. Generally speaking you favor a unified policy on East-West trade, and an American economic and political effort to get it. And also you favor a unified policy which will counter the Soviet trade offensive in the newly developing areas—the bilateral trade offensive—and, again, utilizing economic and political means to attain it.

And finally you put the highest priority upon this matter, because you have genuine concern that it is hurting the free world materially, and will hurt it even more as we go along, and also that the capability of the Soviet Union for waging effective economic warfare is highly destructive to the free world economy and is increasing all the time. Is that a fair summary of the panel's view?

Chairman BOGGS. Thank you, Senator. Thank you, gentlemen, for your fine contribution to the discussions of this subcommittee.

Senator Bush has requested that two further articles by Mr. Henry Gemmill, in the Wall Street Journal, one appearing on December 6 and the other appearing today, December 8, be incorporated in the record. Without objection, it is so ordered.

(The articles referred to appear in the appendix.)

Now, Senator Javits reminds me that you may have some comments on his summations, which would be your privilege. I thought each one of you assented by a nod of the head. Any further comments?

Mr. PISAR. If I may be permitted just two sentences. I believe that there also exists, as I have pointed out earlier, an urgent need to render more rational the approach to trade and economic relations with the Communist bloc which prevails today at home. I would like to emphasize the need for rendering more rational the currently dispersed administrative procedures and responsibilities is this area which have been apparent in the work of our Government departments and the need for eliminating a number of legislative obstacles which exists to the formulation of this total policy package that you have so neatly summarized, sir.

Chairman BOGGS. Thank you very much, Mr. Pisar, Mr. Allen, Mr. Collado.

The committee will adjourn until 2 o'clock this afternoon.

(Whereupon, at 12:05 p.m., the subcommittee recessed, to reconvene at 2 p.m. the same day.)

AFTERNOON SESSION

Chairman BOGGS. The committee will come to order.

We continue hearings this afternoon on U.S. foreign economic policy. The topic at this hearing is commercial policy proposals.

We are again fortunate in having a panel of four very distinguished witnesses, one of whom, Prof. Peter Kenen, has written a report for the subcommittee on this subject.

In addition to Professor Kenen, I would like to welcome Mr. Morris C. Dobrow, Mr. Julius Stulman, and Mr. Peter Nehemkis.

Dr. Kenen is an associate professor of economics at Columbia University and codirector of the university workshop in international economics. He has served as a consultant to the Treasury and the Council of Economic Advisers, and was a member of President Kennedy's Task Force on Foreign Economic Policy. He has written many articles and reports in the field of U.S. commercial policy.

Mr. Morris C. Dobrow is a public member of the U.S. GATT delegation, appointed by the Secretary of State. He is also the executive secretary of the Writing Paper Association. He has served in many governmental positions, and is one of the top experts on commercial policy proposals.

Mr. Julius Stulman is the president of Stulman-Emrick Lumber Co. and publisher of "Main Currents in Modern Thought."

Mr. Peter Nehemkis is an executive of Whirlpool Corp., a member of the Foreign Commerce Commission of the U.S. Department of Commerce and a member of the economic commission for the Council of Churches of America. He has been very active in the field of investment abroad and similar subjects.

We are very happy to welcome all of you gentlemen here, and we would like to start this afternoon with you, Dr. Kenen.

STATEMENT OF PETER KENEN, ASSOCIATE PROFESSOR OF ECONOMICS, COLUMBIA UNIVERSITY

Mr. Kenen. Thank you, Mr. Chairman.

Allow me first of all to thank you for inviting me to appear here today and for asking me earlier to prepare the study on commercial policy to which you referred. Rather than recite all of the conclusions set out in that study paper, I should like to use these few moments to stress some of the points I made there.

Most Members of Congress have in their own States and districts industries struggling against import competition—firms that would be injured were tariffs to be cut. Most Members also have export industries in their constituencies—firms that would benefit were tariffs to come down. If trade policy had merely to reconcile these conflicting interests, no outsider could offer suggestions. Congress has the task of compromising divergent interests; it should determine where the balance of advantage lies. The choices involved in trade policy, however, have additional implications on which economists may have recommendations to make.

If the Nation must choose as between creating jobs in its import-competing and export industries, most economists would favor the export industries. An import-competing industry that must scale down its output in the face of foreign competition is presumably less efficient than the foreigner at its chosen task. An export industry that can expand its sales is presumably more efficient than the foreigner. To favor the export industry, therefore, is to favor the one that can pay higher wages, grow faster, and earn for the Nation the foreign currencies it must have to import the things it cannot produce as efficiently as other countries.

We are often told that the foreigner is never more efficient than his American competitor; he is merely underpaid. This view runs afoul of fact and theory. Foreign wages are not very low by the best test available—market performance. The United States sells more to the low-wage countries than it buys from them.

Economists are also agreed that an expansion of our foreign trade is essential if the less developed countries are to break free from poverty; that our foreign aid will be wasted unless we promote foreign trade. The United States may already be more liberal toward the low-income countries than some of the other industrial nations. Yet we are not wholly virtuous. The United States severely restricts its imports of lead, zinc, and petroleum, products especially important to Latin America. Our textile tariffs are higher than the average of U.S. tariffs, limiting imports from Asian countries.

Finally, the choice facing the United States is not a simple trade-off of jobs as between export- and import-competing industries. This country may face a net job loss and slower economic growth if we do not pare down other countries' tariffs by lowering our own. The external trade barriers being erected by the Common Market countries will favor firms inside Europe and handicap firms outside. These new barriers will slow the growth of our exports and, perhaps, induce American companies to migrate to Europe. This is not to indict firms that invest in Europe. Many firms go abroad to reduce transport and production costs and to be near a fast-growing market. And even those that migrate to leap trade barriers do not deserve rebuke. Rather than criticize or penalize them, we should work to dismantle the trade restrictions that cause them to go overseas.

The transition to freer trade will be very painful for many firms, workers, and communities. The honest answer to injury, however, is to say "We understand, and we will help." We should not say what we have said in the past. "Do not worry, we can do what we must without hurting anyone." The United States cannot hope to win large tariff concessions from other countries by giving painless concessions of its own; painless concessions are meaningless. For that matter, freer trade would benefit this country, not so much because it would aid exports, but because it would impel a reallocation of domestic resources. It would penalize inefficiency. This reallocation of resources is the permanent national gain from temporary injury.

Mr. Chairman, a liberal trade policy cannot solve all our economic problems. The farm policies of other countries, for example, may continue to hinder our agricultural exports and will not be easily modified by tariff bargaining. Our own farm policies will continue to injure and irritate some of our friends. But unless we liberalize our tariff policies, we will not regain the influence we must possess in order to press for the satisfactory resolution of other economic problems. Unless we do so, moreover, many of our friends will come to believe what some are already saying—that the United States is turning inward, abandoning its commitment to the strength and safety of other free peoples.

What I have said today and at greater length in my study paper may be summarized this way:

The discussions, the premises, the techniques of trade policy must all be new and different.

1. The discussions that lie ahead cannot be like those that have gone before. The dimensions of trade policy are different, impinging upon our major political and strategic interests. The consequences of trade

policy are different, affecting capital transactions as well as foreign trade. The Atlantic economy is differently balanced and the less developed countries face critical choices that will be profoundly affected by our decisions.

2. The premises of trade policy should also differ from those to which we have adhered: Tariff reductions must be designed to encourage imports, not merely to foster exports. Those who are injured must be aided to do new tasks or to do old ones differently, not to go on doing what our friends and allies can do better.

3. The techniques of trade policy should be revised to match the new premises: The President must be empowered to make larger tariff reductions and to employ new concepts of reciprocity. He must, indeed, be able to grant unilateral concessions when these serve the interests of this country and the free world.

Messrs. Clayton and Herter put it well in the study which began this series: "The time has come," they said, "for the United States to take a giant step."

Thank you, very much.

Chairman BOGGS. Thank you, sir.

Mr. Dobrow.

STATEMENT OF MORRIS CARO DOBROW, EXECUTIVE SECRETARY, WRITING PAPER MANUFACTURERS ASSOCIATION, AND A PUBLIC MEMBER, U.S. GATT DELEGATION

Mr. DOBROW. Mr. Chairman, my appearance here today is as an individual in response to an invitation of the Joint Economic Committee because of my having served last summer as a public adviser to the U.S. delegation at GATT in Geneva.

GATT stands for General Agreement on Tariffs and Trade. This conference is pretty much limited to the 37 member nations of the West. Despite the procrastinations and some acrimonious discussion and lots of horse trading, the four previous conferences have resulted in agreements reasonably well carried out. These agreements have reduced the high tariff walls of the twenties by more than 60 percent. Despite the hue and cry of many, the trade of the nations in GATT has expanded. The volume of world trade has approximately quadrupled over the 30 years of the trade agreements program. Since 1950, alone, world trade has doubled.

Bold and farsighted changes in American foreign-trade policy are essential to meet the challenge of a shifting balance of world economic power and new world trade patterns, which are being brought about in large part by the formation of an enlarged European Economic Community, better known as the Common Market.

It is essential that we have new tools to deal with the problems of international trade in a new and challenging world. The forging of these tools is a task that must be shared by all segments of American society—business, industry, agriculture, and labor as well as the Government itself.

During the war and early postwar years of scarcity when every commodity was eagerly sought after, we allowed our products to be exported, but few did anything to foster this trade. We are in a different situation now. Our Nation needs exports to maintain a balance of international payments to keep the dollar sound. Another run on the dollar such as we had last year might lead to devaluation and something like economic disaster for the position of our Nation in the world, to say nothing of great losses to all of us as individuals.

And so these reciprocal trade agreements are important for us. We have to plan to increase our exports as a nation and to take advantage of the GATT conferences. We have to realize that it is a 2-way street. Our tariffs will surely be reduced, and it is up to us to see that the tariffs on our products are reduced in other countries so that we may increase our exports.

Too many companies still think of oversea markets as an occupational outlet for surplus, or as a place to go only when the profit margin is above that realized on sales at home. This is not working at exports; it is merely dabbling in them.

We have the opportunity of participating in the further growth of world trade, but there is much to be done.

The very integration of the Common Market countries gives them an economic advantage over outsiders, which must be overcome by negotiating for a reduction of their external tariff walls. Unless we can do this, we will either find a further flight of capital from this country to construct factories within that wall, or we shall find ourselves in serious economic trouble. If we do not get the external tariff wall of the Common Market down, we may find ourselves not exporting products but exporting jobs.

A new trade policy: Even before the 1961 GATT Conference wound up its negotiations it was increasingly evident that—

(1) Our changed balance-of-payment situation had added difficulty to our ability to bargain. While our balance-of-payment situation improved in the early part of 1961, worsened in the second half, our commitments for aid and military expenditures overseas require an additional gain in the balance of exports over imports to remove threats to the position of the dollar.

(2) Under the present reciprocal trade law the United States has gotten pretty much down to the bottom of the barrel in what it can offer as compensation to the other contracting parties in exchange for their concessions.

Also in previous negotiations the United States has already made such substantial reductions from its high tariffs in 1930 that there is now not much room to go down further unless our Reciprocal Act should permit transfers from the dutiable list to the free list. We still have a few high rates, but these are difficult to remove or reduce because of special political and economic situations surrounding the industries which they protect.

(3) No one can measure or approximate the loss to U.S. trade resulting from the discriminations that will be felt from the Common Market internal tariff rate reductions—presently 30 percent and ultimately to go to 10 percent.

(4) It is also impossible at this point to determine the amount of net discriminations to our trade resulting from the averaging of the external tariffs of the Common Market group.

However, these discriminations are real. They are beginning to hamper our exports and will surely hurt more as the Common Market program develops.

The United States could take a number of fundamental steps which would contribute to the strengthening of economic ties among the Atlantic nations and so make it possible all the more effectively to bring about a true partnership for economic growth with a minimum of discriminations.

We need a bold and definite trade policy that will restore our depleted bargaining power in GATT. The United States must revolutionize its reciprocal trade law to spur American exports to the Common Market.

To do this the United States should develop a new law to be adopted before the expiration of the present Reciprocal Trade Agreements Act.

From here on the bargaining within GATT must be largely with blocs such as EECA, the Common Market group, the Latin American group, the British Commonwealth group, and others that will develop. The bilateral negotiations with the smaller and emerging nations will have to be dealt with sympathetically in order to maintain their interest to remain in the GATT complex and permit them to share in the benefits of expanding trade.

I would like to present here a suggestion for new legislation—a shortcut to deal with the trade blocs and to avoid the coming discriminatory effects that will result to third parties from the inside reductions that have been made or are about to be made within each of these blocs.

Congress should give the President authority to negotiate with the other members of GATT—a program to establish among all the members a maximum external tariff for each country at the amounts indicated for each year.

First, all members of GATT could continue all rates as finally determined in the 1961 GATT Conference.

Therefore, all members would progressively and automatically reduce the foregoing tariff rates which exceed the maximum rate indicated in each of the following years:

In 1963 the maximum tariff for all contracting parties shall be 40 percent.

In 1964 a maximum rate of 30 percent.

In 1965 a maximum rate of 25 percent.

In 1966 a maximum rate of 20 percent.

In 1967 a maximum rate of 15 percent.

In 1968 a maximum rate of 10 percent.

In 1969 a maximum rate of 8 percent.

In 1970 a maximum rate of 5 percent.

Such a plan would bring the North Atlantic community closer together from a trading point of view, and avoid the obvious discriminations that will otherwise develop, without the necessity of joining the Common Market.

Two other methods of effecting all-around tariff cuts have been suggested such as linear cuts and across the board byproduct cuts. I do not believe that these will adequately meet the needs of the situation. In the case of the linear cuts this proposal by the Common Market in the current GATT negotiations have made for untold difficulties. The same percentage cuts on high tariff as on low tariffs did not bring about the desired position of equitable reciprocity.

The same can be said about the across the board byproduct method. Unless this method results in bringing down the tariffs of a particular class of commodities on both sides to the same reciprocal level, you will get a continuation of the inequities we have had in the past.

The suggested method of tariff cuts by percentage ceilings will require those countries and those industries who have not heretofore shared in the tariff reductions already made to contribute their share. Moreover, it will gradually remove all of the inequities that have developed in the 30 years of tariff negotiations item by item. These percentage cuts will be just behind the cuts progressively made within the Common Market, although they will leave a small differential of 5 percent. I believe this should not seriously impede the multilateral trade of the free nations.

To summarize briefly, if England joins the Common Market and helps to create an enlarged United States of Europe with 222 million people, it should be of considerable help and value to the United States. An ally equal in size to us can carry part of the cost of the burden of leadership.

The mathematics of it is something like this:

By 1970, it is estimated that the gross national product of Western Europe will be $800 billion. It is also estimated that the United States of America's gross national product at that time will be $780 billion. Likewise, it is estimated that the Soviet bloc will have, by 1970, an estimated gross national product of $630 billion, and the undeveloped and uncommitted nations, $300 billion.

Thus, the United States of America plus Western Europe would equal $1,580 billion of gross national product versus the Soviet bloc's of $630 billion.

But if the United States goes it alone with its $780 billion versus the Soviet bloc plus the Western Europe, they would have $1,430 billion. This we cannot permit to happen.

If you believe the nuclear race has developed a military stalemate, then our strategic interest in the Common Market is to develop a United States of Europe. If the cold war is to be an economic struggle, then we and the United States of Europe as allies can never be overtaken by the Soviet bloc.

Of immediate concern regarding the United States of Europe—it is clear that this inevitable enlarged Common Market with internal free trade by 1970 or sooner, and an external wall of 15 percent will hurt the business of the outside parties, particularly of the United States and Canada.

In Geneva, we all felt that the solution to our basic problems in the United States—our basic problems of growth, of full employment, of maintenance of balance of payments—all of these required a solution that would not be found in raising the U.S. tariffs, but rather in aggressively developing larger export markets, particularly by obtaining lower tariffs into the new Common Market group. We all felt that should be the major aim of the new Reciprocal Trade Act which Congress will soon consider.

Chairman Boggs. Thank you very much.

Mr. Stulman.

STATEMENT OF JULIUS STULMAN, PRESIDENT, STULMAN-EMRICK LUMBER CO.

Mr. Stulman. Let me say at the outset that I am grateful for the opportunity to present to this distinguished committee my views on economic policy with respect to the so-called underdeveloped areas of the world. The problem of underdevelopment overrides all others in gravity and danger and presents itself to us as the crucial issue of our time. Its enormity needs restatement so that we may condition ourselves, first, to its complexity and importance, and, second, to the principle that nothing in our past experience can be called upon as a solution. Traditional forms of foreign aid, grants-in-aid, technical assistance, student exchanges, liberalization of trade policies, incentives to investment abroad and many other generous and morally sound devices are all good in their way, but they are in each case fragmentary and fractional and hardly scratch the surface of a dynamic solution. The unpleasant fact is that after much effort and the expenditure of billions of dollars, poverty is winning the race and time is on its side.

Clearly, gentlemen, something new is called for, and by something new I do not mean another organization, an additional appropriation, or new disintegrated devices set up one by one to meet separate aspects of a total problem. By something new I mean a bold innovation in principle and method and the formulation of a program in total terms—a program that will by its accomplishment establish that sense of security that is being sought by peoples everywhere.

By way of defining the integrative principle I have in mind let me say that I believe any program advanced by the United States for underdeveloped nations should have the following elements:

1. It should be world-oriented and allow for the participation of all nations.
2. It should make possible development in freedom and without coercion.
3. It should have in it the elements of symbiosis so that each development feeds back to us and every participating nation new values that add to the total integrated growth of each.
4. It should accommodate itself to the revolutionary changes of our time by bringing to bear on every problem the most advanced technical knowledge possible, including the transforming pressure of automation.
5. It should serve the true needs of underdeveloped nations, their psychological and social needs as well as their economic ones.
6. It should, above all, have built into it the seed and stimulus for the continuous creation of new values.

The program I advocate proposes a breakthrough to a new utilization of resources and manpower, and, in specific terms, involves, among other means, the following:

1. The utilization of our excess productive capacity to produce consumer and capital goods for distribution to underdeveloped areas.
2. Incentives to encourage a progressive increase in the productive capacity of the United States.
3. Accelerated and continuous displacement of present productive equipment in the United States by newer equipment and the distribution of displaced equipment to underdeveloped areas.

4. Establishment of a system of international payments on long term credits which can be met out of the future wealth of the now underdeveloped areas.

5. Converting the surplus labor hours in underdeveloped areas into a medium of exchange for goods and services.

6. Provide the opportunity for other producing nations voluntarily to join the United States in the mission to raise the standard of living of all people.

I should like now to talk first to the point of our utilization of excess industrial capacity and of increasing that capacity.

Production at full capacity is feasible of attainment but it requires an ability to override historic blockages which now tie production planning to traditional standards.

The method I propose for full capacity output is a dual system of production, one cycle of which will be used to meet normal market requirements, the other cycle to be used for the requirements of needy nations.

In the first cycle, an enterprise participating in this program will maintain the necessary levels of production, within existing formal patterns of costing, to serve its normal domestic and foreign markets. Standard accounting procedures will continue to be applied in this production cycle, in which overhead and other standard costs will be charged to the cost of production.

In the second cycle, the participating enterprise will assign its total excess capacity to produce products for distribution to underdeveloped areas. Those products will be stripped of those frills and trappings usually demanded in competitive situations. The products are to be made to meet the needs and psychological requirements of emerging peoples at a price they can meet and at a profit to the company supplying them. Prices of products so destined for consumption in underdeveloped areas can be rolled back to include principally costs of direct labor and materials and exclude charges for general overhead, design, warehousing, selling, advertising, promotion, fancy packaging, and like items.

In addition to making products available at low cost to underdeveloped nations, this system will feed back increased profitability to any enterprise adopting it. A company, for example, producing at 70 percent of capacity, which assigns its unused 30-percent capacity to production for needy nations will manage this share of its output at "bargain" costs enabling it to sell at "bargain" prices. But even more important, full capacity production will make possible benefits in purchasing, labor utilization, plant efficiency, and the establishment of new distribution systems which will beneficially affect the total cost. Naturally, products made for underdeveloped countries will have to be uniquely marked and a clear definition arrived at of eligibility for the procurement of goods under this program.

In barest outline, this then is the method I propose by which our surplus industrial capacity can be assigned to meet the needs of underdeveloped areas while returning to us substantial benefits by way of production economies and unemployment absorption.

To take the method a step further, the expansion of productive capacity will result in a greater exportable surplus, and, if wisely managed, can achieve an overall upgrading of our plant and equipment to a more advanced technology. The maintenance of this capacity in fact requires a constant replacement of production equipment by the most technologically advanced substitutes.

The program I propose advocates the creation of attractive inducements to encourage enterprises to underwrite capital expenditure for new, advanced equipment. The tax structure should be revised permitting very rapid depreciation writeoff of equipment used in production for underdeveloped countries. An international pool of depreciated equipment should be established and the equipment retooled to meet the ability and requirements of needy nations. Contributions to this pool by individual enterprises should be paid for under schedules which will encourage replacements by more modern machinery, a process that will enhance our ability to produce quality goods in increasing output and at a declining cost.

I have confidence that many beneficial results can flow from such a displacement-replacement process. With respect to underdeveloped countries, tools and equipment for the erection of factory systems can become available in abundance, with production more apt to be consumed primarily at home. Because the retooled equipment to meet their needs will more than likely not have the same productivity rate as the new, advanced types replacing it, it will not pose a competitive threat in the world's markets. By way of feeding back values to us, the process can result in accelerating our own technological development to ever higher levels. The prospect is one of a long-term process, for as the machine orientation of emerging peoples increases, they too will be stimulated to demand more advanced types of equipment.

We now come to the question of payments. As I conceive it, the distribution of products and machinery to underdeveloped nations should not be part of a grant-in-aid program, but should contemplate payment for value received by the recipient nations. The emerging peoples, however, cannot easily pay for what they may receive. Nevertheless, the underdeveloped nations are rich in manpower, potentially the most productive resource of all. Conversion of this resource into an increasingly productive force will provide the ultimate means of payment for products and equipment. The capability of paying from future earnings will increase as productivity increases.

For the long term, there must be inherent in this program a pervasive faith in the desire and ultimate ability of the now underdeveloped peoples to make good their debts. Supported by such a faith, a system of credits should be established that will enable needy nations to postpone payments. To convert the promise of payment into current receipts, existing international banking institutions can be equipped with an adequate revolving fund. For this fund the present capital of the International Bank, the International Monetary Fund, the U.S. Import-Export Bank and the banking systems of Western Europe may well supply the means. Added funds can be mobilized in the capital markets of the world if the institutions implementing the program continue to enjoy the confidence of financial communities.

The needy countries at the receiving end of this program can set up an exchange system in which consumer goods are traded with their own nationals for hours of labor contributed, for example, to natural resources exploitation, public works, educational institutions, or other construction projects. An underdeveloped country, for example, can purchase commodities under long-term credits made possible by this program. It can then "sell" these commodities to its people for their surplus hours of labor rated at prevailing wage scales. By way of illustration, an item for which the recipient nation is charged $3, and in normal markets sells for $12, may be exchanged for let us say $6 worth of work assigned to a roadbuilding project, construction of an assembly plant or comparable capital developments. In this manner, basic wealth accumulations can be built up. Suppose a volume of goods for which a country is charged $1 million is exchanged for $2 million worth of labor poured into capital projects. The gain in terms of national wealth is $3 million, together with a new capacity to produce economic values, including credit. In the long term, the compounding of national wealth by this means will make possible repayment of the country's debt to the international credit agency. At the heart of this proposal is the rapid transformation of the recipient nation's manpower resources into productive wealth.

While the United States has the potential in resources, know-how, and capital to carry a substantial burden of the program alone, rapid fulfillment of all its material and moral aims can best be attained if all the industrialized nations participate. But whether the United States adopts it alone or in company with other powers, essential to the program is the establishment of a central research-management body, an operating brain, if you will, composed of the best talents available in the world in every field, catalyzing each other to bring to bear on critical problems the latest knowledge in every discipline from theoretical physics to cultural anthropology, from metallurgy to merchandising, thereby establishing a broader reference frame of understanding and knowledge to help create new values.

The primary focus of this group will be to manage the operations of this program and to research its goals. It will be responsible for the design of products that can be manufactured through excess productive capacities and that fit the psychological, social and economic needs of recipients. It will research the potentials in emerging areas that can be encouraged by selected types of industrial equipment. Where necessary, it will create new distribution methods. It will help establish training programs to develop basic skills so sorely needed in the most underdeveloped nations. In short it will examine every situation for its unrealized potential and will, through the insight and imagination generated by its integration, try to create value where none seemingly existed before.

I should like to add also that to preserve the free enterprise character of the program, buying and selling should be wherever possible by private enterprise and the central agency itself should and can be eventually self-supporting and nonprofitmaking.

Management know-how and the men who can teach it are exportable items and should be made available for assignment to needy nations as a basic phase of this program. In fact, as automation advances in the United States, one of the most creative forms of work relocation that we can look to is a very substantial assignment to training jobs abroad of men and women capable of teaching the industrial arts and encouraging the further interchange of goods.

A program as is proposed should diminish the need for many of the traditional restrictive tariffs and gain for us the confidence in our own resourcefulness to meet without fear the issues of freedom and world competition.

We have entered a new era, an era in which our growth lies strictly in our ability to create new ideas and institute new methods, new processes, and new thinking. The challenge to our abilities, our leadership, and our way of life is a total one. It requires a total effort. If we, a small, but vital part of the world's population who are prepared to meet this challenge, do so, we will have earned the moral leadership we now claim. If we fail, we fail not only ourselves, but the aspirations of mankind everywhere.

Chairman BOGGS. Thank you very much.

Mr. Nehemkis, we are happy to hear from you.

STATEMENT OF PETER R. NEHEMKIS, JR., WASHINGTON COUNSEL, WHIRLPOOL CORP.

Mr. NEHEMKIS. Mr. Chairman, it is always a privilege to be invited to appear before a committee of the Congress. I regard the invitation to appear before this subcommittee of the Joint Economic Committee as a very signal distinction, for the hearings which you are holding will, in my judgment, rank with those of the celebrated Temporary National Economic Committee of the midthirties.

This week, you have heard the views of a number of distinguished university economists, and of individuals, who have helped to shape the policy of this Nation. You have also heard some stimulating and imaginative proposals from my esteemed fellow panelists.

As you reach the end of the week, I rather suspect that the testimony to which you have listened has become somewhat repetitive, or so it strikes me as I have read the press reports. With your leave, therefore, Mr. Chairman, I should like to suggest that I be permitted to file both the summary statement and the declaration of beliefs which I had intended to read in behalf of a number of my colleagues from the international business community.

Chairman BOGGS. Without objection, that is so ordered.

(The documents referred to are as follows:)

SUMMARY OF STATEMENT BY PETER R. NEHEMKIS, JR., WASHINGTON COUNSEL, WHIRLPOOL CORP.

In behalf of

Norbert A. Bogdan, president, N. A. Bogdan & Co., Inc.
Mario Capelli, vice president, Rheem International, Rheem Manufacturing Co.
Dudley T. Colton, vice president and general manager, Johns-Manville International Corp.
Charles S. Dennison, vice president, overseas operations, International Minerals & Chemical Corp.
A. W. Elwood, president, FMC International Food Machinery & Chemical Corp.
Elliott Haynes, editor, Business International.
Paul R. Porter, president, Porter International Co.
J. Wilner Sundelson, International Division, Ford Motor Co.
Frank X. White, president, AMF International, American Machine & Foundry Co.

(The views expressed in this summary and the declaration annexed hereto are the individual views of the signers which may not necessarily be those of their companies)

Chairman Boggs and members of the Joint Economic Committee, I am most appreciative of your invitation to appear before this distinguished committee of the Congress for the purpose of discussing with you the scope and substance of a new foreign economic policy.

May I at the outset direct your attention to the circumstance that my appearance is not in my individual capacity but rather in behalf of a number of my colleagues from the international business community. We are all directly concerned with overseas investments, exports, or the operational problems of diverse and varied international businessses.

The names of my colleagues and their company affilations are shown on the face of this statement.

My remarks this afternoon will summarize a declaration of the beliefs of my colleagues. I ask leave, Mr. Chairman, to file this declaration with the committee.

If the United States is to survive the crisis of our time—let alone lead the free world politically and economically through it—we must adopt a new foreign commercial policy that is at once both practical and daring. The alternative is to abdicate our fateful political role on the stage of history, renege the principles of our economic system which have developed on our shores the greatest individual social liberty man has ever known—in short, begin to end our entire noble experiment with "a whimper, not a bang."

This new policy must knit imaginative approaches to foreign aid, private investment, commodity stabilization, international monetary policy, East-West commerce, economic growth at home as well as abroad into the strong fabric of a truly integrated free world economic community. Our approach must start, immediately, with a new U.S. policy on foreign trade.

Here, and now, the United States is faced with both a challenge and an opportunity. The challenge is to compete with our European partners by reciprocally negotiating free access to each other's markets. Europe has already moved to integrate its own trade. We can either become an equal partner with Europe, or slip out of the mainstream of industrial development. Exclusion from this great market would drop us to a second-rate status. The opportunity is to afford the restive peoples of the developing world with a chance to earn their way by freeing our markets to their exports without demanding the same right in return.

Failure to accept the challenge would deprive the U.S. worker of the job of producing for the most populous single market in the world, insulate the U.S. entrepreneur from the spur of competition that made him an efficient producer, deny the central tenet of our economic faith—that freedom, including the freedom to compete, widens the horizons for individual initiative and development, and yields the greatest production of wealth at the lowest cost to the consumer.

Failure to seize the opportunity would indefinitely extend U.S. foreign aid that can sap our strength without building economic muscle in the emerging nations, and inadvertently help a ruthless enemy to subvert 1½ billion people desperately reaching for a better life at home, a respected place in the world.

Free trade with Europe and freer import from the developing countries (a policy in which Europe must cooperate) would give the U.S. domestic economy a much-needed growth stimulus, favor the U.S. consumer, help strengthen the non-Communist world in concert with the West.

Our foreign trade with the rest of the world is by far our closest economic tie with it, exceeding severalfold the combined value of U.S. aid and private investment abroad. Our most vital industries rely on export. U.S. exports to Western Europe alone today are running at the rate of $6 billion a year. To a fully integrated European community, we could sell twice as much annually. Trade with our non-European industrialized partners—primarily Canada and Japan—must be expanded at a comparable rate. At the same time, if we are to build real markets for our exports in the developing countries, as well as to assure continuing dependable sources of raw materials, we must buy more of both their commodity and their increasing industrial goods exports. (Here "we" means the industrialized Northern Hemisphere of the free world as a whole.) Taken together the economic strength of the free world greatly exceeds that of the Soviet bloc. By 1970, it is expected that the non-Communist world will still account for 76 percent of world GNP. But disunited and struggling to secure a commercial advantage over each other through trade restrictions, the free nations would in effect put their strength at the service of the Soviet bloc.

As a group of businessmen connected with a wide variety of industries, the undersigned propose the following trade program:

(1) The President should be authorized to negotiate a reciprocal arrangement with the European Economic Community assuming full trade responsibilities over a period of at least 5 years. Under this program, the United States, Western Europe, and Canada would gradually negotiate free trade amongst themselves.

(2) The President should be authorized also to negotiate step-by-step elimination of U.S. barriers against the exports of less developed countries. These countries cannot be expected to reciprocate immediately by opening their markets to the full force of world competition, but due consideration should be given to special temporary international marketing agreements to minimize short-run disruptions. U.S. aid and private foreign investment policies should be integrated with this phase of the trade program. Similar efforts by other industrialized nations should be encouraged through multilateral organizations such as the OECD and GATT.

(3) Finally, the President should be authorized to deal with other free world industrialized nations through a combination of the above two approaches. Australia, Canada (if it did not join in the first approach), and particularly Japan must be gradually enlisted in the drive toward free trade between such economically developed countries.

This Presidential authority, which experience has demonstrated as the only effective means to trade negotiations, must be flexible to match fast-changing world conditions. It would succeed current authority under the Reciprocal Trade Agreements Act without weakening the existing advantages of multilateral bargaining. But the handcuffing restrictions of present "escape clause" and "peril point" loopholes in the existing trade law must be supplanted.

Recognizing that temporary domestic economic dislocations must be minimized, the new trade law should provide for a Federal adjustment assistance program, and a method of determining true defense essentiality of selected U.S. industries.

The adjustment assistance program should be designed solely to shorten the period in which resources displaced by new imports are used unproductively or not at all. It should not attempt to prevent readjustment or preserve the status quo through subsidy. It should include such measures as worker retraining, loans to finance plant improvement or shifts to new output, amortization, and other tax benefits, stimulation of diversified new investments in depressed areas.

Defense essentiality must be considered in the framework of the free world defense alliance, not as an attempt to achieve continental autarchy within the shores of the Western Hemisphere. The new Office of Emergency Planning (Defense successor to the OCDM) should continue and intensify its supply requirement studies along these lines. Measures to protect true defense essentiality should not impinge on the new trade program unless absolutely necessary, and then only temporarily. The United States, pursuing a policy of free trade in its own enlightened self-interest, can hardly afford to single out defense industries as the last bastion of protected inefficiency.

In the case of both adjustment assistance and defense essentiality even temporary postponements of tariff reductions should be used rarely. The emphasis must lie with other positive aids to readjustment through financial and technical assistance.

We are aware that a program such as we have outlined is not wholly "cost" free, but we believe it is cheap at twice the price.

The Brookings Institution has reported that unilateral U.S. moves to increase imports by $1 billion a year in competition with a range of 72 protected U.S. industries would displace only 86,000 domestic jobs. This does not take into account the new jobs created by increased exports. Experience in Europe reveals that increased competition spurs modernization and efficiency rather than destroying industries and creating unemployment. The United Kingdom now estimates that, if it drops its tariffs 50 percent, import displacements will hardly be noticeable.

A bold, imaginative, and realistic new trade program will more than pay for scattered temporary readjustments in creating vital new economic growth within the United States as well as throughout the free world. Such a program will be supported by the vast majority of the U.S. public. A timid approach, looking only to an extension of the present act will be as unattractive to the public as it will be ineffective to the strategic interests of the United States. If we close our eyes to the realities of today's and tomorrow's world markets, we will wither the U.S. industrial might, stagnate our economy, petrify our initiative, lose jobs and lower our living standards at home, and hand international communism a victory abroad.

A Statement on U.S. Foreign Trade Policy by a Working Group of the Business Community

Norbert A. Bogdan, president, N. A. Bogdan & Co., Inc.
Mario Capelli, vice president, Rheem International, Rheem Manufacturing Co.
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Paul R. Porter, president, Porter International Co.
J. Wilner Sundelson, International Division, Ford Motor Co.
Frank X. White, president, AMF International, American Machine & Foundry Co.

(The signers of this declaration are expressing their own views as individuals, which may not necessarily be those of their companies)

A CHALLENGE AND AN OPPORTUNITY

The United States is facing both a challenge and an opportunity in its foreign trade from which it must not flinch.

The challenge is to match our wits and capabilities as the world's most productive nation against our European trading partners. We can do this by throwing open our doors to their products and services at the same time they drop their barriers to our own competition.

The opportunity is to provide the struggling peoples of Africa, Asia, the Middle East, and Latin America with a chance to earn their way in the world by eliminating our tariffs against their exports without demanding any reciprocity in return.

Should we fail to accept the challenge in Europe, we shall have contributed to depriving the American worker of the job of producing for the most populous single market in the free world. Should we fail to accept the challenge in Europe, we will insulate the American entrepreneur from the spur of competition that made him a driving, efficient producer. We would be denying a central tenet of America's economic faith: that freedom—including the freedom to compete in the marketplace—provides the greatest scope to individual initiative and development, and yields the greatest production of wealth at the lowest cost to the consumer.

Should we fail to accept the opportunity in the developing countries of the world, we will unnecessarily extend their reliance on us as a nation willing to furnish economic aid both from charitable as well as survival reasons. And we will smooth the path for a ruthless enemy to subvert 1½ billion people who hunger for respect and a better life.

By opening our trading doors to Europe on a reciprocal basis, and opening them to developing countries unilaterally, while pressing Europe to do likewise, it will confer signal benefits on the United States for both the short and long runs. It will provide the American economy—whose rate of expansion has languished in recent years compared to the rest of the world—with a major stimulus to growth. It will provide an unparalled boon to that often hard-pressed citizen, the American consumer. It will have an enormous psychological impact on the developing countries by helping to keep them in concert with the West in our common quest for security. It will knit together the free world in its pursuit of freedom as no other single move could possibly do, while simultaneously strengthening the non-Communist world by underpinning its basic viability.

COSTS VERSUS BENEFITS

The cost to the Nation of these moves does not begin to compare with the benefits. The Brookings Institution, in the first comprehensive study of the impact of trade liberalization on U.S. employment, has analyzed 72 protected industries whose products might be threatened by imports. The report reveals that a unilateral program of import liberalization which increased U.S. imports by $1 billion, including products competing with the whole range of the 72 protected U.S. industries, would displace a total of only 86,000 American workers. And this figure ignores the rising employment in export industries in response to reciprocal tariff reductions in Europe. The experience of European industry under the impact of integration on the Continent belies the fear that new, massive competition destroys entire national industries or even causes major disruptions and job displacements. Rather, it causes formerly protected companies to modernize and to expand into allied fields, with a consequent boost to productivity, income, and employment. The experience in postwar Germany confirms the validity of this policy.

In brief, the bold trade policies we must adopt will do some damage as well as confer huge benefits to the Nation. But the damage will be narrow, it will be temporary—and it must not deter us for a moment in making these historic decisions. As the President himself has warned, the tide of events is sweeping too rapidly for delay and indecision: the time to act is now.

TRADE AND THE FREE WORLD

The flow of trade between the United States and the rest of the world is by far the most massive economic tie. Our foreign trade exceeds the combined value of aid and foreign investment several fold. Our exports are a major market for many of our most vital industries. The United States cannot have healthy economic relations with the rest of the world without vigorous and expanding trade.

Western Europe, inspired by the historic example of the United States, is uniting into a single market. The movement began with the six continental nations of the European Economic Community, but its force is now sweeping up Great Britain and the rest of Western Europe. Dramatic results are flowing from this development. Production is leaping ahead in Western Europe faster than in the United States under the stimulus of competition and the emerging mass market. Trade opportunities are expanding rapidly. A fully integrated Western Europe, which we believe is coming soon, will be a market of consumers more than half again as large as the United States, and with rapidly rising incomes.

Today, we export annually more than $6 billion of our products to Western Europe. This could potentially double in the next decade. The market we now have in Europe, the hope for the future, the added stimulus to our own economy of participating in Europe's dynamic growth—all depend on close economic links between the United States and Europe.

The forward thrust in Europe does not give us the choice of standing still. We can either strengthen our links with Europe or slip out of the mainstream of industrial development.

If we insulate ourselves from the competition of the world market, American industry, which has been properly hailed as one of the wonders of the world, faces the prospect of becoming second rate.

OPENING OUR MARKETS TO THE UNDERDEVELOPED COUNTRIES

The second fact which the United States cannot ignore is the rising demand of the underdeveloped countries for a better place in the world. No longer willing to accept a bitter, marginal existence as their preordained fate, the underdeveloped world is searching desperately for sources of capital to hasten its economic growth. Generous as we have been, aid will never be more than a small fraction of the foreign exchange earnings of these countries. The markets of the industrial world must stay open to the goods of these countries if they are to escape from poverty. There must be markets for the growing volume of industrial goods from these countries. There must be markets for their raw materials. If we do not permit these nations to earn their way by selling their goods to us, we have the bitter choices of supplying them with aid indefinitely; seeing them flounder and sink into despair; and eventually taking the only road open to them—the road to Moscow and Peiping.

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SOVIET BLOC EXPOSURE

The challenge to the United States by Western Europe and the developing countries would be serious enough alone. We cannot, however, forget that failure to develop sound, constructive economic relations among the free nations will expose the United States and our friends to the exploitation of the Soviet bloc. Taken together the economic strength of the free world greatly exceeds that of the Soviet bloc. By 1970 it is expected that the non-Communist world will still account for 76 percent of world GNP. But disunited and struggling to secure a commercial advantage over each other through trade restrictions, the free nations will in effect be putting their strength at the service of the Soviet bloc. The economic rivalry of the Soviet bloc need not concern us unduly, unless by falling into commercial warfare amongst ourselves we assist the Soviet bloc in bringing about our own downfall through savage exploitation of our own disunity.

A FRESH APPROACH TO U.S. COMMERCIAL POLICY

The United States has grown great and prosperous by creating a large, open market in which entrepreneurs were free to create new competitive industry at will. Enormous change within the American economy takes place without great hardship as old industries transform themselves. The challenge now is whether we have enough belief in our own ideals and enough self-confidence to accept on a worldwide basis the philosophy which has made us great. For our own economic health and welfare we need to join in a new effort toward free world economic integration based on the ideals of America. For our own future and security we need to do our part to strengthen the economic community of the free world.

The changed realities of the trade world call for a new approach to U.S. commercial policy. The immediate need for action arises from the expiration next July of the Trade Agreements Act. This act, which marked a decisive turn away from protectionism in the midst of the great depression, was valuable for at least two decades. The sweep of events, however, has rendered the whole concept of the Trade Act obsolete and incapable of serving our interests today. The nations of the Common Market are abolishing their trade barriers by general horizontal reductions. We cannot expect to deal effectively with the Common Market unless we break away from the item-by-item tariff bargaining permitted by the Trade Act. We cannot participate effectively in the development of the world economy so long as our negotiating position is hampered by the restrictions of the peril point and the escape clause.

As a group of businessmen connected with a wide variety of industries we propose the following program as one that will promote American economic health and the strength of the free world.

A NEW PROGRAM—THE COMMON MARKET

First, we propose that the United States announce its determination to work together with Europe toward the elimination of trade barriers. Experience demonstrates that the only effective way to negotiate on trade questions is to give the President prior authority to conclude agreements within appropriate limits. The President should be authorized to negotiate an arrangement with the European Community involving the full assumption of trade responsibilities over a period of time. This would mean that the United States would gradually open its market to Western Europe and in return would have mounting access to what will become the greatest market in the world. And we would confidently expect that our North American partner in OECD, Canada, would join us in this transatlantic move.

A NEW PROGRAM—THE LESS DEVELOPED COUNTRIES

Our relations toward the less developed countries must be on a different basis from those with the industrialized nations. We cannot expect them to open their markets to the full force of world competition. We propose, therefore, that the United States undertake to eliminate, by stages and with due consideration for special economic problems, all trade barriers on the goods of the less developed countries, and that it encourage other industrial nations to follow suit. We would not require a reciprocal reduction by the developing countries of their trade barriers on our exports. At some future time when their industries have matured we would expect them to assume heavier responsibilities.

It should be noted that these proposals are not meant to deny the imperative need for other programs to lift the poorer nations to a more decent level of existence. A vigorous program of foreign aid, carefully integrated with increased direct private investment in these areas, is mandatory, as is a program, far too long delayed, to improve the stability of international commodity sales and prices.

A NEW PROGRAM—THE INDUSTRIALIZED COUNTRIES OUTSIDE THE EUROPEAN COMMUNITY

The question of our trading relations with industrialized countries outside the European Community must be treated in yet a third way. Reciprocity in tariff reduction on their part is obviously necessary. Thus, in addition to extending tariff reductions (reciprocated) to Europe, we should also negotiate reductions with Japan, Australia, and like industrialized countries outside Europe, receiving freer access to their markets in return, certainly in the spirit and, if possible, within the framework of the GATT. In these efforts, the benefits of freer trade to us and to the free world should be our guiding principle. Japan, in particular, must not be left isolated. It is our second largest customer. We should continue to press, as we have since the end of World War II, for greater acceptance of Japan as a full-fleged member of the world trading community.

THE COST IS MINIMAL

A sweeping move forward on these three fronts could not be taken cost-free. But all indications are that the impact of free imports on the U.S. economy has been grossly exaggerated. In terms of firms whose sales and profits will be adversely affected, or with workers who would lose their jobs, we are considering a number of scattered firms and individuals whose problems may be more readily capable of solution than is generally realized. If we assume that we will be moving toward a free trade goal during a period of high business activity and approaching our national norm of full employment, the problems would hardly exist at all.

The impact of free trade has been readily observable in the Common Market, where for the past 3 years internal EEC tariffs have been moving downward across the board, with few exceptions, toward 50 percent of their previous levels at the end of 1961. The coincidence of this rapid breakdown of tariffs, quotas, and other restrictions with a healthy economic growth throughout the Community has resulted in a negligible impact upon those firms and workers who have been affected by imports. Indeed, the specific institutions and program of the EEC which were created to meet the displacement problems brought about by a dismantlement of trade barriers have hardly been called on to function or to utilize any of the resources at their disposal.

The British Government now estimates that, in the event of the United Kingdom's accession to the Common Market in a period of full employment, such as is now enjoyed in that economy, there will be hardly any noticeable impact of imports even if tariffs are dropped at once to 50 percent of the current level as part of any United Kingdom requirement to keep up with the Common Market's tariff reduction timetable. It is questionable also whether the United States will fully implement a tariff reduction and quota elimination program unless the domestic economy were in a position to absorb nearly all of the dislocations which might be brought about. Hence, the kind of adjustment assistance which selected firms, individuals, and possibly smaller single industry communities will have to seek would, in terms of the overall U.S. economy, be minor. This does not deny the seriousness of the impact which might fall on some firms, categories of workers, or communities.

SOME GUIDEPOSTS FOR AN ADJUSTMENT ASSISTANCE PROGRAM

In designing an adjustments assistance program for the United States we must recognize several principles. First, we will not be seeking to prevent dislocations, nor will we seek to preserve the status quo. We will merely seek to protect the economic welfare of the individual, the firm, or the community which could not with its own resources and those available to it normally in the economy find a new place in our growing and constantly changing economic scene. Secondly, only in exceptional cases should the remedy be sought in the temporary curtailment of the import to which the damage is attributed.

There may be certain adjustment problems the solution to which could be postponement of a tariff reduction. Such postponements, however, would represent rare exceptions, since the overriding concept would be the provision of adjustment assistance to those adversely affected by the import.

In basic economic terms, adjustment assistance should be designed to shorten the period in which resources displaced by new imports are used unproductively or not at all. It will be economic for the United States to pursue such adjustment assistance where needed because by facilitating reentry of such affected resources into productive uses, the economy's potential output will be increased. In this respect, adjustment assistance would be moving parallel with a whole host of domestic programs and with the normal pattern of changes in our economy, all of which have the same goals.

What the American econnomy needs and what adjustment assistance will provide is a stimulus for our weaker or more vulnerable producers to adapt to new world conditions—not relief or an escape from the need to do so. Import competition is looked on as one of several factors identifying weak sectors of the domestic economy, depressed areas, or pockets of chronic unemployment. The adjustment must therefore be comparable to the forces which facilitate changes and the dislocations constantly taking place in our economy.

Much thought has already been devoted in the United States to just how an adjustment assistance program could be developed as a necessary adjunct of our realizing our potentialities and accepting our responsibilities in the world we live in. For example, in 1954 a stockpiling device was used to help a primary industry in an effort to find a solution other than banning of imports. The United States did not, however, develop a comprehensive or politically digestible approach to the problem of coping with the import impact of a changing foreign trade policy. We now urgently require such a policy.

It must not be a policy of compensation or of subsidy: It must be carried out by the Federal Government, but it should be limited in scope; and it should be temporary in its duration. It should be activated only in response to an adjustment assistance required by the affected parties who have previously exhausted a wide variety of alternative possibilities normally available.

There are many instrumentalities of adjustment already existing, as, for example, those through which the Federal Government helps small businesses. We are currently discussing at the national level comparable instrumentalities designed to promote export. Such policies and instrumentalities provide the nucleus for carrying out the adjustment assistance recommended. Included in any such assistance program should be measures such as these:

1. Assistance to labor retraining programs in which all elements—management, labor, and Government—would participate. Also, furthering the mobility of workers desiring such mobility.
2. Low-interest-rate loans to finance new assets required to improve existing production or to enter new fields of production.
3. Special amortization allowances in the handling of affected equipment as well as other tax privileges designed to accomplish particular objectives.
4. The stimulation of new investment designed to accelerate diversification in the problem areas.

In principle, the chief function of any Federal agency given the responsibility for an adjustment assistance program would be identification of those individuals, firms, and communities requiring assistance and qualifying them for participation in programs generally already functioning and part of our normal governmental domestic economic machinery.

DEFENSE ESSENTIALITY

A policy for foreign trade must also cope with the problem of "defense essentiality." Such a policy must deal with real defense needs and be so conceived and administered as to make it very difficult, if not impossible, to clothe nonessential industries with a defense mantle. This is a very real danger in the United States since almost every economic sector has had no inhibitions against labeling itself "an essential defense industry." The criteria embodied in legislation, as well as the regulations and procedures which are provided to implement such legislation, should give the Government agency concerned adequate authority to recognize and to provide for defense essentiality.

Similarly, the Executive should have a wide variety of remedies available other than import restriction to preserve the defense capability required. Care must also be taken that neither in the recognition of defense essentiality nor in the use of suitable remedies should any criteria other than defense capabilities be used. There is always the danger that injury to a particular supplier as a result of imports will be confused with a diminution of the Nation's true defense capability.

In pursuing a program for determining and preserving defense essential industries the United States is not alone. Defense considerations are recognized in the rules of the GATT and in other international agreements. However, the United States is also committed to joint efforts in NATO and in the OECD, as well as in other mutual security agreements. Defense essentiality in no single member country, including the United States, can be viewed as a wholly national problem.

Since this mutuality is a fact in military defense programs in the free world, it cannot be thwarted by narrow nationalistic approaches to defense capability. What we must protect is not an unrealistic goal for total self-sufficiency within the continental United States but the defense capability of the Western World to whose survival in our own interest we are committed.

The United States has already recognized the relationship between defense considerations and foreign economic policy in section 8 of the Trade Agreements Act of 1958. From the legislation itself and from its administration, it is obvious that there has been an effort to recognize national economic welfare and to consider national security in its proper focus.

OCDM can be an instrument to cope with problems of defense essentiality. It has made an effort to recognize, in addition to specific defense material for direct military use, national needs for essential civilian requirements, for essential defense supporting requirements, as well as the requirements of our allies during mobilization or in actual war.

OCDM has further examined the availability of capacities both here and abroad, the latter in accordance with strategic considerations which might determine availability during several stages of emergency and mobilization periods. It has translated its findings into the requirements for capacities and materials and skills which will be needed.

With such a supply requirements position, OCDM has prepared itself to undertake comprehensive analyses of individual problems. Understandably, the supply requirements study does not determine actual needs. The particular activity affected, its position in its industry, and a host of other criteria based on the latest developments in the domestic economic programs and foreign economic policy, must be evaluated before a conclusion can be reached.

It is equally encouraging to note that OCDM has in a limited way sought to avail itself of instrumentalities for the maintenance of needed defense capabilities other than the restriction of imports. This is apparently not a fully developed policy of OCDM, but at least it has been recognized that stock piling, rapid amortization, and Government loans, all of which are designed to expand and improve the mobilization base, may be as desirable, if not more so, than limiting the reliance of the United States and possibly its allies on the maintenance of a particular capacity which could not successfully meet the threat of efficient production elsewhere.

The OCDM needs a better legislative directive which makes clear that the defense posture of the United States depends on a dynamic, flexible economy able to reallocate its resources quickly in the face of technological change. It also depends on allies with strong, vigorous economies. These considerations should be taken into account in any definition of defense essentiality.

If OCDM justifiably is concerned with competitive cost and efficiency in defense essential industry, it must have the authority not only to restrict imports but also to remove restrictions, To increase production efficiency, we may have to expose certain elements of defense industries to the competitive forces which can only come from imports. The United States, pursuing a policy of free trade in its own enlightened self-interest, can hardly afford to single out defense industries as the last bastion of protected inefficiency.

CONCLUSION

We believe that there is a rising public awareness of the need for a bold, imaginative, forward move to adjust U.S. commercial policy to the realities of the modern trading world. The recent address by Under Secretary Ball and the statement by former Secretary of State Herter and former Under Secretary of State Clayton—one a Republican; the other a Democrat—is indicative of the public mood: A ribbon clerk's approach to a new trade policy will be spurned—

and properly so—by our people. A bold, fresh, and imaginative conception will be supported by our people.

At this turning point in history, if we are not in the vanguard of economic leadership of the new trading world, we face the prospect of having to abdicate our free world political leadership. For in today's world one cannot exist without the other.

1962 is America's year of decision.

Mr. NEHEMKIS. Instead of reading my statement, Mr. Chairman, whose essential points have already been covered by other witnesses, I would suggest that we follow the method of Socrates and converse together for a short time in search of the truth.

Chairman BOGGS. The method of Socrates will be limited to this part of the panel.

Mr. NEHEMKIS. Very good.

Let us together discuss how the problem of this bold new trade policy looks to a representative of the international business community. Let us, if you will, Mr. Chairman, take a few minutes for a discussion of what might be termed "gut" economics. I should like you to examine with me a few charts, displayed on the easel before you, which will portray for you why a decision has already been reached on the underlying problems with which you are here dealing.

If you will examine the chart which is before you, you will see why the European Common Market excites U.S. manufacturers. In the first column, you have the figures which show the actual market saturation here in the United States. Take the first one, automobiles. We are already more or less saturated 100 percent. But now look at the figure for the saturation of the "Seven" it is only 25 percent. Look at the figure for the "Six", 19.

Now turn to television sets. Here in the United States, the actual saturation is 89 percent for television sets, but in the "Seven," it is 61, and in the "Six," is it only 10.

Now, radio sets—here in the United States, the market is already saturated to the extent of 96 percent, but in the "Outer Seven," it is only 24 percent, and in the "Inner Six," it is only 20.

Let us look at one of the products with which I am most familiar, refrigerators. Here we have a market which is saturated to the extent of 98 percent, whereas in the "Seven," the saturation as of the moment is only 14 percent and in the "Six," it is only 12 percent.

Another product that has a special interest to me, washing machines—in the United States, the market is saturated to the extent of 91 percent, whereas in the "Outer Seven," it is only 23 percent, and in the "Inner Six," it has not even begun, it is only 12 percent.

Therefore, any corporate executive who looks at these figures—and they have been seen by many—would either have to be totally unimaginative or derelict in his responsibility to his stockholders or soft in the head if he did not move very quickly into this lush profit-potential area.

So I repeat, while we are deliberating here, decisions have been made.

Now, let us see how these decisions have been made over recent years. On the second chart, in that first line, you see the total direct U.S. investment which has already gone into the Common Market. It is in excess of $6 billion, about $6.5 billion. The surge began, not last month or the month before, the surge began in 1957 and begins to move up very sharply, as you see, in 1959. Leading that parade is manufacturing.

Let us take a look at the next chart. Now here you see how American manufacturing subsidiaries have already made the decision to move into the greatest potential market which today exists in the entire earth. In the first two bars, you see the percentage of firms that have moved into the Common Market and into the Free Trade Association. The third, red bar is the total, the combined number of American companies that have already moved into the Common Market. In excess of 40 percent of the entire world business by American companies is already being done in the Common Market. The decision has been made.

Let us take the next chart. Now, here is how the money is raised to make this movement into this new, great market. As you can see from the first bar, the sources of funds come in four different ways. From the United States, you have a little over—you have about $500 million. In the next area of sources of funds, you have funds obtained abroad. This means flotations actually made in the European market.

Then you see that the next two large areas come from depreciation charges and from reinvested earnings. I want you, if you will, sir, to direct your attention to the first segment of the bar—funds from the United States. It is something of a fashionable cliche these days, so I read in the press, to assume that, 1, when U.S. funds go overseas for these purposes, somehow or other, this represents a drain of cash.

Now, this is not the way we do business. Very little cash leaves the United States. We buy our equity through the use of equipment. This does not represent any cash flow. So that when the U.S. Department of Commerce reports an outflow of $500 million, that does not mean cash. Very little cash is ever put into an oversea deal. It represents equipment, which we contribute. It represents managerial skills which go into the equity. It represents a licensing arrangement on which royalties may not be returned but contributed to the business.

So I would like, sir, if I may, to nail here and now the falsity of the assumption that, 1, when U.S. business goes overseas, somehow or other, a funnel goes with it and an awful lot of cash begins to flow out of the United States.

As I have demonstrated, this is not the case. As a matter of fact, as you well know, Mr. Chairman, from other hearings over which you have presided, when a U.S. company goes overseas, it issues to its parent company a one-way ticket for a sizable quantity of exports to accompany the plant being erected overseas. These exports consist of parts, components, and intermediates. These make for jobs. These do not take jobs away.

Everything, from the punch card on out, is exported from America. A new U.S. oversea investment sets up a whole pattern of related activities—the designs, the usages of materials—are all American products and items exported from the United States.

Let us take a look at the next chart. Let us see again how the decision has already been made. Here you see the exports to the European Economic Community and the Free Trade Association compared with the intraregional trade of the market itself. What we are sending to Europe obviously is peanuts compared with the $25 billion worth of trade that these markets are exchanging within themselves. And this is only the beginning.

I state with complete confidence, sir, that within two decades, this will be the greatest industrial base in the world. We from the international business community have only moved into the Common Market in, shall I say, regimental strength. We have not approached divisional strength. We have not even approximated Army strength. This is coming.

I leave this suggestion with you, Mr. Chairman, when American technology and American distribution and merchandising begins to take hold, when we have moved in there in divisional and Army strength, you will see the second revolution of the Common Market. Europe today is on the threshold of another revolution—a revolution in merchandising and in distribution. Roughly speaking, they are about 25 years behind us. We know that, and we are going to move in and alter that. When this next great change comes about and when we have put a "half nelson" around half the assets of Europe, you will have those external trading barriers going down. Then President Kennedy will have been furnished with the leverage by U.S. investment in the Common Market to bring those barriers down, because at that moment, the European industrialists will begin to howl to their respective governments. Then the leverage will be on.

Chairman BOGGS. Thank you, Mr. Nehemkis.

I might direct a question to the last panelist, Mr. Nehemkis, who provided the very graphic charts we have had presented here. Assuming you were a member of one of the legislative committees charged with the responsibility of drafting legislation in this field, what would you recommend at this stage?

Mr. NEHEMKIS. Well, I would think that you ought to have at least a five-point program, Mr. Chairman, that should constitute your recommendations. First, the realities of this new world that we are talking about in the Common Market make it inevitable, and the charts demonstrate it, that we have to have freer trade between the United States and Western Europe.

Secondly, I think we have to have freer U.S. imports from the underdeveloped world, without any reciprocity from them in exchange. If the underdeveloped world cannot export to the industrial north, they remain a poorhouse, and you cannot do business with a poorhouse.

Third, I should think, sir, as a legislator, you would have to have measures to enlist the other industrialized nations in exactly the same objectives.

I think, as was pointed out by Professor Kenen and by other witnesses who have appeared before the committee, that this is not going to be accomplished without pain and it is not going to be accomplished without some cost. But whatever the pain, or whatever the cost, it is cheap at half the price for what it will do to the American economy. Therefore, I think you would be bound to recommend a Federal adjustment assistance program. It should not be one that carries with a subsidy, nor should it be one of long duration. Technology causes changes every single day. Changes in consumer tastes bring about changes. There are many roads open to those who will be injured to obtain relief. But communities, workers, businesses which are affected ought to have the benefit of Federal assistance for the short period required for their readjustment.

Then I think we ought to do away once and for all, it would seem to me if I were a legislator, with the nonsense of escape clauses and peril-point loopholes. They are thoroughly obsolete in terms of today's realistic trading world.

Then, finally, I would urge, were I a legislator, that there be established strict standards to distinguish true defense essentiality around which every business is prone to cloak itself, as you well know, from the use of this label to claim trade protection. Defense essentiality should not become the last bastion for protection in the United States.

Chairman BOGGS. The existing trade agreements program expires in 1962. What do you think will happen if Congress does nothing?

Mr. NEHEMKIS. Well, I would think that the effect upon the American business community would be rather shattering. We would as a nation slip out of the mainstream of industrial activity. I think we'd begin to be second-rate. I think that the American business community, and I speak to you as a representative of the international sector, believes that if Congress will enact a realistic, imaginative, bold approach which is practical, which is daring, which will back up the decisions which we in the business community have made, are making, and will continue to make, we think the American people will support that kind of program.

We think also that if you take a ribbon clerk's approach to the problem and merely extend or do nothing, such an approach will be spurned by the American people—and properly so.

Chairman BOGGS. You say the business community. People tell me that protectionism is growing. Do you find evidence of protectionism growing in the business community?

Mr. NEHEMKIS. I would say, Mr. Chairman, that it is articulate, but it is not growing.

Chairman BOGGS. I gather that your statement was subscribed to by quite a sizable group of businessmen?

Mr. NEHEMKIS. That is correct, sir.

Chairman BOGGS. Would you consider that is the expression of hard-headed businessmen?

Mr. NEHEMKIS. Yes, sir; and hard-nosed, too, sir.

Chairman BOGGS. I wonder if the other members of the panel would be good enough to comment on our failure to do anything. We hear about what happens if we pass the program, such as the one that is being outlined now by President Kennedy. What happens if we do nothing?

Would you mind commenting on that question?

Mr. KENEN. Mr. Chairman, I think several things may happen, one of them most serious indeed. We will not stand still economically; we will lose out. We cannot stand still in this area because the world is changing. Going on to do the same old thing does not mean that we are going to get the same old results, because the environment in which we are operating is different.

Chairman BOGGS. What do you mean, we lose out?

Mr. KENEN. I think we will lose out in foreign markets. We will have increasing difficulty with exports. Certainly, we will have an increased stimulus to innovation, to modernization if we do not stand still. This is a convincing argument for liberal tariff policies, that they provide an edge to competition which we need if we are to stay on our toes.

Chairman BOGGS. I have even heard it said that over the long pull, we could even become a second-rate power. What about that?

Mr. KENEN. I do not think I could comment on that, because there are too many dimensions to that statement. But I certainly think that our trade will fall off. That will hurt us.

Chairman BOGGS. Is it possible to be a major economic power today and live in a climate of economic isolationism?

Mr. KENEN. I do not think so, no. If that is to be a second-rate power, we certainly would become one.

May I make one further comment?

Chairman BOGGS. Please do.

Mr. KENEN. There is another dimension to this problem which has not received very much attention. Under the present law, when we raise a tariff under the escape clause, two things can happen: Either we can give to another country a compensatory tariff concession, or we leave the other country in a position to withdraw some concession that it has given to us. The other country cannot sit back and take it; they have to do something. They have either to go home with another concession in lieu of the one we have withdrawn or they have to go home and retaliate, for political reasons. They cannot take what is essentially a hostile act lying down.

One of the difficulties we face, if the President does not have substantial new power to lower tariffs, is that, over the long pull, there could not be a standstill in tariffs, but rather, a retrogression, an unraveling of all postwar efforts made to bring the tariffs down.

If we stand still by leaving the present legislation on the books, there will be a gradual raising of our tariffs under the escape clause. I would be willing to predict that. But that would mean a reciprocal raising of other people's tariffs, until we come into a much more restrictive period than we have known over the last few years.

This is the other sense in which, as I said, "Standing still means going backward." We cannot afford to do that, because increases in other people's tariffs would certainly hurt us enormously.

Chairman BOGGS. Mr. Dobrow, in Geneva, the other countries offered us a substantial concession, did they not?

Mr. DOBROW. I do not think it was too substantial. They offered us 20 percent across the board, but there were notable exceptions.

Chairman BOGGS. Were you there at the time?

Mr. DOBROW. Yes.

Chairman BOGGS. Would you comment on it?

Mr. DOBROW. Well, the Common Market was organized, and they reduced their internal tariffs by 30 percent and were heading to reduce it by 100 percent internally before 1970. In fact, I hear now that they have the target to do it by 1966.

Then the external tariff, with an average of all the tariffs which existed—that averaging looked harmless enough, but really hurt us very much, because the places where we are selling, the countries where we are selling had low tariffs; those that we were not selling in had high tariffs, and if you averaged them, it raised the tariffs in the places where we were selling. This has not yet come into effect, but by various stages, it will eventually.

To ameliorate this to some extent, they offered us the concession of 20 percent. In the first place, they could not get together and offer anything in agriculture which we wanted very much, and which is a very large part of our exports. Then we found they wanted equivalent compensation for their 20 percent linear reduction.

There were a lot of things in there that were not of interest to us and some things that were very interesting to us, where we wanted more than 20 percent and we could not get it. We could not arrive at any balance.

As a matter of fact, up to last week, I do not think they were willing to accept all the concessions we offered as equivalent to their so-called linear 20 percent. In the case of automobiles, we had a tariff of 8½ percent, for instance. Our negotiators were willing to go down 2 percentage points, which is permissible under our reciprocal tariff law. The Common Market was going to have an average of 29 percent for automobiles. All they wanted to give was the 20-percent reduction, which would bring it to 24. Our people asked for 13 percent, and when I left, we were not getting anywhere.

There were a number of things of that kind. I think on the whole, it is good, but coming back to your original question, as a practical matter, the Common Market is now a real thing. Everybody believes in it in Europe, they are going to go down from this 30 percent now, 40 percent the first of the year, they will go down by steps to 100 percent, and as they go down, our exports will be in more and more difficulty unless something is done to bring down the external tariff, because the spread will then be very severe.

Chairman BOGGS. You know, the first chart that Mr. Nehemkis had, the one that shows the saturation in the American market as compared to the lack of saturation in Western Europe, both in the Six and in the Seven, what measures do you recommend for us to participate in that market?

Mr. DOBROW. Well, the program which I outlined was to have an agreement with all the contracting parties to reduce the tariff ceilings progressively in the next 8 years, have a ceiling in 1963 of 40 percent and carry that down gradually until you get a ceiling of 5 percent, which gives people a chance to adjust. Then there would only be a 5-percent wall, which I think, in nearly all of our exports, we could hurdle. That would not be too serious. Then I think we could penetrate that market and, in most cases, it could be done with products made in the United States.

If it would seem more desirable, in some instances, to establish plants in Europe, it could, but there would not be the great necessity. If you had a free trade within the area and you had an external tariff of 15 or 16 or, in some cases 20 percent, many industries would find it necessary, if they are going to penetrate that market, to establish plants within the wall.

Chairman BOGGS. Mr. Stulman, you dwelt at considerable length on exports. What percentage of exports would we have to have, to have actual full production within the United States?

Mr. STULMAN. The idle capacity of the United States is estimated to be somewhere in the neighborhood of $30 to $40 billion of theoretical capacity.

Chairman BOGGS. Idle capacity?

Mr. STULMAN. Idle capacity, yes, representing about 6 to 7 percent of our total capacity. If you are asking whether we are capable of producing goods to reach that full capacity, the answer is "Yes."

Chairman BOGGS. Well, of course, all of that is not attributable to the lack of export markets, is it?

Mr. STULMAN. No, I think it is a lack of a force that we have never created in this country. We need a sort of new force. We need the ability to bring together the latest knowledge and information crossing all the disciplines that I had outlined, so that we can create new values.

Chairman BOGGS. How would you bring this about?

Mr. STULMAN. I believe there should be a quasi-public organization established by those who feel that we should have such a body and have the encouragement of the Government. They should receive a grant or loan to start with. I believe it can be self-sustaining from there on by some fractional percentage of its activities. I have not any doubt that we could swamp the rest of the world if we could harness the kind of thinking that was outlined in my program.

For instance, we talk about refrigerators. With all due respect to Mr. Nehemkis on the conventional type of motor operation, the kind of thinking, I believe, that this body of management would do would be to research the latest thinking in the entire world, and they might come across with the new thermonuclear methods that do not use moving parts and that can be run by solar batteries. They can make a refrigerator at a very low price, make the parts in this country and have it assembled abroad, instead of establishing plants abroad, which I do not object to. It is the application of new thinking to satisfy multiple purposes.

Chairman BOGGS. Is not that going on now?

Mr. STULMAN. No, it is not being done. Everybody is protecting their investment, protecting their patent rights, their franchises, and their equipment. I think we have reached the time in history where we have to think a little bit more than the dividends to the stockholders, at the same time not neglecting them. Integrated thinking is capable of this.

I think we can find solutions for Middle Eastern development, for instance, cooperatively among the nations. But who will do it? No corporation in America will undertake the problem, whereas a so-called management group, coordinating the surplus abilities that we may have, and looking to solve these problems, can, in a sense, solve the social and political problems to the good of the underdeveloped areas. I am not speaking of the highly developed areas.

Chairman BOGGS. Would any other member of the panel care to comment on that observation?

Mr. NEHEMKIS. Just by way of an aside, Mr. Chairman, my company knows all about thermoelectricity. We have equipped the first submarine in this country with thermoelectrical refrigeration and air conditioning. We have a huge laboratory working on that.

I can assure my esteemed colleague that when we can bring the price of the materials that go into those parts down to where it will be competitive with the existing refrigerator, we shall be the first to market it. We are not ready for it yet.

Chairman BOGGS. Well, I am glad you have this assurance.

We hear, in this committee, about the impact upon employment in our country if we move too rapidly in the tariff reduction direction. Now, Professor Kenen, you have made some studies in connection with that subject. What impact upon employment would a substantial tariff reduction have?

Mr. Kenen. Well, Mr. Chairman, I quote in the study which I prepared for the committee work that was done at the Brookings Institution by Mr. Walter Salant and others, which suggests that the impact of trade liberalization would be very much smaller in the aggregate than we sometimes hear; that liberalizing American tariffs will not throw millions of people out of work. This is silliness. The numbers involved are very much smaller than that.

Indeed, one of the numbers that Mr. Salant presents in his study suggests that if we were to increase our imports by $1 billion, we would not lose more than two jobs in a thousand. Now, mind you, that figure allows for the increase of imports, but does not even begin to allow for the increase of exports that is going to create jobs for us.

It is quite true, and I think we have to face this, that if you liberalize imports, you are going to destroy jobs in certain industries. If you are going to buy something that someone else makes, you are not going to buy it from an American factory or an American worker. But it is misleading to exaggerate this gross impact on unemployment. It is misleading to concentrate on this figure because there is the other side, the fact that exports create jobs. There are, indeed, two dimensions to the increase of jobs that we can expect from exporting. On the one hand, when we increase imports, other people have more money to spend on American goods. While they are not going to spend every dollar on American goods, they are going to spend enough to take up some of the slack. That is a point Mr. Salant dwelt on. Then there is the second part, that as other countries reduce their tariffs, there will be a further expansion of American exports, a second part to the expansion, which we get from the fact that additional foreign markets are opened up to us. Both of these have to be taken into account.

While I do not know of any definitive study that will tell you precisely how many jobs will be created against those that will be lost, I think it entirely reasonable to suppose that there will be more jobs created than jobs lost. There are a number of reasons for saying so.

In the first place, there is some evidence that our most competitive exports use a good deal of skilled labor and an expansion of our exports would create a great number of jobs. This is the work that has been done at Harvard by Leontief and others in a study, separate from Salant's work. All of the studies that have been made would suggest that, overall, an increase of our exports along with an increase of imports would create more jobs than it would eliminate.

There is this further point to be made, and I believe I mentioned it in my study for the committee, that in many of the industries that would be injured by the increase in imports, there has already been a decline of employment. These are industries which cannot expand even if you raise tariffs. These are industries in which demand has been sluggish, in which techniques are slow to change, with the result that they are barely moving along. This has nothing to do with imports, this has to do with fashion, technology, tastes, and the growth of demand for other products.

Tariffs, then, do not provide for expansion of jobs in the United States, and largely speaking, protect jobs that pay less than average.

These import-competing industries, those that would be affected by a lowering of tariffs are, in general, low-wage industries, even in the United States. They do not provide the kind of jobs we should want to expand to raise standards of living in the United States. We should create more efficient jobs by opening up export markets through a reduction of trade barriers. I think that is about the simplest summary I can give, sir.

Chairman BOGGS. Would any of the other panelists like to comment on that?

Mr. NEHEMKIS. Mr. Chairman, in connection with the contention that opening up the flow of trade and removing barriers will have a very impact on American industry, I think the British experience is rather useful.

Professor Kenen mentioned the Brookings Institution study.

I would just like to read a sentence from the paper of my colleagues here on the British experience. May I just read this:

> The British Government now estimates that in the event of the United Kingdom's accession to the Common Market in a period of full employment, such as is now enjoyed in that economy, there will be hardly any notable impact on imports, even if tariffs are dropped at once to 50 percent of the current level, as part of any United Kingdom requirement to keep up with the Common Market tariff reduction.

So even in the United Kingdom they don't think there is going to be any impact. Why should it be argued here that they will be any great dislocation?

Chairman BOGGS. Any further comments?

Mr. DOBROW. My experience, of course, has been largely in the paper industry, which certainly in the early years of this century was for high protection.

When the reciprocal trade agreement, which was one sided, was made with Canada in 1908, and newsprint was permitted to enter free from Canada, our domestic newsprint industry really declined. But people found that they could make other things in these mills. And while our paper tariffs today are very much lower than they were 30 years ago, the paper industry has thrived and increased its production, and increased its export substantially.

Our only fear is that we may not be on a competitive basis with all the other major producers in this enlarged Common Market. We know that we can increase our exports. And perhaps one of the finest examples is the development of kraft-liner business in the South, Mr. Chairman, where they are producing kraft liner to make corrugated boxes in place of wooden boxes, and the production is the most efficient, the lowest cost in the whole wrold. Today we are shipping this kraft-liner paper in rolls to Europe, where it is made into boxes. It provides them with a tremendous amount of labor that they wouldn't have had otherwise. It replaces the wooden boxes which are too expensive in Europe. With the advent of the supermarkets in Europe, there is more and more use of these things. Both sides have gained in trade and in employment of labor.

Chairman BOGGS. Thank you, sir.

I asked Mr. Nehemkis what he would recommend if he were sitting on one of these committees. I would direct that question to the other three members of the panel.

What would you recommend?

Mr. KENEN. I would concur in every one of Mr. Nehemkis' recommendations. I am especially glad that he made the point about essentiality. This has become, I think, the latest fad in a long tradition of arguments for protection. I think it has very little basis in a genuine and careful consideration of our own military and defense posture.

I would, as he has, urge a very substantial increase in the President's authority to reduce tariffs, and a change in the method by which he can negotiate. He should be alowed to remove whole classes of duties, or to reduce duties by given percentages, or to give ceilings. All sorts of changes in technique are required.

I certainly would do away with the peril-point provision. And if I were in your position, sir, I would very substantially modify the escape clause to provide, first of all, that the definition of "injury" be much more restrictive than it is now. Under present law, I indicated in my study paper, an industry can claim to be injured merely because there has been increase of imports, even if its own production has not fallen. There has been no real hardship—merely the increase of imports. And that, somehow or other, is interpreted to be injury. And I don't think that definition makes sense.

I would then go on, sir, to suggest that if there is a finding of injury, there should be adjustment assistance, not an increase of tariffs. The escape clause has to be the vehicle whereby we extend aid to injured industries, rather than the vehicle whereby we withdraw tariff concessions.

I would make this further point, as I think he did. If you, sir, propose a program of assistance to injured industries, then that program should be limited in duration—and for this reason:

There are, every day, as Mr. Nehemkis suggested, changes in taste and technology that displace existing products, that displace existing methods of production. It is not the obligation of the Federal Government to go in and compensate everybody who is hurt by some change in the circumstances of competition. The obligation of the Federal Government in this case deos not derive, then, from the fact that we are going to lower some tariffs. It derives instead from a change in the very basic ground rules. Up to now, the ground rules have said that if we lower tariffs we are not going to hurt anybody. And American industry has been able to make its plans on that basis. Those were bad plans; that was a bad rule. If we are going to make major tariff concessions, we are going to have to hurt some people. And this means that we are going to change the rules on which business has been operating.

It is because of this change in the ground rules, not the change in the tariff rates themselves, that people may have a case for compensation or assistance of one kind or another. And so I would propose, if I were in your position, sir, that a program of assistance to injured industries be limited in duration to that period within which industry could not be expected, on its own, to get out of the way of the change in the rules.

Once that change in the rules has been in force for some years, we have, I think, the right to expect that a change in tariff rates would be a normal hazard of doing business. Industry would have had time to get used to the idea. The case for an import adjustment assistance program is that there is to be, if the President's powers are enlarged, a very substantial and sudden change in the basis on which industry has made its plans. It is for that reason alone that Government has an obligation and responsibility to assist.

Chairman Boggs. Mr. Dobrow.

Mr. Dobrow. I would like to suggest again an automatic progressive lowering of the tariff walls, principally in the industrial nations, and if possible, on a reciprocal basis, to bring them all to the same level, so that we could trade both ways, and increase the trade both ways. Some sympathetic handling and exceptions must be made for the newer emerging nations to permit them to sell, and at the same time permit them to have some temporary higher tariffs, until they can work out of their situation.

Aside from that, I am generally in agreement with the previous speaker in the matter of assistance, and the limiting of the time for adjustments.

Chairman Boggs. Mr. Stulman.

Mr. Stulman. I thoroughly endorse what my colleagues have said. This is not my area of qualification. I don't think I could add to what they have already said.

Chairman Boggs. Does any other member of the panel care to make any further comment?

All right, gentlemen. We are very grateful to all of you. You have been very helpful to the subcommittee.

The committee will adjourn until 10 o'clock Monday morning.

(Whereupon, at 3:25 p.m., the subcommittee recessed to reconvene at 10 a.m., Monday, December 11, 1961.)

FOREIGN ECONOMIC POLICY OF THE UNITED STATES

MONDAY, DECEMBER 11, 1961

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY,
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee of the joint committee met, pursuant to recess, at 10:10 a.m., in room 4221, New Senate Office Building, Hon. Hale Boggs (chairman of the subcommittee) presiding.

Present: Representative Boggs (chairman) and Senator Sparkman.

Also present: W. Summers Johnson, executive director, and Richard J. Barber, clerk.

Chairman BOGGS. The subcommittee will come to order.

I have several announcements to make.

Dr. Gaumnitz, who was to be on the panel this afternoon, is unable to come. But we are, however, fortunate to have on the panel this afternoon, Professor Kravits of the Wharton School at the University of Pennsylvania. For the past 2 years he has been engaged in a special study of the European Common Market and our relations to it.

We had previously announced that Under Secretary of Labor Wirtz would appear on Wednesday morning, December 13. Instead, he will appear Wednesday afternoon at 2 o'clock.

We are very fortunate this morning to have three distinguished panelists: Mr. T. V. Houser, chairman of the Research and Policy Committee of the Committee for Economic Development, and recently chairman of the board of Sears Roebuck & Co.; Mr. A. B. Sparboe, vice president of Pillsbury Corp., and member of the Foreign Trade and Foreign Policy Committee of the National Chamber of the U.S. Chamber of Commerce; and Mr. Clay Shaw, who is from my own city of New Orleans and very active in foreign trade matters throughout the United States.

We are very happy to have all of you gentlemen here this morning. Senator Sparkman will be here in a few minutes.

But time is limited. So, Mr. Houser, we would like to hear from you first, please.

STATEMENT OF THEODORE V. HOUSER, CHAIRMAN OF THE RESEARCH AND POLICY COMMITTEE OF THE COMMITTEE FOR ECONOMIC DEVELOPMENT

Mr. HOUSER. Thank you, Mr. Chairman.

My name is Theodore V. Houser. I am appearing before you in my capacity as vice chairman for foreign economic policy of the Research and Policy Committee of the Committee for Economic Develop-

77636—62——17

ment. Where the research and policy committee has a formal position on the matters discussed here, I am stating that position. Elsewhere, I have tried to indicate that I am expressing my own views.

I am reading a summary of my prepared testimony, copies of which are available.

In the last 3 years the nature of the problem our foreign economic policy confronts has been altered by a series of fundamental changes in the world. These changes include the end of the postwar and the complete economic recovery of Europe and Japan, the fact that since 1958 the United States has been running large deficits in its balance of interest payments, the rapid and widening integration of Europe, the disappearance of colonial Africa, and the emergence as a power bloc in the world of many new or newly independent nations is not committed to a world organization as it has been, and the economic offensive of the Communist powers in the free world setting up a pervasive competition of systems. Given the competition of systems, it appears to me that the foreign economic policy of the United States must bring our national influence to bear upon two main streams of events that are reshaping the free world economic picture.

First, the economic—and to some extent political—unification of Western Europe. The unification of Western Europe extends the force of its own weight into another as yet less clearly outlined stream of even broader change, the económic coalition of Europe with the rest of the Atlantic communities.

Second, the striving of the underdeveloped world for the technology and the industrial capacity that has produced high standards of living in the advanced nations.

The Atlantic Community problem focuses at two points: First, the need of the United States and of her neighbors in the free world for confidence that the United States can and will eliminate the deficit in her balance of international payments. Elimination of our balance-of-payments deficit is fundamental to the policy proposals being made here.

Second, the integration of six West European nations into the European Economic Community, the Common Market, which is already far advanced, and the current negotiations between Britain and the Common Market that may lead to the integration of nearly all of Western Europe into one preferential trading area of some 255 million people.

The Research and Policy Committee of CED made the following recommendations in the field of international policy toward solution of our balance-of-payments problem in its statement "The International Position of the Dollar" published this year. First, the division of the burden of common defense among the NATO countries should be realistically revised in the light of the current economic strength of our allies in Western Europe. Second, other developed countries should increase their public and private loans, and their public grant assistance to the underdeveloped countries.

Third, restrictions retained by other countries against investment in the United States, and against tourist expenditures here, should be abolished.

Fourth, the United States should urgently work for general tariff reduction and elimination of nontariff barriers to international trade by all countries of Western Europe and by Japan. The United States should participate in a general movement for low tariffs by all advanced countries.

However—and I want to give strong personal emphasis to this point—most other developed countries have more numerous and discriminatory quotas and other trade restrictions than has the United States, and the new regional arrangements in Europe are introducing further discrimination against the United States.

For these reasons, as well as because of the balance-of-payments situation, it is appropriate that other countries should move faster and further in trade liberalization.

Let me add that the research and policy committee found no reasons in the balance-of-payments situation for changes in taxation of income on American foreign investments.

It is my position that the foreign economic policy of the United States should seek to realize the national benefits that are to be had from international trade, but that we should seek to do so in the light of what are two cardinal points.

First, following World War II, the United States not only gave direct economic assistance to Europe but followed up by permitting Europe to help rebuild its economies, monetary reserves, and its foreign-trade lines by discriminating in many ways against dollar trade. In the first decade after the war, we engaged in mutual technically equivalent reduction of tariff rates with the European countries, but there are grave doubts whether the effective reduction of American tariff barriers was not far greater than the effective reduction of European tariff barriers.

It is therefore, in my opinion, only just that the European countries should make larger concessions to us now than we make to them in any further general lowering of tariffs.

Second, some units of our economy are less able to absorb the effects of tariff reductions than are others.

The restraining of inflation is a facet of the process of the national benefits from international competition. Nationwide labor organizations have power to push up wages at an excessive rate that I believe to be one of the main causes of inflation in the United States. This power is as great as it is because an industry union spanning the country feels no close competition from other workers in the United States. However, as tariff barriers are reduced, American labor will become more conscious of the fact that it operates in competition with other workers, particularly in industrial countries, and that it cannot push wages up too fast without causing unemployment. This will have a salutary effect upon inflation in the United States, and will not cause a reduction in workers real income.

National policy should encourage lower cost of production in industry. Here more liberal rules for the depreciation of capital assets under our tax laws was singled out by the Research and Policy Committee of the Committee for Economic Development in its statement this year, "Growth and Taxes, Steps for 1961."

The main present obstacle to high employment in the United States is the tendency to inflation in the American economy when unemployment is low. Increasing the exposure of the American economy to foreign competition will restrain this tendency, soften the conflict between general price stability and high employment, and permit the attainment of higher employment. That is the expansion of trade, both import and export, undertaken as I have suggested, with proper safeguards, will assist in the achievement and maintenance of high employment in the United States.

In making its initial decision on what tariffs to cut, the United States should seek to avoid serious hardship to domestic industry. By "serious hardship" I mean not possible injury, as in present law, but a reduction of output and employment on a substantial scale where a major part of the labor and facilities released are unable to find suitable alternative employment or uses within a reasonable time. I would use this as the main test for the application of a new escape clause, under which the United States would have authority to withdraw concessions where unforeseen serious hardship arises.

I think we need to make special provision in the mutual tariff reduction program for protection of the industry and labor of higher wage countries, against a very rapid increase, concentrated in a few lines of imports from countries, such as Japan, where wage scales are significantly lower, and where technology is substantially the same as ours.

I suggest that the United States and Europe should adopt a common policy intended to spread and share the entry of the new exports over all our markets, and as evenly as possible. The common policy would include arrangements, with some time limits, for putting the brakes upon the growth of such exports when and as they become disruptive or disorderly in our joint markets. The objective of our negotiations with the European Common Market and the other countries of Europe should contain a substantially greater degree of liberalization of their commercial policy than we give in return.

The following four points seem to me to be basic:

1. Obtaining the above objective will involve a good deal more than tariffs. It means that protective quotas must not be substituted for tariffs. It means also that sales and internal excise taxes should not be applied in amounts or in ways that increase the protection from foreign competition of the item taxes. These and all other nontariff matters that affect the level of effective protection should be considered together with tariff rates.

2. Europe should remove its restraints upon movement of funds, including freedom to convert the currencies of the advanced countries earned by U.S. companies into dollars, and to repatriate the dollars, plus full freedom for foreign nationals to invest outside their own countries.

3. Europe should permit Europeans to bring home higher duty-free allowances of dollar goods, and to be able to spend as much on travel as they like.

4. Most important, Europe should accept, as a fundamental decision in the course of its current integration, the idea that there is an advantage to Europe in using more American farm products. The present European market for our farm goods should be maintained, at the least, and it ought to be possible for that market to grow as a result of the use of lower cost American farm products. Reduction or abolition of protective restrictions is especially important.

The main obstacle to negotiation by the United States of mutual tariff reductions is a fear that should we reduce our tariffs, the result would be serious injury to the domestic economy producing like or directly competitive articles. This peril point philosophy is an outlook that underestimates the American interests, economic and political, in trade, that overestimates the injuries that might result, and that overvalues the significance of those injuries for the national interest. The national interest tends to be lost when attention narrows to the peril point. My recommendation is that there be an overall decision to reduce the total tariff by x percent. This decision could be carried out by reducing every specific tariff rate x percent. It could also be carried out by reducing some tariffs less than x percent and even by increasing some tariffs while reducing others more than x percent. The manifest interests of the United States and other industrial countries in the economic progress of the underdeveloped countries requires that the industrial countries do not maintain high barriers to their imports. In fact, the U.S. tariffs have customarily been quite low or nonexistent on the traditional raw material and foodstuff exports of the underdeveloped world. Nevertheless, there are several problems in this field. One, the United States has recently imposed quotas on three raw materials from underdeveloped countries—petroleum, lead, and zinc, and imposed a tariff on copper. Second, many of the European industrial countries imposed duties and excises on raw materials and foodstuffs that restrict the markets of the underdeveloped countries. Some raw material exporters, especially in Latin America, are disadvantaged by preference given by the European Common Market to imports from its associated territories, mainly in Africa, and by the United Kingdom to import from the Commonwealth.

Neither the United States nor European policy is receptive to increased imports of those industrial products, now chiefly textiles, in which the underdeveloped countries are likely, first, to gain competence, and to which they must look for reducing their excessive dependence on raw material exports. Such imports would, in my opinion, be relatively slow in developing and relatively unimportant to the Atlantic Community group.

Let me add to this last point a caution that we should only open our markets wider to the industrial products of the less developed countries within the framework of an agreed program by all the developed countries for handling, should it occur, a disruptive or disorderly increase of exports, such as I previously discussed in connection with acceptance of imports from countries where wage scales are significantly lower than they are here.

I think the United States should hold itself free from membership in any preferential discriminatory or exclusive association, regional or otherwise. It is the role and mission of this country, as the single biggest free world economic unit, to link, through its massive markets, and through the play of its influence in other markets, the developing supranational economic associations now being formed in the free world, and those free world nations, including Japan, not included in the new associations, to the end that the free world economy should become more flexible and responsive to the factors of efficiency.

Thank you.

(The full text of Mr. Houser's statement follows:)

SOME MAIN CONSIDERATIONS AFFECTING THE FOREIGN ECONOMIC POLICY OF THE UNITED STATES

I. WORLD CHANGES AND U.S. FOREIGN ECONOMIC POLICY

My name is Theodore V. Houser. I am appearing before you in my capacity as vice chairman for foreign economic policy of the Research and Policy Committee of the Committee for Economic Development. Where the research and policy committee has a formal position on the matters discussed here I am stating that position. Elsewhere, I have tried to indicate that I am expressing my own views.

The current background to foreign economic policy

In the last 3 years the nature of the problem our foreign economic policy confronts has been altered by a series of fundamental changes in the world.

End of the postwar era.—First, the postwar era has ended. Europe and Japan are economically recovered, have grown very fast economically, and are entirely competitive now with most of the products of the United States in world trade and in their own markets.

The U.S. balance of payments.—Second, since 1958, the United States has been running large deficits in its balance of international payments—$3.5 billion in 1958, $3.8 billion in each of 1959 and 1960, and, I am told, between $1.5 and $2 billion in 1961. This situation has created two dangers. One is that failure to take steps to end the deficit would cast doubt on the ability and determination of the United States to do so, undermine confidence in the dollar, and precipitate a scramble to get out of dollars into foreign currencies and gold. The other danger is that efforts to correct the deficit would take forms that would impede world trade, impede the flow of investment capital, weaken the defenses of the West, or curtail Western assistance to the underdeveloped world. Our goal—and the goal of the other principal trading countries of the West—must be to eliminate the deficit in the balance of payments of the United States. This is fundamental to the revision of commercial policy I am suggesting here.

Integration in Europe.—Third, continental Europe has given its economic, and perhaps political, outlook a new perspective by the formation of the European Economic Community. In Central America, South America, and elsewhere, other groups of free world nations are banding together, or have proposed to do so, in the hope of widening the scope and increasing the speed of their economic growth.

Changes in the underdeveloped world.—Fourth, colonial Africa has all but disappeared, and has been replaced by a roster of new nations almost without exception uncommitted to world organization as it has been and groping for a new order of things that they hope would better serve their desire for quick economic, political, and social development. Dissatisfaction with what has been has increased rapidly in Latin America. It has already been perverted, in Cuba, into a regime that is leading its people away from freedom in measure as it leads them away from the friendship of the United States, and into the embrace of the Communist powers. Meanwhile, neutralism as between the East and the West has become a political movement of major international importance, taking in a widening number of nations from Egypt in the Middle East and Yugoslavia in Europe to India and Indonesia in the Far East.

The competition of systems.—Fifth, the Soviet Union, and Communist China, have rapidly extended their economic and political influence in the underdeveloped countries of the free world. The Communist objective in doing this was set forth clearly in a statement of the grand strategy of Marxism contained in the third program of the Communist Party of the Soviet Union, adopted this fall. I quote from the text of the draft program that appeared in the New York Times of August 1, 1961:

"Our effort, whose main content is the transition from capitalism to socialism, is an effort and struggle between two opposing social systems, an effort of socialist and national liberation revolutions, of the breakdown of imperialism and the abolition of the colonial system, an effort of the transition of more and more people to the socialist path, of the triumph of socialism and communism on a worldwide scale."

What is left after we brush aside the propaganda overlay here is an unequivocal statement of the intent of the Marxist powers to substitute the Communist internationale for existing world order.

The strategy of free world economic policy

The grand strategy of the free world should not be formed as a reaction to Marxism. Our interests are served by programs aimed at fulfilling the potentials of our own system. But, we can and should be warned by our opponent of the terms of the contest as he sees them: a "Struggle between the two opposing social systems"—that is, a competition of systems.

The competition of systems is probably the most pervasive influence of our times, in economic and other policy. Given the competition of systems, it appears to me that the foreign economic policy of the United States must bring our national influence to bear upon two mainstreams of events that are reshaping the free world economic picture:

1. The economic and to some extent political unification of Western Europe. The unification of Western Europe extends by the force of its own weight into another, as yet less clearly outlined, stream of even broader change—the economic coalition of Europe with the rest of the Atlantic community.

2. The striving of the underdeveloped world for the technology and industrial capacity that has produced high standards of living in the advanced nations.

II. THE ATLANTIC COMMUNITY PROBLEM

The Atlantic community problem embraces the entire range of problems and opportunities arising from international economic relations among the world's most advanced nations, and their relations with those nations that are less advanced. Considering for the moment only relations among the advanced nations, the problems of commercial policy for the Atlantic community—really the industrial nations of the free world, since Japan must be included—focus at two points:

First, the need of the United States, and of her neighbors in the free world, for confidence that the United States can and will eliminate the deficit in her balance of international payments. Elimination of our balance-of-payments deficit is fundamental to the policy proposals I am making here.

Second, the integration of six Western European nations into the European Economic Commnuity—the Common Market—which is already far advanced, and the current negotiations between Britain and the Common Market that may lead to the integration of nearly all of Western Europe into one preferential trading area of some 255 million people.

Needs of U.S. policy

The U.S. balance of payments.—The balance-of-payments problem makes two requirements of us in considering commercial policy: (1) We must be able to ignore the line between domestic and foreign economic policy, and to be able to think of one as a continuance of the other, and, (2) we must be able to think of foreign economic policy in its totality.

What can be done in the field of commercial policy is closely determined by what is done with respect to international investment, the reactions of our international financial system to international economic developments, and the distribution over the free world of assistance and defense burdens. The balance of payments situation to which commercial policy must respond will differ with variations in these factors.

Here at home we cannot escape, or try to pass on to others, the responsibility for conducting our domestic economy in ways that will contribute to solving the balance-of-payments deficit. In its statement issued in May of this year, "The International Position of the Dollar," the Research and Policy Committee of CED made these recommendations for domestic policy with respect to our balance of international payments:

1. There should be intensified public and private efforts to raise productivity in the United States.

2. American business and American labor should reconsider their attitudes toward prices and wage rates in the light of the necessity to avoid inflation, and of the loss by American products of their competitiveness here and abroad.

3. The U.S. Government should continue and strengthen its program for stimulating and assisting the export of American products.

4. The program for the attraction to this country of tourists from abroad should be pushed.

5. Our balance of payments problem should be considered in the determination of our monetary and fiscal policies. Our balance of payments problem should not prevent the taking of steps to achieve and maintain high employment. But these steps must not be so large or so long continued as to push the economy into an inflationary boom.

The Research and Policy Committee made the following recommendations in the field of international policy toward solution of our balance of payments problem:

6. The division of the burden of common defense among the NATO countries should be realistically revised, in the light of the current economic strength of our allies in Western Europe.

7. Other developed countries should increase their public and private loans and their public grant assistance to the underdeveloped countries.

8. Restrictions retained by other countries against investment in the United States, and against tourist expenditures here, should be abolished.

9. The United States should urgently work for general tariff reduction and elimination of nontariff barriers to international trade, by all countries of Western Europe, and by Japan. The United States should participate in a general movement to low tariffs by all advanced countries. However—and I want to give strong personal emphasis to this point—most other developed countries have more numerous and discriminatory quotas and other trade restrictions than has the United States, and the new regional arrangements in Europe are introducing further discriminations against the United States. For these reasons, as well as because of the balance of payments situation, it is appropriate that other countries should move faster and farther in trade liberalization.

Let me add that the CED Research and Policy Committee stated that it found no reasons in the balance of payments situation for changes in taxation of income on American foreign investments.

Commercial policy and U.S. prosperity.—1. The national benefits of international trade: The fundamental economic reason for reducing barriers to international trade is the proposition that if two parties agree freely to an exchange, both parties gain, since, when people are left free to buy and sell where they choose, they will buy what and where it is cheapest to buy, and sell what and where yields them the best return. This process forces a pattern of efficient production and investment. It is an at least equally important longrun effect that freedom of exchange is a powerful force making producers seek out and use the efficiencies to be gained from the most advanced technology, since competition exposes high cost operations to failure.

It is my position that the foreign economic policy of the United States should seek to realize the national benefits that are to be had from international trade, but that we should seek to do so in the light of what are to me two cardinal points:

First: Following World War II the United States not only gave direct economic assistance to Europe, but followed up by permitting Europe to help rebuild its economies, its monetary reserves, and its foreign trade lines by discriminating in many ways against dollar trade. In the first decade after the war, we engaged in mutual technically equivalent reduction of tariff rates with the European countries, but there are grave doubts whether the effective reduction of American tariff barriers was not far greater than the effective reduction of European tariff barriers. It is, therefore, in my view, only just that the European countries should make larger concessions to us now than we make to them in any further general lowering of tariffs.

Second: Some units of our economy are less able to absorb the effects of tariff reductions than are others.

At a later point, I suggest a program for the reduction of U.S. tariffs. Let me anticipate it here by noting that tariffs should be lowered gradually, and that they should be lowered only with due regard to where and how tariff reduction would cause hardships to American industry and labor. Where serious hardships are clearly to be expected from tariff reduction, reductions should be delayed, or slowed down, and the law should provide authority for us to withdraw concessions that cause unforeseen serious hardships. There is no question here of abrupt, or across-the-board tariff reduction, even though the objective is substantial overall reduction undertaken without delay.

The desire to secure faster economic growth by accepting the effects of international competition in order to trade in wider markets is one of the chief characteristics of European integration. The United States cannot afford to insulate itself from this process.

2. Increasing the productivity of labor: The restraint of inflation is another facet of the same process of national benefit from international competition. Nationwide labor organizations have power to push up wages at an excessive rate that I believe to be one of the main causes of inflation in the United States. This power is as great as it is because an industry union spanning the country feels no close competition from other workers in the United States. However, as tariff barriers are reduced, American labor will become more conscious of the fact that it operates in competition with other workers, particularly in industrial countries, and that it cannot push wages up too fast without causing unemployment. This will have a salutary restraining effect upon inflation in the United States, and will not cause a reduction in workers' real income.

3. Increasing the productivity of business: National policy should encourage lower costs of production in industry. In this respect, the Research and Policy Committee of CED laid special emphasis in its statement this year, "Growth and Texas—Steps for 1961," on the need for more liberal rules in our tax laws for the depreciation of capital assets. It said, in part:

"Most other countries, including Canada, United Kingdom, France, Italy, West Germany, Sweden, Norway, Belgium, and the Netherlands have increased tax allowances for depreciation much more than the amount by which these allowances have been increased in the United States in the postwar period. The more liberal attitude toward depreciation in these countries reflects the importance they attach to the need for a high rate of capital formation.

"Because of the relatively more restrictive attitude toward depreciation in this country, U.S. business has been put at a disadvantage in meeting competition from abroad. * * * Given our present balance-of-payments difficulties, as well as our need for growth, it is time to use similar techniques in this country to accelerate replacement and modernization.

"The high tax rates curtail the funds available to business from internal sources and reduce the expected rate of return on investment. In view of the great importance of increasing our growth rate, an effort should be made to moderate these effects. * * * The most direct method of accomplishing this objective is to permit taxpayers to write off the cost of investment at a faster rate."

Public policy reforms below the national level can also contribute to the objective of increasing the productivity of American business by way of reducing industry's cost of production. For instance, costs could be reduced by modernization of local building codes to take account of current building methods and materials. I think the whole field of modernization of State, local and Federal industrial and financial regulation holds many potential opportunities for costcutting, without any reduction of the public protection.

4. Trade and employment: This subject belongs among the national benefits of international trade, but I am discussing it separately for the purpose of emphasis.

The main present obstacle to high employment in the United States is the tendency to inflation in the American economy when unemployment is low. Increasing the exposure of the American economy to foreign competition will restrain this tendency, soften the conflict between general price stability and high employment, and permit the attainment of higher employment. That is, the expansion of trade—both import and export—underaken, as I have suggested, with proper safeguards, will assist in the achievement and maintenance of high employment in the United States.

5. Dealing with hardships: Serious hardship resulting from increased international trade arises when increased imports force the discharge of workers in circumstances where they will be persistently unemployed.

Whether this happens, or does not happen, depends upon a large number of factors: the commodity in question, the amount and speed of tariff reduction, the general level of employment and rate of growth of the importing country, the mobility of labor, and the adaptability of management. I believe that conditions in the United States would permit substantial and widespread tariff reductions without hardships, although, as I have indicated, there are some commodities that will require special consideration; I say this only in the expectation that the tariff reductions that would be granted to us by the European countries would be more substantial and widespread than those we granted, for reasons I have already stated. That is, any general lowering of tariffs must result in a closing of the spread between the higher level of European and the lower level of U.S. tariffs.

In making its initial decisions on what tariffs to cut, the United States should seek to avoid serious hardship to domestic industry. By serious hardship I mean, not possible injury, as in present law, but a reduction of output and employment on a substantial scale where a major part of the labor and facilities released is unable to find suitable alternative employment or use within a reasonable time. I would use this as the main test for the application of a new escape clause, under which the United States would have authority to withdraw concessions where unforeseen serious hardship arises.

Such withdrawals should (1) be made only after a finding that use of Government machinery for facilitating adjustment to escape thhe hardship has not been and would not be effective; (2) ordinarily, be temporary, to allow more time for adjustment, and not be permanent; (3) be balanced off by equivalent new or accelerated concessions; and (4) be made only after the countries affected get a hearing.

6. A special problem: I think we need to make special provision in the mutual tariff reduction program for protection of the industry and labor of higher wage countries against a very rapid increase, concentrated in a few lines, of imports from countries, such as Japan, where wage scales are significantly lower, and where technology is substantially the same as ours.

This has become a much more serious problem over the last 4 or 5 years, as Japan, and to a lesser extent some other countries, including India, Hong Kong, and Egypt, rapidly increased their exports of industrial products. The problem is particular where, as in textiles, such exports have been concentrated in a few lines.

We cannot deny such countries a fair chance to compete in the free world's trade channels. But it is neither fairness nor good management, to permit their emergence as new competitors to be a disorderly, disruptive process. I suggest that the United States and Europe should adopt a common policy intended to spread and share the entry of the new exports over all our markets, and as evenly as possible. The common policy would include arrangements for putting the brakes upon the growth of such exports when and as they become disruptive or disorderly in our markets. Such restrictions should clearly be temporary, and agreement on them should have a time limit.

I would add to this two thoughts:

(1) I consider this to be a matter of the highest importance.

(2) I think the problem should be approached in the spirit of accommodating, by the spreading and sharing process in the free world, the highest possible level of the new exports, with provisions for orderly growth and ultimate elimination of restrictions.

Unity of the West

What the United States should get.—The pattern of trade liberalization in the free world must meet certain minimum requirements of the United States if trade liberalization is to be helpful in knitting the industrialized free world together, and in increasing the efficiency of our system. This is so because (1) the free world cannot be strengthened if the United States is weakened; (2) the effective level of European protection is higher than ours; (3) the United States is faced with deep going alterations in the world flow of trade and finance that imperil our balance-of-payments position, and because (4) Europe and the rest of the free world need continued U.S. participation in the defense of Europe, continued U.S. private investment abroad, continued liberal U.S. policies toward dollar spending by our nationals abroad in addition to investment, and continued liberal U.S. use of foreign services.

I have already said that I believe Europe's corrective action in commercial policy should exceed ours because to a considerable extent our existing trade difficulties with Europe and our existing balance-of-payments problem arise from discrimination against dollar trade by some Western European countries.

To this we must add the fact that the process of creating the European Common Market includes a further round of European discrimination against our trade. This may even be participated in by a much enlarged Common Market, including Great Britain and most of continental Western Europe.

The objective of our negotiations with the European Common Market and the other countries of Europe should be to attain a substantially greater degree of liberalization of their commercial policy than we give in return.

The following four points seem to me to be basic:

1. Attaining the above objective will involve a good deal more than tariffs. It means that protective quotas must not be substituted for tariffs. It means also—and this is an important matter in the sale of American industrial products in Europe—that sales taxes should not be applied in amounts or in ways that increase the protection from foreign competition of the item taxes. When we negotiate a mutual reduction of tariffs, these and all other nontariff matters that affect the level of effective protection should be considered together with tariff rates.

2. Europe should remove its restraints upon movement of funds, including freedom to convert the currencies of the advanced countries earned by U.S. companies into dollars, and to repatriate the dollars, plus full freedom for foreign nationals to invest outside their own countries. This can be of considerable importance to our balance of payments. It will allow both the companies concerned, and the United States, to realize fully the returns upon foreign investment, making the investment what it should be, a two-way flow of dollars. At present, it is often a one-way process.

3. Europe should liberalize dollar allowances permitted to European tourists, and permit them to bring home higher duty-free allowances of dollar goods. Europeans, like Americans, should be able to spend as much on travel as they desire. No European allowance is now as great as our $100 duty-free allowance on foreign goods brought home by American travellers.

4. Most important, Europe should accept, as a fundamental decision in the course of its current integration, the idea that there is an advantage to Europe in using more American farm products. The present European market for our farm goods should, at least, be maintained, and at best should be permitted to grow as a result of the use of lower cost American farm products. Reduction or abolition of protective restrictions is especially important here.

The United States has a particularly great interest in the reduction of barriers to international trade in agricultural commodities. The United States is a relatively low-cost producer of agricultural staples, particularly of wheat and corn. Western Europe took a third of the grains and preparations from grains that we exported in 1960, and close to a half in 1959.

In an efficient organization of the world economy the United States would make much larger exports of farm commodities to Europe than it does. Liberalization of agricultural trade, which is blocked mainly by the use of restrictive quotas, should be a cardinal point of U.S. policy. The fact that we do not allow a free market to operate here is not a deterrance. What is important is that for the major crops, the burden of our subsidies to agriculture is borne by our own consumers and taxpayers. We are not forcing the burden onto other producers by depressing world market prices; we restrain our sales to what we would sell if we had no support programs. The countries that maintain import quotas are, on the contrary, supporting their farmers in part at the expense of potential exporting countries.

What the United States should give.—The main obstacle to negotiation by the United States of mutual tariff reductions is the fear that should we reduce our tariffs the result would be serious injury to the domestic economy producing like or directly competitive articles. This peril-point philosophy is the specific legal obstacle in the way of a U.S. policy to promote America's interests in enlarged trade. It is an outlook that underestimates the American interests, economic and political, in trade, that overestimates the injuries that might result, and that overvalues the significance of these injuries for the national interest. The national interest tends to be lost when attention narrows to the peril point.

I have earlier proposed that we substitute for the present peril-point provision of the Trade Agreements Act expiring next year new provisions for selecting tariff reduction proposals, and for escaping from concessions already made, on the basis of demonstrable serious hardship involving unemployment of workers and equipment due to increased imports, in circumstances where they will be persistently unemployed. This gives the national interest due consideration, and it would let us react to real injuries rather than to the shadow of injury as is often the case in peril-point proceedings.

Methods for reducing tariffs.—A distinction should be made between an overall decision to reduce tariffs and a decision to reduce all tariffs equally, across the board. My recommendation is that there be an overall decision to reduce the total tariff by x percent. This decision could be carried out by reducing every specific tariff rate x percent. It could also be carried out by reducing some tariffs less than x percent, and even by increasing some tariffs, while reducing others more than x percent. I believe that in fact literal adherence to the rule of equal percentage cuts is impossible and undesirable. There will always be some cases in which the argument for an exception is compelling. However, varying degrees of approximation to the idea of equality in the reductions made in different rates are possible. The point here is that there should be a decision on an overall cut, whether or not there is also a decision to try to approximate uniformity in the distribution of the cut among commodities.

III. THE PROBLEM OF THE UNDEVELOPED COUNTRIES

Development assistance

I think it is very generally accepted that we should be engaged in development assistance to the free world underdeveloped nations desiring to make an effort to improve their economic life. The plain fact is that a free world in which 1 billion people are miserably poor can be neither a safe nor happy place for the 185 million Americans with the world's highest living standards. The problem is how to go about development assistance so as to get effective results. The Research and Policy Committee of CED outlined the characteristics of what in its opinion would be an effective development assistance program for Latin America in its statement on national policy, "Cooperation for Progress in Latin America," published in April of this year. They are also the characteristics of an effective development assistance program anywhere, I think, and I am generalizing them briefly here.

1. The underdeveloped countries vary greatly in economic, political, and social conditions. No general policy can be prescribed that can be prescribed and that can be applied to particular countries without first asking whether it is appropriate to the conditions of that country. Our assistance program should be flexible enough to permit necessary variations in its application.

2. The course of development assistance is of indefinite duration. This does not mean that the United States must always be a source of capital for the countries that should get capital from us now. As the level of development in the assisted countries rises, the nature of our cooperative relations should change. But we do not foresee a time when our future will not be interwoven with theirs. We shall continue to be concerned with their policies, and they with ours, and we shall continue to need to cooperate. Our cooperative relationship with Latin America will probably always be of a special kind and scope.

3. Economic cooperation is not a one-way street in which we give and others take. The major effort must come from the people of the underdeveloped countries. They must make the effort in their own interest, but it will also be in our interest.

4. The institutions and policies that grow from the development effort must be adapted from the conditions, cultures, and desires of the underdeveloped countries. It is to our interest that these institutions and policies should be effective in satisfying aspirations while also consistent with the democratic processes. But we should not appraise them by their conformity to our practice, or to an ideal model of our system. Our own experience, and the history of Europe, demonstrate that the variety of policies and institutions under which economies can thrive in a free society is large.

5. U.S. development assistance should find, and use, effective means to give practical support to agreed programs of social development, such as that described in the Act of Bogotá.

6. U.S. public funds should flow to the underdeveloped countries, in increasing amounts if necessary, for use where private investment is by nature inadequate; U.S. private investors should take advantage of opportunities for enlarging the mutually beneficial activities of U.S. businesses in the underdeveloped countries.

7. Our assistance programs should encourage the business community of the underdeveloped countries to recognize and act upon their heavy responsibility in the economic development of their countries.

8. The United States should encourage movements toward economic integration of underdeveloped countries on fair and economic bases permitting realization of the advantages of larger markets and increased competition.

9. Our assistance program should be broadly enough conceived to include a search for ways in which the underdeveloped countries may be assured of a rising trend, and greater stability of their exports earnings.

Trade as aid

I think it might be said that assistance other than that arising from trade can go but the first mile of a very long, in fact, endless, road.

Assistance other than the effects of trade can supply capital to be used in building a nation's economic foundation, and it can lay the foundations of technical and professional learning, and of the governmental and business skills necessary to the effective use of capital. An effective development assistance program will after some period of such direct assistance produce an economy that is able more and more to make its own living, lay aside its own reserves of capital for further development, use and teach the entire range of technology and of professional skills, and take its place in world trade as a nation able to offer desirable goods and services for sale abroad at competitive prices. If its development follows the general outlines of what has taken place in the United States, Great Britain, and the great industrial powers of Western Europe, the developing nation will thereafter in increasing degree use gains from trade to purchase abroad equipment, materials, and advice it needs for its further economic growth.

Therefore, the level of trade the developing nation finds open to it is, in my view, a vital factor in limiting the amount of direct developmental capital, and technical assistance, it may need. If the developing country finds relatively open markets for its goods in the better developed countries, it seems likely to me that its chances of ever reaching the point where it can purchase its needs abroad out of its own resources are better, and that that chance becomes more nearly a probability than a bare possibility.

I do not think, however, that we can hope for such an outcome unless we now, in the early stages of development assistance, open our markets to the products of the underdeveloped countries of the free world to a degree and in ways that will encourage them to look upon trade as both a beneficial and dependable instrument of development. I think this does not imply any special tariff concessions to them—only a realization that a lower level of U.S. tariffs will admit new exports from the underdeveloped countries as well as from the developed countries.

The manifest interest of the United States and other industrial countries in the economic progress of the underdeveloped countries requires that the industrial countries do not maintain high barriers to their exports. In fact, U.S. tariffs have customarily been quite low, or nonexistent, on the traditional raw material and foodstuffs exports of the underdeveloped world. Nevertheless, there are several problems in this field.

1. The United States has recently imposed quotas on three raw materials that come from underdeveloped countries—petroleum, lead, and zinc—and imposed a tariff on copper.
2. Many of the European industrial countries impose duties on excises on raw materials and foodstuffs that restrict the markets of the underdeveloped countries.
3. Some raw materials exporters—especially in Latin America—are disadvantaged by preference given by the European Common Market to imports from its associated territories—mainly in Africa—and by the United Kingdom to imports from the Commonwealth.
4. Neither United States nor European policy is receptive to increased imports of those industrial products in which the underdeveloped countries are likely first to gain competence and to which they must look for reducing their excessive dependence on raw material exports. Textiles are the leading example. Unless present policies are changed, the underdeveloped countries will face serious obstacles if they try to enter the markets of the industrial countries as competitors of any industries already established there. But from the viewpoint of the Atlantic Community industrialized countries, with their large markets, these imports will be slow in developing and relatively unimportant, in my opinion.

Let me add to this last point a caution that we should only open markets wider to the industrial products of the less-developed countries within the framework of an agreed program by all the developed countries for handling—should it occur—a disruptive or disorderly increase of exports, such as I previously discussed in connection with acceptance of imports from countries where wage scales are significantly lower than they are here.

IV. UNITED STATES TRADE POLICY AND THE FREE WORLD

In my opinion, the United States should not try to enter the European Common Market. I am not at all sure we would be welcome; I am sure that we are not prepared to assume the noneconomic obligations of membership.

Nevertheless, we should, I believe, help to organize, and participate in, agencies beyond the national level that will make for a better gearing of free world national and regional policies into a systemic response to the competition of systems.

I think the United States should hold itself free from membership in any preferential, discriminatory, or exclusive association, regional or otherwise. It is the role and mission of the United States, as the single biggest free world economic unit, to link, through its massive markets, and through the play of its influence in other markets, the developing supranational economic associations now being formed in the free world, and those free world nations, including Japan, not included in the new associations. Linkage of all parts of the free world economy through the United States should be used in all cases to see to it that as more large economic units are formed, the free world economy becomes more flexible and responsive to the factors of efficiency, rather than compartmentalized, and insulated from the benefits of competition.

It is my conviction that if we embark now upon the task of helping to reformulate free world international economic policy with these objectives in view, we will not fail to enhance the prosperity and soundness of the U.S. economy, that we shall also be putting to work our most effective instrument for speeding economic growth in the underdeveloped countries, and that we shall be responding successfully in the competition of systems that is basic to our times.

Chairman BOGGS. Thank you very much, Mr. Houser.

Mr. Sparboe, we would be very happy to hear from you. You have always been helpful to the legislative committees.

Mr. SPARBOE. Thank you, Mr. Chairman.

I propose to read my statement as it is, inasmuch as it represents the views of a very large and broad gage of people, individuals, and organizations, and I do not wish to run the risk of being charged with any of my own personal feelings.

Chairman BOGGS. Go right ahead, sir.

STATEMENT OF A. B. SPARBOE, VICE PRESIDENT OF PILLSBURY CORP., AND MEMBER OF FOREIGN TRADE AND FOREIGN POLICY COMMITTEE OF THE NATIONAL CHAMBER OF U.S. CHAMBER OF COMMERCE

Mr. SPARBOE. Public interest in coming months is almost certain to center on increasing awareness of the interrelationship of international trade, investment, and economic development, and of foreign and domestic economic policy. Greater understanding of what is involved is imperative. This responsibility rests uneasily upon the business community and each of us as American citizens.

The Subcommittee on Foreign Economic Policy of the Joint Economic Committee is to be commended for bringing into public focus the several aspects of foreign economic policy. Informed public opinion must be brought to bear on the decisions to be made by Congress upon reexamination of our total foreign economic policy in connection with the expiration on June 30, 1962, of the negotiating authority of the President under the present Trade Agreements Act.

The national chamber, formed in 1912—

> for the purpose of encouraging commercial intercourse among the States, the territories, and the insular possessions of the United States and with foreign nations * * *

is required by its bylaws to concern itself with matters that are—

national in character, timely in importance, and general in application to business and industry.

Its policies are set by its organization members. For 27 years the chamber has had a policy favoring a reciprocal trade agreements program.

The chamber believes that a sound and expanding international commerce is essential to the continued expansion of the economy of the United States and to the achievement of greater prosperity and strength of all nations.

Mutually beneficial trade raises standards of living by providing more goods at less real cost. The United States has a vital stake in promoting measures to achieve a relaxation of discriminatory and restrictive trade practices throughout the world. Such practices include exchange controls, quotas, preferential or discriminatory treatment, subsidies, and other devices.

Import quotas, for example, are usually compatible with the principles of a free market type of economy. Their use requires substitution of Government action for the voluntary forces of the market. Tariffs, on the other hand, even though they reduce the alternatives available to the consumer and the economy, do not bypass the mechanism of demand and supply. Either device means the price of the commodity in question will be higher in the importing than in the exporting country.

Both tariffs and quotas tend to reduce the quantity and quality of resources at the disposal of consumers and producers, and, furthermore, reduce opportunities for export.

It is difficult to demonstrate that in every case a nation is better off by removing barriers to international trade, but the long-range economic benefit generally would be served by a more competitive international economy. The question involves balancing the long-run advantages of international specialization against the short-run adjustment pains to producers hurt by foreign competition.

These considerations are inherent in problems facing the United States in its future relationship with the European Common Market and in adjusting to other changes in the pattern of international trade.

The United States should pursue a constructive and realistic tariff policy which seeks to encourage trade and investment as a means of promoting the growth and cohesiveness of the community of free nations, while affording reasonable protection for U.S. industry and agriculture. The latter condition, the chamber believes, can and should be achieved through an effectively administered escape clause of a trade agreements program. But the determination of injury to imports should be judged in the light of the national interest.

U.S. trade policy should provide our Government with adequate bargaining authority to make effective agreements for the reduction of barriers to world trade. Such reductions on our part should be accompanied by comparable or appropriate elimination of restrictions on the part of other nations. The current problem concerns that of adequate authority to meet the new challenges in world markets.

The proposal espoused by administration spokesmen for Presidential authority to make across-the-board cuts in tariffs, however, has not been clearly explained—that is, as to whether this may, in a sense, be a selective procedure applied to certain categories of goods with still other categories excepted, as is the practice of the European Common Market.

Until clarification is made, the American public may well visualize deep and indiscriminate slashing of all tariffs.

The chamber has welcomed the avowed intent of regional trade groupings in furthering integration of their economics and the expansion of world trade. At the same time, the chamber has urged that every effort be made to prevent divisive regional groupings; and has emphasized that where regional arrangements for close economic associations or complete integration are entered into, they should be consistent with continued efforts to develop and expand the economy of the world as a whole. In particular, as trade barriers are lowered within the Common Market, the degree of discrimination against goods produced in the rest of the world will increase, unless specific action is taken to prevent it.

The chamber has suggested that regional trade groupings not preclude broader multilateral arrangements. Thus, the door would be open for the encouragement not only of merging the two European trade blocks, which have proved to be divisive, but for consideration of lowering their barriers against the United States and other nonaffiliated nations. It should be noted that the chamber has stressed that the harmonizing role of the General Agreement on Tariffs and Trade be strengthened to prevent harmful restrictions on trade and investment involving "outside" countries in relation to Common Market areas. This affects the United States both directly and indirectly, for if we are to minimize the need for aid to developing countries, trade discrimination against such countries must also be avoided.

Again, it has not been made clear by our Government to what extent this instrument of negotiation—the General Agreement on Tariffs and Trade—can or cannot be strengthened to meet this objective. Certainly, this possibility should continue to be thoroughly explored before the United States considers any formal trade alliance which would not include important and emerging trade areas in Latin America, Asia, and Africa.

Foreign trade policy is not a thing apart. It is, in fact, part and parcel of domestic policies to an ever-increasing extent. To assure a growing export and import trade depends, among other things, upon strengthening the competitive position of U.S. products. U.S. Government fiscal and farm price policies, as well as other policies or decisions by Government, business, and labor, affect prices, taxes, wages, costs, and productive efficiency. They have a strong influence on the competitive position of U.S. products in foreign markets. The cost-increasing effect of price supports and high taxes limits growth potential and affects competitive pricing in world markets. Interrelated with trade policy is that of private foreign investment.

The chamber believes in the encouragement of private capital investment abroad. Proposals, currently advanced by the administration to eliminate tax deferral on foreign earned income, would place a penalty on transactions legitimately conducted as a part of foreign trade and investment. The proposals go beyond the correction of abuses.

Tax treatment of income derived from sources abroad should, in fact, instead be liberalized. Other than artificial diversion of income, the "deferral" privilege should be continued as beneficial, and is not, as is sometimes claimed, harmful to the U.S. international balance of payments.

The gain is realized through profit remittances, which consistently exceed new direct foreign investment. To the extent earnings are retained abroad for use abroad, they, also, provide the basis for still further improvement in our balance of payments.

Moreover, private investments go to the heart of the problem in underdeveloped countries, and should eventually replace foreign aid.

Private investment not only is unmatched as a potential source of the capital funds needed for economic development, but carries with it the managerial and technical skills and experience that are so necessary for the most efficient and productive use of capital. Private management is in the best position to determine whether proposed projects possess all of the ingredients required for sound development, and brings to the enterprise it undertakes a continuing responsibility essential to the growth and success of any productive enterprise.

There is, of course, need for worldwide adherence to the enforcement of contracts and to the general rule of law. This is of special importance when governments are parties to agreements or partners in enterprises.

The chamber of commerce has long favored a program of economic and technical assistance to friendly countries of the free world. Economic recovery of other industrial nations has brought to bear the importance of joint action among like-minded nations to assist the developing countries—thus diminishing the burden to anyone. To this end, among other cooperative measures, the chamber supported U.S. ratification of the Convention for an Organization for Economic Cooperation and Development. The hope that OECD holds for the 18 European countries, the United States, and Canada, for the coordination of programs of trade and aid already in being is well on its way to realization.

Finally, policies affecting international monetary transactions, trade, and investment should be formulated in terms of the longrun national interest with due regard to the broader aspect of international relations and national security. Opportunistic policies for short-term relief should not be permitted to jeopardize these long-term objectives.

Thank you, Mr. Chairman.

Chairman BOGGS. Thank you very much, Mr. Sparboe. Mr. Shaw, we will hear from you.

STATEMENT OF CLAY SHAW, ACTING MANAGING DIRECTOR OF INTERNATIONAL HOUSE IN NEW ORLEANS

Mr. SHAW. Thank you, Mr. Chairman.

My name is Clay Shaw. I occupy the positions of managing director of the International Trade Mart and acting managing director of International House, both in New Orleans, La. I deem it an honor to these organizations of New Orleans to have been invited to come here today and testify before the Joint Economic Subcommittee.

From its founding in 1718 by the French, New Orleans (through its port) has served as a vital link between the markets of the world and the rapidly developing economies of the southern and Mississippi Valley areas. A century and a half ago, the location of the port of New Orleans at the mouth of the Mississippi River was considered of such strategic importance to the farmers and producers of the South and Ohio River area that it was the impelling factor behind President Thomas Jefferson's decision to purchase the Louisiana Territory from France.

During the succeeding century, agricultural production in the South and in the Mississippi Valley developed at a prodigious rate in response to the needs of oversea markets. The income generated by these agricultural exports enabled the southern economy to absorb large amounts of manufactured products originating in Europe and other foreign areas. As a consequence of the development of this flourishing two-way trade, southerners obtained a sophisticated appreciation of the intrinsic merits of regional and international specialization and became the leading advocates in this country of maintaining a free flow of international trade hampered by as few artificial barriers as possible.

During the 20th century and especially since the end of the Second World War, the increasing realization on the part of American businessmen of the economy of industrial operation in the South has served to bring about a rising tide of industrial development in the area. The growth of industrial operations in the Southern States has injected a new and unfamiliar emotional factor in the South's traditional international trade posture. Some industrial firms in the area, in response to competitive pressures generated by a combination of factors, have seized upon imports as the sole cause of the problems which afflict them. Rather than calmly assess the effects of changing consumer tastes, the growth of competitive synthetic products, the use of more aggressive marketing techniques by competitors, their own failure to modernize plant machinery and equipment, in addition to imports, some industrialists in the South, as well as in other parts of the United States, have traced all the ills which may afflict their operations to the single factor of imports. Indeed, they have gone one step further—they have openly advocated the scrapping of this country's reciprocal trade agreements program and a return to a policy of high tariffs and import quotas.

The organizations which I represent, comprising a cross section of the business community of New Orleans, strongly feel that the United States cannot turn the economic clock back without setting off a chain of reprisals by foreign nations which would deal our economy a serious blow.

Although the United States is the political and economic leader of the free world, this leadership role is not a vested right. It must be earned by our demonstrated efforts to lead the nations of the free world forward toward ever greater political and economic security. The creation of the European Economic Community has, in particular, made it incumbent upon us to join in efforts to accelerate the flow of trade across the Atlantic Ocean. The emergence of a unified economic unit which comprises some 180 million of our most important customers and which may ultimately encompass some 300 million people, is a fact we cannot ignore. To meet the challenge of the Common Market in Europe, as well as the budding Common Market movements in other areas of the world, we must adjust our foreign trade policies so as to generate an ever-increasing flow of trade between our country and other nations. In response to offers of cross-the-board external tariff reductions by the EEC, the executive branch of our Government must be armed with the flexibility to offer similar reductions on the part of this country on a reciprocal basis. Failing this, the progressive reduction of internal tariffs among the six nations of the EEC to the zero point will seriously affect the oversea market for a wide range of products we traditionally produce in heavy surplus.

From the viewpoint of agricultural producers in the South and the Mississippi Valley, it is imperative that the President be given broad powers to negotiate with the EEC. The proposal of the EEC nations to assess a variable import duty to compensate for the difference between target prices in the EEC and world market prices could seriously depress the farm economy of the Southern States and affect the livelihood of every southern worker. Let me illustrate. In 1960, the 12 Southern States accounted for $6 billion or 30 percent of the estimated $19.5 billion of farm production in the United States. Assuming that the national agricultural products export figure of 23 percent holds true for the South, then $1.4 billion of agricultural products produced on southern farms were sold in foreign markets in 1960. To provide you with a clearer picture of the South's dependence upon these exports, let me cite the three important export products—cotton, tobacco, and rice. In 1960, 40.6 percent of U.S. cotton production was exported—the EEC took 32.0 of our total cotton exports; 34.1 percent of our tobacco was shipped abroad with the lion's share again going to the EEC countries; and 14.3 percent of our rice was exported. These facts are incontrovertible. They cannot be wished away, nor can we delude ourselves into believing that if we erect high tariff walls to keep out foreign-manufactured products, our foreign customers will continue to take these awesome farm surpluses off our hands.

We recognize, of course, the legitimacy of many protests against further liberalization of our foreign trade policy. We are sensitive to and concerned with all political and economic forces which threaten the expansion of world trade under continuing fair, competitive conditions.

We recognize the influence of high wages and public spending as they may contribute to changing comparative cost and to competitive disadvantage through increasing price levels and changing relative purchasing power of different monetary units.

We also respect the wisdom of appropriate trade restrictions for defense production whenever there is any real doubt about the reliability of foreign sources of supply.

We acknowledge that economic progress through fair competition may sometimes hasten obsolescence of producers' plants and equipment, create pockets of unemployment to distress proportions or force the ultimate liquidation of traditionally profitable enterprises.

We feel that the entire Nation must face the fact that liberalization of our present foreign trade policies will mean sacrifices on the part of a minority of our people. It is therefore of paramount importance that proposed changes in our foreign trade policy should carry with them provisions for relief and Government assistance for industries seriously affected and for the workers employed in them.

Taking all factors into consideration, however, we believe that freer world trade policies with a minimum of restriction and a due regard for the health of the domestic economy can gradually enhance the real purchasing power of all nations and free trade among the separate States has raised the living standards of U.S. residents, and as the European Economic Community promises to improve the well-being of its members.

Thank you, Mr. Chairman.

Chairman BOGGS. Thank you, Mr. Shaw. We will have a brief recess before we begin the panel discussion.

(At this point a short recess was taken, after which the hearing was resumed.)

Chairman BOGGS. Gentlemen, we will carry on for a few minutes.

As all of you know, the problem before Congress is twofold No. 1, the existing legislation expires in June 1962, which is not very far away. And No. 2, the European Community is emerging and becoming a very strong force in the world, particularly with the proposal by the United Kingdom to seek full membership in the Common Market.

The question that we have directed to witnesses last week, and direct to you gentlemen, singularly and jointly, is what, in your opinion, would happen if Congress fails to act.

We have had statements about what happens if we do act, as far as certain industries being adversely affected.

What, in your opinion, would happen, Mr. Houser, if Congress does nothing in this area?

Mr. HOUSER. I think we would have very serious difficulties in meeting our international obligations. It just seems to me that one must take an expansionist attitude toward determination of correct policy for this country. The economic growth throughout the free world is a fact, it is occurring, we must be a part of it, we cannot isolate ourselves from it. And it seems to me that in order to effectively deal with it, we must find a way to bargain for the primary interests of this country, but thinking in terms of it being a part of the world trade unit.

So I would think that failure to act, and if the result is a more restrictionist, more restrictive policy—I think would have very serious effects upon our own degree of prosperity and proper discharge of world responsibilities—both dollarwise and also in the sense of leadership.

Chairman BOGGS. Would you care to comment on that, Mr. Sparboe?

Mr. SPARBOE. Yes, Mr. Chairman.

It certainly is no piece of eloquence to say that business and industry and trade flourish best and most profitably where there is a minimum of restriction.

We hear a lot about the urgent need for much broader and more rapid economic development. I cannot conceive of any policy that contemplates not trying to destroy all possible restrictions toward permitting us to engage in producing and trading in a 3 billion market, instead of thinking paradoxically only about 185 million.

To me it is not a contest between the U.S. workers and foreign workers, as much as it is a contest between profit producing jobs, taxpaying jobs, if you please, unsubsidized jobs, that ask for no subsidies, that can compete, make money and pay taxes, vis-a-vis other jobs that, understandably, people do not like to be dislodged from, but strictly from a competitive standpoint, they are not able to survive in a competitive way for the benefit, not only of the exporter who needs to get paid by imports, but also from the standpoint of consuming.

It seems to me, too, that our actual security is bound up by allying ourselves with as many—not only with the so-called free West, but to induce as many of the billion-odd people that today call themselves relatively uncommitted. They cannot be blamed for wishing to pursue their economic development and the improvement of their lot in the direction which affords them outlets for the things that they can produce.

It seems to me that we have to recognize that, being the most sophisticated country in the world scientifically, commercially, fiscally, and what not, it is about time that we realize these other countries that we are trying to help with billions of dollars of our aid money, cannot hope to compete in the more sophisticated areas of industry, and we should be happy to permit them to start, as we did, simply and at the bottom of the ladder of production, and learn to trade with them, realizing that some of our import-sensitive industries may suffer. That is not to say that there is no room for compassion, but the compassion and the treatment we accord the injured should not stand in the way of a proper economic prescription.

Chairman BOGGS. Mr. Shaw, would you care to comment on that?

Mr. SHAW. If the Congress were not to act, and simply allow the expiration of the trade agreements program, it would, I think, be catastrophic in a great many fields.

Philosophically, we will deny, by this action, everything we have preached in the postwar period.

In my prepared statement, I talked largely on a regional basis, knowing you would have many more able people, including my two colleagues this morning, to talk in broader terms. To go back to that point of view, it would be a tremendous problem for the southern economy, which, whether we like it or not, is geared to world trade, if the Congress failed to take any action whatsoever at the time the reciprocal trade agreement expired.

It is not generally recognized how dependent our economy, that is, the southern economy, is upon international trade, for two reasons.

First of all, the industrial people who move into the South are more able, shall we say, in making their point of view and propagandizing. And secondly, the economy of the South, which is still primarily agricultural, is hampered by the fact that the producer, the agricultural producer, has no idea as to where his cotton or his corn finally winds up. We wish there were some way by which every southern farmer could know his cotton winds up in Osaka or Manchester or where have you.

Therefore, it seems to me, on a regional basis, the effect would be catastrophic. And in a larger sense it would result in a restricting of our entire economy, and ultimately I think a threat to the national security.

Chairman BOGGS. Mr. Sparboe, the U.S. Chamber, in your opinion, is certainly a pro-business organization, is it not?

Mr. SPARBOE. I would imagine so.

Chairman BOGGS. So that over the years, it has taken the position unless I am mistaken, for the trade agreements program, has it not?

Mr. SPARBOE. 27 years.

Chairman BOGGS. So that when some groups say that the trade agreements program is contrary to the best interests of American business, they are speaking for a rather limited segment of American business, are they not, and they are not speaking in the broad sense that the U.S. Chamber speaks?

Mr. SPARBOE. I have never been quite able to reconcile some of the views that are expressed at some of our meetings by firms which have very substantial exports, for which they like and expect to be paid, and yet simultaneously they will be found endeavoring to advance arguments that would suggest perhaps they are entitled to a certain degree of protection. But preponderantly, Mr. Chairman, you are absolutely right—the great bulk of the firms that are certainly oriented in foreign commerce, and certainly those of us who have spent our lives in it, would subscribe entirely to what you say. It at least tends to represent that which is in the national interest.

Chairman BOGGS. Have you given any thought to what measures, if any, we might take to ease the transition that may affect some people as a result of trade legislation or trade negotiations?

Mr. SPARBOE. Again, you are asking me personally, and I speak personally.

Chairman BOGGS. Yes.

Mr. SPARBOE. I don't believe we have any specific policies on that. We don't endeavor to have policies on things that don't exist, just for the exercise. I am speaking of the chamber.

But speaking personally, the thing I run into in trying to answer that is how are you going to differentiate, especially in a rather complex industry or company, as to what degree of injury is attributable to all of the normal forces of competition in the market, such as even advertising, if you please, forcing tastes away, or design, or women going from cotton stockings to nylons, and so on—where do you start and stop? But if the price for a lucid and a statesmanlike national interest policy must be some kind of twilight sleep, if you please, to relieve the pain, then with certain limitations as to time and administration, as well as—any system that could be found for doing so—that would not be too high a price, instead of merely preserving the status quo, and then destroying beneficial exports.

Chairman BOGGS. The questions that you raise, of course, are very difficult questions. We raised them here the other day in a specific discussion on this special matter, the question of readjustment. However, there are certain criteria which have been established in the escape clause hearings before the Tariff Commission which might conceivably be made applicable in these situations.

Assuming that to be the case, assuming that you could distinguish between good management, poor management, the change of fashion, or the demand for one type of goods as compared to another, it has been suggested that we give consideration in such areas as tax matters. For instance, if the firm were required to liquidate, that there be no capital gains consequences taxwise; that existing machinery, such as that which has been established for the so-called depressed areas be used in certain limited sections of the country; that retraining of workers be employed, and so on—in other words, no radical departure from present Government programs.

Would you feel that measures of that kind would meet with the more or less general approval of your associates?

Mr. SPARBOE. Under the assumption that you give—and I again would have to merely guess, knowing the temper of my associates on the foreign commerce committee, I don't think many would oppose what you have said. As a matter of fact, I think from just the standpoint of again using the word "compassion," they would, with some restrictions, I don't think we would ever assume that any of us, you or I or anybody, has a vested interest in a job. But the essential difference between losing your job in a competitive way, strictly in the marketplace, vis-a-vis a sudden shocking arbitrary action by a government for the common good, that does throw a different complexion on it. Something unforeseen—I can understand how stockholders and families in the business for a long time, servicing the public under rules that were appropriate, under laws that are proper, and suddenly they are out of bounds, they are offside, I don't think they should be unduly penalized. I think I can see some merit in what you are suggesting.

In other words, a degree of restricted, carefully administered assistance—not relief from something which I think is inherent in the competitive system—but by way of encouraging and hastening and shortening the period of adjustment.

Chairman BOGGS. I am glad to have Senator Sparkman here, who has just returned from a trip to the Latin American countries, where I am certain he ran into many of these trade problems.

Senator, we have here today Mr. Houser, of CED, and Mr. Sparboe, representing the U.S. chamber, and Mr. Shaw, representing International House in New Orleans. They have all made very comprehensive statements.

Mr. Houser, what effect, in your opinion, would our failure to act, insofar as enacting a meaningful trade program, have on our balance-of-payments situation. You mentioned the balance of payments. It has been discussed here.

Mr. HOUSER. I would think that we would sooner or later be forced to reverse our policy, the policy of this country, which has been of a constructive kind, to, as I said before, a highly restrictive one.

Sooner or later I would think that the forces that would have to be met in order to maintain the U.S. dollar, the stability of the U.S. dollar, would lead to questions about foreign aid expenditures in an effort to minimize the difficulty, you would think in terms of limitations on imports, to try to do that and yet not hurt the exports as much as you diminish the other.

The whole effort would be in the wrong direction for the overall good of this country. And yet something would have to give.

Now, if one can go the other direction, and be a part of an expanding free world, this problem can undoubtedly be resolved without sacrificing our leadership in this matter of aid to underdeveloped countries, and standing for expansion of international trade.

So I would think that the balance-of-payments issue is the vital issue to think of in terms of setting a trade policy. To me that is what is a vital consideration. Not more profits for U.S. industry only, not more employment only, but essentially the ability to maintain the strength of the dollar. The United States being the banker of the world, which it is, must be able, as any banker, to meet its demands.

Chairman BOGGS. You pointed out the minuses in the balance of payments, military expenditures abroad, foreign expenditures abroad, and I guess you mentioned tourism—people traveling abroad.

Now, the pluses are exports from our country to other markets, return on investment, repatriation of funds to the United States, and, of course, foreigners traveling in our country.

We are dealing here with all of the pluses. If exports decline, there is no doubt about that having a very appreciable effect upon the balance of payments; isn't that right?

Mr. HOUSER. Yes, sir.

Chairman BOGGS. If that happens, that means we have to curtail these other matters. We would have to institute some kind of drastic restrictions on people traveling abroad, on the amount of money they can spend abroad, and what our troops could do abroad, and so on. So that the whole posture of our country would be affected; isn't that right?

Mr. HOUSER. Yes, sir; that is correct.

Chairman BOGGS. Senator, would you like to ask any questions?

Senator SPARKMAN. I would like to ask a few questions, although I have not had an opportunity to read the papers presented.

At what rate is the balance of payments running at the present time? I see in your figure there that it would be between $1.5 and $2 billion throughout the year, cumulative. But is there a downward or an upward trend?

Mr. HOUSER. I don't pose as an expert, now, in this field. My understanding is that we may end the year with another—with a larger deficit than seemed to be indicated along during late spring. I would like to ask someone here. Our economist here says that in 1961 an annual rate in excess of $3 billion would be needed.

Senator SPARKMAN. The total.

Mr. HOUSER. Yes.

Senator SPARKMAN. The total deficit——

Mr. HOUSER. For the year.

Chairman BOGGS. For the year would be, he thinks, about $3 billion.

Mr. HOUSER. No, it would be around $1.5, but running at a rate of $3 billion at the present time.

Senator SPARKMAN. Well, then, the trend must be upward now.

Mr. HOUSER. Yes, sir.

Senator SPARKMAN. I was just wondering how it might project itself into the future. Of course, I think that emphasizes the thing that the chairman has just brought out, the importance of exporting as much as we can to these countries, because certainly we are going to have to continue, or there will continue to be these expenditures on the minus side of the ledger. That is correct, is it not?

Mr. HOUSER. Yes, sir.

Senator SPARKMAN. I have not read the papers. I will read them.

I presume they have dealt with the Common Market in these papers.

Chairman BOGGS. To some extent, yes.

Senator SPARKMAN. Was anything said about the free trade movement that is developing in South America?

Mr. SHAW. That was not covered in the papers, Senator, but I have seen something of the plans being made for the seven countries—Mexico, Argentina, Uruguay, seven of them—which are beginning to form or have formed in a treaty in Montevideo, a common market which may eventually have more adherents, and may become a regional common market for South America.

In the treaty, these countries are not nearly as broad in their adherence to a common market as were the six who formed the European economic community. And there are a long list of excepted commodities which have to be negotiated out, and many, many restrictive things in the Treaty of Montevideo which do not occur in the Treaty of Rome. However, in the long run I think the direction these people are taking will result in some kind of regional grouping in the next 4 or 5 years in that area, with which we are going to have to deal and take into account.

Senator SPARKMAN. I may say while our subcommittee was down there, we had a meeting with this trade group and spent considerable time with them discussing their plans. They were in session at the time but took time out to talk with us about their program. We found them quite enthusiastic. Naturally there were questions raised in our minds. And as we went around and visited the various countries, we found questions in the minds of a good many of the people in the other countries. But it seems to me that the creation of these organizations, the creation of the Common Market, and the promised or prospective creation of a similar movement in Latin America—that is the development of regional trade agreements—serves to impose a still greater responsibility on us with reference to our trade policies. And I believe that it was to this that President Kennedy referred in his speech in Miami a few days ago, in which he said, as I interpret it, that we have to have greater flexibility than we have at the present time. If I recall correctly, he said that in his opinion it necessitated a redrafting of our trade policy.

Do you gentlemen agree with the statement that he made?

Mr. SHAW. I think we are all agreed. I think some complete new approach has to be found to the problem.

Mr. SPARBOE. May I take a crack at that?

Senator SPARKMAN. Yes, I would like you to. I would like all of you to comment on this.

Mr. SPARBOE. I pointed out in my paper that while the chamber supports the notion of large regional groupings they should not be divisive. Supposing there were two such groups in Europe, one here, one in Latin America. They could conceivably put enough muscle on themselves that you could get into quite a brawl. So the point, as I see it, is not to permit that to happen. To use agencies such as OECD, perhaps, where we are one of the leaders, productionwise, tradewise, researchwise, and so on, and certainly in the security field, where we are carrying an awful load, our agencies will be given more consideration when we are dealing with the trade of these developed areas, especially in ex-colonial areas, where there might be a tendency for the Common Market to give a little better treatment for those areas and Latin America could get shortchanged.

It seems to me if we could carry a torch, first we must show we are entitled to carry it by broadening our lines of trade and communication to the benefit of all countries and all consumers, by opening our doors to a little more competition, opening our doors for profitable export industries, carry the torch for Latin America and prevent, let us say, cocoa and coffee advantages that might accrue to West Africa vis-a-vis Latin America. If you are constantly working and communicating and giving and negotiating—therein lies an opportunity. I submit that is what the good President needs—I think he made one of the grandest statements. In my 41 years of experience in international trade, I have never seen anything approaching a more lucid exposé of what is good international commercial policy than what the President said in his speech to the NAM. I congratulate him, and we do in the foreign trade community. But where he sought an opportunity to let this country be a leader and make certain adjustments internally, if I may be a little facetious, what he needs now in this future poker game—and that is what it is going to be and it is going to set the pattern for the future world trade--are some aces and kings and queens, because all he has now in the present legislation is deuces and treys.

Mr. HOUSER. Could I make a comment, too?

Senator SPARKMAN. Yes, Mr. Houser.

Mr. HOUSER. First, I would like to comment on your Latin America. I have had the personal experience of playing a part in the establishment of operations in four of those countries formerly five, and anyone who sees at first hand the problem of creating industrialized consumer goods by taking advantage of the technology that we know so well, anyone who understands that can see the limitations and the very low ceiling upon potential development so long as the market is 3 or 4 or 5 million people, and that of relatively low buying power. So the Common Market concept of elimination of the national boundaries toward manufacture—I mean in the trade between those countries—is essential, in my opinion, to any substantial degree of industrialization of those countries. They can grow as we have grown in this country on a solid base of balancing of agriculture and of industry taking advantage of modern technology.

Now if we recognize that that is essential for them, for their own development, then comes the problem which my friend here has stated so well—where does that leave those countries as a group in their relations with other groups that also are forming? That is where this country can play such a major role.

If the laws relating to this give that flexibility and sense of leadership, because——

Chairman BOGGS. As a matter of fact, if you will forgive me, Mr. Sparboe brought out a very important point, that the Six now have preferential arrangements with Africa relative to products—cocoa, coffee, bananas, pineapples, and so on. If these preferences are continued when the United Kingdom comes in, then the discrimination against certain areas of Latin America becomes very real indeed.

One of the problems, as I see it, is that we are confronted with the necessity to be in a position to negotiate not only for ourselves but for these nations as well.

Mr. HOUSER. Thank you, sir. That was the point that I had in mind. If you will recall, in my summary I mentioned the importance of negotiating with the Common Market on this question of their relations with the former colonists and so on. Now this country can take a very commanding position, and sometimes give one thing for the benefit of an emerging group of nations, say in Latin America or something like that, if we are set so to do.

Chairman BOGGS. Mr. Shaw?

Mr. SHAW. I was going to comment a little further. In encouraging, as we have as a matter of policy, the regional groupings, EEC and the proposed common market of Latin America, we must see to it that our policy does not substitute 6 areas competing with each other instead of 60.

If you get into tariff restrictions between these Common Market areas, you are, in the long run, not too much advanced over the situation of having 6 areas instead of 60 nations, competing.

I would like to comment also on the matter of what relief, if any, the proposed legislation could have. I think we have to face the fact that the elimination of an industry is a risk that, under our free enterprise system, the entrepreneur must take. If the tariff wall goes down, then he is going to be out of business.

However, when you have said that, I think Mr. Sparboe's point is certainly well taken, that when this is done, not by the free competitive forces of the marketplace but by government fiat on a very sudden basis, some consideration must be given to the injury that is going to be caused.

I think first of all, that there should be a time factor, possibly 5 years, during which time the tariff will progressively be lowered. When a man knows he has 5 years to devise new ways of doing things, cheaper ways, to automate, perhaps, it is not quite so difficult for him. There should also be some sort of arrangement whereby capital gains incurred by conversion or elimination of businesses of this kind should be tax free.

And, of course, we should have some provisions for the retraining and relocation of the workers who are affected by this.

Mr. SPARBOE. May I supplement or complement, whichever is correct, Mr. Shaw's statement?

Mr. SHAW. Surely.

Mr. SPARBOE. The reason I have the courage to stand personally in favor of some sort of relief, so-called under your criteria, of injured people as a result of Government fiat action, is because, one, I just do not believe that some of these items that may become critically subjected to lowering of the tariffs, necessarily means the destruction of an entire industry.

Usually, an item is one of a complex of items in a company. That happens every day. Companies and officers and labor are not going to suddenly wake up some morning and find themselves dead. With a slow, appropriate warning, by gradual reduction, they can start conditioning themselves for it. As I say, they have no vested interest in saying, "We are going to be protected forever." There is a danger signal and if they are taught there is something else to do, they make the adjustments.

More importantly, the six European EEC countries had far more to worry about, it seems to me, than we have. Six quite different kinds of economies, relatively high and low protection, relatively higher and lower wage scales, relatively higher and lower productivity, agriculture, et cetera. Yet happily there has been a very minimum amount of utilizing that very same prescription of special aid.

It is hardly noticeable, and if there ever was a time when that can be carried on advantageously, it is at a time, at least in Europe, where they are importing labor from each other. They could be asked by our negotiators certainly for more opportunity to enter their markets, even under agriculture, for the simple reason that they have too many people involved in agriculture in Germany, in some other countries, something like 25 percent today on very small farms, the same kind of farms that are going by the way today in this country. Naturally, farmers are consulting and getting out of farming into much better jobs; at a time when they could create some of their own labor by extracting them from the farms, by better living standards, better wages, and so on, and quit importing from each other.

That is not to say you should interfere with normal immigration, but the atmosphere today is ideal for dealing with all these urgencies. Certainly we should not be at all embarrassed by going out and asking for strong quid pro quos for the things we give up and the opportunities then will be more than rosy for accommodating the very few people who virtually will be displaced, if not laterally and completely.

Chairman BOGGS. What you are saying is, if business conditions are good, the opportunity——

Mr. SPARBOE. I think the pain is nil.

Chairman BOGGS. This has been the experience in Europe.

Mr. SPARBOE. Conversely, if we pull in our necks all around we are really going to have a hornet's nest.

Chairman BOGGS. One other thing. Mr. Shaw, I was interested in your analysis of our thinking in the area relative to trade problems. As you probably know, some areas in our section of the country which traditionally had been inclined toward more liberal policies are now quite protectionist. You point out the tremendous quantity of cotton which is shipped abroad, and the tobacco, rice, and other agricultural commodities. How do you account for this protectionism in light of the fact that so many of these areas are dependent upon exports and what remedy do you suggest?

Mr. SHAW. Well, one I suggest is not perhaps very practical. I have touched on it before.

If, somehow, the southern agriculture producer had some idea where his goods finally wound up, it might give him a more enlightened idea of what his stake in international trade is. But he sells his cotton to the Government or his tobacco or rice or whatnot. The corn he sold may wind up in India under Public Law 480 and he has no notion where his corn has gone. Coupled with this is the fact that the industrial South, which is still a minority, is very vocal indeed. They have some very able people to put forward their case. Textiles is usually a case in point, certainly, and the chemical industry, I think, as it exists in the South.

But primarily, the average person in the South does not realize his dependence upon international trade. If somehow this fact could be brought home to him, and we are doing what we can along that line at International House—that is, if this could be brought home to him, I think you would very rapidly see the congressional representatives from the South back in the traditional free-trade column.

Chairman BOGGS. Do you have any further questions, Senator?

Senator SPARKMAN. Well, that raises a lot of interesting suggestions. However, I have supported a liberal trade policy all along, although I know something of the problems you state.

For instance, my State is a rather heavy producer of cotton. We produce close to a million bales a year. At the same time, it is a rather large textile State. So we meet this conflict headon.

Japan happens to be the biggest single buyer of raw cotton from America in the world, is that not true?

Mr. SHAW. Yes, that is right.

Senator SPARKMAN. Naturally, they look toward the United States for absorption of some of their textiles. However, I will say this for the Japanese textile situation. With the exception of few occasions, I believe it has been pretty well handled.

Mr. SHAW. I think so.

Senator SPARKMAN. And I think it is under control at the present time on a voluntary quota system. A lot of people get the idea that our competition comes out of Japan when, as a matter of fact, it is actually coming from other free-trade areas.

The free port of Hong Kong is one but you cannot trace it very well through there.

You point out something in your paper that is quite important to my way of thinking. I have always kept in my mind the fact that for us to have a healthy cotton economy, we must sell at least 40 percent of it in the world market, in export.

Mr. SHAW. That is what we are doing.

Senator SPARKMAN. I notice you say there that 40.6 percent was sold last year, and you state that 32 percent of that amount went to the Common Market countries.

Now, is the consumation of the Common Market going to affect that adversely?

Mr. SHAW. It is going to affect it, I think, Senator, unless we do something about it in the line of having more enlightened trade policies. I think certainly that unless we are willing to do some sort of across-the-board reduction with the Common Market, they are certainly not going to be able, whatever they desire, to buy as much cotton as they have.

In addition to this, I mentioned in my statement that there is a proposal by the EEC—not yet, I believe, put into effect—to furnish certain incentives for agriculture in the EEC countries by setting a variable import price. So that if they determine that to get more grain produced, the price the grain farmer has to get in the Common Market area is so much, then on any grain that may be coming in from outside the Common Market area, a duty is assessed to make it slightly higher than that incentive price which will be used to encourage agricultural production in the EEC.

I do not think any of the EEC countries are great cotton growers, but it will certainly affect our other agricultural production very, very much.

Senator SPARKMAN. Yes, that is the question which was passing through my mind. I doubt very seriously that it will change the cotton situation, but it may change other.

As a matter of fact, I think perhaps we dwell too much on cotton because it is in about the best balance of any of the other products, is it not?

Mr. SHAW. Yes.

Mr. SPARBOE. May I remind you that I come from a State, Minnesota, where we have been engaged in a unique discussion on butter versus margarine. Twenty or twenty-five years ago, I do not think there was a soybean in the whole State. We had lots of cows, and we used to vie with Wisconsin for butter.

We passed a law out there saying that you may not serve margarine in the State of Minnesota unless it is white.

Senator SPARKMAN. You were more generous than some. Some said, unless it is green.

Mr. SPARBOE. Let me illustrate: Here is a farmer on the corner. He has 50 cows, and he is really milking it. He has butter and he wants butter, and he wants no truck with margarine. Five years later, there is a farmer down the road and he starts growing soybeans. If you know anything about soybeans, they are one of the strongest potential components of margarine.

Recently, those farmers are doing both, growing soybeans and milking cows, and they are in a heck of a fix. They do not know which way to jump.

The point I am getting at is the consumer is waking up. They have been sitting here in the middle while the fight was going on. People who want margarine for medicinal or other reasons have not been able to get it. So there is a slow, but very sure, amount of education going on in the press. Some people are talking now that we may have in the State of Minnesota yellow margarine, whether the guy with the cows likes it or not.

Now, I have said that to suggest an answer as to why we do not hear more about the other side and why are we always hearing protests about the injured or those who are threatened. Well, it is human nature, you do not bellyache until you have one. If you are going along serenely in an export business, everything is hunky-dory. Unfortunately, we are not in the habit of writing our Congressmen and Senators to tell them, gee, this is good, you are doing a fine job, and so on. It is only when we get in trouble that we start writing them.

I come right back to the notion that if we can alleviate some of this pain which is going to be much more nominal than whole industries and areas going blotto out of the picture, it is a price we should pay, if for no other reason than we should dispose of this cockeyed argument that we save jobs by protecting against imports, when the reverse is actually the case. We destroy very profitable jobs by not making it profitable for beneficial, profitmaking, taxpaying industries to export.

Senator SPARKMAN. Since you bring up the oleo proposition, you will recall, I am sure, that the fight between oleo and the butter was one of the great fights in the Congress over several years. A great many of us were interested in it primarily because of cottonseed oil.

Mr. SPARBOE. You have an iron in the fire, too.

Senator SPARKMAN. In my State, where we grow cotton, we are now growing soybeans, and at the same time we are stepping up our milk and butter production.

Mr. SPARBOE. You are confused in your State.

Senator SPARKMAN. Yes. But somehow or other, I do not feel that we ought to be too alarmed about our ability to produce things we need.

Mr. SPARBOE. Amen.

Senator SPARKMAN. I wonder if, after all, the big problem confronting us is not stepping up the use of those products, getting them in better, wider, greater depth of distribution. My guess is that the butterfat industry, the soybean industry, the cotton industry will continue to thrive for a long time to come.

Mr. SPARBOE. The answer, of course, is to expand them in the $3 billion export market, and that is where we import from, too.

Senator SPARKMAN. Yes.

Chairman BOGGS. Thank you, Senator.

Gentlemen, you have been very helpful to the subcommittee. We appreciate the testimony you have given and the contribution you have made. We thank you all very much.

The subcommittee will adjourn until 2 o'clock this afternoon.

(Whereupon, at 11:43 a.m., the subcommittee recessed until 2 p.m. of the same day.)

AFTERNOON SESSION

Chairman BOGGS. The subcommittee will come to order. We continue hearings this afternoon on the U.S. foreign economic policy.

We are again fortunate to have a panel of five expert witnesses.

I would like to welcome Mr. Raymond Vernon, who is professor of international trade and investment at the Harvard Business School; Mr. O. R. Strackbein, who is president of the Nationwide Committee of Agriculture, Industry, and Labor; Mr. Herbert Harris, who is the assistant legislative director of the American Farm Bureau Federation; Mr. Irving B. Kravis, who is professor of international economics at the Wharton School of Finance and Commerce, University of Pennsylvania. And Mr. Bert Seidman, who was scheduled to be here this morning, but was unable to, because of plane difficulties—he is an economist with the Department of Research, AFL–CIO.

Glad to have all of you gentlemen.

Mr. Vernon, suppose we start with you this afternoon.

STATEMENT OF RAYMOND VERNON, PROFESSOR OF INTERNATIONAL TRADE AND INVESTMENT, HARVARD BUSINESS SCHOOL

Mr. VERNON. Thank you very much, Mr. Congressman.

What I would like to address myself to, sir, is one of the many critical issues which relate to the business of developing an appropriate foreign trade policy for the United States. I think all of us here on the panel would agree that we are concerned to develop a policy which can insure the highest possible living standards for the United States. From this point on, we radiate off in all directions, I expect. But on this point we are all in agreement.

I have been impressed about the way in which this critical point can be lost in a miasma of statistics and economic models, lost because we lose sight of one critical, fundamental fact—the fact that the living standards of the American people depend in the end upon how much is produced per man. The fact is that any measure which succeeds in increasing the value of output per American worker largely determines the living standards of the Americans taken collectively.

If we can find a way by which American workers can maintain their 2-for-1 or 3-for-1 or 4-for-1 lead over the output of foreign workers, we have, by this very approach, almost insured that the living standard objective is adequately achieved.

Now, what gives pause to those of us who are on the freer trade side of the argument is this. We look upon the difficulties which the protectionists associate with imports of foreign goods. We look upon their proposals. And we ask ourselves whether the adoption to their proposals, can insure that our 2-for-1 or 3-for-1 lead will be maintained. What are the proposals they make to us?

The protectionists say in effect, "We must protect the lead and the zinc industry of the United States. We must protect this industry because its workers cannot produce twice or three times as much as the foreign worker—therefore American lead or zinc cannot be competitive in world markets." Or they say, "We must protect the textile industry of the United States, because textiles are made pretty much on the same pattern all over the world. Therefore, the American worker is unable to produce twice or three times as much textiles as the foreigner with whom he competes." And so on down a long list of commodities.

What in fact are they telling us? They are saying in effect that wherever we find an industry which is incapable of maintaining that 2-for-1 or 3-for-1 ratio, this is precisely the industry in which America's productive resources should be committed; this is the industry in which we should insure that American jobs and American capital are "protected."

This is tantamount to saying that, as far as our relatively high living standards are concerned, we have given up the ghost. We are aware that we can no longer produce twice or three or four times as much as foreign economies, and we are prepared to accept the fact that American living standards must gradually decline relative to foreign living standards. From now on, we propose to be textile producers or lead producers, producers of all the things which we have demonstrably indicated to the world we cannot really produce with that measure of efficiency that is necessary to retain our prior lead.

The fundamental protectionist view that high wages are the problem which is handicapping America is obviously faulty on its face. As one looks at the list of products which the United States exports, these products tend to be in industries in which wages are comparatively high. As we look at the products which are being imported from abroad, these products tend to compete with American industries in which wages are comparatively low. How can it be that the United States tends to be most competitive and most productive in those lines in which it pays the highest wages. There is an answer to the dilemma.

High American wages frequently stimulate that kind of innovation in the American economy which makes it competitive in international terms. Let me illustrate what I mean.

There are a number of commodities in the American economy whose counterpart is not easily found abroad—things like drip-dry shirts, prepainted aluminum siding, certain kinds of automatic controls heavy fork-lift trucks, and so on. Why are these products produced here in the United States? Basically because laundresses, painters, factory labor, and warehousemen are paid so much in the United States. Our wages are so high that we are forced to innovate these products, we are forced to substitute capital for labor, we are forced to get the rest of our labor force producing more per man because of this labor cost-capital cost relationship. And having generated these products because high wages are forcing us into them, for a while we retain an international quasi-monopoly in the products. For a time, Europe, Japan, and other countries, with a different relationship of labor costs to capital costs, do not have a need so large that they are justified in producing the products within their respective countries. As a result, for a time, we export the drip-dry shirts, the prepainted aluminum siding, the automatic control machinery and the fork-lift trucks, to those corners of the foreign markets which want them, even though their wants at this point are on a comparatively small scale relative to their total economy. As you look down the list of products in which U.S. exports are growing most rapidly, you discover that this kind of product, the kind of product in which we enjoy a temporary quasi-monopoly, is of considerable importance. Ultimately, however, other countries find their labor costs going up, ultimately their demand for these products increase, ultimately they are justified in producing them at home.

The history of the office equipment industry illustrates this perfectly well. Our clerks were paid a great deal more in offices in the early 20th century than equivalent office help in Western Europe and Japan. As a result, the pressure to produce the typewriter was far greater here than elsewhere. We produced the standard typewriter in quantity and we exported to corners of the European market. Ultimately, the cost of Europe's office labor went up. Ultimately, they needed standard typewriters on a very much larger scale. Ultimately they produced it themselves. By that time, we were into the electric typewriter—simply because the pressure of labor costs, being greater here, forced us into more efficient labor-saving products.

We are exporting electric typewriters now. Five or ten years from now, we will be exporting machines which directly convert the voice to script. Beyond that time, we will be producing other types of machines—always, so long as our labor costs are higher, a step or two ahead of the other countries who do not have these same labor costs forcing them into these products.

So I foresee a cycle, a cycle of continuous shift, a cycle in which we are constantly being pushed out of standard products into newer lines, by reason of our high labor costs. But that cycle will be interrupted if we fail to continue to innovate. And it is for this reason that the persons who are interested in freer trade constantly link their concern for freer trade with the need to innovate, constantly point to the need to upgrade education, to upgrade research, to speed the adjustment process.

One last point.

At this point in the argument, we are usually asked—Innovate what? What new products do you anticipate? Haven't we reached the end of the line on innovation? I am only reminded of the annual report of the Commissioner of Patents, made to the Congress some time in the decade of the 1840's of the 19th century, in which he recommended to the Congress that the Patent Office should be abolished, asserting that is was obvious that all of the innovation likely to take place had already occurred.

I thank you.

Chairman BOGGS. I thank you very much, Mr. Vernon.

Mr. Strackbein.

STATEMENT OF O. R. STRACKBEIN, CHAIRMAN, THE NATIONWIDE COMMITTEE ON IMPORT-EXPORT POLICY

Mr. STRACKBEIN. Mr. Chairman, members of the committee, I was very much interested in listening to a very fair description of a world that no longer exists, a world in which the United States no longer has or no longer holds a monopoly of technology and modern methods of production, including even mass production. The idea, the very notion, that the United States can remain the innovator of technology throughout the world can no longer stand up. I think we had an example of that in 1957, in October, when the Russians lofted a satellite, somewhat to our surprise, and I am sure we cannot rest on the oars from here on out, on the notion that we are going to out-invent and otherwise innovate beyond the capacities of other countries.

As a matter of fact, in the past decade, the lack of growth of the American economy has drawn considerable attention. We have been far outdistanced, in terms of growth, by Russia, no less than by a number of European countries, such as West Germany, Italy, and France.

Now, this might be of little moment, and it could be dismissed as the result of nothing more than the fact that we did supply these various countries with vast quantities of modern machinery and equipment, and therefore they were able, you might say, to leap over a whole generation of research and development. As I say, we could dismiss this fact, except for the fact that we are facing an evergrowing residual unemployment in this country. After each recession, in the last 8 or 10 years, the United States has been left at top level of recovery with a higher hard core of unemployment than in the previous cases.

It is time, it seems to me, that we examine this American lag with the idea of establishing its genesis and its implications.

No. 1, we should examine the two terms that are often used. One is productivity, and the other is growth.

Sometimes rising productivity is treated as being synonymous with growth. Other times growth is equated with an increase in the gross national product.

But what is often overlooked, and something that is very important, is the status of employment and its relations to growth and to productivity.

It ought to be made clear at the outset that rising productivity may or may not result in either an expanded output or increasing employment. It may indeed, under some circumstances, lead to a reduction in output, although that may be rare, or to a reduction or a standstill in employment, and that is not rare.

It should also be made clear that rising productivity and growth need not go hand in hand. Growth may be achieved without any increase in productivity, by the simple process of hiring additional workers and, if necessary, building new facilities or new plants.

Generally, this of course presupposes a growing population and a rising demand.

I have here some examples of what happens when you have an increase in productivity, without at the same time having an increase in per capita demand. The usual theory is that if you have an increase in productivity per man-hour, this will result in a reduction of the costs, and this reduction of costs in turn will lead to a greater demand per capita, so that in the end you actually come up with increased consumption, and perhaps this increase in consumption will be greater than the growth in the population, so that the increase in consumption will more than offset the increase in productivity, with the result that you have increased employment.

Now, this paper undertakes to point out that if the increase in productivity should be the same as the increase in population, and there is no increase in per capita consumption, employment remains at the same level, in any particular industry—in any industry manufacturing a particular product.

We then turn to the question of whether or not a reduced price, a reduced cost, will result in increased consumption per capita. And here we find that there are numerous products in which the demand is so inelastic, that even if you doubled the productivity, you would get virtually no increase in consumption. A very good example of that is sugar. The consumption per capita is now and has been for years just below 100 pounds per capita. This is quite out of relation to the price of sugar, and out of relation to the productivity of the sugar mills and the producers of sugar. So there the only increase in consumption that you get is measured by the increase in population. As it turns out, this happens to be about 150,000 tons a year.

But when you get an improved technology, you end up with fewer workers, and if this improvement in productivity is more than the increase in population, you end up with a net decline in employment in that industry. And, of course, that is what has happened in the sugar industry. With an increased productivity, you have had less and less employment. The same thing will be found to be true in any number of industries that are producing staple commodities.

Take the case of shoes, for example. Every person in the United States has only two feet. That means for all the population, about 360 million feet to be shod. Now, when the days were still here when many children went barefooted, there was always still the opportunity of increasing the consumption of shoes by overcoming this custom. But that having been accomplished, then there was a definitely limited market, and it would go up only in comparison or in proportion to the increase in population. Then the only way, with all your sales promotion and advertising—the only purpose would be for each company to be sure that it retained its share of the market. So that in the end, the only other way of increasing production would be to make the shoes less durable, so that people would wear a greater number of shoes per year, or restyling, so that shoes would be cast aside before they were worn out. And, of course, many of our industries are practicing exactly that, especially in the field of consumer goods.

Styling is designed specifically to increase consumption per capita.

There are industries that have been offsetting this trend. And I give the statistics here of the increased employment that comes from the so-called growth industries. I have listed aircraft and aircraft parts, certain chemicals, machinery other than electrical, and also the electrical communications equipment. And so forth.

In those cases, employment not only went up—it exceeded by a considerable margin the increase in population. The increase in population was 18.4 percent. In some of these instances, employment grew by 80 or 90 percent, perhaps, so that these growth, or growing industries, or new industries, or developing industries, sopped up the unemployment caused in these other industries. I have listed 30 industries in which there was an actual absolute loss of employment from 1950 to 1960, and in these 30 industries—and these were not growing industries—page 15 of my statement.

Chairman BOGGS. Mr. Strackbein, I presume you want to include your full statement in the record, do you not?

Mr. STRACKBEIN. I would like to have the full statement in the record. And, if I might—if the record will bear it—I would like to insert an analysis which is a little more complete, and goes into more aspects than this, if I might.

Chairman BOGGS. Without objection, it is so ordered.

Mr. STRACKBEIN. Now, as I say, these are not growing industries. You will notice in there coal, of course, has been notoriously fast losing in employment. That is not because the industry is not efficient. The coal industry in this country is the most efficient coal-producing industry in the world, by far—so much so that we can ship coal to Europe, and pay the freight all the way across the Atlantic, and outcompete the British and the Germans, and perhaps even the Poles.

Dairy products, grain mill products, sugar, beverages, tobacco, textile mill products, men's and boys' suits and coats, millinery, lumber and wood products, tires and inner tubes, pottery, clay products. Now, then, also blast furnaces, rolling mills, steel works, iron and steel foundries, nonferrous foundries, cutlery, heating apparatus, plumbers' supplies, jewelry, silverware, plated ware, buttons, and so on.

These industries, in their total employment, actually lost from 1950 to 1960, 1,169,000 employees. Now, had they merely kept up with the population increase, they would have employed about this many. So that their lag in relation to population increase was 2,322,000.

I list here just a few industries, on page 16, for which production figures were available, to show the extent to which productivity increased in those industries—such as footwear, men's and boys' suits, sugar, automobile tires, and bituminous coal.

Now, bituminous coal, which lost 209,000 employees during that period, had an actual increase in productivity, going from an index number of 114 to 212—that must be about a 90-percent increase in productivity per man-hour. Yet, in spite of that, the coal consumption went down, and there was a great displacement of workers.

We know, of course, why this happened. But let me say it was not because the coal industry was inefficient. These things can happen no matter how efficient the industry is. So we must not get the notion that all we have to do in this country to maintain our employment and absorb the million additional employees that come on to the market every year is to be more efficient. As a matter of fact, great efficiency can lead to displacement of workers, as it has done in more than one instance in this country.

Natural gas, residual fuel oil, diesel oils, prevented the continuing high market for coal.

Now I come again to the economic theories with which we are constantly beset.

I would like to know what a theory is worth that finds itself blocked by reality at almost every turn. And yet, we keep hanging our national policy on these economic theories which, when you test them by the facts, don't stand up. I don't say that all of them don't stand up. Some do. But a sufficient number of exceptions exist to create a very serious problem.

In order to bring this in focus with trade, I say that one of the reasons why increased consumption per capita of domestic products may not take place is because of imports. And we have had mentioned here of innovations. Well, today these innovations don't last very long. The patents are licensed to manufacturers overseas. They don't have to pirate our patents. We license them. So that this idea that a new industry will come up, as the motion picture industry, for example, came in, as radio came in, and television, and the automobile and so on—that these will lift us out of this situation: we cannot rely upon any such innovations—because other countries can innovate, too. They have caught up with us, and they are now mass-producing and establishing mass markets, so that they will have all the advantages of mass production. And with their lower wages—now, it has been said that lower wages don't mean anything. But it all depends. Low wages in relation to productivity can mean a great deal. If productivity is almost equal, and the difference in wages is tremendous, then I can assure you that a tremendous competitive advantage rides on the lower wages. That is why I said the previous witness talked about a world that is passing away.

Many factories abroad have equipment as modern as any that we have, and in some cases, more modern, when you take it across a whole industry. Many of the industries were bombed out, or otherwise destroyed, and under the Marshall plan, aid, which, by the way, I certainly never opposed—I always thought it was a good thing—reconstructed these industries with modern machinery and equipment, so that, as I say, in some instances, they turned up with productivity per man-hour perhaps nearly as high as ours, and in some cases, perhaps higher, and yet their wages remained far and away below ours. So that naturally they came out with lower costs per unit.

Then let us come—the continuity is a little poor when I try to find a spot here, Mr. Chairman—if you will bear with me just half a second, I am trying to conclude this.

Chairman BOGGS. That is all right.

Mr. STRACKBEIN. Just to conclude, round up a little more neatly this very last statement that I made—when imports that have the advantage of modern technology, newly achieved in many instances, carry the further advantage of lower wages, that, combined with the higher productivity, make for lower unit costs—when imports that are thus freighted with competitive advantage over our industries invade our market, they readily take away the rising demand created by an increase in our own productivity. If the demand for this product happens to be inelastic, then we are driven back in volume of sales equal to the rising imports. If the demand is elastic, we may stand still in terms of employment, or nearly so, while imports skim off the cream. In either case, our employment suffers.

So that the diffusion abroad of our technological achievements was one of the principal postwar developments. To help put the efforts into gear, we ourselves guided thousands of productivity teams through our factories, teaching them our production line methods, and so forth.

Other countries have indeed been impressed with our system and they have "bought" it—at least they bought half of it. Witness the Common Market and the European Free Trade Association. They have eagerly bought one side of the equation—that is, rising productivity, but not the other, namely, high wages.

Now, we are told that we must make accommodations with the Common Market by lowering our tariffs yet more. This is an upside down judgment indeed. We have reduced the protective effect of our tariffs by 80 percent in the past 27 years. This was presumably done in exchange for similar reductions abroad.

Europe was long advertised as being a low tariff area to begin with. Now, after 27 years of sharp Yankee bargaining, now when the smoke is lifting, and the dust is settling, apparently we are confronted with a high external tariff in order to export into the Common Market.

Now, this is either a purposely exaggerated abberation, or, if we are so confronted, then our Yankee reciprocal bargaining was a colossal and shameful failure.

Apparently, according to this view, we irresponsibly shot away our bargaining ammunition in the successive tariff conferences that were supposed to reduce world trade barriers, and now we find that the barriers are still there. This, then, was a monumental betrayal of the trust placed by this country in the State Department delegations that journeyed so frequently to Europe.

Of course, there were other barriers than tariff barriers. If so, they grew up under our own eyes, and with our advice and consent.

Now American industry is to be used once more in order to accomplish that for which it has previously been placed in jeopardy. We made provision in GATT, the General Agreement on Tariffs and Trade, for new barriers against us in the form of import quotas, exchange controls, and so forth, to be used by other countries against us in order to get GATT signed. Now we are to buy these favors back again. This adds up to such a feast of duplicity or depth of stupidity that it should be rebuked and sharply censured, rather than condoned, and even used as a preface for more of the same.

As a sop to our industry and those driven out of work by newly stimulated imports, it is now suggested that we tap the Treasury and the taxpayer to relocate those of our industries that cannot compete with low-wage imports, upset the families and households of the workers, retrain the workers in new skills, and so on. This is to award to imports the right of eminent domain in this country, and would be much the same as sending out bulldozers to push our industries out of the way if they cannot compete. Compete with what? With 25-cents-an-hour labor in the Far East, 50-, 60-, and 80-cent labor in Europe, using the same machinery, in a growing number of cases, as we?

What bright academic economist—now, I say academic economist. There are economists that have in some instances passed beyond the halls of the universities and colleges, and gained some experience in the world. What bright academic economist will condemn the coal industry as inefficient when it has improved its productivity nearly 100 percent in the past decade, and has the highest output per man-hour in the world by far? Yet it is in jeopardy from imports of residual fuel oil.

Who will condemn American agriculture for—and my colleague on the left here, you will be interested in this—who will condemn American agriculture for its phenomenal increase in productivity in the postwar years, and in the past decade, even though in so doing it created burdensome surpluses and priced itself on a broad front out of foreign markets—to the extent that 60 percent of our highly vaunted agricultural exports—60 percent of our exports of farm products in fiscal year 1960–61 were moved only with governmental assistance.

Shall we say that the benefit of rising productivity have been exaggerated, or shall we see to it that we learn more about the effects of mechanization, automation, and so on, and learn how to reap their benefits while avoiding their pitfalls?

Shall we allow a romantic attachment to the vision of free trade divert our eyes from reality and blind us to the serious obstacles to higher employment that reside in an unregulated form of competition that comes to us from beyond the reach of our minimum wage laws, and maximum hour laws, that comes to us from beyond the reach of our laws against sordid working conditions and exploitation of labor? The tariffs and import quotas are the only substitutes for such laws within our grasp.

In the absence of such defenses, many of our stable and efficient industries are to be driven into the dismal swamps of public abandonment under the demonstrably false and unfair doctrine that a domestic industry that cannot compete with imports is ipso facto inefficient. This is an abomination the American people should not be asked to swallow.

(The full statement and the analysis referred to follow:)

STATEMENT OF O. R. STRACKBEIN, CHAIRMAN, THE NATIONWIDE COMMITTEE ON IMPORT-EXPORT POLICY

The slow growth of the American economy in recent years has attracted widespread attention not only here but in other countries. Latterly we have been far outdistanced in terms of "growth" by Japan and Russia, no less than by a number of the European industrial nations, notably the Republic of Germany, Italy, and France.

This lag registered by the United States would be of little moment, and could be dismissed as no more than evidence of the fact that our own assistance to foreign countries permitted these to leap over nearly a generation of research and development and therefore, make rapid advances, were it not for the growing residual unemployment that confronts this country even after its recovery from a series of recessions. It has been noted that since the recession of 1948–49 we have been left at the peak of successive recoveries with a larger hard core of people out of work than before.

Some have called this structural as distinguished from cyclical unemployment and have attributed it to changes in consumer taste, shifts of demand, and in some degree to automation and other labor-saving devices.

It is time to examine this American lag with the idea of establishing its genesis and its implications more definitively.

First, we should examine two terms that are often confused. One is productivity and the other is growth.

Sometimes rising productivity is treated as synonymous with growth. Other times growth is equated with an increase in the gross national product, or GNP.

What is often overlooked is the status of employment and its relation to "growth" and rising productivity.

It should be made clear at the outset that rising productivity may or may not result in either an expanded output or increasing employment. It may indeed under some circumstances lead to a reduction in output, although that may be rare, or to a reduction or a standstill in employment; and that is not rare.

It should also be made clear that rising productivity and "growth" need not go hand in hand. "Growth" may be achieved without an increase in productivity by the simple process of hiring additional workers and, if necessary, building new facilities or plants. Generally this presupposes a growing population and a rising demand.

Increased productivity is indeed "supposed to" lead to growth and expansion, and will usually have this effect unless some counteracting force is at work. Yet, increased consumption per capita will not necessarily result from improved productivity. The demand for some goods is simply so inelastic that consumption will not respond to cost reduction. Examples are sugar, flour, and potatoes. Consumption of sugar per capita remains remarkably stable over a period of years. Our consumption of flour has declined quite appreciably even during the past 10 years, and more so in the past generation. The consumption of potatoes per capita has also declined, but not so sharply.

This is simply to say that there are very important exceptions to the theory that rising productivity per man-hour of work necessarily leads to greater consumption per capita. Such a result is to be expected only if costs and prices are reduced and then only if demand is elastic, i.e., responds to a reduction in price, actual or relative, and if some other factor does not stand in the way.

The fact is, of course, that the American system of mass production was indeed based on the theory that higher productivity, by reducing costs and prices, would lead to higher demand. Certainly the Ford Motor Co., demonstrated the pragmatic soundness of the theory and the idea spread to other industries where it also succeeded; but American consumption of flour nevertheless declined from 214 pounds per capita in 1910 to 135 pounds in 1950 and on down to 118 pounds in 1960. This occurred despite the improved technology of flour-milling. The change represented by the decline was "structural" and prices and costs probably had nothing to do with the trend. The study of dietetics no doubt had a hand; but the greater influence probably lay in the more sedentary life to which the populace gravitated and the belief, false or not, that pervaded the feminine sector of the population, that farinaceous food and girth somehow went hand in hand.

Despite the exceptions, the theory that rising productivity would lead to growth through lesser costs, had sufficient validity to support our mass-production system and may, therefore, be regarded as well-founded. Yet it does not "work" under all circumstances, and these may be important. This is to say, its operation may be impeded or halted by factors in addition to mere inelasticity of demand. In order to clarify this it will help first to distinguish in concrete terms between rising productivity and growth. This can best be done by an example, drawn from hypothetical assumptions covering the decade of 1950 to 1960.

Assume then that in 1950 a thousand employees produced 5,000 units of output per hour, per day or some other period of time and that these 5,000 units supplied the total demand. Assume further that by 1960 the productivity of the workers, because of the introduction of laborsaving devices or machinery, had risen 20 percent, so that 800 workers could now turn out the 5,000 units that in 1950 required 1,000 workers. This result, standing by itself, would indicate the reduction of employment by 200 workers.

This result would, however, not necessarily stand by itself. Our population, for example, expanded 18.4 percent from 1950 to 1960. Assuming the same per capita consumption in 1960 as in 1950, and assuming no other source of supply, the demand at the end of the decade would have risen from 5,000 units to 5,920 units; and it would require 947 workers to produce this expanded output. This would still be 53 workers short of the 1,000 that were employed in 1950. The reason: the rise in productivity (20 percent) was greater than the increase in population (18.4 percent). Had the two increases been exactly equal there would have been neither a loss nor a gain in employment; but there would have been absolute "growth", i.e., expanded production.

This growth would have been attributable exclusively to population expansion and while it would have produced no unemployment it would not have absorbed any of the unemployed.

If growth is defined simply as an increase in output it must be clear that growth may go hand in hand with unemployment. Likewise, rising productivity may be accompanied by unemployment. All depends upon the percentage of growth. If in the above example productivity had increased only 10 percent during the decade but demand had remained constant, instead of 947 workers being required to produce the 5,920 units, this output would have required 1,064 workers. Since population expanded more rapidly than productivity rose, more than the original 1,000 workers would be needed to meet the demand. How many more? The answer is 64 (if the arithmetic is correct).

Whenever the rise in productivity, i.e., the output per manhour, outpaces the population expansion, net unemployment will result unless per capita consumption increases, whether in response to price reduction (i.e., elastic demand), advertising or whatnot.

For example, pursuing the above example, if productivity had risen 30 percent during the decade rather than 10 percent or 20 percent, it is clear (1) that it would have outpaced population growth (i.e., the 18.4 percent), and (2) that it would have led to a layoff of 300 workers unless (*a*) the productivity increase had resulted in lower prices, (*b*) the lower prices in turn or some other factor had resulted in a rise in per capita demand, and (*c*) unless the population had grown.

With the 18.4 percent increase in population there would still have been a net reduction in employment, i.e., to the extend the 30 percent productivity increase exceeded the 18.4 percent population rise, unless some or all of the other provisos with respect to rising per capita consumption, had been met. My calculations indicate that with a 30 percent rise in productivity only 829 workers would be required to produce the 5,920 units of production called for by the population increase. This means that unemployment would have risen to 171 workers.

If during this period the 30 percent increase in productivity had led to a price decline and this in turn had led to a 10 percent increase in per capita demand because of lower prices or if some other influence such as advertising had produced this effect, 930 workers would have been required to produce the 5,000 units plus 18.4 percent (population growth) plus the 10 percent increase in per capita consumption. This would still have left a lag of 70 workers below the 1950 level of 1,000 workres.

A further assumption will demonstrate how an improvement in productivity will behave in relation to population growth and employment. If instead of increasing per capita consumption 10 percent, as assumed just now, the increase of 30 percent in productivity had led to a 12.6 percent increase in per capita consumption during the decade, employment in 1960 would have risen to or remained at the 1950 level of 1,000 (assuming the mathematics is correct). Thus, without any increase in employment, growth in terms of output would have been registered. The number of units produced would have risen from 5,000 to 6,500; but employment would have stood still at 1,000, because population growth would have equated exactly the shrinking effect of the productivity increase. It would have been worse but for the per capita demand increase. Having employment brought back to 1,000 after a lay off of 300 would not have helped so far as the absorptive power of this particular production operation was concerned. It would still have lagged 184 behind the population growth.

In some instances per capita consumption in a decade will, of course, be found to rise at a rate that far outstrips the population increase. Civil aircraft shipments, for example, rose from 3,520 aircraft in 1950 to 8,181 in 1960. However, this increase may bear little or no relation to any increase in the productivity of the manufacturers. Principally it denotes a change in mode of transportation. It is to be noted nevertheless that employment in the manufacture of aircraft and parts also rose, going from 282,000 in 1950 to 653,000 in 1960. Oddly enough the rate of increase in number of aircraft and number of workers was almost identical. The number of aircraft produced rose 132 percent during the decade compared with 131 percent increase in employment. However, total airframe weight rose 175 percent, indicating a move toward somewhat heavier aircraft.

The increase in output, which would ordinarily be called growth in this instance was the result of a structural change in demand, since railroad transportation suffered a contraction. The growth in output in number of aircraft, however, was accompanied by an equal growth in employment. Increased productivity was then confined to producing larger aircraft with the same number of workers. Whereas the number of workers rose 131 percent, airframe weight rose 175 percent. This would indicate a productivity increase of 25.1 percent in terms of airframe weight in 10 years. Total horsepower of the heavier craft also increased, going from 134 aircraft rated at 400 horsepower and over to 1,317 of the same class. Here was about a tenfold increase and this indicates where the increase in productivity lay.

In this example all factors were favorable. Exports, in particular, were at a maximum in 1960 and represented 28 percent of production by quantity but 43 percent by value, accounted for by increased shipments of jet aircraft (three times as high in value in 1960 as in 1959 but probably nonrecurrent). Air travel has gained broad public acceptance. Speeds have been increased and safety improved. These are factors that were productive of growth quite independently of the usual economic factors of growth such as improved productivity in terms of man-hours of work. The cost of air travel did not decline.

Another industry that has grown in number of employees is that of electrical communications equipment. Unfortunately no statistics on productivity trends are available because of the great variety of products. Employment rose from 351,000 in 1950 to 674,000 in 1960. This was an increase of 90 percent, somewhat lower than in the case of aircraft. Whereas employment in the aircraft industry rose by 371,000 in the decade and outran the population increase of 18.4 percent by 319,112 workers, the increase in the number of employees in electrical communications from a larger base was only 323,000. This was still far above the population increase and absorbed 258,416 workers beyond that called for by population expansion.

Here, we may again be sure that the growth was not the result of increased productivity but rather of technological development. A new cluster of products, television and electronics, and so forth, came on the scene. The growth was not the same as would come from an increase in the per capita consumption of beef, for example. It was a question of a virgin market for a new type of product. The price, of course, had to be within the reach of the consumers in order to establish a mass market, and that called for a high order of productivity.

There were other industries that added more to employment than the population growth called for during the 1950–60 decade. Machinery, except electrical, was one of these. Employment grew from 1,354,000 in 1950 to 1,637,000 in 1960. This was an increase of 283,000 but overran the population growth by only 33,864. This group included office and store machines, agricultural machinery and tractors, machine tools, and so forth, and was closely related to mechanization of agriculture, office work, and even industry.

It would be fair to say that this industry grew in response to a demand for mechanization and automation rather than generating original demand. Also, while it added to employment within its own field it may in some cases have resulted in displacement of workers elsewhere, as on the farm. Nevertheless it could be credited with a plus sign in those instances in which the installations led to lower costs of output and where this in turn led to employment increases beyond population growth.

The manufacture of chemicals and allied products also stayed ahead of population increase in number of workers added. This lead was 67,510 employees. This industry includes many new products, such as plastics, synthetic textiles, and biologicals.

These growth industries plus a very few others contributed 1,170,000 workers over and above the 18.4 percent called for by population growth.

Unfortunately this was not sufficient to offset the lags that developed elsewhere during the decade.

The principal lag occurred in agricultural employment. The decline was precipitate, going from 9,926,000 in 1950 to 7,118,000 in 1960. This was an actual drop of 2,808,000 representing a lag behind population expansion of 4,634,000. This slideaway of itself more than buried the additional employees added by growth industries.

In the agricultural field mechanization, the use of fertilizer, pesticides, and improvement of crop varieties, such as hybrid corn, led to a phenomenal increase in productivity, that is, yield per acre. As already indicated, such vast increase in productivity does not necessarily lead to increased consumption per capita. In some cases prices were supported by the Government so that the lowered cost of production (relatively speaking) was not passed on to the consumer. However, it is highly doubtful that lower prices would have increased the consumption of wheat, potatoes, sugar, fish, and so forth, in any case. In a land where no one or a very few go hungry, the consumption of food is limited by total stomach capacity, variety of food and specific appetite. If the price is within reason, consumption will not respond to price declines. Therefore increased productivity that exceeds population expansion will result in surplus production.

Mechanization and other means of increasing the yield per acre, far from adding to employment, will decimate it. That is what happened in American agriculture. We achieved both surplus production and unemployment as the fruits of a fast-rising productivity. This was because of generally inelastic demand for agricultural products.

It seems safe to say that mechanization, automation, and other increases in productivity will in all cases, and not only in agriculture, not lead to increasing employment if the demand for the product is inelastic and if the market is already saturated. The people of the United States, for example, have only so many feet. While the rural children still went barefooted during the summer months the possibility of increasing the use of footwear still existed. This could be done by advertising or other forms of propaganda.

Today the market is more nearly saturated. The only hope of expansion would therefore lie in more shoes per person, a greater variety of shoes, frequent restyling in order to substitute new shoes for those not yet worn out, or, as an alternative, less durable shoes. All advertising, merchandising, etc., must then be satisfied with sharing the market, avoiding losses to competitors, keeping up with the growth in population, or, ultimately, exportation. This is a separate question.

When an industry has reached the point of saturation with respect to supply in relation to demand, it must be obvious that the installation of labor-saving devices can only lead to unemployment or a more or less stationary employment level if the increase in productivity about equals population growth.

Many such industries exist. Salt, men's hats, cigars, flour-milling, pork-production, shoes, certain industrial chemicals, most of the "staples," in fact. There are scores of such products.

Exceptions may always be found in new products. Sometimes, however, the new products only displace preexisting ones and the changeover may but does not necessarily result in a loss of employment. For example, employment in interstate railways dropped from 1,391,000 in 1950 to 894,000 in 1960. This was a loss of 497,000; and still greater if population growth is taken into account. "Other transportation and services" grew from 610,000 to only 690,000.

All transportation, including trucking, bus lines and warehousing, declined in employment from 2,765,000 to 2,558,000, representing a net loss of 207,000. This represented a lag of 715,760 behind population growth.

The aeroplane, while representing a great forward move in transportation, has not increased employment in transportation. It was not expected to do so. In fact, industrial progress is usually measured by the extent to which fewer workers will be needed. If labor-displacement were not accomplished, only minor economies could be realized. Also, unless workers were released from employment in one field no new fields could be opened. We gain variety of production by the release of workers from one field to another.

In some instances a wholly new product is developed, such as the motion picture or radio, and gives employment where there was little or none before. What is the potential of such employment? This will depend on many factors. However, if there is popular acceptance, and if the price can be brought within the reach of the popular pocketbook, the growth will be limited only by the number of people who are potential consumers. Whether this potential will be exploited will then depend upon the enterprise of those who develop the product. Under the competition system, it may be guessed that in most instances the product will be pushed to the saturation point in a period of years.

Even if the demand for the product is inelastic, growth can always be experienced until the saturation point is reached. However, once this stage is reached the industry becomes stabilized and may itself become the victim of replacement; but if it does not, its employment potentials will be strictly limited. Likely as not it will not keep apace with population growth.

New products do appear from time to time but their arrival cannot be scheduled. The U.S. Patent Office is open every working day of the week; but fertile inventors are few.

Many products that are already on the market have perhaps not "mined" the total potential consumer demand. Efforts to do so usually call for a resort to sales promotion including advertising, distribution of samples, and much else. If 10 percent of the population consumes the product, why not extend this to 20 or 30 percent? Cigarette makers have had a resounding success in this respect. The number of cigarettes smoked per capita by all persons of 15 years or older increased from 3.84 pounds in 1930 to 5.16 in 1940, on to 9.37 pounds in 1950, and then only to 9.61 pounds in 1960. The number of wage earners employed in 1939 by cigarette manufacturers was 27,426. In 1950, when per capita consumption had virtually doubled compared with 1939, the employment was only 29,000. New machinery had greatly speeded the output.

The increase in cigarette consumption was not attributable to a reduction in the price. Advertising and the pleasant sensation of smoking, together with the habit factor, were in the forefront. Of course, high productivity made the product available to the mass market.

By 1960 when per capita consumption had increased from 9.37 pounds to only 9.61, on the other hand, employment had risen to 38,000. This was an increase of 9,000 in 10 years. The per capita consumption had increased only 0.25 percent, thus justifying the addition of only about 75 employees. Population growth would have justified addition of another 4,336. The actual increase by 9,000 or about 4,600 more than the population expansion called for was probably attributable to the increase in the manufacture of filter cigarettes, a process requiring more work per cigarette. Market saturation seems near at hand.

Cigar consumption had a different career. Per capita consumption declined from 1.67 pounds in 1930 to 1.36 pounds in 1940, to 1.18 pounds in 1950 and to 1.03 pounds in 1960. Employment declined from 50,897 in 1939 to 41,000 in 1950 and on to 26,000 in 1960. Nevertheless, despite the decline in per capita consumption, the actual number of cigars produced increased from 5,197,000 in 1939 to 5,468,000 in 1950 and up to 6,917,000 in 1960.

Cigar manufacturing shifted almost completely to machine-made cigars. In 1960 it required half as many workers to produce about 40 percent more cigars. According to the population increase since 1939, employment should have risen approximately 18,000. Instead it declined more than that many. What happened to the comfortable economic theory that higher productivity will lead to lower prices and that lower prices will lead to increasing per capita consumption and that this in turn will lead to rising employment?

If per capita consumption does not rise in response to mechanization or automation either because prices are not lowered or because the demand is inelastic or because the market is saturated or for some other reason, such as import competition, and if the increase in productivity is greater than population increase, net manufacturing unemployment will result unless exports have increased sufficiently to offset the domestic employment contraction. In order to do this, exports would ordinarily have to increase sharply, because they usually represent only a small part of total production. If, for example, exports are even 10 percent of total output, they would have to double in order to exert a 1-percent effect on employment.

The automotive industry in 1940 employed 634,000 workers. This number rose to 825,000 in 1950 but declined to 781,000 in 1960. Population increase since 1940 has been 35.9 percent, i.e., to 1960. To keep pace with this—not to absorb any unemployed from other sources—the industry should have employed 861,000 by 1960. It fell short by 36,000. Thus while once the automotive industry was one of the leading "growth" industries it has ceased being so. It cannot be looked to as a source of employment absorption. Rather it is dropping workers despite its past export position.

In 1940 the 634,000 employees produced 4,472,000 automobiles, trucks, and buses. In 1950 workers numbering 825,000 produced 8,003,000 automobiles, trucks, and buses. In 1960, the number of workers was 781,000 and they produced 7,869,000 units.

In 1940 the output per worker was almost exactly 7 units. In 1950 it was just short of 10 units (825,000 workers produced 8,003,000 units). In 1960 it was very slightly over 10 (781,000 workers produced 7,869,000 units).

Meanwhile exports of automobiles, trucks, and buses have declined from 252,531 in 1939 to 145,000 in 1960, while imports rose from 21,000 in 1950 to 444,000 in 1960.

Employment in automobile repair shops has risen from 153,576 in 1948 to 255,891 in 1960, showing a net increase of 102,000. This was an increase of 68 percent while the total number of registration of cars, trucks, and buses rose from 40.5 million in 1948 to 73.8 in 1960, an increase of 83 percent. This would indicate an increase in productivity in the repair facilities.

Gasoline service stations employed 246,600 in 1939, going up to 285,954 in 1948 and on up to 465,550 in 1960. This is an example of the expansion in the service trades; and represents the indirect growth and employment that may be provided by rising productivity.

The side effects of increasing mechanization or automation may thus offset some of the job-shrinking effects of displacing workers. Unfortunately during the 1950–60 decade these indirect benefits failed to overcome the total lag produced by worker displacement.

If it were possible to produce all the goods used in the United States in 1 day, all the remainder of employment must concern itself with distribution (transportation, selling, advertising, wholesale and retail trade), finance, insurance, law, medicine, real estate, entertainment, haircutting, education, military service, etc.

We have been moving in that direction. Some of the shrinkage in employment suffered by various industries from 1950–60 are shown in the table below:

	Employment		Worker shrinkage
	1950	1960	
Metal mining	97,000	92,000	5,000
Anthracite	75,000	13,000	62,000
Bituminous coal	368,000	159,000	258,000
Dairy products	125,000	95,000	30,000
Grain-mill products	116,000	110,000	6,000
Sugar	36,000	30,000	6,000
Confectionery and related products	92,000	73,000	19,000
Beverages	214,000	210,000	4,000
Miscellaneous food products	142,000	135,000	7,000
Tobacco manufactures	103,000	88,000	15,000
Textile-mill products	1,292,000	946,000	346,000
Men's and boys' suits and coats	143,000	114,000	29,000
Women's outerwear	369,000	337,000	32,000
Millinery	23,000	18,000	5,000
Lumber and wood products	805,000	644,000	161,000
Petroleum refining	185,000	182,000	3,000
Tires and inner tubes	107,000	103,000	4,000
Rubber footwear	24,000	22,000	2,000
Leather and leather products	392,000	365,000	27,000
Pottery and related products	60,000	48,000	12,000
Structural clay products	78,000	73,000	5,000
Blast furnaces, rolling mills, steelworks	611,000	569,000	42,000
Iron and steel foundries	224,000	222,000	2,000
Nonferrous foundries	77,000	62,000	15,000
Cutlery, handtools, and hardware	158,000	133,000	25,000
Heating apparatus and plumbers' supplies	138,000	114,000	24,000
Railroad equipment	60,000	57,000	3,000
Watches and clocks	33,000	28,000	5,000
Jewelry, silverware, plated ware	57,000	46,000	11,000
Costume jewelry, buttons, notions	64,000	60,000	4,000
Total	6,268,000	5,148,000	1,169,000

These 30 industries that in 1950 employed over 6 million workers registered a shrinkage of 1,169,000 employees in 10 years' time. Had they kept in pace with population increase, they would have added 1,153,000. Therefore, the total lag was 2,322,000.

It is unfortunately not possible to trace the quantitative output of all these industries, to determine the trend of their productivity. This can, however, be done in a few cases:

	Production		Percent increase
	1950	1960	
Footwear, except slippers, million pairs	464.0	527.0	14
Cigarettes, billions	391.0	506.0	29
Men's and boys' suits and coats, millions	27.1	[1] 25.2	–7
Sugar, million tons	8.3	9.3	12
Tires, passenger cars, millions	78.6	105.3	34

[1] 1959.

Leather footwear dropped 8,000 in employment during the decade while output increased some 14 percent. This indicates an appreciable rise in productivity. Men's and boys' suits lost 29,000 workers, or 20 percent, while production dropped only 7 percent, thus also indicating a net rise in productivity amounting to some 12 percent. Sugar produced 12 percent more while employment declined 16 percent. In the case of automobile tires, employment dropped between 3 and 4 percent while output rose 34 percent.

Bituminous coal production per man-hour increased from an index of 114.5 in 1950 to one of 212.5 in 1960 while employment declined from 368,000 to 159,000, a drop of 209,000. In terms of total production, a decline of 104 million tons was registered, i.e., from 516 million tons in 1950 to 412 million tons in 1960. Exports for 1960 were 37.2 million tons, or less than 10 percent of production. In 1960 43 percent of the workers produced 80 percent as much coal as 100 percent of the workers produced in 1950.

Did this sharp rise in productivity lead to increasing consumption? Obviously, it did not. Natural gas, residual fuel oil, diesel oil, etc., prevented it.

What is the worth of a theory that finds itself blocked at every turn? It is like the man who was not there when he was needed.

Our industrial landscape is full of examples where one influence or another has prevented the theory from proving itself in operation.

Oh, it will be said, the expansion of the service trades, professions, etc., will take up the slack; but they failed to do so during the 1950–60 decade; and the 1950–60 decade was relatively favorable to our industries so far as foreign competition was concerned. We face a more formidable future. It is true that the service trades, etc., added greatly to their payrolls, and increased the number employed from 19.8 million in 1950 to 26.4 million in 1960, or a total of 6.6 million, State and local government accounting for nearly a third of this increase.

Yet, this vast bulge in the nonproductional employment failed to overcome the slack caused by the agricultural, industrial, mining, and transportational lag in employment in relation to population growth.

The deficiency, leaving out the growth in the military service, was 3.64 million. This represents the hard core of "structural" unemployment that (1) continues to rise and (2) that does not yield to cyclical prosperity.

What was it then that prevented the rising productivity from begetting the employment that it was supposed to generate?

Was it altogether attributable to inelasticity of demand in a number of the industries in which much of the rising productivity took place, particularly agricultural and staple commodities? No doubt this had much to do with it. However, not all the employment lag appeared in cases of that kind.

Many of our industries have been confronted by rising and ominous import competition. This has confronted them with decisions with respect to plant renewal and plant expansion or the building of new plants that involved crucial questions of market trends, the possibility of selling a larger output if it were produced, the maintenance of reasonable profit margins in the face of relentless price pressures, etc.

The rising trend of imports left little question in many instances of the folly of greater outlays for expanded production. The more practical step when thus confronted would be to reduce costs by introducing laborsaving devices or by pushing automation. In this way the competition might at least be partially stood off. Unfortunately this meant fewer workers, not more, to be employed. Of course, the machinery and equipment manufacturing industry would benefit; but not nearly as much as it would have if a happy market outlook had loomed before the prospective expanders of production.

It is said that these rising imports gave rise to an equal volume of exports. Our exports did expand but some 25 percent of the present volume of exports depends upon governmental subsidies, foreign aid "demand," sales for foreign currencies, and similar noncommercial considerations.

At the same time many of our great exporting industries have seen exports decline while the country moved into a net import position with respect to their products: steel, petroleum, typewriters, sewing machines, textiles, cameras, boots and shoes, and, above all, the product of one of our greatest exponents of, and pioneers in, automation; namely, the automobile industry.

The effort to hold export markets also exerts great pressure to introduce greater mechanization and automation.

Very well, but have we not seen that rising productivity creates jobs as well as destroying them? The answer is beyond question: Yes, but—

When imports that have the advantage of modern technology, newly achieved in many instances, carry the further advantage of low wages that, combined with the higher productivity, make for lower unit costs; when imports thus freighted with competitive advantage over our industries invade our market, they readily take away the rising demand created by an increase in our own productivity. If the demand for this product is inelastic we are driven back in a volume equal to the rising imports. If the demand is elastic we stand still in terms of employment, or nearly so, while imports skim off the cream. In either case our employment suffers.

If the product is a new one, of the kind to which we look for extra employment-absorbing capacity, it takes a very short time today for other countries to develop it and enter our market. Such demand creation as our industries have performed through advertising, sales promotion, etc., is then shared gratuitously with our foreign competitors. The electronic industry is a good example.

It is not always left to foreign producers to bestir themselves. Some of our own patent holders will readily license them, and in some instances establish manufacturing facilities abroad. The number that have already done so easily runs into the hundreds.

The diffusion abroad of our technological achievements was one of the principal postwar economic developments. To help put the efforts into gear we guided thousands of productivity teams through our factories, teaching them production line techniques, etc.

Other countries have indeed been impressed with our system and have "bought" it. Witness the EEC (Common Market), the EFTA, etc. They have eagerly bought one side of the equation: rising productivity; but not the other; namely, high wages.

Now we are told that we must make accommodations with the Common Market by lowering our tariffs yet more. This is an upside-down judgment indeed. We have reduced the protective effect of our tariff 80 percent in the past 27 years. This was presumably done in exchange for similar reductions abroad.

Europe was long advertised as being a "low tariff" area to begin with. Now, after 27 years of sharp "Yankee bargaining," after the smoke lifts and the dust settles, we are apparently confronted with a "high" external tariff in order to export into the Common Market.

Either this is a purposely exaggerated aberration or, if indeed we are so confronted, our Yankee "reciprocal" bargaining was a colossal and shameful failure. Apparently, according to this view, we irresponsibly shot away our bargaining ammunition in the successive tariff conferences that were supposed to reduce world trade barriers and now find that the barriers are still there. This then was a monumental betrayal of the trust placed by this country in the State Department delegations that journeyed so frequently to Europe.

To be sure, there were barriers other than tariffs to be lowered; but if so they grew up under our eyes and with our advice and consent.

Now American industry is to be used once more in order to accomplish that for which it has previously been placed in jeopardy. We made provision in GATT (the General Agreement on Tariffs and Trade) for new barriers against us in the form of import quotas, exchange controls, etc., to be used by other countries in order to get GATT signed. Now we are to buy these favors back again. This adds up to such a feast of duplicity or depth of stupidity that it should be rebuked and sharply censured rather than condoned and even used as a preface for more of the same.

As a sop to our industry and those driven out of work by newly stimulated imports, it is now suggested that we tap the Treasury and the taxpayer to relocate those of our industries that cannot compete with low-wage imports, upset the families and households of the workers, retrain the workers in new skills, etc. This is to award to imports the right of eminent domain in this country, and would be much the same as sending out bulldozers to push our industries out of the way if they cannot compete. Compete with what? With 25-cent-an-hour labor in the Far East, 50-, 60-, and 80-cent labor in Europe, using the same machinery in a growing number of cases as we?

What bright academic economist will condemn the coal industry as inefficient when it has improved its productivity nearly 100 percent in the past decade and has the highest output per man-hour in the world by far? Yet it is in jeopardy from imports of residual fuel oil.

Who will condemn American agriculture for its phenomenal increase in productivity in the postwar years and in the past decade even though in so doing it created burdensome surpluses and priced itself on a broad front out of foreign markets—to the extent that 60 percent of our exports of farm products in fiscal year 1960–61 were moved only with governmental assistance?

Shall we say that the benefits of rising productivity have been exaggerated or shall we see to it that we learn more about the effects of mechanization, automation, etc., and so learn how to reap their benefits while avoiding their pitfalls?

Shall we allow a romantic attachment to the vision of free trade divert our eyes from reality and blind us to the serious obstacles to higher employment that reside in an unregulated form of competition that comes to us from beyond the reach of our minimum wage and maximum hour laws, from beyond the reach of our laws against sordid working conditions and exploitation of labor? The tariff and import quotas are the only substitutes for such laws within our reach.

In the absence of such defenses many of our stable and efficient industries are to be driven into the dismal swamps of public abandonment under the demonstrably false and unfair doctrine that a domestic industry that cannot compete with imports is ipso facto inefficient. This is an abomination the American people should not be asked to swallow.

Supplement on Import Competition and Employment

The net effect of imports and exports on domestic employment cannot be determined either by argumentation or by official pronouncements that come from sources that are wedded to a tariff-cutting program.

Many such pronouncements have attributed to exports employment-swelling powers that find little support in statistics of the past decade. At the same time these official and semiofficial expressions have quite uniformly minimized the employment-shrinking powers of import competition.

It would perhaps better serve an objective inquiry if the earlier estimates, opinions, and pronouncements, official and private, in both fields were forgotten. One of the most widely quoted of the estimates [1] would have been acceptable as a good guess if the several assumptions upon which it rested had clung to it instead of being lost on the way. The authoritative character of the estimate could not then have flourished as it did, far beyond the modest claims of its author. That this particular estimate has been so widely repeated, with no allusion to the assumptions that hedged it carefully against too serious entertainment, may be ascribed to the fact that it found little employment-displacing threat even in the abolition of tariffs and import quotas. This was enough to assure it of investiture with the aura of authority in free-trade quarters.

To be sure, there is no accurate way of measuring either the job-displacing effect of imports or the employment-creative powers of exports. In a complicated economy it is not possible to separate different factors that may produce similar effects. For example, loss of jobs may be caused by mechanization and automation at the same time that imports are rising. On the other hand, employment may rise in an export industry because of a favorable change in consumer demand, rather than being exclusively the result of increasing exports.

At the same time, mutually offsetting factors may be at work in both the import and export field. More jobs might have been lost to imports in some instances but for some fortuitous development that occurred independently of imports. The freezing of fish, for example, opened a much wider market in this country. This development counteracted some of the job-displacing effects that rapidly rising imports would otherwise have produced. On the export side, more jobs might in some cases be created than in fact result from greater foreign sales because introduction of labor-saving devices has in the same period pulled in the opposite direction.

Sometimes, then, imports are absolved of their job-killing potential by other favorable developments, including population growth; and exports do not get full credit because they too sometimes are moving upstream, statistically speaking, i.e., against the current of automation. Their job-generating effects may then be canceled by countervailing forces.

Statistics in the gross may, therefore, be very misleading. However, if enough is known of the component elements of the statistics relating to particular industries, certain influences may be traceable precisely because they do impress

[1] See Howard Piquet, "Aid, Trade, and the Tariff"; Crowell, 1953

themselves on the aggregate. This would indicate a persistency that could not easily be ignored. Some common causative factor might then be located.

Employment statistics that reflect a whole industry's job movement, if they are accurate, necessarily incorporate all the factors and influences at work. Some of these may be offsetting and, therefore, concealing; some, cumulative and, therefore, exaggerative with respect to any single factor.

Any attempt in any individual industry to extricate a decline in employment that might be attributed to import competition from the unemployment attributable to rising productivity would require specific knowledge of the trend of mechanization in the industry, together with the consumption trend. If there was no technological advancement and if consumption remained steady, a decline in employment might then with greater confidence be attributed to import competition.

In like manner if employment rose while domestic consumption and productivity remained constant, any appreciable increase in exports might be credited, at least tentatively, with expansion of employment.

A study of employment statistics covering the 10-year period, from 1950 to 1960, classified by industries, such as the Bureau of the Census presents us, will reveal the extent of declines or increases in the number of workers employed.

From such a classification it is possible to determine how many workers any given industry should have added during the decade had its its expansion in employment kept pace exactly with the increase in population. This was 18.4 percent.

There might be, as already indicated, a variety of reasons why a given industry had failed to expand its work force by 18.4 percent from 1950 to 1960. For somewhat different reasons the work force of another industry or service trade might have expanded by a margin greater than 18.4 percent. Only by accident would an industry keep in precise step with the population increase. If employment as a whole failed to keep pace with the rise in population, this fact might indicate that a rather widespread influence was at work.

If we examine the employment statistics for all manufacturing industries (i.e., nonagricultural and nonmining) we will encounter an actual decline in the number of production workers employed from 1950 to 1960. The total was 12,317,000 in 1950 and had shrunk to 12,265,000 in 1960. This was a loss of 52,000 factory jobs during the decade immediately past.

Since population had increased 18.4 percent, the number of production workers should have increased by 2,266,328. Instead the number fell by 52,000. In other words, the number employed as production workers fell short by 2,318,328 of keeping apace with population increase.

If, instead of confining ourselves to production workers in industry, we give our attention to all employees in the manufacturing industries (excluding agriculture and mining), we encounter something less startling but nevertheless indicative of powerful negative influences at work.

Workers in manufacturing industries

All manufacturing employees stood at 14,967,000 in 1950 and rose to 16,337,000 in 1960. This was an increase of 1,370,000 employees, compared with a decline of 52,000 in production workers. In other words, officeworkers, salesmen, etc., increased by 1,412,000 during the decade while production workers lost 0.42 percent, or 52,000.

Yet the expansion of total manufacturing employment fell far short of the level needed to keep pace with the 18.4 percent in population increase. To keep this pace would have called for an increase of 2,753,928 in employment. The actual increase, to repeat, was only 1,370,000, leaving a deficiency of 1,383,928. This meant that only 50 percent of the expansion needed to keep in step with the population increase was realized.

The upshot is that manufacturing industry failed to absorb its share of the additional employees who came forward looking for jobs during the 1950–60 decade.

For the moment, before inquiring into the causes of this lag, it will be desirable to examine the trend in other types of employment.

Beside manufacturing industries the census report lists separately all mining operations, contract construction; transportation, communication, and public utilities; wholesale and retail trade; finance, insurance, and real estate; service and miscellaneous; government, classroom teachers, farm employment, and armed services.

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Mining

Mining registered a sharp decline in total employment, attributable in great part to the shrinkage in the number of workers in bituminous coal production. All mining employment dropped from 889,000 in 1950 to 664,000 in 1960. This was a drop of 225,000. The decline in bituminous coal itself was 209,000; in anthracite the decline was 62,000, ending with only 13,000 in 1960; while crude petroleum and gas production gained 34,000 workers in the same period. Instead of losing 225,000 workers the mining industry as a whole should have added 163,000 if it was to keep pace with the population. Since it lost 225,000 its total deficiency was 388,000.

Metal mining, though not remotely shrinking to the degree experienced by bituminous coal mining, nevertheless slipped from 97,000 to 92,000. Instead of losing 5,000 it should have added 18.4 percent or 17,848 in order to keep pace.

While employment in nonmetallic mining and quarrying gained 18,000 workers in this period, rising to 113,000, this gain plus that registered in crude petroleum and gas production fell far short of balancing the other employment shrinkage.

Further employment shrinkage

Among the manufacturing industries that registered appreciable losses and thus failed to meet their share of the employment burden were the following, shown with decline in employment from 1950 to 1960:

Industry	Number employed 1950	Number employed 1960	Loss in number of employees
Broad-woven fabric mills	588,000	389,000	199,000
Sawmills and planing mills	463,000	309,000	154,000
Yarn and thread mills	162,000	104,000	58,000
Motor vehicles and equipment	825,000	781,000	44,000
Blast furnaces, steel works, and rolling mills	611,000	569,000	42,000
Women's outerwear	369,000	337,000	32,000
Dairy products	125,000	95,000	30,000
Knitting mills	249,000	219,000	30,000
Men's and boys' suits and coats	143,000	114,000	29,000
Cutlery, hand tools, and hardware	158,000	133,000	25,000
Carpets, rugs, etc	65,000	45,000	20,000
Pottery and related products	60,000	48,000	12,000
Leather footwear	252,000	244,000	8,000
Watches and clocks	33,000	28,000	5,000
Costume jewelry	64,000	60,000	4,000
Petroleum refining	185,000	182,000	3,000
Rubber footwear	24,000	22,000	2,000
Iron and steel foundries	224,000	222,000	2,000
Total	4,600,000	3,901,000	699,000

Had these industries kept pace with population their employment should have increased by 839,040 workers. Instead employment fell by 699,000. The deficiency or lag was therefore 1,538,040. Combined with mining the lag was 1,926,040.

With respect to the above examples it should be kept in mind that the total employment lag is much greater than the decline in employment. In the case of broadwoven fabric mills, for example, the loss of 199.000 in employees must be added to the number that would have been added to the 1950 total of 588,000 if employment had grown in keeping with the population trend. This addition would have been 108,192, thus bringing the total deficiency to 307,192.

To the loss of 154,000 in sawmill and planing mill employment must be added 85,192, for a total deficiency of 239,192.

In order to maintain employment at a level high enough in the country to absorb the net addition to the employable work force, some other industries or some service or profession would be called upon to take up the slack. Should they fail to do so the country's unemployment rolls would swell by that much.

The primary metal industries, consisting of iron and steel, copper, lead, and zinc and other nonferrous metals, instead of gaining employment during the decade, lost several thousand, falling from 1,200,000 in 1950 to 1,186,000 in 1960. At first blush it might be remarked that this vast sprawl of industry, including our huge steelworks, rolling mills, and foundries, nearly held their own. They lost only 14.000 workers; but if the country's population growth is taken into account a vastly different conclusion is reached.

These primary metal industries, to carry their share of employment, should have added 220,800 workers. Instead they lost 14,000, thus bringing their deficiency to 234,800 employees. To repeat if these were to be employed they must find work elsewhere, i.e., in growing industries or in trades, services, or professions.

There were some industries of this character. We shall look at a few of them now.

Growing industries

These five principal growing industries in the manufacturing group were aircraft and parts, electrical communications equipment, machinery (except electrical), chemical and allied products, and printing, publishing, and allied industries. They are shown below:

Industry	Number employed 1950	Number employed 1960	Number employees added
Aircraft and parts	282,000	653,000	371,000
Electrical communications equipment	351,000	674,000	323,000
Machinery (except electrical)	1,354,000	1,637,000	283,000
Chemical and allied products	682,000	875,000	193,000
Printing, publishing, and allied industries	738,000	894,000	156,000
Total	3,407,000	4,733,000	1,326,000

Here were some appreciable gains, but they will also shrink appreciably when they are read alongside of the growth factor attributable to population expansion. We then find that the 371,000 increase in aircraft and parts employment shrinks to 319,112. This is still a respectable increase. True, it is not enough to overcome the shrinkage in employment in interstate railroads. This was 497,000.

The gain of 323,000 in the electrical communications equipment manufacturing industry shrinks to 258,416, which is also still a respectable increase. The contribution of the machinery industry, i.e., the gain of 283,000, however, overruns the population growth factor by only 33,864. This group includes machine tools, agricultural machinery and tractors, construction and mining machinery, engines and turbines, office and store machines, etc.

The 193,000 added by the chemical and allied products industry is reduced to a net gain of 67,510. The 156,000 addition to the printing and publishing and allied industries falls to a net gain of 20,208.

Between these 5 large industries 699,112 workers were absorbed over and beyond the level of population growth. This was equal to the employment lost by the class I railroads plus nearly all those lost by the broadwoven fabric industry; but it did not make up their deficiencies, which between them amounted to a lag of 531,857, based on the 18.4 percent population increase.

Agriculture

The shrinkage in agricultural employment has been sharper than in any other field. In 1950 it stood at 9,926,000 in terms of total workers. In 1960 it had fallen to 7,118,000, representing a drop of 2,808,000. Had farm employment kept pace with the population increase it would have risen by 1,826,144. The lag was therefore 4,634,144.

Transportation

While employment in interstate railroads declined sharply, dropping from 1,391,000 in 1950 to 894,000 in 1960, for a loss of 497,000, trucking and warehousing rose from 619,000 to 884,000, for a gain of 265,000. Other transportation and services rose from 610,000 to 690,000, for a further gain of 80,000.

However, since all transportation declined in employment from 2,765,000 to 2,558,000, there was a net loss of 207,000; and this represented a lag behind population growth of 715,760, since transportation as a whole should have risen by 508,760 in keeping with the growth in population.

Contract construction

Employment in contract construction increased from 2,333,000 in 1950 to 2,772,000 in 1960. This was an increase of 439,000 or 9,728 more than the increase called for by the population expansion.

Telephone, telegraph, gas and electric utilities, including local utilities

Telephone and telegraph employment rose from 664,000 to 742,000, or a total of 78,000. This gain, however, fell short by 44,176 of the pace set by the population increase.

Gas and electric, including local utilities, registered an employment increase of 53,000, rising from 549,000 to 602,000. This represented a lag of 48,016 in relation to population expansion.

Summary of employment lags

Industry or service	Actual loss, 1950–60	Total lag in relation to population growth
Mining	225,000	388,000
18 lagging industries (listed previously)	699,000	1,538,040
Agriculture	2,808,000	4,634,144
Transportation	207,000	715,760
Utilities (gas and electric, telephone and telegraph)	[1] 131,000	92,192
Total	3,808,000	7,368,136

[1] Gain.

Employee-absorbent services, trades and professions

	Number employed		Number of employees added
	1950	1960	
Wholesale trade	2,571,000	3,135,000	564,000
Retail trade	7,074,000	8,507,000	1,433,000
Federal Government	1,928,000	2,237,000	309,000
State and local government	4,098,000	6,221,000	2,123,000
Classroom teachers	914,000	1,410,000	496,000
Finance, insurance, and real estate	1,824,000	2,485,000	661,000
Military personnel, active duty	1,460,000	2,476,000	1,016,000
Total	19,869,000	26,471,000	6,602,000

From this table it is readily visible what activities have absorbed employees from industrial, agricultural, and those of the service and trade pursuits that registered a lag.

State and local governments have been the principal havens of those who have been squeezed out of other pursuits or who were newcomers. From 1950 to 1960 they added 2,123,000 employees. This represented a growth of slightly over 50 percent, compared with the population growth of 18.4 percent. To keep abreast of population growth State and local government need have absorbed only 754,032 employees. Instead they added 1,368,968 in excess of that number.

The next highest absorbent activity was found in the retail trade. In this field the number of employees rose from 7,074,000 to 8,507,000, representing an increase of 1,433,000. This was virtually a 20-percent increase and exceeded the population growth (18.4 percent) only slightly. In proportion to population growth the retailing services would have added 1,301,616. The actual increase was 131,384 in excess of that number.

Employment in the whoesale trade was slightly more expansive, or about 22 percent. The expansion of 564,000 above the 1950 employment of 2,517,000 was 90,936 in excess of the population growth factor.

The employment expansion of the Federal Government was slightly in excess of 15 percent and was therefore a little below the 18.4 percent growth of the population. In 1950, 309,000 employees were added to the 1,928,000 on the payroll, and this was 45,752 less than population growth would have called for.

Classroom teachers registered a greater proportional expansion even than State and local goverment. The number grew from 914,000 to 1,410,000, and this was an increase of 496,000 or 54 percent and added 327,552 beyond the population growth factor.

Finance (comprising banks, trust companies, security dealers and exchanges), insurance, other finance agencies and real estate showed a growth of 36 percent. This was about double the population growth factor. Employment rose from 1,824,000 to 2,485,000, representing an increase of 661,000. That was 325,000 in excess of the number called for by the population growth.

Military personnel on active duty expanded by a little over a million from 1,460,000. This was a 69 percent expansion and went 748,000 beyond the population expansion factor.

Summary

The table shows an expansion in the entire group of services, trades, and professions listed, from 19,869,000 in 1950 to 26,471,000 in 1960, an increase of 6,602,000, or 33 percent. The expansion called for by the population growth factor would have been 3,655,896. The actual employment exceeded this by 2,946,104.

Unfortunately, the lag exhibited by receding industries, mining, agriculture, transportation, etc., reached 7,366,096 employees.

However, a few industries produced employment rolls in excess of the 18.4 percent increase in population. The significant and leading ones were listed above. Among them they absorbed 699,112 workers beyond the population growth factor. If these are added to the 2,946,104 workers absorbed by the services, trades, and professions a total of 3,645,216 is reached.

If this number is placed alongside of the lag of 7,366,096 set forth above, we are left with a residual lag of 3,710,880.

If the increase in the Armed Forces is deducted from the employed, the lag rises to 4,726,880.

Commentary

Perhaps the most startling shift in employment aside from the precipitate decline in the number of agricultural workers has been the sharp upslant in State and local government employment. Considering the relatively mild upward movement of Federal Government employment, this explosion in the State and local field leaves efforts at explanation somewhat at a loss. Unquestionably the very decimation of the rural population and the growth of many towns into cities and the swelling of urban and suburban population accounts for much of the swelling employment in State and local government. Most of the increase came in local government, which rose from 3,228,000 in 1950 to 4,795,000 in 1960. However, the ratio of growth was virtually the same as in the State governments.

However, with all the swelling of employment levels in the trades, services, and professions, the shrinkage of employment in agriculture, manufacturing, mining, and transportation was not overcome. The deficiency (calculated in relation to the population increase) of 3,710,880 during the decade of 1950 to 1960 (exclusive of military personnel) was slightly over 6 percent.

The failure of the productive enterprises to uphold their part in the increasing employment, measured by the population, is, of course, attributable in good part to rising productivity per man-hour, the onward march of mechanization and automation.

The rapid rise in the yield per acre among our leading crops, together with greater mechanization of farming operations, from plowing, through cultivation, to harvesting, unquestionably has caused the great shrinkage in farm employment during the past decade. This shrinkage was close to 40 percent or 2,808,000 workers.

Agricultural crops—Yield per acre

A few examples will illustrate the increase in yield per acre:

Crop	Acreage harvested (millions)		Production (billions)		Yield per acre		Increase (percent)
	1950	1960	1950	1960	1950	1960	
Corn (bushels)	81,817	82,117	3,057,803	4,352,668	37.4	53	41.7
Wheat (bushels)	61,610	52,643	1,019,389	1,363,443	16.5	25.9	57.0
Oats (bushels)	40,733	27,091	1,410,464	1,161,512	33.2	42.9	29.2
Cotton (bales)	17,843	15,316	010,012	.014,309	[1] 269	[1] 448	66.5
Weighted average							46.0

[1] Pounds.

The increases in yield per acre between 1950 and 1960 ranged from 29.2 percent with respect to oats to 66.5 percent in the case of cotton. Next to cotton was wheat with an increase of 57 percent. Our largest single crop in point of acreage is corn. The yield per acre increased 41.7 percent. The weighted average of the four crops is 46 percent.

Naturally, these results are approximations because of crop variations from year to year; but they are supported by the trend in other crops. Rice production rose from 2,389 pounds in 1950 per acre to 3,411 pounds in 1960. This was an increase of 43 percent. Tobacco yield rose from 1,270 pounds per acre to 1,713 pounds or 35 percent. The yield of sorghums for grain rose from 18.9 bushels to 41.3 or a little over 100 percent.

These upward jumps in yield per acre in our agriculture are sufficient to account for the decline of 40 percent in farm employment.

It is obvious that in agricultural production the increasing yield per acre provided the basis for a healthy growth and expansion. Unfortunately the consumption of many agricultural commodities is quite inelastic. The upward trend in yield per acre was much sharper than the population expansion. Thus it was possible to reduce acreage and still produce a surplus. In some instances, indeed, our per capita consumption of certain foods has declined greatly.

Since 1950, for example, per capita consumption of wheat flour in this country has declined from 135 to 118 pounds in 1960. In the past 50 years the decline has been quite steady. In 1910, the consumption stood at 214 pounds per person.

Consumption of potatoes has suffered a similar decline. In 1950 the per capita use was 106 pounds; in 1960 it had fallen only to 103 pounds, but 50 years ago the consumption was 198 pounds. Cornmeal has suffered an even sharper reduction, going from 11.8 pounds in 1950 to 7.4 pounds in 1960. This is a far fall from 51.1 pounds in 1910.

The most notable increase in per capita consumption has been experienced with beef. In 1950, the per capita consumption was 63.4 pounds whereas, in 1960, it stood at 85.8 pounds. However, the increase since 1910 has not been phenomenal, coming up only from 70.4 pounds. Meantime it had dropped to 48.9 pounds in 1930. Pork consumption has remained remarkably steady, ranging between 60 and 70 pounds per capita since 1910, except 1940 when it rose to 73.5 pounds. In 1960 it was 64.6 pounds.

Our agricultural operations, while creating burdensome surpluses, have done so with fewer and fewer workers. The vast increase in productivity, arising from extensive mechanization, the application of fertilizer, and the use of pesticides, has indeed answered the quest for growth and expansion; but it has not increased employment; indeed, quite the contrary.

Efforts to dispose of our agricultural surplus abroad have led to extensive governmental subsidization, wheat and raw cotton being the outstanding examples. In 1960 upward of $550 million in costs were incurred by the Federal Treasury for subsidies to move these two crops abroad. Other methods, principally shipments under Public Law 480, were also used. This included outright gifts to foreign countries, sales for foreign currencies, etc. In 1960 our "exports" of agricultural products responded sufficiently to achieve a record at $4.8 billion. The previous high was in 1957 when we moved $4.7 billion such products into exports.

We have experienced an embarrassment of farm productivity and have been left with two unwelcome results: displacement of workers and accumulation of surpluses.

Meantime we continue to import competing agricultural products. It is true that about half of our agricultural imports of $3.8 billion in 1960 were noncompetitive, the biggest item being coffee. Crude rubber, cocoa, tea, spices, bananas, and raw silk were other leading items in this category.

However, we imported edible meats (including lamb, mutton and beef) and animals to the extent of nearly $400 million; also vegetables, fruits and nuts in a volume slightly more than $300 million. Nearly $200 million was imported in the form of unmanufactured wool and mohair. Sugar and related products reached $555 million in imports in the same year. These with some exceptions competed with our own producers.

Imports of raw cotton, wheat, and wheat flour, while directly competitive, were small because of highly restrictive import quotas established under section 22 of the Agricultural Adjustment Act. Dairy products and eggs were also maintained on a restricted basis of imports but reached $33 million.

Whatever may be the virtue of these competitive imports they aggravate our agricultural surplus, disposal and unemployment problems. In 1960, the Commodity Credit Corporation owned an inventory of $7.2 billion in farm commodities, including over a billion bushels each of wheat and corn and 5 million bales of cotton.

There is no hope, therefore, that agriculture will add workers to the payroll; or that agriculture will help in the absorption of the new additions to the work force each year. This must come from elsewhere.

Manufactured products

Employment in the manufacturing field has not suffered nearly as grievously as in agriculture. Yet, with some exceptions the record provides little consolation.

Our foreign economic policy is at odds with the order of developments that we must have at home if the employment problem is to be met or at least reduced to manageable proportions. This includes growth and expansion of our industries, not their stagnation or shrinkage.

We have become increasingly exposed to import competition as a result of drastic tariff reductions since 1934, but particularly since 1947 when the General Agreement on Tariffs and Trade (GATT) was signed.

We have become increasingly exposed also because of the great increase in productivity in foreign industrialized countries while foreign wages have not bridged the gap.

Several troublesome results have supervened:

1. Import competition has dampened domestic industrial expansion.
2. It has stimulated the drive toward automation as a means of competing.
3. Import competition within this country has led or forced many industries to import component parts for assembly here rather than purchasing from American manufacturers.
4. It has driven some investments that otherwise would have been made here to foreign countries, thus substituting employment-expansive investments abroad for domestic ones. Henry Ford's investment of some $365 million in England rather than here offers the most dramatic example.
5. Rising foreign productivity and lagging wages (relative to the wage-productivity equation in this country) have held down our exports and made them progressively more dependent upon subsidization, including ocean shipping costs. This has extended beyond agricultural products and reached into industrial products, such as those that are exported under our foreign aid program.
6. Lower foreign costs of production and foreign barriers against our exports have led many American companies to establish production facilities overseas in order to supply foreign markets from within and to export from there to third countries rather than directly from this country. In some instances these companies have engaged in shipping to the United States itself from abroad.
7. Efforts to hold foreign markets have created additional pressure for automation and other laborsaving steps. In statement after statement made by industrialists, editors of trade journals that analyze the problem of foreign competition, and writers who investigate this problem, the conclusion is reached that in order to meet foreign competition at home and to hold our own in foreign markets, we must become more efficient, reduce our costs, sell harder, etc. There is only one means by which costs can be reduced drastically and that is through installation of laborsaving equipment in the factory, and, secondarily, in the offices. Another avenue lies in developing new products that incorporate economies of labor; but for these there must be a fair marketing outlook. The remainder produce relatively little effect.

If we examine the lag in employment visible in nearly all but the new manufacturing industries, such as aircraft and electrical communication, in the light of import competition and the struggle for foreign markets we begin to appreciate the stubborness of our unemployment and underemployment problem.

After each recession during the postwar period we have at the peak of our recovery faced a larger hard core of unemployment than before, even as our gross national product has reached successively new heights in dollars.

How avoid the conclusion that most of our manufacturing industries are not employing as many workers as they might if they faced a different outlook? The exceptions are the growing and expanding industries, such as aircraft, electronics, synthetics, aluminum, and some others. We must look to them to help absorb the new employees that come on the labor market at the rate of more than a million a year. This they will not do if we visit upon them the blight of a withering import competition. Times have changed. Today, unlike the expectancy in the past, a new industry in this country is soon beset by competition from abroad because we no longer have a technological insulation. Patents offer insufficient safeguards.

Should the domestic market be made to look better to many of these industries as well as the more stabilized ones, would they not be inclined to expand more freely and build new plants in this country rather than trekking outward beyond the domestic horizon and leaving behind them unemployed workers whom they might otherwise have put to work?

Would not this expansion employ many of the unemployed and, these being employed, would they not add to the market demand for more goods and would not this brisker trade lift the ceiling for further investment? And would not this additional investment in turn create more jobs? Altogether we would be realizing the growth we need in order to provide employment as well as a broader tax base upon which much else depends. Instead of a downward spiral that moves toward a progressively more gloomy future, would not the outlook for a better market at home prime the pump for greater industrial activity?

In the other direction, i.e., if we seek industrial salvation by expanding exports and leaving our industries at the mercy of what is often quite unfair import competition, we face increasing discouragement. We will then need to subsidize more and more, both as a means of exporting farm products and rehabilitating import-injured industries; meanwhile moving yet farther out on the limb. We will also then face the need of more relentless automation as a means of reducing costs in order to become or remain competitive. Here we would face a paradox, for if we succeed in becoming more competitive we would simply drive other exporting countries, some of which are very much more dependent on foreign markets than we, back against themselves with unfortunate economic and political consequences at home.

Also, we should reflect that if we automate feverishly and do all that we can do to reduce costs and thus meet import competition at home successfully we would restrict imports as surely as we would if we raised the tariff or imposed import quotas. What then would become of the much-touted program for increasing imports to the end that we could export more? With respect to the underdeveloped countries we would be working at cross-purposes more surely than if we followed the expansionist principles at home. We would be able competitively to gain and hold foreign markets and either keep the lesser-developed countries out or restrict their penetration at will. Otherwise why improve our efficiency as a competitive weapon? Should we follow the domestic expansionist principle we would be in a better position to absorb a maximum of foreign goods on a fair competitive basis, just as a healthy, well fertilized crop is more disease resistant than an impoverished one.

Realistically speaking, increasing exports by the route of feverish automation would not offer the best prospect. We should not forget that other countries too are able to pursue automation; and at the same time should keep in mind that extensive mechanization and automation abroad would benefit the other countries competitively more than it would us, because the other countries are still moving upward from a lower base. We are by way of making available, and have already made available to other countries the fruits of research and development in industrial equipment and machinery that would perhaps have taken 20 to 30 years for them to achieve on their own. As it is they can move forward rapidly with amazing gains in productivity. This door with perhaps an exception here and there is not open to us.

The net result then would be a species of industrial-mechanization race between us and our foreign competitors that would put us at best on a competitive treadmill while labor was being displaced without much hope of absorption. The expansion of employment usually expected after automation would be retarded or would vanish because of import competition. Is automation then a goal in and of itself, if it would not help in the competitive field? It may conceivably do more harm than good, under some circumstances, as when it proceeds too rapidly for absorption or when its benefits are nullified by other factors, such as import competition that skims the cream off the market, and in some cases badly depresses it.

Already many of our industries have seen a higher and higher share of the domestic market go to imports. In some instances our industries have nevertheless moved forward; but at a rate behind population growth. In other instances they have held their own productionwise but have done so at the expense of employment; i.e., they have increased productivity, either without adding employees or actually dropping some workers. In yet other cases they have not only not kept pace but at the same time have witnessed an outright shrinkage in their work force. The exceptions are not numerous; and, to repeat, these have not been sufficient to overcome the lag found in other manufacturing industries. They should obviously all be encouraged rather than discouraged by relentless exposure to a type of competition that is not constructive.

The net result from 1950 to 1960 was an increase of 1,370,000 in total employment in manufacturing. This included the expansive industries. It also included the office workers, staff employees, engineers, salesmen, etc., in manufacturing plants. However, needed to keep up with the population were 2,753,928 additional jobs. This left a gap, to repeat, of 1,383,928 workers.

This result came about in the face of all else that happened, including an increase in exports from $10.142 billion in 1950 to $20.3 billion in 1960 or a 100 percent rise.

Imports rose from $8.743 billion to $14.652 billion, an increase of 67 percent.

In weighing these trade statistics we should keep before us the fact that the import values are "foreign" values, i.e., the sales price to our importers, exclusive of duty, ocean freight, marine insurance, etc. This fact tends to shrink the impact of imports in terms of man-hours required to produce them. For example, in 1960 our imports of shirts were valued at $14 million.

What did this mean? What are $14 million worth of shirts? How many shirts?

In this country it would mean 7 to 9 million shirts at factory prices. How many employees would be needed to make that many shirts?

But wait. The imports were not 7 million or 9 million shirts, but 24 million. At our values they would have represented $36 to $48 million!

Innumerable other examples could be given.

In terms of man-hours required to produce the 1960 imports of $14.6 billion, exports of perhaps double that dollar value would be required to balance the account.

Whereas the trend in our imports has been strongly toward finished manufactures our exports have been moving slowly in the opposite direction. From the decade high of 69.5 percent finished manufactures among our total exports, the low point was struck in 1960 when finished goods had fallen to 56.3 percent of total exports. On the import side finished goods have moved from 17.5 percent in 1951 steadily to 35.8 percent of our total imports in 1960. Manufactured foodstuffs have remained close to an additional 10 percent.

Claims are made that exports, dollar for dollar or in the aggregate, give rise to more employment than imports displace. This appears most unlikely on the face of it, not only because it is contradicted by those trade statistics in which both quantity and value are recorded, as in the case of shirts, but because our imports are concentrated in labor-saturated products while our exports fall largely in categories of goods that are made by labor-light industries, wherein automation has already done most of its work.

The obvious pressure so far as the import-vulnerable industries are concerned, is to mechanize and automate as quickly as possibly, never mind what happens to the displaced workers. They can always find work elsewhere.

But where? In electronics and aircraft plants? Unfortunately there have not, on the record, been enough of these to absorb the automation casualties during the past decade. Can we believe that the next decade will be any better, when other countries are hot on the trail of mechanization and automation and will be able to undersell us all the better?

Very well, the Federal Government will launch a program to relocate industries, retrain their workers and make low-interest loans to the industries that are badly crippled by imports.

Where will this come out?

Will such a program improve the outlook of the remaining industries so that the ferment of expansion will seize them and lead them to employ the unemployed? Or will they, one by one, as imports strike them, fall into the line of supplicants for aid?

Or shall we send the residual unemployed to the State and local governments, to the wholesalers and retailers, the insurance writers and real estate operatives for absorption?

Shall we become a nation of trades people, service caterers, and professionals living off each other? That has been the trend of the recent thundering destiny as exemplified by our outmoded foreign trade policy.

It is true that while we have opened our market to naked competition from abroad, we have sought and continue to seek the upbuilding of the lesser developed countries for several reasons. One of these is to create greater markets abroad. As countries industrialize and as their standard of living rises they consume more products. Since no countries are self-sufficient they will buy more abroad. When this happy day comes we will export more. So runs the reasoning. Unfortunately the present trend in world trade might indicate that other countries rather than this country would supply these newly enriched markets.

We could then settle down to retraining workers and relocating industry as a steady operation in this country while our capital could continue to emigrate in search of a more hospitable investment climate abroad, and to escape sterile regimentation at home.

Certainly this outlook is bleak for American labor, small industry and suppliers of materials and parts to large manufacturers. It is also bleak for agriculture since American labor, small industry, and the suppliers of materials and parts to large industries form the principal market for farm products—far, far more than do export markets. Lastly it is also bleak for the growing industries since the tone of the domestic market also determines their horizon.

From the foregoing recitation of employment shifts and failures to reemploy the unemployed and to absorb the newly arriving millions of new workers, it becomes clear that our present foreign trade policy has worked itself out of gear. It cannot cope with the employment problem; in fact gravitates against its solution.

It creates insurmountable pressures for economic steps, such as defensive capital emigration as distinguished from investment of surplus capital abroad, importation of parts and components as a defensive competitive measure, conversion from manufacturing to importation, unhealthy automation as a means of reducing costs, curtailment of domestic expansion because of a gloomy competitive outlook and final collapse upon the mercy of the Federal Government for rehabilitation, relocation, etc.—all of them steps that are at once negative, and astringent of growth and expansion while turning down the wick on new jobs that otherwise would open.

Until our manufacturing industries, mining enterprises, and agriculture are given effective assurance and not merely a defaulting promissory assurance, that they will have a real defense against withering import competition they will not provide the growth and expansion that we need. The specter of a chronic and stubborn unemployment will persist and, worse, it will spread.

Chairman BOGGS. Thank you very much, Mr. Strackbein.

Mr. Harris.

STATEMENT OF HERBERT E. HARRIS II, ASSISTANT LEGISLATIVE DIRECTOR, AMERICAN FARM BUREAU FEDERATION

Mr. HARRIS. Mr. Chairman, I have a short statement of 9 or 10 pages that I would like to file for the record, and just make some comments.

I would like to add initially here that anyone who thinks two feet mean two shoes has never seen my wife's clothes closet, or seen the progress of my children in the method they use up shoes. I am sure the rate of shoe consumption is increasing at an alarming rate in this country, if my family is any judge of this factor.

I would like to suggest that the Farm Bureau's program we present is based on the idea that the United States is not over the hill, that we have as bright a future as we have had a past, that our progress has not been in the past nearly so much as it can be in the future, and if you want to look toward innovation, you look toward U.S. agriculture.

It is possible, of course, for Russia, through Government planning, to involve enough capital investment to put satellites into the air. But if you want to see progress, you start comparing Russian agriculture to U.S. agriculture. You look at a country that has 2½ times the land area of the United States, and investing 45 percent of their labor force in agriculture, compared to about 6 percent in the case of the United States, and yet it gets only 40 percent of the production of the United States.

You compare feed grain production. Russia has about the same acreage as the United States in feed grain production. Yet our feed grain production is 154 percent greater than Russia. If you want to find innovation, you will find it in U.S. agriculture, not only today but tomorrow. We have just started to scratch the surface. We do not know what is coming tomorrow, but we are darned excited to find out.

Now, we have a trade program based on the idea that we can expand our markets, that we can expand commerce, and that this great productive capacity of U.S. agriculture can be utilized effectively.

Before I go into that too much, I would like to emphasize the farmers' idea concerning this, as far as it relates to world peace, because as a citizen, he is as interested in this as he is in anything else.

He is convinced that world peace is going to be based on free world unity and strength. He is convinced that through world trade, the economic capacity of free world countries can be expanded, the ability to buy and to sell and to earn—this gives a vitality to the economy that cannot be matched.

He is convinced also, that the markets, the ability to trade in the free world, can be a tremendous inducement to the uncommitted nations. This expanding market idea can be much more of an inducement than can the political machinations of trade that Soviet Russia can hold out.

And so from the idea of free world strength, from the idea of our fight against Soviet Russia for the allegiance of free people, we feel that an expanded trade program is vital.

We are convinced as far as unity goes that you cannot have political alliance without trade relationships. We feel that history has taught us this—that without trade relationships, there can be no real political alliance.

Very briefly—I know the committee is aware of the stake that U.S. agriculture has in exports. We exported the equivalent of the production of 60 million acres last year—about $4,900 million worth of goods. This amounted to a half of our cotton production, a half of our wheat production, half of our rice production, two-fifths of our soybean production and two-fifths of the tallow production from our cattle.

Seventy percent of the lard moving in world trade came from U.S. hog farms. Thirty percent of the U.S. hides and skins production was exported.

The United States is the world's largest exporter of farm products. We supply one-fifth of the total volume of world agricultural trade. This demand is increasing, the standards of living are increasing throughout the world. The American farmer intends to participate in this expanded trade.

We have a stake in imports also. The main factor in lowered net farm income has been costs. We try to back this up in our statement.

We demand and require imports of essential production supplies. We demand the competition that these imports bring.

Now, it is easy to make the case, I believe, that agriculture has a big stake in world trade. But what is often missed is the stake that the U.S. total exports have in agricultural exports.

Last year, about 26 percent of our total exports were agricultural products.

Now, if we want a real trade program, we will figure out a way to harness this tremendous capacity to produce, to make greater benefits from it as far as export earnings are concerned.

This brings us to a point which I think is well for us to consider.

For the past 7 years, we have had an export program, Public Law 480. The Farm Bureau and members of this committee had a lot of responsibility in getting this law enacted. We have helped other countries to the tune of $14 billion worth of farm surpluses. These movements last year amounted to about 25 percent of our total exports. Now, it is good that we try to supply countries with needed food and fiber when they are not able to pay in dollars, and when we have them in surplus supply.

But this certainly points out the necessity that we use safeguards, that we use a certain amount of judiciousness, if you will, in scheduling these exports, these special program exports, lest they interrupt commercial trade of U.S. agriculture and of other countries.

We would especially reject and condemn any proposal that is based on the premise that food and fiber is less worthy of foreign exchange than industrial goods.

Now, it is natural, as we consider trade policy here today, to center a certain amount of our attention on the European Common Market. We recognize the tremendous amount of benefits, political benefits, that the formation of the European Common Market can have; it can stand as a bulwark against further Communist encroachment upon Western Europe. But I think we also should look at the type of trade that we have had with this Common Market, and get an idea of what type of negotiations are necessary if we are going to negotiate effectively with them.

In attachment 1 to my statement, I have tried to construct a table that will indicate the type of trade pattern we have with the six countries of the Common Market. You will notice that our total exports to the Common Market countries in 1960 amounted to about $3,400 million. Of that, $1,100 million was agricultural goods. What this means is 32 percent of our exports to the Common Market are agricultural commodities.

On the other hand, our imports from the Common Market countries amounted to about $2,260 million—of which only $221 million are agricultural commodities—less than 10 percent of the exports of the Common Market countries to the United States are agricultural commodities, compared to 32 percent of U.S. exports.

Now, this seems to make clear to me that as we sit down to negotiate with the Common Market countries, primarily they are going to be interested in concessions on industrial goods. On the other hand, we have to place a much greater emphasis on concessions and opportunities for our agricultural exports.

It would be the height of folly for us to enter into any sort of negotiations that seem to compartmentalize these two areas—where we are negotiating on industrial goods one day, and the next week negotiating on agricultural goods. We are going to find the Common Market countries very interested in negotiating on industrial goods. When it gets down to agriculture, they are not going to be nearly so interested. In simple terms, we have to make it clear that neogtiation on these products is going to be toward all areas of commerce, not just the nonagricultural. This is vital to the U.S. farmer, and it is vital to our total U.S. export earnings.

Now, very briefly, the Common Market has come up with agricultural proposals that seriously threaten the agricultural trade of the United States with the Common Market countries. They propose to set up a grain board with the power to establish target prices and variable import fees. This would have the effect of making the U.S. wheat producers, feed grain producers, residual suppliers.

For example, in feed grains, we exported over 180 million bushels of corn, barley, sorghum and oats, to these countries last year. If these proposals were put into effect, as originally proposed, we would very likely lose up to 50 percent of those markets in the next few years.

In livestock products, we have a $25 million market for poultry in Western Europe, and a growing market for variety meats. We very much fear that if licensing or variable fees are put in on feed grains, that they will be applied to meats and poultry.

It is important that these proposals do not go into effect, else our ability to export to the Common Market countries will be significantly reduced.

We have a $60 million market for fruits and vegetables in the common market countries. It is important that this be protected, and that our opportunity to participate in the expansion that is coming in this area be protected.

On fats and oils, the proposed direct payments could close us out of the market until all of the expanded production in Europe was consumed.

Tobacco, as originally proposed, would be especially unfair to the U.S. producer. It is important that those restrictions be brought down, or again we will be losing markets to other producers.

As the picture broadens, and the United Kingdom and other countries come into the Common Market, as I guess we are sure they are, more complex will be the problems as far as U.S. agricultural trade with the Common Market is concerned.

If Commonwealth preferences are injected into the Common Market structure, the United States would be further discriminated against.

All of this indicates a U.S. policy which I have tried to state as follows.

Negotiations should be conducted on reduction of trade restrictions on all products moving in trade. There should not be an artificial separation of industrial and agriculture items. The Common Market must be prepared to adopt policies and grant concessions in regard to agricultural products if they desire concessions on industrial products.

It is equally clear, Mr. Chairman, that for the United States to expand this trade, for the United States to sell their case to the Common Market, we are going to have to adopt realistic domestic farm programs. We cannot continue to go to Western Europe and say, for example, "basically we believe in the efficiency of the market mechanism as the best means of providing consumers with goods and services," and then come back home and raise price supports on wheat and feed grains.

High price supports and import restrictions are not the answer to the European Common Markets needs. It will cause a misallocation of resources, it will cause the adoption of trade policies that will stifle international trade.

U.S. agriculture's opportunity for expanded foreign markets could be lost if we do not move promptly to adopt and implement realistic domestic farm programs.

The Farm Bureau believes that Congress should grant sufficient authority to the President to permit effective negotiation for substantial reduction of tariffs and the elimination of other trade restrictions wherever possible. The tremendous productive capacity and unmatched efficiency of U.S. agriculture can play a significant role in a program designed to achieve expanded mutually advantageous trade, and increased U.S. export earnings, if agriculture is kept a full participant in the benefits of trade negotiations. We believe, Mr. Chairman, it should be given that opportunity.

Chairman BOGGS. Thank you very much, Mr. Harris.

(The full statement of Mr. Harris follows:)

STATEMENT OF HERBERT E. HARRIS II, ASSISTANT LEGISLATIVE DIRECTOR, AMERICAN FARM BUREAU FEDERATION

The American Farm Bureau Federation appreciates this opportunity to present some of its views in regard to foreign commercial trade policy.

Farm Bureau is a free, independent, nongovernmental, voluntary organization of over 1,600,000 farm and ranch families in 49 States and Puerto Rico. Farm Bureau policies over the years have recognized the need for high-level, mutually advantageous international trade in the interest of a strong econmy in the United States and in order to maintain our leadership in the pursuit of lasting peace. We believe this requires that the United States adhere to a sound foreign trade policy.

This means a policy based on expanding free world trade. We have a strong conviction that trade is a key to the maintenance of peace and freedom in the noncommunistic world. In this struggle two principle elements emerge—free world strength and free world unity. Of course, we must be militarily strong if we are to contain the armed might of the Soviet Union. But of equal importance is free world economic strength. The ability and opportunity of nations to trade—to buy, to sell, to earn—brings a vitality and vigor to a nation's economy that can be obtained in no other manner. This opportunity for trade also can be a tremendous attraction to the uncommitted nations—offering them economic advantages that can far exceed anything the Communist empire can hold out through its political machinations of commerce.

At the same time such trade can contribute substantially to free world unity. Indeed, throughout history, the fact is clear trade relations are requisite to political alliances. In simple terms: Customers and suppliers are usually friends. Expanding markets, expanding sources of supply should be the keystone in the free world's struggle for peace with freedom.

Expanding world trade will benefit the total U.S. economy, but it has a special significance to American agriculture.

American agriculture exported over $4.9 billion worth of farm products last year. This was the equivalent of one-sixth of the cash receipts from farm marketings—or to put it another way, over 60 million acres of U.S. cropland. We exported about half the output of wheat, cotton, and rice; two-fifths of the soybean and tallow output; and one-third of the tobacco, hops, flaxseed, and nonfat dry milk production. Feed grain exports continue to be a significant part of our marketings.

Foreign markets are becoming more and more important for poultry, variety meats, and some of our fruits and vegetables. U.S. farmers supplied almost 70 percent of the lard that moved in free world trade last year and 30 percent of U.S. hides and skins production was exported.

The United States is the world's largest exporter of farm products. We supply one-fifth of the total volume of world agricultural exports. The demand is increasing—opportunities are expanding. The American farmer intends to participate.

There is still another factor that makes expanded world trade especially important to U.S. farmers. Many supplies necessary for agricultural production can be and are imported. This helps to alleviate the serious price-cost squeeze which farmers are presently undergoing.

The squeeze on net farm income has been more from increased costs than from reduced farm receipts. In 1947—the high net farm income year—farm operators received a gross income of $34 billion, had operating expenses of $17 billion, and realized an all-time high net income of $17 billion. In 1960, by comparison, realized gross farm income was estimated at a record high of $38.1 billion. Production expenses, however, totaled $26.4 billion so that realized net farm income was $11.7 billion.

This clearly indicates that one of the major economic problems faced by farmers has been—and is—the rising cost of farm operations.

Imports can play a vital role toward the solution of this problem.

TOTAL EXPORTS AND U.S. AGRICULTURE

While the case can be made clearly that exports are important to U.S. agriculture, it is essential that the point is not missed that agricultural exports are vital to America's total export earnings. With the most efficient agriculture in the world, the United States historically has exported large quantities of farm products. Last year, 1960, agricultural exports were 26 percent (see attachment I) of the total U.S. exports.

If the U.S. farmer should lose his foreign markets, it could have serious consequences to our balance-of-payments position. On the other hand, U.S. agriculture's tremendous capacity to produce such a wide variety of farm products in substantial volume could be utilized to an even greater extent to increase the export earnings of the United States.

Commercial exports of food and fiber can be one of the United States most effective foreign policy tools. A sound customer-supplier relationship especially in farm products based on two-way trade is a cohesive force difficult to match in foreign relations.

Certainly this indicates that we should not dump indiscriminately our agricultural surpluses on the world market through Public Law 480 or other Government programs. Our surpluses can be used effectively by supplying countries with needed food and fiber when they are unable to buy them for dollars. Such export movements presently make up over 25 percent of our current total agricultural exports. In the past 7 years we have programed over $14 billion worth of surplus farm products in this maneuver. Such a massive movement demands the most careful safeguards if we are not to disrupt and displace U.S. commercial sales, and the sales of our allies.

We would reject and condemn any proposal that is based on the premise that food and fiber are less worthy of foreign exchange than industrial goods.

EUROPEAN COMMON MARKET

As we consider foreign commercial trade policy, today, it is natural that we tend to center our attention on our present and future trade relationships with the European Common Market. We believe that the formation and expansion of this economic union can provide a bulwark against further communistic advances in Europe.

It can be a factor in strengthening the economy of the whole free world by broadening markets and expanding the purchasing power of the nations involved—if trade restrictions to outside countries are not increased, but are lowered.

The six countries of the Common Market have been important trading partners of the United States. It is in the best interest of all that this trade be maintained and expanded. To approach this job sensibly we should understand the nature of the trade between these six countries and the United States.

In 1960 the United States exported approximately $3,400,800,000 worth of goods to the Common Market countries—about $1,100 million worth of agricultural products and $2,300 million worth of nonagricultural products (see attachment I). Therefore, farm products, accounted for about 32 percent of our total exports. In the same year our total imports from the Common Market countries were approximately $2,260 million—$221 million worth of agricultural products; $2,038 million worth of nonagricultural products. Farm products account for less than 10 percent of Common Market exports to the United States (see attachment III).

These facts make clear that the Common Market will be primary interested in expanding exports of industrial products. The United States on the other hand must place far greater emphasis on agricultural trade.

The rising standard of living which is now being realized in Europe could create a large expanding market for our farm products. It is, however, very dangerous to rely on this assumption. It is necessary that Common Market countries clearly understand that the United States has based and is basing its strong support for the Community upon a liberal import policy which will further expansion, and not contraction, of multilateral trade on a nondiscriminatory basis. A goal of self-sufficiency in European agriculture will have a detrimental affect on trade between the EEC and her traditional outside suppliers and there will be strong reactions. A policy of encouraging excessively high and in many cases uneconomic, domestic price supports will necessarily force the European Community to implement these supports by restrictive import devices and will tend to relegate outside countries to a status of residual suppliers. Canada, Australia, New Zealand, South Africa, Brazil, Denmark, and many other countries share with the United States a real interest in keeping trade channels open to the EEC. These countries enjoy a substantial European market for their products. We must convince the European that agricultural self-sufficiency is not in their best interest.

U.S. agriculture has become increasingly concerned over agricultural policies being proposed by the Common Market. We will attempt to outline briefly the agricultural policies which have been proposed in regard to some of our principal farm exports to the Common Market.

Wheat and feed grain

So-called target prices will be established for all grains produced in the Common Market. Under the present schedule, they would become effective June 30, 1967. A European Grain Bureau would be empowered to make support purchases to assure that these prices are maintained. Concurrent with this, the Common Market would establish variable import fees which would be the difference between the target price and the world market price. In addition, the Grain Bureau would have the power to stop all imports during emergencies. Twenty-five percent of the U.S. dollar exports of wheat went to the Common Market last year. If these comprehensive powers are given to a European Grain Bureau, it is likely that these exports would be substantially curtailed.

The effect on our feed grain exports would be even more pronounced. In round figures, the following table indicates the importance of the Common Market to feed grain exports:

[Millions of bushels]

1960	Total U.S. exports	U.S. exports to EEC	Percent
Corn	220	66	30
Barley	90	35	39
Sorghums	97	49	50
Oats	32	31	96
Total	439	181	41

If uneconomic feed grain production is stimulated within the Common Market by high target prices and the full force of the variable fee is utilized, the United States could lose up to 50 percent of this feed grain export market—about 90 million bushels of business.

Livestock products

The U.S. farmer has been developing an important market for variety meats in Western Europe. Even more important has been the expanding market for our very efficiently produced poultry—$25 million worth of sales to the Common Market countries. The Common Market agricultural proposals include a tariff on such products, a variable fee based on the feed grain differential, and possibly an additional fee to assure the protection of the desired price level. The consumer in the Common Market and the U.S. farmer would be the losers if such policies were adopted.

Fruits and vegetables

The proposals on these products would protect domestic production by seasonally adjusted import tariffs, with authority to restrict or suspend such imports if the need arose. This is a $60 million market for U.S. fruits and vegetables. Given the opportunity, the U.S. farmer could expand this market.

Fats and oils

Proposals would grant direct subsidies to Common Market producers and thereby make production prices independent of world price trends, and importation will be subject to an external tariff. With 25 percent of our lard and tallow going to Common Market countries, policies which would make U.S. producers residual suppliers are matters of great concern to the American farmer.

Soybeans

Exports have been expanding, and they should continue their upward trend. It appears that the Common Market will permit the free importation of soybeans. But, as we stated before, there is a serious threat that vegetable oil imports will be restricted.

Tobacco

In 1960 the Common Market took $88 million worth of our total exports. The original proposal was to apply a duty of 30 percent ad valorem, subject to a minimum of $29 and a maximum of $42 per hundred kilos (220.5 pounds). This would have amounted to an increase of 10 percentage points over the existing effective tariff in the Common Market countries. In addition, a $42 maximum would have discriminated seriously against the high-quality U.S. tobacco. By becoming an associate member of the Common Market, Greece will obtain special advantages in regard to tobacco, and there is the likelihood that our exports will suffer.

In all of this complex picture, the application of the United Kingdom and other Western European countries for membership in the Common Market presents additional areas of concern. If commonwealth preferences are injected into the Common Market structure, U.S. farm products will be further discriminated against.

A Common Market comprised of West Germany, France, Italy, Belgium, Netherlands, Luxembourg, United Kingdom, Denmark, Norway, Sweden, Switzerland, Austria and Greece represents a market into which U.S. agriculture sold over $1.8 billion worth of products last year. (See attachment III.)

In addition the United States must negotiate firmly and persistently with the Common Market countries for the removal of trade restrictions which presently exist against U.S. agricultural exports. Many of these restrictions are contrary to existing trade agreements and are not justified by present conditions.

This indicates the need for the following basic U.S. policy: Negotiations should be conducted on the reduction of trade restrictions on all products moving in trade. There should not be an artificial separation of industrial and agricultural items. The Common Market must be prepared to adopt policies and grant concessions in regard to agricultural products if they desire concessions on industrial products.

It is clear that effective negotiation requires that the United States adopt realistic domestic farm programs.

For example, the main struggle in the negotiations with the Common Market has been based on our attempt to convince them not to establish an artificially high target price on grain. Such a policy would stimulate uneconomic production of grains within the Common Market and would require increased restrictions against U.S. grain exports. This important market for U.S. farmers would be jeopardized, and trade relations would be seriously impaired. Many U.S. officials have gone to Western Europe to present our arguments. They have put forth

77636—62——21

the proposition that "basically, we believe in the efficiency of the market mechanism as the best means of providing consumers with goods and services." The efforts have been intense to convince the European Economic Community that high price supports and import restrictions are not the answer to their problems nor consistent with sound international trade policies.

Yet, at the very same time, the United States has adopted domestic farm programs which have raised the price supports on wheat from an average of $1.78 a bushel to $2 a bushel. We have also increased the price supports on feed grains; for example, on corn, from an average of $1.06 to $1.20 a bushel. In addition, we have given indications that our domestic policy could be to increase such supports still further.

U.S. agriculture's opportunity for expanded foreign markets could be lost if we do not move promptly to adopt and implement realistic domestic programs.

Farm Bureau believes that Congress should grant sufficient authority to the President to permit effective negotiation for substantial reduction of tariffs and the elimination of other trade restrictions wherever possible.

The tremendous productive capacity and unmatched efficiency of U.S. agriculture can play a significant role in a program designed to achieve expanded mutually advantageous trade and increased U.S. export earnings, if agriculture is kept a full participant in the benefits of trade negotiations.

It should be given the opportunity.

ATTACHMENT I

U.S. domestic exports to specified countries, 1957–60

[In thousands of dollars]

Country of destination	Year ended Dec. 31			
	1957	1958	1959	1960
Agricultural:				
Belgium and Luxembourg	144, 844	102, 530	123, 037	136, 857
France	85, 118	86, 652	62, 470	128, 157
West Germany	411, 412	285, 464	305, 222	354, 905
Italy	213, 916	141, 553	116, 723	159, 140
Netherlands	238, 375	205, 384	318, 559	319, 665
Total, European Economic Community	1, 093, 664	821, 583	926, 011	1, 098, 724
Other countries	3, 413, 714	3, 032, 450	3, 023, 307	3, 725, 463
Total, agricultural	4, 507, 379	3, 854, 033	3, 949, 318	4, 824, 187
Nonagricultural:				
Belgium and Luxembourg	263, 748	220, 961	214, 596	286, 437
France	500, 126	337, 931	272, 443	444, 736
West Germany	532, 737	437, 367	430, 962	697, 486
Italy	445, 052	343, 416	288, 043	485, 904
Netherlands	309, 550	232, 061	223, 438	386, 607
Total, European Economic Community	2, 051, 213	1, 571, 736	1, 429, 482	2, 301, 170
Other countries	12, 092, 265	10, 200, 104	10, 219, 127	11, 511, 796
Total, nonagricultural	14, 143, 478	11, 771, 840	11, 648, 609	13, 812, 966
Total, all countries	18, 650, 857	15, 625, 873	15, 597, 927	18, 637, 153
Special category [1]	1, 979, 597	2, 067, 599	1, 785, 033	1, 662, 564
Total, domestic exports	20, 630, 454	17, 693, 472	17, 382, 960	20, 299, 717

[1] Not available by countries.

ATTACHMENT II

U.S. imports for consumption from specified countries, 1957–60

[In thousands of dollars]

Country of origin	Year ended Dec. 31			
	1957	1958	1959	1960
Agricultural:				
Belgium and Luxembourg	7,050	5,789	5,832	7,709
France	37,861	37,103	39,921	43,181
West Germany	25,586	26,050	28,960	31,339
Italy	48,685	53,372	57,694	56,428
Netherlands	68,281	80,591	88,471	82,292
Total, European Economic Community	187,463	202,905	220,878	220,949
Other countries	3,735,805	3,679,254	3,878,001	3,603,698
Total, agricultural	3,923,268	3,882,159	4,098,879	3,824,647
Nonagricultural:				
Belgium and Luxembourg	261,319	262,945	410,849	355,023
France	217,401	262,032	417,831	351,537
West Germany	566,556	601,745	891,842	863,277
Italy	195,288	220,414	326,263	337,983
Netherlands	96,980	107,388	128,709	129,707
Total, European Economic Community	1,337,544	1,454,524	2,175,494	2,037,527
Other countries	7,660,173	7,413,802	8,712,702	8,789,783
Total, nonagricultural	8,997,717	8,868,326	10,888,196	10,827,310
Total, imports for consumption	12,920,985	12,750,485	14,987,075	14,651,957

ATTACHMENT III

U.S. domestic exports: Value of selected agricultural commodities to the European Economic Community countries, calendar year 1960

[In thousands of dollars]

Commodity	Total, EEC countries	West Germany	France	Italy	Netherlands	Belgium and Luxembourg
Wheat and flour	53,577	10,284	661	16,640	19,164	6,828
Feed grains	197,646	52,631	422	3,792	94,137	46,664
Dairy products	2,997	322	33	2,229	219	194
Cattle and beef	4,107	22	406	11	3,606	62
Hogs and pork	461	213	14	1	222	11
Poultry and eggs	29,693	25,341	107	407	3,365	473
Fruits and vegetables	58,375	26,669	6,274	1,897	13,316	10,219
Lard and tallow	39,723	8,035	1,791	16,638	11,007	2,250
Cotton, unmanufactured	316,761	79,238	93,875	76,652	32,497	34,499
Tobacco, unmanufactured	88,257	50,105	3,607	4,245	21,080	9,220
Soybeans	124,066	38,066	8,581	9,684	55,913	11,822
Vegetable oils	44,352	27,603	1,480	1,492	11,566	2,211
Food for relief or charity	14,803	2,285	52	12,462	0	4
Other	123,908	34,091	10,854	12,990	53,573	12,400
Total	1,098,724	354,905	128,157	159,140	319,665	136,857

Chairman BOGGS. Mr. Kravis.

STATEMENT OF IRVING B. KRAVIS, PROFESSOR OF ECONOMICS, WHARTON SCHOOL OF FINANCE AND COMMERCE, UNIVERSITY OF PENNSYLVANIA

Mr. KRAVIS. I believe that it is possible for the United States to expand its trade without injury to domestic industries. Countries of Western Europe have done it. Eight years of a Common Market in coal and steel, and 4 years of tariff reductions in the Common Market, in which tariffs have been cut by about a third, have not resulted in injury to any well-established industry in the six countries of Western Europe.

The countries of Western Europe which are expanding their trade commitments are no more willing to see their domestic industries go down the drain than we are. What Europe can do in the way of trade expansion, without injury, we can do.

I believe that our program must be designed along the following lines:

1. A MORE REALISTIC CONCEPT OF "INJURY"

The definition of "injury" in the current version of the Trade Agreements Act does not permit the Tariff Commission to take into account ease with which the capital and labor affected by increased imports of a particular product may be shifted to other employments with little or no loss of income. A large part of American output is produced by multiproduct firms. When such firms are adversely affected by imports of one product they can often shift to the production of another. Some years ago, for example, domestic producers of glace fruits sought greater protection under an "escape clause" procedure against increased imports of glace cherries, even though they had maintained their total production, employment, and profits by switching facilities used for glace cherries to the production of other glace fruits.

On the present legal definition of "injury," the Tariff Commission would be obliged to recommend to the President that their request be granted. Thus the law goes far beyond the avoidance of "injury" in the real sense of the term, and provides a product-by-product source of protection that reduces the incentives of firms to adjust their business operations to expanded imports.

If the United States is to obtain the economic and political advantages of freer trade, injury should be defined in terms of the loss of income to capital and labor that cannot be readily shifted to other employments, when such injury arises from sudden and appreciable increases in imports.

2. ADJUSTMENT ASSISTANCE

Partly because there will be an irreducible minimum of cases in which adjustment problems will be difficult and partly for the psychological or insurance value of having assistance available, Government programs of adjustment assistance should be provided. These would serve to remove the injury element from adjustment. The content of such programs has been widely discussed, and I have nothing to add on this point. However, it is important to structure a new trade law so as to maximize the extent of spontaneous adjustment by business itself and to minimize the calls for adjustment assistance. How can this be done? My next two points suggest some answers to this question.

3. PROVIDE THE MAXIMUM INCENTIVES FOR SPONTANEOUS ADJUSTMENT

Spontaneous adjustment to freer trade conditions can be promoted by creating certainty in the minds of businessmen that trade barriers are really going to come down. Another carefully drawn compromise between protectionists and advocates of freer trade which gives the President powers to reduce tariffs, say by 50 percent over a 4-year period, limited in extent and duration and hedged with restrictions, will not achieve this end.

I believe the only solution to the trade problem is to provide some way of getting automatic reductions in tariff at time intervals and by degrees specified in advance. Once businessmen become convinced that tariff barriers, trade barriers, are going to come down, European experience suggests that businessmen will take prompt and vigorous action to stay in business, and meet the new situation.

4. A TARIFF AND TRADE ADVISORY BOARD

My final suggestion relates to the cooperation between business and government on trade-adjustment problems.

I think one of the great advantages of the European countries in this area has been the close relationship which exists between business and government, so that problems of trade adjustment can be anticipated and dealt with in a cooperative fashion. Without seeking the same close relationship between business and government which prevails in Europe, it ought to be possible to find ways of closer collaboration between government and business and labor in the management of the movement toward freer trade.

The top business and labor groups are, of course, well aware of the problems of American foreign policy, and they are obviously cognizant, also, of the position and problems of individual industries. Their advice should be sought with respect to the sequence of steps that should be followed in reducing trade barriers, the identification of areas in which adjustment difficulties may be anticipated, and the extent and form of adjustment assistance that may be appropriate in specific types of cases. There are many ways in which this closer collaboration could be arranged. One possibility is to establish a Tariff and Trade Advisory Board.

Perhaps the chief economic officer of the State Department, the Under Secretary for Economic Affairs, would act as the Chairman. There might be a few distinguished public representatives, preferably with experience in both Government and in business. Most of the membership, however, would be chosen from businessmen and union leaders who command wide respect and support from their respective segments of the economy. The Board would be authorized to request data and analyses from the State Department, the Tariff Commission, and other Government agencies. Through its membership it might request information on an informal basis from particular trade associations, firms, or unions. The work of the Board would be carried on in private; only its official reports and recommendations would be public. It would thus serve as a better means of communications between Government and business on trade questions that now exist.

Through the work of the Board, it should be possible to operate a program for the freeing of trade barriers in such a way as to minimize the burden of adjustment that falls upon particular segments of labor and capital in the American economy. Business groups might be given confidence that they would be protected from sudden and large increases in imports and that they would be given time and, if necessary, help, in making their adjustment to a longrun displacement of a particular domestic product by a foreign source of supply. This should help to dispel exaggerated fears of floods of imports, and, in those instances in which the fear of foreign competition is justified, to provide optimal circumstances for adjustment.

Such a trade program would put to work the energies and ingenuity of our businessmen in devising ways to meet foreign competition and to survive it, rather than to avoid it through political means. Unless past American history and the recent experience of Europe belie the future, no large American industry will disappear as a result of a program devised along these lines. American industry and the free world will emerge stronger.

(The full statement of Mr. Kravis follows:)

Domestic Interests and Trade Expansion

Statement by Irving B. Kravis, professor of economics, Wharton School of Finance and Commerce, University of Pennsylvania

The remarkable contrast between European innovation and American stagnation with respect to tariff and trade policy during the past 8 or 10 years deserves attention and analysis in the debate about the future of American trade policy which has just been renewed.

On the one hand, European countries have steadily moved toward expanded commitments toward free trade—at least among themselves—through the establishment of new forms of international economic cooperation such as the code of liberalization of the Organization for European Economic Cooperation, the European Coal and Steel Community, the European Economic Community (Common Market), and the European Free Trade Area. In the United States, on the other hand, trade and tariff policy have been on dead center. The outcome of the successive political contests over the renewal of the Reciprocal Trade Agreements Act has been close to a draw. The President has been granted powers to reduce tariffs further, but his freedom of action has been so restricted by precautionary provisions such as the peril points and escape clauses that little movement toward freer trade has been possible.

EUROPE TOO HAS AVOIDED INJURY

The important aspect of the European experience in moving toward expanded trade, from the viewpoint of determining American tariff and trade policy, is that trade expansion within Europe has been achieved without serious injury to the industry of any country. There is little evidence that a decade of the OEEC code and 8 years of the Common Market in coal and steel had seriously detrimental effects upon any important industry participating in either of these ventures. While some minor industries of wartime origin were permitted to drop by the wayside as trade was expanded under the OEEC code, no well established or substantial industry was permitted to suffer injury. In the Coal and Steel Community, the Belgian coal industry encountered serious troubles, but these could hardly be ascribed to the functioning of the Common Market. In any case, safeguards were invoked and the operation of the Common Market was not allowed to worsen the position of Belgian coal. Quite the opposite: in various ways community resources were used to aid Belgian coal. It is, of course, premature to evaluate the records of the Common Market and the Free Trade Area, but experience to date suggests that these organization too have functioned as if a "no serious injury" rule was a governing principle. In the Common Market, for example, industries in underdeveloped regions of

Italy and agricultural processing industries in Germany were beneficiaries of special measures that involved exceptions to the principles of the Common Market.

None of the forms of more or less intimate European cooperation shows substantial evidence of bringing about or having brought about significant shifts in the localization of European industry. Trade among the partners increased more than with third countries, but the increase in trade did not reflect greater specialization achieved through the contraction of some industrial branches and the expansion of others in each of the countries, and there does not seem to be an expectation in any responsible quarter that such shifts will occur in the future operation of the Common Market or the Free Trade Area.

Thus the record seems to indicate that the nations of Europe were hardly more willing than the United States to sacrifice domestic industries to the expansion of trade. Neither, however, did they let a fear of foreign competition play a dominating role in their commercial policy. While avoiding injury, the European countries enjoyed great success in achieving closer trade ties and an expansion of trade.

HOW EUROPE INCREASED TRADE WITHOUT INJURY

Europe's success in attaining trade expansion withtut injury was due in part to favorable circumstances and in part to well-conceived policies.

Some of the favorable circumstances were:

(1) Rapid economic expansion. When domestic demand is booming, it is easy to find room for increased imports, and in those sectors in which imports prove too competitive it is not difficult to find other uses of resources that can be profitably pursued. Firm reciprocal demands for exports help.

(2) Specialization in the fine. While whole branches of industry did not decline in one country and expand in another, there was a tendency for specialization to develop within broad branches on particular qualities, designs, or types of product.

(3) Business agreements. The development of product specialization and the avoidance of injury may also be explained in part by agreements or combinations between producers in different countries. In part this reflects a different view of competition in Europe, and in part the closer relationship between business and government there. Both in Benelux and the Common Market, for example, business groups from exporting and importing countries have, on occasion, been called in to work out settlements to trade problems. The instances in which such arrangements were privately made without government stimulus are more sufficiently numerous to cause widespread concern that private controls over trade may be substituted for government controls.

(4) Restricted membership. It is, of course, easier for six or seven countries to reconcile conflicts in interest than for a larger number of nations. In addition there is the opportunity to resolve difficulties that arise by transferring the burden of adjustment to outsiders. Thus British and American coal were made to bear the brunt of the crisis of coal surpluses that developed in the Coal and Steel Community a few years ago.

Part of the success of Europe in expanding trade without injury was due to a well-conceived strategy for reconciling domestic interests and international trade expansion. The following points are noteworthy:

(1) Barriers were reduced gradually, so as to allow time for adjustment.

(2) The reduction of trade barriers was made to appear certain. Relief for adversely affected industries was generally limited in time and intended only to aid the industries to adapt themselves to the new situation. As a result, the business community reacted to the expectation that trade barriers would really come down. New investment and reorganization to meet the new competitive situation were widespread. With less certainty—as there might have been in the Common Market, for example, if the escape clauses had not been phrased so clearly in terms of purely temporary exceptions—the same degree of business adjustment to freer trade would not have been forthcoming.

(3) Adjustment assistance ("readaptation" in European terminology) was provided.

SOME THINGS IN EUROPE'S EXPERIENCE ARE NOT RELEVANT TO THE UNITED STATES

It is only fair to point out that some factors favorable to trade expansion without injury that operated in Europe are not relevant to the United States.

Perhaps the most important of these is that the United Staes is not in a position to join a restricted group of nations that plans to expand trade through a discriminatory reduction in trade barriers. We are even less in a position to join in a group in which there is the slightest tendency to expand internal trade at the expense of outsiders. Our obligations to Canada, Western Europe, South and East Asia, Africa, and Latin America preclude special arrangements with respect to trade barriers with any one of these areas.

Another important difference relates to the potential role of business agreements in limiting injurious consequences from the reduction of trade barriers. It is difficult to know how important this factor has been in Europe, but the whole framework of our antimonopoly legislation makes it unlikely that American business could participate in such arrangements. Furthermore, this seems to be a very dubious way of smoothing over competitive difficulties.

WHAT IS RELEVANT FOR U.S. POLICY IN THE EUROPEAN EXPERIENCE

The most important single lesson from European experience is that certainty with respect to future tariff and trade policy is of critical importance. Once American businessmen are certain that trade barriers are eventually going to be eliminated, they will have the necessary incentive to meet foreign competition through increased efficiency or to sidestep foreign competition by switching to new lines of production. Adjustment to changing market conditions is, after all, one of the responsibilities of entrepreneurship and main social justification for the high rewards which characterize successful business leadership. In the past such adjustment has often had to include adaptation to foreign competition, but sometimes it has been delayed until it seemed absolutely unavoidable. In the watch industry, for example, American firms responded to the challenge only after increased protection obtained through escape clause action failed to prevent a further decline in the domestic production of 17-jewel watches. Perhaps the new machinery, the new products, and the new marketing techniques would have come sooner if the industry had realized earlier that it would have to meet foreign competition rather than continued to nourish the hope of avoiding it through political action.

A clear-cut political decision about long-run trade and tariff policy would thus induce widespread spontaneous adjustment by American industries vulnerable to foreign competition. As in Europe, the progress toward lower trade barriers should be made in progressive stages so as to afford the industries concerned ample opportunity to adapt to the new policy. Where spontaneous adjustment does not take place smoothly, however, aid should be provided the industries and firms concerned through the extension of further time for adjustment and through the extension of adjustment assistance.

Something can be learned too from the relations between business and government that prevail in Europe. The arm's-length relationship that exists in the United States, owing in part to our large size and in part to the fact that our political mythology places government in the role of trust buster and regulator of business' competitive mores, has been particularly harmful in the trade area. Many businessmen in vulnerable industries feel that it is only by virtue of their own political efforts that "internationalists in the State Department" are prevented from "selling their interests down the river." Thus publicity campaigns are carried on not only to influence trade legislation but also administrative decisions by the Tariff Commission and the President. Our procedures guarantee that every matter involving trade policy becomes a cause celebre both in the American and the world press. American restrictions on imports of $2 million worth of women's fur felt hats and hat bodies, for example, received much wider notice at home and abroad than the Coal and Steel Community actions which involved a $15 or $20 million reduction in American coal exports. If we tried consciously to devise a system which would call the maximum attention to the efforts of domestic interests to obtain increased protection, it would be hard to improve upon the present setup.

SUGGESTIONS FOR AMERICAN TARIFF AND TRADE POLICY

The key to the problem of reconciling domestic interests and trade expansion is to create certainty in the minds of businessmen that trade barriers will be eliminated. At the same time it should be made clear that the Government will see to it that vulnerable industries have time and help to meet the new conditions of competition. This is the only way in which the extent of spontaneous adjustment to foreign competition can be maximized.

Certainty can be established only if the administration formulates its forthcoming trade proposals squarely in terms of a long-run commitment to eliminate trade barriers and if such proposals are accepted by a decisive vote of Congress. It will not be established if the President is once again given powers to reduce tariffs that are limited in extent and duration. Another law empowering the President to reduce duties by 20 or 25 percent over a 4- or 5-year period, even on an across-the-board basis could easily wind up in another dubious victory for freer trade especially if hedged with a series of safeguards that limited executive freedom of action. Such legislation would once again induce businessmen to stave off adjustments to foreign competition in favor of relief through political action.

Without seeking the close relationship between government and business which helps trade adjustment in Europe, it should be possible to find means of closer collaboration between Government and business—and labor—in the management of the movement toward freer trade. The top business and labor groups are of course well aware of the problems of American foreign policy, and they are, obviously, cognizant also of the position and problems of individual industries. Organized business and organized labor thus have much to contribute. Their advice should be sought with respect to the sequence of steps that should be followed in reducing trade barriers, the identification of areas in which adjustment difficulties may be anticipated, and the extent and form of adjustment assistance that may be appropriate in specific types of cases.

These suggestions are based on the view that our policy should be to remove as far as possible the element of injury imposed by increased foreign competition. Of course, displacement itself—that is, the need to shift out of old lines of work and away from the production of familiar products may be considered injurious, but if the adaptation to new lines and new products occurs quickly there may be little injury in the sense of loss of income on the part of either capital or labor. In the past, our product-by-product, almost firm-by-firm approach to injury has discouraged adjustment to increased imports by providing increased protection even where capital and labor could readily be shifted to other lines of production.

A SUGGESTED FRAMEWORK FOR A NEW TRADE POLICY

There are many ways in which these ideas (encouraging spontaneous adjustment through certainty and government-business cooperation to minimize difficulties) could be put together to form a reinvigorated commercial policy for the United States. It is doubtful, however, that the desired certainty will be created unless the President is authorized to enter into international commitments for the automatic reduction of trade barriers according to a predetermined time schedule.

Broadly speaking, there are two methods for the automatic reduction of tariffs. The simpler one calls for a certain percentage reduction in all duties at stated intervals until the desired total reduction is attained. This method has the disadvantage that it ignores the varying degrees of vulnerability of different products to foreign competition, and thus, unless the reductions were staged very slowly over very long periods of time, it would probably involve extensive use of escape clauses. A variant of this approach that is less open to this criticism would permit different treatment for various groups of goods, making the percentage reductions larger or at shorter time intervals for some groups than for others.

The other approach to automaticity provides still more flexibility with respect to individual commodities. Instead of "across-the-board" reductions affecting all products uniformly, it calls for percentage reductions at stated intervals in the average rate of duty collected on imports as a whole (or on each of a number of categories of products). Under this plan, some duties could be subjected to less-than-average reductions, and others to more-than-average reductions, as long as the target percentage reduction overall was attained. (The scheme would have to be supplemented by a technique for coping with very high duties that are so effective in excluding imports that they have little influence on the average rate of duty collected; this could be done either by applying a supplementary set of minimum percentage reductions that would have to be made in each individual duty, or by setting progressively diminishing ceilings on individual duties.)

A scheme of this character, which was once offered by the French Government and discussed in considerable detail in GATT, has the advantage of combining certainty and flexibility. As long as provision is made for periodic automatic decreases in the average rate of duty collected, it will matter little that each country will tend to reduce those duties which they can dispense with most readily and to avoid reduction of those relating to industries that are more vulnerable to import competition. The knowledge that the average rate of duty has to decline will make it obvious that a given industry can at most postpone, not escape, the need to adjust to foreign competition. Indeed, little harm would be done and some further flexibility might be gained by permitting countries to substitute one duty reduction for another (as long as the required reduction in the average rate was maintained) in cases in which a lowering of a particular tariff brought unexpected difficulties.

The participation of business and labor groups in such a plan should be explored both with respect to the determination of the schedule of reductions in the average duty and subsequently with regard to the selection of the individual items on which duties would be reduced to meet the required reductions in the average. It would be preferable to have the participation of representatives of the major nationwide business and labor groups, but if this were to prove impossible consideration should be given to bringing into the Government persons from these groups who would be able to advise the Government in their personal capacities.

While the discussion has been cast in terms of tariff barriers, the same procedures can easily be adapted to quantitative restrictions.

Chairman Boggs. Thank you, Mr. Kravis. Mr. Seidman. We are glad you made it this afternoon.

STATEMENT OF BERT SEIDMAN, ECONOMIST, DEPARTMENT OF RESEARCH, AFL-CIO

Mr. Seidman. Thank you very much, Mr. Chairman. I certainly appreciate your courtesy in permitting me to appear here this afternoon, after I was unable to arrive in time this morning.

I should like to state at the outset that the views I shall express here today are my own and should not be construed as necessarily representing the official position of the American Federation of Labor and Congress of Industrial Organizations. I say this only because the AFL-CIO convention which is now in session has not yet taken action on tariff and trade policy. However, the views I shall express here this morning are consistent with those which are to be placed before the convention for its consideration, and those which have been expressed by previous conventions of the AFL-CIO, and more recently by our executive council.

Let me say that I heartily subscribe to the statements that have been made before this subcommittee and elsewhere that the United States needs a new, and not merely a patched-up tariff and trade policy. We have had a law on the books ever since 1934, and for a period of time it was a very serviceable law. But we are living in new times, and we need a new policy, geared to the requirements of our Nation, and not just our Nation, but the entire free world, in the 1960's.

I believe if we are going to meet this objective, simply revising the existing legislation will not suffice.

The United States must resume its role of leadership in free world efforts toward expanding trade opportunities. Unless our country is prepared to pursue a vigorous policy of trade liberalization, I fear that we may be confronted with three consequences, all of which would be greatly harmful to our national interest.

In the first place, we might face a significant decline in our export opportunities as a result of being closed out from the most rapidly expanding economies in the world in Western Europe and Japan.

Second, if we were to confront this kind of economic isolation, it might also greatly diminish our influence in other basic free world economic decisions.

And third, a lesser economic role could also, in time, weaken our political leadership in the free world.

Thus, it is essential that this country display a greater willingness to reduce our tariffs and other barriers to trade than we have shown in recent years. However, realistically, we must face the fact that the opposition to a liberal trade policy is perhaps stronger than ever before. These conflicting factors can only be reconciled through a policy of authority for extensive but gradual tariff reduction in a framework that will assure that through various means maximum safeguards will be used to minimize hardships to those directly affected by import competition.

I have recently had the privilege of serving as a public adviser to the U.S. delegation in the so-called Dillon round of tariff negotiations under the auspices of the GATT. My observations in Geneva have convinced me that the kind of tariff-cutting authority we have had in the 1958 extension law minimizes the possibility of significant negotiations. Moreover, it is highly doubtful that the other principal trading nations, including especially the Common Market, will be willing to engage in another round of negotiations on the present basis. Indeed, if we are to judge from the report in yesterday's New York Times, there seems to be a real danger that on the present basis we may not get any significant results from our negotiations which have been taking place on a very detailed and somewhat painful basis all during this year.

Now, how can we meet this problem?

It seems to me that we must replace the present so-called item-by-item approach, which we are currently using in our tariff negotiations, but which most other countries no longer want to use. Instead, the President should be given authority to negotiate across-the-board tariff reductions, by major industrial categories.

Now, unlike Professor Kravis, I think that it is not necessary that at this time we pledge to reduce all our tariffs to zero over a very short period of time. I think that under the present circumstances, we would be well served if the maximum amount of tariff reduction authority overall should be set at something like 50 percent and this 50-percent reduction to take place over a specific period of time—perhaps 5 years, perhaps it may be found more desirable that the time period should be as long as 10 years.

But however long the period of the authority may be, the negotiations should take place as soon as possible after enactment of the legislation, because if we negotiate as soon as possible after the authority is given by the Congress, then reasonably certain information as to what our policy will be will be made available to those who are likely to be affected by that policy.

To meet the problem of the most sensitive products, a small number of items in each broad category might be reserved in advance either from inclusion in the negotiations at all or perhaps, in the case of some of them, for reduction of less than the maximum amount authorized.

In effect, the authorization to the President to reserve the most highly sensitive items from the full effect of tariff negotiations would be a substitute for the present highly restrictive peril points. However, in addition to this safeguard, it would also be important for the President to have some kind of emergency authority where a tariff cut resulting from negotiations had a serious and sudden impact. In such cases, it would be desirable for the President to have authority, without requirement of time-consuming administrative processes, to seek to remedy the situation by immediately raising tariffs, imposing quotas, and/or invoking adjustment assistance. It would be understood such authority should, of course, be used sparingly and with great discretion.

The increasing widespread support for the trade adjustment proposal is evidence of the recognition that it is unfair that the entire burden of the impact of import competition must fall on those directly affected by it. Moreover, it is also recognition of the unlikelihood that there will be enough popular support for a liberal trade policy unless adequate provision is made for adjustment assistance to the affected workers, firms, and communities adversely affected by increased imports.

I shall not take the time now to list in detail the main features of such a program. However, I would like to stress one point. Trade adjustment is not now and never was conceived of as a "labor" program. It is intended to facilitate the adjustment to import competition of all parties affected by it—firms, workers, and where firms affected by imports may be particularly important in a community, communities as well. However, it is essential that appropriate forms of assistance be available to all affected parties, including the workers.

I say this because one proponent of the trade adjustment idea has seemed to put forth the notion that assistance to employers alone would do the job with no specific types of assistance to workers. To my mind, this is a highly fallacious concept. It is true that the right kind of assistance to firms and communities will help to assure continued employment or reemployment to workers. However, because of the time required for the adjustment process, many workers would suffer severe hardship unless specific measures were provided for workers geared to their needs. These should include supplementary unemployment benefits, early retirement benefits, job retraining, and, if necessary, relocation allowances.

In addition to an effective trade adjustment program, the new tariff and trade policy should include the following features:

(1) A modified escape clause should be retained. Relief, however, in the form of increased tariffs and quotas should be restricted to cases involving an entire industry where actual, and not just a relative share of, production has been reduced. The extent and duration of such re-

lief should be directly related to the seriousness and duration of the adverse effects of the imports.

(2) The new legislation should make achievement of international fair labor standards an important objective of U.S. trade policy. Now, this doesn't mean an international minimum wage law or anything of that kind. But it does mean that workers in export industries should receive a fair share of the increase in their productivity, and the increased returns made possible by the expansion of export markets. And we think this should particularly apply in the case of export industries in countries overseas where in some cases the wages of workers have been lagging behind the increased returns to the industries and increased productivity. Our representatives at the GATT should seek to obtain annual reports by member countries on labor standards in exporting industries. There is precedent in the GATT, as well as in other international organizations, for such reports—that is, precedents involving other subjects. But I believe that such reports would be eminently appropriate in the case of labor standards in exporting industries as well.

(3) The President should be directed to take effective action to deal with problems of market disruption when they arise; i.e., situations in which sudden large influx of imports result in significant displacement of domestic production and employment. The action which the present administration has taken in the case of textiles and apparel now on a multilateral basis—I think that is a great improvement, because it is on a multilateral basis—is an indication of what can be done to deal with these problems of market disruption.

The safeguards I have suggested can buttress and make possible acceptance of an overall liberal trade policy. These safeguards are not necessarily mutually exclusive. In many instances, they can be used in combination and thereby reinforce each other. In particular, adjustment assistance should not be regarded simply as an alternative to escape clause action but should be invoked even where it may be found necessary to temporarily restrict imports by high tariffs and quotas. In this way, the duration of such restrictive measures can be shortened.

Chairman BOGGS. Thank you very much, Mr. Seidman.

Senator Sparkman, would you like to inquire?

Senator SPARKMAN. Mr. Chairman, many questions come to mind, but I shall not dwell on them very long.

Mr. Seidman, I notice you said that the remarks you were making were your own, and did not necessarily reflect the opinion of the AFL-CIO. Is it not true, though, that Mr. Meany, the president of that organization, assured President Kennedy last week a thousand percent cooperation in the program that he advanced?

Mr. SEIDMAN. Yes, he did.

Senator SPARKMAN. Of course I realize you are spelling it out here, whereas President Kennedy was stating it more or less in general terms.

Mr. SEIDMAN. Yes. Well, President Meany did say that he wanted to assure President Kennedy of a thousand percent support of our organization. I think he meant it in overall terms. I feel that this will no doubt extend to the subjects that we are talking about today. However, I am sure you do realize that when a convention is in session, which is determining the policies of our organization, it would be——

Senator SPARKMAN. Yes—I was not questioning your statement. I just wanted to get it on the record that the AFL–CIO had, through its president, strongly endorsed the President's speech that was made in Miami a week ago.

Mr. SEIDMAN. Yes, he did.

Senator SPARKMAN. It seems to me that there is a degree of agreement among the panel members, although considerable divergence at points. But I take it that everyone would agree we must do something—we cannot simply rest on our oars as things stand now. Is that not correct?

Mr. VERNON. Senator, I am rather surprised that my colleague on my left didn't rise to your bait. It seems to me that although there is almost complete agreement in the panel, he represents the outstanding exception.

If I may paraphrase the argument which I heard on my left, it went something like this:

It said, in effect:

> Let's face up to it, gentlemen, we cannot maintain our lead over the rest of the world. The lead in our living standards and productivity is something for the past, it is something we simply have to reconcile ourselves to losing. Now, it may be that we are currently exporting a good bit more than we are importing. But that is for the past. Let's think of the future when the U.S. productivity and, therefore, living standards are bound to decline in relation to those of the rest of the world.
>
> Now as long as we are facing this prospect, Senator, why don't we reconcile ourselves to the fact that we are best off in the slow growing parts of American industry, where we have the jobs—in the textile industry, and in the other industries where we may not be sure of future growth in productivity. This may hurt us a little, but at least it won't force us to change our jobs, it won't force us to improve our products, it won't force us into the new areas filled with uncertainty. Besides, who needs more products? We can't eat much more sugar, and we can't wear many more shoes. We are best off, therefore, in those industries in which productivity increase is slow. This will insure a future in which productivity levels and income levels are the same on both sides of the Atlantic but no alternative exists.

Now our friends are running scared. They are running scared at the shadow of a possibility that productivity in the rest of the world will reach up to and equal that of the United States. And they are running scared in the face of contrary evidence which I regard as overwhelming. One of the simpler forms of that evidence appears in a document before your committee, a document submitted by Professor Kenen, called "United States Commercial Policy, a Program for the 1960's," which bears a date of November 1961. It presents an interesting little chart on page 24. The chart shows the per capita national product, by countries, for the principal industrial countries of the world. And what it tells us is that the average Japanese today, with all the great threat he presents to the U.S. worker, is associated with an output which is equal to about $200 per man, as compared with an output for Americans of a little less than $2,000 per man. It tells us that the output associated with the average United Kingdom resident is roughly $1,100, compared with the $2,000 level of the United States.

And it shows you something else. It shows the validity of the basic point I made earlier, that you cannot have high wages without high productivity; and that once you get high productivity, you are bound to get high wages. The story we are being asked to accept is that a nation of Japanese may produce at our level and somehow receive only a fractional part of our return. This is socially, politically, and economically impossible.

There may be periods of lead or lag between wage levels and productivity levels. There may be differences among industries. But in terms of general output productivity and wage levels move together. Now this doesn't mean there will not be American industries which will face equally productive Japanese getting a lower wage. There will be such cases. The signal for us at this point is to demonstrate our ability to do what we have done in the past, and what we are doing at this moment—to continue to produce at 7 or 8 or 10 times that of the Japanese. And we will.

Senator SPARKMAN. Any rebuttal?

Mr. STRACKBEIN. Well, I would have to talk quite a while to cover the landscape here.

I do want to agree with one thing, and that is that this panel is in apparently overall agreement, with one exception. I am sure that in the selection of members of this panel, that this was wholly inadvertent.

Chairman BOGGS. I think it was.

Mr. STRACKBEIN. Very good. I will take your word for it.

Now, as to our staying ahead 2 or 3 to 1——

Chairman BOGGS. The staff probably recognizes your overwhelming ability, Mr. Strackbein.

Mr. STRACKBEIN. That is quite a compliment, considering the company—considering the company.

Mr. KRAVIS. Just a bunch of academic economists here.

Mr. STRACKBEIN. I hope a few of you have gone outside the academic halls by this time. I gave you an escape clause.

Chairman BOGGS. Go ahead, Mr. Strackbein.

Mr. STRACKBEIN. Let me say that the notion—I said before, and this merely needs reemphasizing—that the United States can stay ahead of the other countries technologically, I think is utterly unfounded. We are the same people as the Europeans. They are just as skillful as we are. They are just as ambitious. So to assume that this American know-how, which at a certain point of history gained a great lead, can continue, this, I think, is absurd.

As I say, the Europeans did have small markets. But they have now bought our system, they have seen what it has done, and they have accepted it. They are knocking out the compartments, so they too will have a mass market the same as we have had in this country—which, of course, has been a very good thing for this country. But they are now facing the same new frontiers that we once faced before, and the reason that their productivity and their growth has been greater than ours is precisely because in a relatively few years of time, they have installed modern machinery, and modern methods of production. So it would be expected that their growth would be two or three times our growth. They superimposed modern machinery and equipment on somewhat antiquated methods, or backward methods, and certainly they would come up rapidly. That is why they sent thousands of productivity teams to the United States. They wanted to learn how to install and how to operate, not only the machines, but also the system of scheduling of production and so on.

Chairman BOGGS. May I ask you a question at this point?

It seems to me that you touch on a most important point, namely, that Europe is emerging now as a trading area comparable to ourselves, with the techniques similar to our own, automation and so on. This is one of the purposes of the inquiry, to determine, in the light of these developments, what we, as a great exporting nation, must do.

Now, you mentioned coal, which is a good example of how we have been able to increase productivity and maintain competition. As a matter of fact, I come from an area which produces natural gas, and in many areas now coal is much more economical from the point of view of industrial use than natural gas is. Now, we have developed a market in Europe for coal. As I understand the common tariff which is anticipated as the Treaty of Rome goes into effect, this market will be affected by a tariff which it now doesn't have to pay.

Mr. STRACKBEIN. Well, they are paying a tariff into Germany of $5.50 a ton, and that has cut down the export of coal from the United States.

Chairman BOGGS. But the point I am making is that in order to move into this very market you are talking about—now, you are looking at it only from a point of view of what this market does to ours. You have to look at it, as I see it, from the point of view of what happens to the things that we send to that market as well.

Mr. STRACKBEIN. Now, in order to answer that question intelligently, it would really be necessary to take our principal exports and examine precisely what will happen to the outer tariff that will now, or in the future, be levied against specific exports. Take leaf tobacco, for example. Now, mind you, there is not a sudden increase in the tariff in the outer market. That outer tariff is an average of the six countries—where one tariff goes up, the other one comes down.

Chairman BOGGS. In some cases, though, this means a tariff where there was no tariff before.

Mr. STRACKBEIN. That is true.

Chairman BOGGS. For instance, Mr. Harris, farmers may go into the United Kingdom market, but they may not be able to go into the French market.

Mr. STRACKBEIN. Well, but then they would be able to sell more in the market where the tariff has come down, so that should equalize it some.

The other point is this.

I don't know why we should entrust to the State Department these further negotiations, when after 27 years they apparently have accomplished so little. What confidence can we have in them? Ten years from now, they will come back, they will again have shot away all the ammunition, and the wall will still be there.

Mr. HARRIS. Mr. Chairman, do I understand the speaker to say that the secret of America is technology? Is this really the secret of our advancement? Is this the only thing that we had that other countries didn't have? I am going to suggest that the benefits that we got out of a private enterprise system were the fundamental reasons we advanced faster than the other countries, not because of technology. It was this drive through individual initiative that caused us to mechanize. But this is the fundamental factor that we have that is superior to Western Europe, or to other countries; this is the reason we advanced faster.

Now, he seems to recognize the benefits that we got through freer trade between the States. And this being one of the real reasons why we advanced so fast—the benefits we had of a large area market. I wonder why those benefits stop at the shores.

Mr. STRACKBEIN. I will tell you why. I will tell you exactly why.

Now, they say the tariff reductions that they have made inside of the Common Market, the Inner Six, has not upset industries. Well, there wasn't enough difference in the competitive standing of those industries within those markets vis-a-vis each other to upset them greatly—just as within this country—even though the Southern States generally have lower wages than the Northern States, and even though the textile industry did, in a generation's time, slowly move down, there was not the same difference there. There is a completely qualitative difference between our competitive situation and that of the Far East, for example, and even of European countries. The difference is too great.

Now, I don't say that this compartmentalization between the nations should continue. I think it is a good idea that European countries take those compartments out. But we still have a tank up here of water, and here is a tank that is at a lower level. And if we too suddenly open the valves between them, we will go down and they will come up. But why should we do this so suddenly? Why not go about this in some measured form? He tries to say we are full of fear. I think the better word is "prudence." There is a difference between prudence and fear.

Mr. HARRIS. It depends on whether you think you are in the tank or not, Mr. Strackbein.

Senator SPARKMAN. Let me go back just a little bit. Mr. Strackbein, do I understand that your feeling is—when I made the statement a while ago that the panel was in some degree in agreement, I was not being facetious; I meant it—because I thought from your presentation that you recognized that something had to be done, that we couldn't rely on what we are running on now, and there has got to be a revision of policy.

Mr. STRACKBEIN. Yes, but something quite different from what is contemplated.

Senator SPARKMAN. Yes, I admit that. But now your conclusion is that it must be through tariff and import quotas, in the absence of certain defenses that you set out.

Mr. STRACKBEIN. Right.

Senator SPARKMAN. Would you do away with trade agreements or powers within the President's office to negotiate agreements, and just use the Tariff Commission, or have Congress write a tariff law, as in the olden days, or what would be your plan?

Mr. STRACKBEIN. No, I would not go back to the method—the old congressional method of making the tariff. I think the tariff is a complicated thing. I think that was the reason that the Congress set up the Tariff Commission, an expert agency, to deal with the technical problems that developed.

Senator SPARKMAN. You would use that agency primarily.

Mr. STRACKBEIN. I would not use the agency to write the tariff. All that we are concerned about is that the laws that are already on the statute books, that is, particularly the escape clause, be made to work as they were supposed to, and are not doing. The escape clause is not much more than 10 percent effective—on the record, case by case.

Senator SPARKMAN. You would say, then, that the present laws need revision more in administration than in the wording of the law?

Mr. STRACKBEIN. If this can be accomplished through legislation. I sometimes question whether legislation can accomplish anything with respect to administration.

Senator SPARKMAN. Now, let me say that I have a good bit of sympathy with the statement that you make, with reference to our assuming an everlasting superiority in technology. I don't agree with your statement when you say that we can't maintain it. I think we can maintain it. But I think we have got to work at it in order to maintain it. We are not going to maintain it just as a matter of course. And you used as an example the Russians putting up a Sputnik I. Now, you must know that we could have done that job more than a year earlier if it had not been for some of the restrictions that were placed on the people who were capable of doing it, and who did do it eventually.

Mr. STRACKBEIN. Well, I wouldn't know. The fact still is that——

Senator SPARKMAN. I would agree with you to this extent—that Russia getting that satellite up there ahead of us served to awaken a lot of people in this country to the fact that in Russia there were brains—and I think we have got to understand that everywhere. But I think it is a contest. And certainly I would not be willing to agree that we are not capable of maintaining a lead, if we work at it hard enough.

Mr. STRACKBEIN. I am not saying we cannot maintain a lead. I am saying that we cannot expect to maintain this 3-to-1 lead, or whatever was specified. I think that is not in the cards.

Senator SPARKMAN. Well, I won't quarrel with that, because the more other countries advance, the closer they are going to come to us.

Mr. KRAVIS. I would like to comment on a factual matter about this business of the escape clause only being 10 percent effective. It seems to me that is based on a kind of numbers game in which you list all the items for which escape-clause applications have been made, which includes such things as chalk whiting, safety pins, and pregnant mares' urine, and equate items like that with things like lead and zinc that are really important. Only by such a listing can you come out with a percentage of 10 percent of the cases that have been favorably acted upon by the Tariff Commission. I think that is a meaningless kind of assessment of the escape clause procedure.

I think a careful examination of those cases would indicate that the Commission, if anything, erred on the side of protecting the industry, rather than against protection, whenever the facts justified it.

Mr. STRACKBEIN. Well, here is a gulf that divides my position from his. Case after case has been turned down by the Tariff Commission, and 2 out of every 3 cases that have been sent to the White House with a recommendation have been turned down by the White House. And I will stand on that.

Mr. SEIDMAN. Mr. Chairman, if I may, I would like to go back to the subject that you were discussing——

Chairman BOGGS. Senator Sparkman has the floor, but you go ahead.

Senator SPARKMAN. Go ahead.

Mr. SEIDMAN. Well, you were talking a moment ago about the effect of the tariff changes in the Common Market, and presumably with the broadening of the Common Market these changes will be that much greater. I believe that you were talking about the changes with respect to the common external tariff—that is a comparison of the previous rates with what the common external tariff will be, and that means, therefore, for some countries this will mean a decrease and for others an increase.

Chairman BOGGS. Right.

Mr. SEIDMAN. But of course I think that we ought to also consider not just the common external tariff, but also the internal tariffs within the Common Market, because our position with reference to the Common Market will be determined in terms of the difference between the common external tariff, on the one hand, and the fact that in a very short period of time they will have no tariffs at all within a large Common Market. And under those circumstances, we are either going to have to be in a position where we can negotiate with the Common Market so that they will reduce their tariffs, and in order for us to do this, we will of course, have to reduce out tariffs in turn. Or we are going to find that the movement which has already begun of investment by American firms in Western Europe is going to increase to much greater proportions than anything we have seen up to now.

The American firms will either have to be in a position to export to the Common Market, without being faced with this tariff disadvantage, or they are going to want to get in on the ground floor in the Common Market itself.

In part, this problem can be met, and I certainly hope it will be met, by removing the tax advantages which these firms now get from investing overseas. But even if that were done, if they are going to have to get over high tariff barriers in order to export, then even without the tax advantage there will still be a very considerable incentive to invest in Western Europe. We are very much concerned about this because—I know Mr. Strackbein has been talking in terms of the impact on employment—well, this could have a very serious impact on employment in the United States. It not only means that we might be exporting less, and thereby losing the jobs involved in exports, but there would also be the jobs that would be lost by the movement of firms overseas who are exporting perhaps to other countries, or even back to the United States.

Therefore, in terms of the impact of employment, this is something that we have to consider very seriously.

Senator SPARKMAN. Let me go back to just one more question, Mr. Strackbein.

On page 15, you show a total worker shrinkage in 30 industries—1,169,000. That is since 1950. And yet isn't it true that during that same 10-year period employment in the United States increased by 8 million?

Mr. STRACKBEIN. A little later in this same document I bring forward the increased employment that has taken place in wholesaling and retailing, in banking, insurance, real estate, teaching, and State and local governments. Surprisingly enough about the largest increase that took place was in State and local government. But in addition to these declines mentioned here, the decline in transportation was terrific, and in agriculture it was 2,800,000. So that taking all the employment shrinkage, it more than made up the employment expansion, so we got left with a net behind the growth of population of about 3½ million.

Senator SPARKMAN. Behind the growth of the population.

Mr. STRACKBEIN. Yes. After all, we are supposed to employ the people who come on the labor market every year, and if we don't we will continue to have this hard core of unemployment, and the indication would be that this would increase rather than decrease—structural unemployment, as it is called—rather than cyclical.

Senator SPARKMAN. Would you have each item, or item by item, handled by the Tariff Commission, rather than having the President empowered to handle the items?

Mr. STRACKBEIN. Of course the Tariff Commission now does handle each item under the escape clause, and the President has the power to overrule the Tariff Commission.

Senator SPARKMAN. Yes. But that just takes up the exceptions, instead of taking the positive action on item by item.

Mr. STRACKBEIN. No, I would not have the Tariff Commission set tariff rates. I still think that the Congress, as established under the Constitution, ought to carry this function. Of course, if they want to authorize the President to do so, that is within the prerogative of Congress, so long as they lay down the guidelines, which I think, again, is the constitutional principle—that when you delegate a power of this kind, you must lay down some clear guidelines.

I also think that there should be a watchdog committee or some creation of some kind that would ride herd on the kind of use that the Executive makes of this delegated power. I can assure you that there have been extremely serious complaints about the manner in which the Executive has utilized this delegated power. And a good deal of the objection comes from that very source.

Senator SPARKMAN. Mr. Chairman, I could go on, but I have used up too much time. I yield the floor.

Chairman BOGGS. Mr. Kravis.

Mr. KRAVIS. Just for the record, I would like to make it clear that I was not proposing that tariffs be reduced to zero over a short period of time. My basic proposal is that a way be found to create in the minds of businessmen that tariffs and other trade barriers are going to be reduced. I believe that business will be inducted by this certainty to make its adjustments spontaneously, so that the minimum drawing would be made on the adjustment programs of the Government. This belief is based on European experience. The announced reduction of tariffs might be spread over a 30-year period; it could be longer. The legislation might simply declare it was the intention of the United States to reduce trade barriers over a long period of time, and give the President the power to reduce them by 50 percent in the next 10 years. But I would not favor the quick elimination of trade barriers.

Chairman BOGGS. We have had a lot of discussion here about what happens if we eliminate trade barriers, and if we grant the President the authority which he apparently is going to ask Congress for.

What happens to employment and to jobs if we do nothing? Would some of you mind commenting on that?

Now, Mr. Seidman has pointed out that the Common Market, insofar as export markets are concerned, possesses, if you want to call it that, a double threat—not only do you move, let's say, the Germans into a free French market where heretofore there has been a tariff against certain German products, which was the same tariff as the one that applied against us, but now Germany moves in with a free market, and we move in with a common tariff that we may not have had at all, insofar as some of these other countries are concerned. So that our export position in these countries is obviously going to be more difficult.

Mr. KRAVIS. It is made even more dangerous, Mr. Chairman, by the inherent logic of the Common Market. It is tough for these six countries to reconcile their conflicts of interest. And when they get in a jam, as they were in the coal crisis in 1958, they tend to trade concessions with each other at the expense of outsiders. And it wasn't the tariff on coal that hurt us; it was the quota that the Belgians put on our coal, and they put it on in favor of Community coal. The Belgians are still buying coal from other sources in the Community that is more expensive than American coal.

So that we need a weapon to control this inevitable tendency of a group of countries banded together in a common market, to trade concessions at the expense of outsiders.

If we don't have such a weapon, our exports are going to be hurt very badly in those very areas where they have been strongest. I am referring to agriculture and coal and certain other products which are important in our trade with Europe.

Mr. VERNON. Mr. Chairman, can I add a word to that?

One of the reasons why so much interest is being exhibited with respect to the need for the reduction of the EEC's external barriers relates to the following rather odd problems in timing.

The members of the GATT engaged in a process of tariff reduction on both sides of the Atlantic, beginning around 1948. Mr. Strackbein has pointed out to us, correctly, that for a substantial period of time after 1948, the Europeans maintained import quotas on their imports. Now, they didn't do this because they were inherently bad boys. They did this because they had a limited amount of dollars, and they were rationing those dollars.

Be that as it may, there were these restrictions. And for a long time, U.S. exporters couldn't do very much with the fact that there were lower tariff barriers in Europe. They simply had to wait, essentially, until the time would come when these countries would have enough dollars to buy whatever they wished.

Now, beginning around 1952 and 1953 or 1954, depending on the country and the product, Europeans began to be able to export relatively freely to the U.S. market. They began to have surpluses in their economies, and began to be able to penetrate U.S. markets. And they did they very best to penetrate those markets, with obvious success, between 1952 and 1961.

As far as the United States was concerned, its exporters really didn't begin to have an opportunity to get into European markets until about 1957 or 1958, depending on the particular country and product. But at the present moment of time, American exporters have an experience of 2 or 3 years of liberal trade policy on the part of the

Europeans, while European exporters have a history of 9 or 10 years in the United States.

Now, any U.S. exporter asking himself at this moment—do I dare to make the investment in the European market which precedes expanded exports—any American asking that question has to ask himself also what the probability may be that he can continue to export into this market? He doesn't have the experience which the European has in the United States of about 9 years of stability. He has uncertainty, and a recent history of restrictions.

There are various straws in the wind to indicate that, given a run for its money, the U.S. economy can substantially increase its exports to Europe. This is a chancy kind of prediction of course—it always is so, for both imports and exports. But for example, the Department of Commerce reports an extremely rapid marked increase in inquiries about export opportunities—typically a prelude to actual action on the part of American firms.

In the individual firms which I observe, as a professor of international trade in the Harvard Business School, I come upon case after case in which the American firm has just recently organized itself to regard its international trade as part of its business, and not as some odd customer who appears from time to time to be given whatever is left in the various order books of the company.

The American economy appears, in terms of its export trade, to be organizing itself in a way which would be analogous to the Europeans of the early 1950's. I think we ought to give them a run for their money. I think we ought to try to establish those conditions of assurance about the European tariff which will permit us to see whether we can in fact sell within the European market. And we have got enough indications that Americans can in fact sell, that it is worth giving them a run for their money.

Mr. STRACKBEIN. Mr. Chairman, may I comment there on our increasing exports into the Common Market?

Already hundreds of our companies have either established branches in the Common Market, and also in England, which presumably will soon become a part of it. But they have also bought into going concerns over there—with the very idea that they can then obtain the advantage of the lower wages prevailing there, they can serve the market from within rather than shipping from the United States, they can use the Common Market as a basis to ship to South America, Africa, and Asia, rather than from the United States, and in some cases, turn around and ship back to the United States. And only for one reason—that is because they have got the lower costs of production. There would be no other explanation of this drift of American capital over there.

Secondly, to expect then to have the United States increase its exports over there—I don't think that will necessarily follow, because from 1958 to 1960, our exports to those countries, the Common Market, increased 36 percent. A great part of this was specifically modern machinery and equipment to equip the factories that we were setting up over there. So once they are established, we will get the backwash from them, rather than the other way around.

And may I make one comment—I can't help but commend my friend here, the gentleman farmer on my left, about his adherence to the principles of free trade. I want to point out that both cotton and wheat, and also wheat flower, are protected by the very strictest import quotas that we have in this country.

So on the one hand, they do look for and they maintain this very strict import quota—about one-tenth of 1 percent of wheat produced in this country can be imported. If we took off this quota, the Canadian wheat would undoubtedly flood the American market, and if we took off the import quota on cotton, Mexican cotton, Brazilian, Egyptian cotton, or wherever it is grown, would flood this market and drive us out.

So it touches me very much to find such an ardent advocate of free trade when he himself, the main products of his organization, are so thoroughly protected.

Mr. HARRIS. Mr. Chairman, may I comment on this whole thing, please.

I think it is interesting.

Chairman BOGGS. We are going to have to close in a few minutes.

Mr. HARRIS. The speaker has chosen two products of which we have historically been world suppliers. We have been a world supplier of cotton since the dawning of our history. This wasn't because we were inefficient producers. And given the right cotton program, Senator, we can eventually forget about section 22. It is 40 percent of our cotton production that we are exporting that we are interested in. This is our future.

This same thing applies to our grain production. If you don't believe it, just give us the opportunity. I think it is important to recognize that agriculture is an industry that has also started to organize itself to handle the export business in a more businesslike, more systematic way. The Farm Bureau established its own office in Rotterdam 3 years ago, when the Common Market was little more than a glint in the eye.

We have established the American Agricultural Marketing Association, and the Farm Bureau Foreign Trade Development Corporation, as affiliates of the Farm Bureau. We are equipped to do direct promotion and selling in the export field.

We have now over 13 of our States that have organized marketing associations and are ready to go directly into the export business. We see some real opportunities getting organized right, handling this directly, if we get the opportunity to sell in these markets.

Now we are a little bit different—and this is why the kinship between the interest of the AFL–CIO and U.S. farmer becomes so close. We can't export our fields, our orchards, our dairy herds. We have got to have the opportunity of exporting the products. And just as the unions do not wish to export the employment overseas, we do not like to see the opportunity for us to sell our products restricted also. This is especially important to both of us.

Chairman BOGGS. Thank you very much.

Does anybody else care to make a comment?

Mr. SEIDMAN. I would just take one moment.

It seems to me that in all that Mr. Strackbein has been saying, one of two things is true. Either he thinks that we can continue to export, atleast on the scale that we are now, even though we restrict imports—in other words, that other countries will be willing to take our goods even though we are unwilling to take theirs—or that he is willing to sacrifice our exports in order to restrict our imports.

I have indicated earlier, in my opening statement, that I think there are some broad considerations which we cannot lose sight of in this whole question, in terms of the relationship of the United States to the rest of the free world. But looking at it only from the point of view of our domestic considerations—and here I am talking particularly about the trade union movement and the workers of this country—it seems to me that what is being suggested is that we be willing to sacrifice the much larger number of jobs which we now have in exports, and I believe the still larger number of jobs which we can have if we expand our exports—as I think we can—for the possibility of perhaps—and I say perhaps, because these are industries which even in our own domestic economy unfortunately are also declining—for the possibility of saving some jobs in our industries which may be affected by imports.

Our feeling is that while we do not think that we should engage in the kind of policies which will result in catastrophic and overnight impacts on our economy—at the same time we should not simply wash down the drain the jobs that we now have, and the potential jobs that we can have from expanding our exports. From the overall point of view of employment in the United States it seems to me that these are factors which we cannot ignore without great peril to the possibility of our achieving and then maintaining full employment in our country.

Mr. Strackbein. May I have just a very brief rebuttal there?

Chairman Boggs. Yes.

Mr. Strackbein. Mr. Chairman, I deny categorically, and I challenge premptorily, the assertion that there are more jobs created by American exports than are prevented from opening up or that are displaced by imports. I believe that in the physical goods that we import there are more man-hours employed in producing the physical goods that we import than there are man-hours involved in the goods that we export.

Chairman Boggs. Thank you, gentlemen, Mr. Vernon, Mr. Strackbein, Mr. Harris, Mr. Kravis, Mr. Seidman—you have all been very helpful to the committee. The committee will adjourn until 10 o'clock tomorrow morning.

(Whereupon, at 4:10 p.m., the subcommittee recessed to reconvene at 10 a.m., Tuesday, December 12, 1961.)

FOREIGN ECONOMIC POLICY OF THE UNITED STATES

TUESDAY, DECEMBER 12, 1961

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee of the Joint Committee met, pursuant to recess, at 10:10 a.m., in room 4221, New Senate Office Building, Hon. Hale Boggs (chairman of the subcommittee) presiding.

Present: Representative Boggs and Senator Sparkman.

Also present: Wm. Summers Johnson, executive director; and Richard J. Barber, clerk.

Chairman BOGGS. The subcommittee will come to order.

We continue hearings this morning on foreign economic policy. Today begins a series of administration witnesses on these matters.

We are very privileged to have as our first witness the Under Secretary of State, Mr. George W. Ball. Prior to his appointment by President Kennedy last year, Mr. Ball was a partner in a very well known international law firm and most active in the movement toward a unified Europe. He has made some very important pronouncements with respect to the foreign trade legislation.

We are very happy to have you here today, Mr. Secretary.

Senator Sparkman, I believe, will be along in a few minutes, but he asked me to start and he would get here as soon as possible, so we shall start now and you have the floor.

STATEMENT OF GEORGE W. BALL, UNDER SECRETARY OF STATE FOR ECONOMIC AFFAIRS; ACCOMPANIED BY PHILIP H. TREZISE, DEPUTY ASSISTANT SECRETARY OF STATE FOR ECONOMIC AFFAIRS; HERMAN H. BARGER, ACTING DIRECTOR OF THE OFFICE OF TRADE; AND RICHARD D. VINE, BUREAU OF EUROPEAN AFFAIRS

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

Let me say first that I wish to congratulate this committee on the very careful and comprehensive way in which they are bringing to the attention of the Congress and the American people the revolutionary changes which have occurred in the trading world in the last few years and the very difficult but important problems which the United States must face in reshaping not only its commercial policy but its foreign economic policy as a whole.

Now, Mr. Chairman, I do not come here this morning with a prepared statement, but if it is agreeable with you, I would like to make some preliminary observations. I would like to address these remarks not merely at our commercial policy nor at our foreign economic policy, but at the broader political framework within which questions of commercial policy and foreign economic policy should be considered. After all, foreign economic policy is merely a servant of our broader foreign policy objectives.

We live today, as you well know, Mr. Chairman, in a world of rapidly shifting power relationships. For many years, the United States has been the overwhelmingly predominant nation of the free world in terms of our wealth, of our resources, of our power.

We have never, I think, very much enjoyed this lonely eminence in which we have found ourselves.

We have recognized, and I think very wisely recognized, our responsibilities as the leading power in the free world. We have recognized also that there are responsibilities which fall on a power of great size which, in the nature of things, smaller powers find great difficulty and suffer severe limitations in trying to tackle or even in trying to contribute to effectively.

This is a world of scale in which we live, a world of size, a world where magnitudes are important, a world where a large nation can do some things which many smaller nations cannot do unless they have a measure of unity which heretofore has not marked a great part of the free world. For that reason we have followed, ever since the war, a consistent course of policy—by Republican and Democratic administrations alike—a policy of encouraging in the free world those forces which are looking toward the unification of groups of nations, which are looking toward the development of larger independent units and toward the development of a very much greater measure of cooperation among the units in the free world.

We have never wanted satellites, unlike the Soviet Union. We have always preferred to have friends and partners, to be one of a community of independent, self-respecting nations. For that reason, we have encouraged to the extent that we could those forces in the world which are moving toward the development of greater self-reliance and independence, greater centers of power, all directed toward the common objectives to which we ourselves have been directed.

Now, we have seen the most significant manifestation of these forces and the most significant achievements for unity in Western Europe. I think the developments which have occurred there since the war have far exceeded the expectations of even many of us who have felt for a long time that the unity of Western Europe was an indispensable condition to the strength and freedom and continuing good health of the free world.

We have watched develop in the last few years free communities, of which the most significant is a six-nation grouping named the European Economic Community, also know as the European Common Market. At an earlier date, and as more limited efforts in the same direction, these same six nations established the European Coal and Steel Community and EURATION, the European Atomic Energy Community.

We have seen in the six-nation European Community, and in the strength, unity, and integration which it has produced, a very useful, primarily political force. We have seen it as a means of institutionalizing the new understanding between France and the new postwar Germany. We have seen it as a means of tying the new, free and peaceful Germany very securely to the West and giving it a very definite place in the Western World. We have recognized also that, through economic integration, Western Europe could achieve an economic strength which none of the individual states alone could achieve.

One of the curious phenomena of the world in which we live today is that when you speak of the combination of economic power within and among states—when you speak of the combination of markets and common markets—the whole may not be larger than the sum of its parts, but the whole is certainly stronger than the sum of its parts, and the result is certainly conducive to much greater economic health than before that combination takes place.

We have seen, as you very well know, the most extraordinary development of economic strength in Western Europe, to which the forces of unity and integration—the creation of a great mass market—have contributed to a very considerable extent.

Again, we live in a world of scale. The economics of the modern industrial world are the economics of scale, and a country can participate in the economics of scale only if it has available to it a great mass market, and this is what the European Economic Community has achieved for itself.

Now, with the approach of the United Kingdom, of the Government of the United Kingdom, to apply for membership in the European Economic Community, we have an even greater potential change in the shape of things to come. The United Kingdom is, itself, a very important nation, it has very important economic power, and it has a very long and distinguished political history and a great deal of political genius among its people.

It has been our view (when I say our view, I mean the view of the United States Government) that the decision which the United Kingdom is in the process of making—and I would not predict at the moment just how that decision will be finally determined—is a matter for the British people. But that decision is a very difficult and very important national decision.

We recognize that if it were made, it would involve a great deal of thought and would represent a very courageous act on the part of the British people. It would mean, in effect, a substantial revision of British policy with regard to the European Continent, a policy which has persisted for a great many years.

Contrary to some of the rumors which have been afloat—and I think it may be useful to be fairly categorical on this point this morning—the United States Government has not attempted to use any influence or to bring any pressure to bear on the Government of the United Kingdom with regard to this decision. We have recognized that this was a decision which only the people of the United Kingdom could make for themselves.

We have, however, felt that if the people of the United Kingdom made that decision, and if they were able to work out with the member nations of the European Economic Community the arrangements whereby the United Kingdom could become a part of that Community, and all member nations could accept the obligations of the Rome Treaty and could accept those obligations looking toward the treaty not merely as a static document but as a moving process meaning even greater unity, this could be a very great and very substantial contribution to the cohesion and strength of the West and the free world.

Now, Mr. Chairman, I do not have to describe for you or the committee the nature of the European Economic Community. There has been a great deal of testimony about that in the past few days. But I should like to point out that if the United Kingdom joins the Community, this act is likely to be followed by an adhesion on the part of Denmark and possibly one or more other European countries. If this occurs, we shall have in the trading world a wholly new phenomenon. We shall have combined in two common markets—the common markets of the 50 United States of America and the common market of an indeterminate number of Western European states—about 90 percent of the free world's industrial production.

In the last few days, this committee has heard a number of suggestions with regard to a new form of relationship which the United States should have with this newly emerging great force in the world, the European Economic Community. We have heard some talk of the possibility of "association." There have been newspaper comments abouts the possibility of the United States joining the Common Market. There has been talk of a "partnership" between the United States and the Common Market, and of the United States "moving closer" to the Common Market.

Now, I think the use of all these terms is a recognition of the importance of the Common Market and a recognition of the fact that in the modern world there must of necessity be a great deal of close cooperation between the United States and the Common Market. But I think it perhaps may be useful if I try this morning to suggest some of the elements which would seem to me to shape the nature and purpose of what I think we may well call a "partnership," because I think it is important that we perhaps begin to try to put some precision into the description, the words we use with regard to this new relationship.

The United States has ties with the members of the Common Market that are obviously special—that are, in fact, unique. I need not again rehearse the very familiar story of the relationship of the people of the United States to the "old country," to Europe. Most of us come of European stock. We share with the members of the European Community—both the present members and the potential members of the expanding Community—common institutions, a very long common history, a common attitude founded on common values derived from a predominantly Christian tradition. We share a common language with many of the peoples across the Atlantic. We also have a similarity in the economic constitution of our societies.

We are a great industrial nation, but also have a very modern agriculture. Europe, especially the Common Market, is a congerie of major industrial nations which also have an important agricultural potential to develop.

Between us—between the United States and the European Common Market—we combine, as I have noted, a very, very large part of free world industrial potential. Within the last 2 years, however, we have had to think very hard about our role in the world and we have been forced to recognize that the United States has a role of world leadership which we could neither deny nor evade nor escape, even if we wanted to.

While we are an Atlantic nation, we are also a Pacific nation, and I use the word "Pacific" in more ways than one. We are also a nation in the Western Hemisphere, with the very closest ties with the other American states.

Finally, we are the richest and the most powerful nation in the free world, and by virtue of our wealth and power we have responsibilities toward every other nation of the free world.

So how do we define our relationships with the Atlantic nations? How do we talk about what one might call the Atlantic community or the Atlantic partnership? I think the word "partnership," incidentally, is probably the most useful term with which we can describe the kind of new economic relationship which we must establish. But when we examine the nature of that relationship, we must examine it with reference to our role as world leader, and this means that there are certain characteristics which this partnership must have.

It must be outward-looking. It must be dedicated not only to the achievement of the parochial interests of its own members, but it must also be dedicated to the increase and expansion of trade with the rest of the world, to the increase and expansion of a kind of assistance which we can render to the less developed nations of the world, to the increase and expansion of the kind of protective power, in the military and defensive sense, that we can provide to the whole of the free world.

In other words, it must be the kind of partnership in which a world leader can join.

Let me say in this connection that as Western Europe acquires more and more unity, we are going to find, hopefully I think, a sharing of our great burden of world leadership, because Western Europe itself will become a world leader in a much greater sense than it has been in recent years.

We have done very much toward giving shape and substance to this partnership already. In NATO, we have a defense alliance which provides for the defense of the centers of power of the free world. By defending the centers of power, we defend the free world altogether, without regard to how narrowly the NATO Charter may be interpreted. The kind of defensive posture we are able to develop and maintain through NATO is a defense of the free world in its entirety. And through NATO we have also developed facilities for a good deal of political discussion, as is evidenced by the discussions which will be going on in Paris during the next few days.

We have also approached this problem, as you well know, Mr. Chairman, on the economics of it. Beginning on the 30th of September, I believe, there came into being a new instrumentality for this purpose, the Organization for Economic Cooperation and Development. I may say I am encouraged again beyond my expectations by the very real progress which has already been made through the OECD and through the transitional antecedent body which flourished for some years—but particularly since the OECD treaty was agreed to by 20 Atlantic powers during the last year—in the development of the closest kind of consultation among us, an economic consultation which far exceeds, again, anything that we have ever known before. We have undertaken to concert our domestic economic policies in a way which has not been the case before, and we have done this in recognition of a fact which again is inescapable—that in the modern world, among the major industrial powers, there is no longer the privilege or the possibility of each conducting its domestic economic affairs without reference to what the other does.

There must be a very high measure of consultation and of concerting of policies or we shall have the kinds of distortions and imbalances which will not only make for serious balance-of-payments problems, but which will also have other adverse repercussions on the economies of one another, which could produce major inflations and deflations and economic influences of that kind.

Now, we have done some other things through the OECD which are also important. Again, they are quite consistent with the definition of partnership which I suggested a moment ago. We have worked together to increase the measure of cooperation that we could bring to bear on meeting the common responsibility of providing the resources for the advancement and development of the less developed countries of the world.

I want to emphasize to this committee the importance of the work we have already achieved and the prospects which we have for a much greater degree of cooperation and, as a consequence, a much higher level of total assistance provided much more efficiently than has been the case in the past.

So I would say to you, Mr. Chairman, that I think that through the OECD we have already achieved a great deal and we have developed a habit of cooperation and techniques of cooperation which are capable of very substantial further development and expansion, and this expansion of cooperation is something which the administration is determined to do.

Now, this is a substantial movement, it seems to me, for partnerships in areas where we can work together, not merely for our own selfish interests but for the interests of the whole free world—the kind of partnership effort which I think is incumbent upon us as a world leader and is also incumbent on this newly emerging Europe, which must also take a larger and larger role of world leadership.

But at the same time that we have been doing these things with Europe, we as a world leader—as certainly the strongest and richest country in the free world—have been developing our other relationships as well. Through the alliance for progress, we have been developing and expanding our cooperative effort with other American states. Five members of the Cabinet have recently returned from Japan, where they engaged in very serious economic discussion with the Japanese Government, and we are hopeful that we can expand and develop our relationships in the Pacific area as well as we have done in the Atlantic area.

We cannot do anything that is exclusive; we cannot have any kinds of relations with one section of the world that are incompatible with our role of world leader.

So I think at this point that we can begin to try to apply these principles to the problems that we face in the new trading world which has emerged.

What is the relevance of the Atlantic partnership in the new treaty? Well, I think the one thing we cannot contemplate is that we form any exclusive trading relations with the other Atlantic nations. We are not going to join the Common Market. We are not going to propose that we create a free trade area or anything of this sort with the Common Market.

What we can do, however, is to undertake a new kind of negotiation with the European Common Market, which is adopting a common commercial policy, which has already begun to act as a unit in its commercial relations with the rest of the world. We can begin, through discussions and negotiations with this great new trading partner of ours, to develop ways of expanding world trade, breaking down the barriers to the free flow of goods, providing new job opportunities for our own people through expanded exports, while at the same time raising the level of life of the whole free world by a very significant increase in the markets which are available to the whole free world and, therefore, in the economic opportunities which are available to the whole free world.

This means, translated into more technical terms, that whatever kind of arrangements we work out with the Common Market must recognize the most-favored-nation principle—must be on a basis of nondiscrimination.

But I would hope, Mr. Chairman, that the Congress will see fit next spring to grant the President the kind of tools that are adapted to these new trading conditions in a totally new trading world. These tools will enable him to achieve these objectives—objectives not merely for our selfish purposes which should greatly contribute to our well-being and to the increase of our wealth and strength, but also objectives totally consistent with our great responsibility, our awesome responsibility, as the strongest and leading power of the free world—at a time when the free world must be strong if it is to survive, when the free world must be strong if all of the values which we hold in common with our Atlantic friends are to survive.

Thank you.

Chairman BOGGS. Thank you very much, Mr. Secretary.

As you concluded your statement a moment ago, you said that it was your hope that Congress would grant the President the tools required for him to carry on under these new circumstances. Do you mind outlining what tools you think are required?

Mr. BALL. Well, I am afraid, Mr. Chairman, that I cannot do so with precision, because these matters are still under some discussion. I know that the President will want to discuss them with the congressional leadership, with some key members of this committee before he makes them public or before he sends them formally to the Congress, which I presume might well be at the time of the state of the Union message.

But I would suggest that what we need, in very large terms, are powers which will enable us to deal with a new kind of bargaining limitation, and at the same time a new kind of bargaining opportunity, which are presented by the structure of the European Common Market itself.

We have been engaged for 15 months in GATT negotiations in Geneva. In the last two rounds of negotiations under the GATT, it has been increasingly apparent that this negotiation—and I am not prejudging its outcome, because I have become quite optimistic during the last few days that we shall be able to bring it to a successful conclusion—that this negotiation reflects the need for a new form of approach, a new approach to the problem of reducing trade barriers, which is the approach embodied in the Treaty of Rome itself, the approach of across-the-board reductions.

This is probably the only approach which can be effectively practiced by the European Common Market, where there must be a concert of the member nations in order for the Common Market to speak as one voice and to negotiate.

Now, you can understand and appreciate the difficulty of a commodity-by-commodity approach when you think of how this has to be accomplished within a body of six nations which may be expanded by later accessions. An enormous amount of "horse trading" would have to go on among those six nations before they could even begin to agree that a particular commodity which affects one of the six might involve some alteration in the common level of protection, or that another commodity which affects just another one or two of the six might involve some alteration.

Quite frankly, I think that the only practical way we can make real progress is to adopt some techniques of what we call linear cuts. This is going to be embodied, I would hope—after we finish our discussion in the next few days and after the President finishes his discussions with the congressional leadership—in whatever proposals the administration puts forth. But I would not want to try to describe these proposals this morning, and I do not think it proper to be too precise in anticipating what the administration will ask for, because this is a decision the President will make after these consultations which are taking place.

Chairman BOGGS. I think we might develop this discussion of "across the board" a little more. This is one that is being used a great deal and people say to me, What do you mean by authority to negotiate across the board?

How do you interpret that phrase?

Mr. BALL. I would say that what this phrase means is that instead of narrowly defining specific commodities and groups and then discussing each one separately, including the kind of compensation that might be given as a concession on each particular one, this type of negotiation amounts to proposing uniform concessions of a certain percentage on much broader commodity groupings. It may mean negotiations on anything that a country produces; it may mean negotiations on all industrial items, or on all raw materials; or it may mean negotiations on all industrial items defined in a particular manner. This is a matter of technique which I hope we shall be ready to discuss in some detail after the final decisions have been made.

Chairman BOGGS. I hear from time to time, and almost from day to day, that protectionism is growing, that it is very strong; therefore, we should not try anything, but at most, we should ask for a simple extension of the present authority and let it go at that for a while. Would you subscribe to that kind of negative approach?

Mr. BALL. Let me say, Mr. Chairman, that I have lived in Washington for a great many years, and I have been interested in this process of adopting trade legislation. I think I have never know it to fail that, the fall before an administration proposes to go up with any trade bill, the press is filled with the most alarmist discussions and predictions of what will befall us if the Congress provides for even a simple extension of the present legislation.

I do not at all underestimate the difficulties that are presented for certain Members of Congress by proposals of this kind, nor the difficulties and disquietude that are produced in certain industries or in certain agricultural sectors. But I, for one, have a very great confidence in the wisdom of the Congress and in the wisdom of the American people, and I do not believe for a minute that the American people are going to refuse to face the realities of the new trading world, the new trading environment in which we now find ourselves, or that Congress will refuse to face it.

I think that anyone who looks squarely at the realities of our situation today must conclude that the Executive must be armed with the kind of tools necessary to deal with the conditions which exist in this new trading world.

Chairman BOGGS. You have touched on the realities. The Common Market, whether we like it or not—and I think we like it—is a going concern. It is there, it is not a theory any more. It exists. Insofar as the Six are concerned, it has proved phenomenally successful. They are growing at a rate far in excess of the United Kingdom, considerably in excess of the home rate, the amount of internal trade has increased at a pace nobody dreamed of. The so-called adjustment devices which were established have not been used because of the sheer prosperity which resulted in the area. There is apparently no unemployment; as a matter of fact, in some places there are, as I think you know, overemployment which I think we would like to experience in the United States.

Now, people say, What happens if you give the President this broader authority? I have said to some of them, What happens if you do not? I would like for you to develop that for a moment.

It seems to me that we must have legislation, and if we do not, that the consequences could be much more disastrous insofar as employment in industry and agriculture are concerned than if we did.

Mr. BALL. Mr. Chairman, I have heard it said in some industrial circles that the United States cannot afford to reduce the measure of protection which it now affords to its industries, because we have priced ourselves out of world markets. The suggestion is that this is a process—this wage-price spiral is a process—which is going on without any kind of limitation: that it will continue to go on; and that, therefore, the only thing for us to do is to build a kind of defensive wall around the United States, or a defensive moat; and within this fortress America, enjoy, so long as it lasts, this kind of prosperity which we can experience through the continual rise of the wage-price spiral; and go ahead happily continuing to price ourselves more and more out of world markets. This really means effectivly withdrawing from world trade, which is an important increment to our total prosperity.

I do not find this a very happy picture, Mr. Chairman, and I do not believe it is one that really represents the facts. In the first place, I do not think we have priced ourselves out of the world markets in any significant degree. To the extent that we may have done so, I think the regulator that is most effective and most consistent with our free enterprise tradition is the regulator of the world marketplace. I think, therefore, that the only way that we can become healthy and strong and continue to be healthy and strong is by being willing to accept the challenge of competition with other great industrial powers.

This, after all, is what we have been preaching to the world for many, many years. If free enterprise means anything, it seems to me it means this: it means our willingness to accept competition. It means the ultimate faith which we have in our own capacity for innovation, in our own capacity for progress, in our own capacity for hard work. It means that we can compete with anybody and that we can grow prosperous competing with anybody. It is on this basis that I think we have to approach this problem, and it is this basis on which I have confidence that, in the last analysis, the American people and Congress will approach this problem.

Chairman BOGGS. Senator Sparkman, do you have questions?

Senator SPARKMAN. Mr. Secretary, we actually encouraged the establishment of the Common Market, did we not?

Mr. BALL. This has been a very consistent element in U.S. policy since the end of the war.

Senator SPARKMAN. Since the initation of the Marshall plan?

Mr. BALL. That is right, sir, and I think a very wise element.

Senator SPARKMAN. And I believe we rather strongly applauded the establishment of the coal and steel community did we not?

Mr. BALL. As I recall, Senator Sparkman, the Congress consistently wrote into the foreign aid legislation some admonitory language, some encouraging language for Europe to achieve a greater integration.

Senator SPARKMAN. That is correct. In fact, not as strong as a good many people thought we ought to write it, and as the chairman points out, is now a reality. It is not just a theory and we must recognize that in connection with our trade policies, whatever they be, is that not correct?

Mr. BALL. That is my view, Senator Sparkman, and the view of the administration.

Senator SPARKMAN. I do not like to pose this question, because I certainly do not contemplate it as a possibility. But if we do not penetrate the Common Market with our own trade, we certainly are losing a very valuable trading area that we now enjoy, is that not right?

Mr. BALL. Well, we are losing a very great trading opportunity, and we even could lose advantages which we now enjoy. I prefer to think, Senator Sparkman, that the Common Market represents a potential which can contribute very greatly to the increase in our trading possibilities, and I believe this is, in fact, the case.

When you have an area with the dynamism that the Common Market has, with the growth rate which it is enjoying, and with the momentum which it has built up, then there is bound to be a greater and greater demand for goods. I think it is essential that the American people—American producers—have the opportunity to share in the development of that potential, and that the Government of the United States has a responsibility for helping to make this possible by eliminating, so far as practicable, obstacles which they would otherwise find.

Senator SPARKMAN. And you do not feel that the present legislation has a sufficient flexibility in it to——

Mr. BALL. Well, I would say this: that so far as the authority granted under the 1958 legislation is concerned, this will have been substantially exhausted by the completion of the rounds of negotiations which have been going on in Geneva for 15 months. So that a mere extension of existing reciprocal trade legislation would contribute no authority, no additional authority, to the U.S. Government to do anything effective with regard to the objective of holding our present advantages and gaining new opportunities.

Now, if you ask me whether I think it would be useful and sufficient simply to provide increased authority within the framework of the same legislation, I would suggest to you, sir, that I think that world trading conditions have changed so that we really do need a fresh approach which is adapted to the realities of the new trading world, and which is basically different from what we have known before.

In the past, when we have conducted trade negotiations, we have conducted them with a great number of countries—30 or 40 countries—I do not know the precise number. Now when we conduct trade negotiations, particularly with the United Kingdom and perhaps one or two other European countries becoming members of the Rome Treaty, the greater part of our negotiations will be conducted with a single great power, substantially as large as we are; in some ways larger, in some ways not.

Senator SPARKMAN. But representing the whole Common Market.

Mr. BALL. Representing the whole Common Market and which, together with ourselves, represent 90 percent of the industrial power of the whole free world.

Now, under conditions of this kind, we really need some tools which are not designed for the earlier trading world but are designed for the modern world. In the proposals which the President will submit to the Congress, we shall take this into account. I hope we shall be able to suggest in the legislation that will be sent up the kinds of techniques which will be adapted to the needs of this modern world.

Senator SPARKMAN. I believe the President, in his speech before the NAM, said substantially the same thing, and said that we did need——

Mr. BALL. Said it rather better, I might say, Senator.

Senator SPARKMAN. Well, I thought he said it rather well, and I was fortified in this yesterday by some very good testimony we had before this committee. One gentleman who was, I believe, representing the U.S. Chamber of Commerce, said he thought it was the finest exposition he had ever heard on the subject.

Of course, these are old figures, I am sure, and I ought to have them in my head, but I do not right now, but what percentage of our industrial production do we export?

Mr. BALL. On first impression, the importance of exports to our economy may seem fairly modest. Exports, after all, came last year to only $20 billion out of a gross national product which exceeded $500 billion. But figures of this sort only begin to indicate the real importance of exports to the U.S. economy.

In the average year, U.S. exports come to about 10 percent of all movable goods produced in the United States.

In the agricultural sector, U.S. exports amount to 15 percent of the Nation's farm output.

In the industrial sector, exports account for 8 percent of industrial production.

In the field of agriculture, these exports are critical to the market situation for many important products. In the most recent year for which figures are available, 49 percent of our total wheat crop was exported, as was 49 percent of our cotton, 56 percent of our rice, 41 percent of our soybeans, 29 percent of our tobacco, 30 percent of our raisins, 38 percent of our tallow, and 33 percent of our nontfat dry milk.

In the industrial sector, our exports tend to be concentrated in the dynamic, high-wage segment of the economy. Practically every major export industry, in fact, pays its labor at rates higher than the average industrial wage. In some of these industries on the growing edge of the U.S. economy, foreign markets take a large proportion of total output, giving an important stimulant to technological advances, increased productivity, and rising wages. In 1958, for instance, 33 percent of the total U.S. production of carbon black was exported, 28 percent of construction and mining machinery, 35 percent of oilfield machinery, 66 percent of railroad locomotives, 25 percent of metal-forming machine tools, and 27 percent of sewing machines.

These exports have made it possible to upgrade the quality and skills of America's labor force. What is more, they have made it possible to produce in volume, in industries where volume is especially critical for cutting costs. For these are the industries in which heavy sums must be spent in research and in capital. And such investments can only be justified if at the very outset, there is the promise of a large international market.

Senator SPARKMAN. I was impressed by the testimony given yesterday by the representative of the American Farm Bureau Federation with reference to the agricultural products. Of course, I come from a cotton area and pointed out that we must export about 40 percent of our cotton each year in order to have a fair cotton economy.

Mr. BALL. I think our raw cotton exports were almost $1 billion last year, sir.

Senator SPARKMAN. Yes, and I suppose we could pick almost any one of our principal agricultural commodities and get a somewhat similiar story. What you are proposing here is that we take a new look at this whole thing in the light of new conditions, one factor of which, one large factor, is the establishment of the Common Market, and the proposal to establish similar trade agreements elsewhere, is that not right?

Mr. BALL. That is right, sir.

Senator SPARKMAN. And that these new conditions require a new approach?

Mr. BALL. That is right.

Senator SPARKMAN. Well, I suppose the only thing we can do is simply to wait until the proposals are submitted to us. In a way, I rather envy and, at the same time, do not envy my friend, the chairman of this subcommittee, who also sits on the House Ways and Means

Committee that has to determine these things, because I think it would be a very difficult problem.

There is one thing you said that I am a little puzzled about, and that is this across-the-board interpretation. To what extent can that be applied to a large group of products? Does it represent a lowering of the tariff rate by a certain percentage on a certain class of industrial goods, or just what would be the approach?

Mr. BALL. Well, we have had an example of that in the Common Market itself, where the proposal by the Common Market Commission has been a 20-percent cut in all or substantially all industrial items. Now, this does not mean that there cannot be certain withdrawals or reservations with respect to certain particularly sensitive items. But as I was suggesting a moment ago, the technique of a so-called linear, across-the-board cut can be applied to groups of items which may be defined in different ways so that you can get a variety of cuts from the use of the technique.

You can have a linear cut on everything you could use; you can have a linear cut on all industrial items you could use; you can have a linear cut on certain broad classes of industrial items, or raw materials, or something of that kind. But for structural reasons, because of the organization of the Common Market itself, this is a technique to which we have had to give very serious thought, and I think it quite likely that we shall make some proposal along this line in the legislation which will be sent up after it has been approved by the President and discussed with the leadership.

Senator SPARKMAN. Thank you, Mr. Chairman.

Chairman BOGGS. Would you care to speculate on a timetable on this last business? Congress convenes on January 10, and this, of course, will be a matter which will require rather lengthy hearings before the Ways and Means Committee and before the Senate Finance Committee. Would you say you will be in a position shortly after Congress convenes to submit a program?

Mr. BALL. I would hope—I think it is quite likely that the President will decide he would like to include some description of the program in the state of the Union message, and I would hope that the actual legislation could be sent up quite early in the session. I have not any precise information with regard to timing, because we have not discussed it, and this is something that I think would await the discussion with your committee and the leadership and so on.

Chairman BOGGS. You have been very active in, I think the proper word is, assisting the textile industry with some of its problems in connection with imports.

Mr. BALL. That is right.

Chairman BOGGS. Would you feel that the voluntary arrangements that you negotiated in Geneva recently would remove most of the problems that the textile industry has been confronted with?

Mr. BALL. I should certainly think it would remove their principal import problem. Their import problems, after all, have never been a matter of a great volume of imports. Textile imports have never exceeded, I think, something like 6 percent of their production; depending on whether you take it by value or volume, you get different figures.

But they have had problems of imports coming from countries which have very substantially lower labor costs, and since a considerable part of cotton textile production is quite labor-intensive, the imports have had a disruptive effect on the market.

Now, the export problem which we undertook to address ourselves to in the International Conference at Geneva was these market disruptive imports, which have been a very troublesome problem within the industry, and what we developed there was a 1-year agreement, which I am sure the figures would indicate are substantially meeting the industry's problems for this year.

But we have going on at the moment in Geneva discussions looking toward a longer term international agreement. And I would certainly hope, and in fact I would feel, that what we are able to develop on an international basis will meet the problems of the cotton textile industry to the extent that those problems arise from imports.

Chairman BOGGS. I remember that the Japanese subscribed to the voluntary arrangement. Did Hong Kong subscribe?

Mr. BALL. Yes, the United Kingdom Government has just expressed its adherence, which carried with it the adherence of Hong Kong.

Chairman BOGGS. The Common Market countries are members of GATT. These external tariffs which are contemplated under the Treaty of Rome, were they not, in effect, constitute a violation of the GATT arrangements to which they have subscribed individually, as nations?

Mr. BALL. No, article 24 of the GATT makes an exception in the case of free trade areas of customs unions, and the Common Market is technically a customs union. The GATT does, however, provide that in order to come under that exception, the common external tariff—as a whole, in its overall impact—cannot be more restrictive than the overall impact of the national tariffs that were in effect on the date it was begun. And we have had a long discussion. A part of the 15-month negotiations which have been taking place in Geneva has consisted of discussions with the Common Market of the kinds of levels to which certain of the tariffs must be reduced, or at which they must be reduced, or at which they must be fixed, in order to comply with article 24.

But in our view, as a result of these discussions which, as I say, I hope we can close in the very next few days, the Common Market will substantially have met the exception requirements of article 24.

Chairman BOGGS. Just one or two other questions, Mr. Secretary.

In our hearings, there has been considerable concern expressed here with respect to the effect the Common Market may have on Latin America, particularly the so-called tropical products of Latin America. Do you mind commenting on that, and would you suggest a means of dealing with these problems?

Mr. BALL. The tropical product problem is a significant one, and we have devoted a great deal of time and thought to it. It is complicated by the fact that under the terms of the Treaty of Rome—the protocol attached to the Treaty of Rome—special preferential arrangements exist. Actually, free access is provided to the Common Market for the production of certain of the territories or countries now, because many of them were territories at the time the Treaty of Rome was drafted and have since become independent countries; and they have had specialties with the European metropoles which are member of the European Community. The result of this is to create a kind of preference which obviously causes anxiety to many of the other tropical producing areas, such as the countries of Latin America, because it means that in the European Common Market, those oversea countries, primarily in Africa, which were associated territories under the Rome Treaty will have what amounts to a substantial preference in access. We have been undertaking discussions with the French, who are one of the nations most interested because most of these territories which are now independent countries were formerly tied to France. We have also been discussing the problem with the Commission in Brussels to see if there cannot be a solution which would be a mobile approach to the problem, looking at it in terms of each commodity—looking at the key commodities and seeing what kind of an approach could be made which would provide for treatment on an overall basis, and where the existing preferential arrangements might be phased out with the obvious qualification that some transitional measures would have to be provided in order to ease the dislocation of the commodities. We are hopeful that we can help the Latin Americans solve certain of their problems with regard to tropical products through this route.

The other question in which Latin America is concerned is the general trade which it has with Europe, whether in indigenous tropical products or other types of commodities. Here I might say, if we are able to—if the President is given the kind of tools which we think are essential—that the United States, in its own negotiations with the European Common Market, will break the way for a nondiscriminatory access on the part of the Latin American countries, either on a tariff-free basis or at least on a basis which greatly reduces the degree of discrimination. This is one of the reasons for my insistence a moment ago that whatever we do must be done on a nondiscriminatory, most-favored-nation basis.

We are very cognizant of the problems which Latin America faces in this regard. I must say we find very considerable sympathy in the circles of the Common Market countries themselves and the Common Market Commission for this problem. There is great sensitivity to it, and I think a great willingness to try to work cooperatively toward finding the right types of solutions.

Chairman Boggs. One final question, and it is collateral to the one I asked you about Latin America.

You touched on this in your main statement, but there is equal concern among the Japanese, who are a great trading partner of ours, and a political ally of tremendous consequence. Concern has been expressed that if this partnership comes about involving these two great trading areas which control, as you said, 90 percent of the industrial production of the free world, the other 10 percent being located largely in Japan and Canada, the Japanese are concerned about what happens to them.

Mr. Ball. This, again, is a function of the solution that I suggested. That is, we are not supposing at all any exclusive trading relations with Europe. Any kind of access which we obtain for ourselves would also be available on the same basis to Japan and other continental countries. We also are very cognizant of the enormous industrial achievements of Japan and the fact that it is essential that Japan be given a fair place in the world trading scene.

As a matter of fact, we have been interested in trying to help Japan solve some of her trading problems in Europe.. We have been pursuing this quite actively. As I mentioned, several members of the Cabinet were recently in Japan for a series of discussions with regard to the economic problems of Japan and the United States, and we are persuaded ourselves that Japan must be regarded as a fair and equal partner in all of the things which are undertaken.

Chairman BOGGS. Senator Sparkman, do you have any questions?

Senator SPARKMAN. Nothing more.

Chairman BOGGS. Mr. Secretary, you have been very helpful. We are grateful to you for coming here.

The committee will adjourn until 2 o'clock tomorrow afternoon.

(Whereupon, at 11:15 a.m., the subcommittee was recessed, to reconvene at 2 p.m., Wednesday, December 13, 1961.)

FOREIGN ECONOMIC POLICY OF THE UNITED STATES

WEDNESDAY, DECEMBER 13, 1961

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee of the joint committee met, pursuant to recess, at 2:05 p.m., in room 4221, New Senate Office Building, the Honorable Hale Boggs (chairman of the subcommittee) presiding.

Present: Representative Boggs (chairman) and Senator Pell.

Also present: Wm. Summers Johnson, executive director; and Richard J. Barber, clerk.

Chairman BOGGS. The subcommittee will come to order.

We continue hearings this afternoon on foreign economic policy.

Today we are fortunate to have our second witness from the administration, Under Secretary of Labor W. Willard Wirtz.

Prior to his appointment by President Kennedy, last year, Mr. Wirtz was an active partner in the law firm of former Gov. Adlai Stevenson. He was also a full professor of law at Northwestern University. In his capacity as a lawyer, he has become a well-known labor arbitrator. He has been very active and successful in the administration of the Taft-Hartley Act, and he was a familiar witness prior to the enactment of the Landrum-Griffin Act.

We are glad to have you here, Mr. Secretary.

STATEMENT OF W. WILLARD WIRTZ, UNDER SECRETARY OF LABOR; ACCOMPANIED BY SAMUEL MERRICK, SPECIAL ASSISTANT FOR LEGISLATIVE AFFAIRS; LEONARD LINSENMAYER, DIRECTOR, OFFICE OF INTERNATIONAL ORGANIZATIONS AFFAIRS; PETER HENLE, ASSISTANT COMMISSIONER, BUREAU OF LABOR STATISTICS; AND EDGAR I. EATON, BUREAU OF LABOR STATISTICS

Chairman BOGGS. You might identify the gentlemen with you, if you will, Mr. Secretary.

Mr. WIRTZ. With me here today is a group of five, and we shall be glad to put whatever experience we have at your disposal.

Mr. Merrick, at my left, is Special Assistant for Legislative Affairs. Leonard Linsenmayer is the Director of the Office of International Organizations Affairs, which is part of our Bureau of International Labor Affairs.

Mr. Peter Henle is Assistant Commissioner of the Bureau of Labor Statistics. Mr. Eaton is also with the Bureau of Labor Statistics.

I appreciate very much, Mr. Chairman and Senator Pell, being able to talk with you about foreign economic policy, and especially talk about it from some of the aspects we have been considering in the Department of Labor. President Kennedy covered the subject at considerable length in his address before the National Association of Manufacturers last week, and again at the AFL-CIO convention, and you had here yesterday Under Secretary of State Ball to discuss the general aspects of this matter. You know how completely we in the Labor Department subscribe to these statements.

I should like also to bring to the subcommittee's attention two other recent statements on this subject. One of them is the resolution regarding international trade which was adopted this week by the AFL-CIO convention in Miami, a resolution regarding international trade. The other is an address made about 10 days ago by President George Meany of the AFL-CIO. His statement was made at the First World Trade Conference held by the International Association of Machinists, here in Washington.

I would refer in this same connection to Mr. Seidman's statement to this subcommittee the day before yesterday.

I mention this because we attach particular significance, Mr. Chairman, to the position which American labor is today taking in connection with the development of a foreign trade policy. We commend it to your consideration as being a responsible position that places long-range public interest ahead of any shorter sighted, narrower interests, and we view it as one of the significant factors in the development of a trade policy this year.

It has seemed to me that my best possibility of being helpful to the subcommittee would be in a discussion of the vital relationship, as we see it, of the foreign trade policy to the problem of unemployment, which is a common concern of all of us, but with respect to which we in the Department of Labor feel special responsibility.

I take it that we all start from the simple proposition that the present level of unemployment in this country is intolerable and that it cannot and will not be permitted to continue. We recognize that the unemployment problem is inseparable from its broader economic context.

Unemployment is only one aspect of this lag in putting this country's full talents and resources to work, and we know that the unemployment problem will be solved in the long run only by a substantial expansion of the American economy.

We spend a good deal of time in the Labor Department in connection with the development of an unemployment insurance program, but we know that unemployment insurance is, in itself, no part of the cure to the unemployment situation.

We come increasingly, too, to the realization that any program that is designed just to protect present jobs, either private or public efforts, is ineffectual at best and may prove to be a good deal worse. We realize that the imperative need in this country today is to create about 5 million new jobs every year during the next several years. That is the figure which will be necessary to take care of the entry into the work force of some 26 million new workers during this decade of the sixties.

We also have to take account of the necessity of developing replacement jobs for the 35,000 people who, every week, are today being replaced by machines. That means a total of 1.8 million jobs that we have to replace each year. Then, in addition to that, we have to do something to move existing unemployment levels downward.

So I come back to the conclusion that the task before us is not a task which can be met by any job protective program. It has to be a program which will meet the need for 5 million jobs, as I have put it here, every year for the next several years.

Now, we recognize that the only satisfactory way to create new jobs is to create new markets, to have new markets for the products and the services which men at work will product and provide. It is obvious that filling this country's domestic needs, unmet needs, is the largest and most rewarding new market which is available to us, and it is the most promising source of new jobs. But the fact remains that full employment in this country depends on obtaining and expanding our foreign markets. In our view, it is just that simple and it is just that hard.

Now, we are engaged presently in making some statistical studies of the impact of exports and imports on employment. These are being prepared by the Bureau of Labor Statistics pursuant to a congressional authorization, and those figures will be completed shortly after the first of the year, some time during the first month or two. I can, however, give you, and I think it will probably be of interest to the committee at this stage in its deliberations, a rough and yet, I think, reasonably reliable estimate of what our problem comes down to.

I should like to make it perfectly clear that we shall have to reserve the possibility of correction of these figures when these studies are completed. So I give you now only our best estimate of what they are.

That estimate is based on the figures for the last year for which they are available, which is 1960, and it shows in general, on the basis of the advance estimate, that at least 1,200,000 American workers owe their jobs to the direct production of goods and commodities for export.

In addition to that, there is another group, probably as nearly as we can determine in the neighborhood of 1,450,000 workers who were employed last year in producing the materials which went into those export products—steel and aluminum, fertilizer and plastics, and so on, and in generating the power to produce them and then in providing transportation for them, and other related services and connected activities of that sort. These groups total about 2,650,000.

There is an additional factor to be taken into account. That is that every job of this kind means, according to studies which have previously been made, the creation of the equivalent of one additional job to fill the consumer needs of the worker involved and those dependent on him.

Now, what this comes down to is that, in round numbers, the employment of approximately 5 million American workers is today dependent, directly or indirectly, on this country's export trade. This is the basis for our conviction that America's exports are one of the crucial determinants of whether we can or cannot achieve full employment in this country.

Just to give you a little fuller picture of the breakdown of those round and large figures: that estimated total of 2,650,000 workers who are affected most directly by exports breaks down into about 1,850,000 who are engaged in the production of nonagricultural products and services, and about 800,000 who are engaged in agriculture.

Viewed from a different standpoint, one out of every five workers in the machine tool industry is employed today because of exports. The agricultural produce from 1 out of every 6 acres in this country is sold abroad, and 40 percent of the value of domestic production of civilian aircraft is today exported.

There is one other illustration which will give you, I think, as vivid and sharp as possible a picture of the relationship of exports to jobs in this country. If you go back to 1953, 8 years ago, we had in this country about 36 percent of the world export trade in manufactured goods. Those figures are based on the figures from 10 of the largest countries, and they account for about 85 percent of the total export market. Thirty-six percent of it was ours.

In 1960 that figure had dropped to 23 percent. Where we had 36 percent before, we now have 23 percent. That can be translated in terms of direct jobs and indirect jobs, with the result that if we had today the share of the world export market in manufactured goods which we had in 1953, it could mean as many as 750,000 more jobs than we have today.

Now, I do not mean to overwork that statistic. It is perfectly obvious that other developments in the world in the intervening years have meant that a comparison today with 1953 is in some ways an unrealistic comparison. President Kennedy pointed out the other day that no part of the world market is any longer ours by default, so I do not mean to suggest that the 1953 percent is a conceivable immediate goal today. But I do mean to point out that the change in the share of the export market that we had over this 8-year period is relevant to some 750,000 jobs. That is a suggestion of what these developing statistics show with respect to the relationship of exports to jobs.

I wish I could give you an equally complete picture at this point in terms of the effect of imports on jobs, for we realize that that is an equally relevant part of the equation which is here involved. Those figures are simply not complete. I point out to you that it is a much harder analysis to work out, because when you come to imports, you have to make a value judgment, or a judgment based on extensive research which is necessary because of the difficulty in determining what part of our imports can be properly considered as competing with American products.

For example, imports of coffee and tin have no translatable effect on American jobs because we do not produce those things here. With respect to other commodities such as newsprint, for example, of which we do not produce enough to fill our domestic market, you have an exceedingly complicated problem in how much to translate into job terms.

We also face the difficulty with respect to those industries which are affected by imports and where there has been an increase in productivity. It takes the most careful kind of analysis to identify the extent to which a drop in employment is the result of imports on the one hand, or, on the other hand, for example, of technological development. We have, for example, some 200,000 unemployed men and women today in the textile industry, and it is proving an exceedingly difficult job to identify and separate out that part of this change which we know is attributable to imports and that other part of the change which would be attributable to other factors. I cite these problems by way of recognizing and emphasizing the importance of the import job factor in an equation which takes account of imports and exports; we are not in a position today to give you those figures. We are preparing them and they will, of course, be made available to the Congress as soon as they are prepared.

Now, in addition to this picture, you would perhaps be interested in what estimate we have been able to make of the probable employment effects of the various legislative alternatives that will be before the Congress next year. This kind of determination obviously does not lend itself to specific statistical identification, and we can only give you our best judgment with respect to it.

That position was expressed completely by President Kennedy last week when he said:

> If we cannot obtain new bargaining power to open up oversea markets, our export industries will wither—and American labor will lose jobs. If American businessmen cannot compete from here for the growing purchasing power of the European Common Market, many more will build their plants over there—and American labor will lose jobs. If we cannot find expanding outlets for the goods of an expanding economy, this Nation's growth will be stifled—and American labor will lose jobs.
>
> In short, we are confronted with a very basic decision: Are we going to export our goods and crops—or are we going to export our capital and our job opportunities? Are we going to be the free world's greatest merchant trader—or merely it temporarily wealthiest banker?

That is the proposition as put by the President in its bluntest terms. We have a great deal to gain by bold action and a great deal to lose today by inaction, or by timid response.

Well, why, then, is there any question about all this? It is partly, of course, because of inertia, intensified by the failure to recognize the change that has taken place in international trade. It is partly because of the fear that we can no longer meet free competition in world markets because of our wage and our price policies. Then it is partly, too, because of the very real fact that some segments of the economy have been injured in the past by import competition or fear, reasonably, that they will be exposed to such injury in the future.

With respect to one aspect of this situation, Secretary of Labor Goldberg has pointed out recently what he termed the "false generality" of saying that high American wages and prices are responsible for pricing ourselves out of world markets.

Speaking at the IAM World Trade Conference, last week, the Secretary went on to say:

> We are not being priced out of markets, as our balance of trade demonstrates. And, secondly, our exports are concentrated in those very industries such as machinery and coal mining, where wage levels are high by our own standards. High wage industries are usually efficient, well-managed, with skilled work forces. They are also the industries that survive and succeed in foreign markets.

I point out that the important labor cost figures for international trade purposes, as Secretary Goldberg's statement indicates, are those for unit labor costs. These costs reflect the impact of productivity.

That is one reason why so many of our high-wage industries such as coal mining have such a favorable export balance. Their wage rates are high, but their productivity is so great that their unit labor costs are lower than those in many countries which have lower wage rates.

The importance of productivity in international trade is underlined by the fact that between 1953 and 1959, the wages paid employees, manufacturing employees, increased less in the United States in percentage terms than in any other leading industrial country. And yet, during that same period, there was a substantially greater percentage increase in labor productivity in most other industrial countries than in the United States. This at least contributed to a relative increase in U.S. export prices and to the decline in the U.S. percentage of the world export market during that period.

There is a certain irony in the fact that significant sectors of American industry today are operating under the disadvantage of not having had their equipment and facilities destroyed, as so many others did in the 1940's, with the result that they are today using older equipment in competition with newer postwar equipment, which is in use in most other major exporting countries.

I do not mean for a moment, Mr. Chairman, Senator Pell, and Mr. Johnson, to disregard or in any way to play down or underemphasize the basic importance which we attach to keeping American prices low enough to be competitive, and of keeping wage pressures from forcing prices above that competitive level. This is not the place, I take it, to go into detail of the wage-price relationships. But I want to explain, in order that we are not misunderstood on that, that we recognize, as bluntly as I can put it, the fact that a wage increase which necessitates a price increase which pushes a producer's costs high enough to push him out of the foreign market probably means a loss of jobs, and that in general—but with different effects in different cases—wage increases which exceed increases in productivity have this potential effect.

There is another part of this wage question which has a very direct effect on some of the current thinking about our foreign trade policy which I want to deal with just very briefly. That is the view, often expressed, that with living standards and wages already so much lower in other countries than in the United States, it is hopeless to think about trying to compete. So this argument goes, let us put up our walls, do business with ourselves, and let others do whatever they will.

Part of the answer to this is, of course, that we can, by our greater efficiency, neutralize the competitive effect of lower living standards and hourly wage costs in other countries.

It is very important, too, to realize that living standards and hourly wages are today rising rapidly in many of these competing countries. The gap between the United States and other standards is narrowing.

Furthermore, a great deal is being done and a great deal more can be done to speed up this process of healthy change throughout the world. I call attention to the efforts which are being made today in the GATT, where the United States has made it clear that the continuation of the program for an expansion of world trade may be very seriously set back unless trading countries are prepared to deal cooperatively with cases in which the unduly sudden expansion of trade in a particular item threatened to disrupt markets and cause injury to a particular industry.

The International Labor Office and the Secretariat of the General Agreement on Tariffs and Trade are making a study of the costs of production, including labor costs, of the textile and apparel industries. In this and in other similar factfinding activities, we shall find the help which international organizations such as these can give in coming to grips with the objective of improving labor standards in the industries which comprise the patterns of international trade.

There has been scheduled within the past 2 or 3 days a meeting in Paris in February of the newly revitalized Manpower Committee of OECD, in which we propose to give the most serious possible attention to the possibilities of raising the living standards, and evening out some of these competitive factors of the countries around the world.

I call the subcommittee's attention to, because there is possible interest in it, one section in the AFL–CIO resolution which was adopted the day before yesterday by the convention in Miami, in which the convention took this position:

> The United States should vigorously pursue in every way possible the promotion of fair labor standards in international trade. Improved wage and living standards should accompany productivity advances and expanded markets of exporting industries. This is necessary not only to protect American workers against substandard competition from low-wage countries, but also to assure workers in other countries a fair share of the increased returns resulting from expanded trade. The new legislation should specifically include international fair labor standards as an importatnt objective of the U.S. trade policy. The United States should also seek to obtain annual reports by member countries of the General Agreements on Tariffs and Trade (GATT) on labor standards in exporting industries.

It is our deep conviction, Mr. Chairman and Senator Pell, that a freer trade policy, following the general lines which have been indicated by President Kennedy, is absolutely essential to the expansion of the American economy which offers the only long-range promise we see of full employment in this country.

And with respect to this matter of the relationship of exports and imports, may I point out that if we insist on "buying American," the answer from abroad is bound to be that we must be content to "sell American," too. I think no one believes that there are enough one-way gates through tariff walls to meet our needs for an expansion of the economy.

There are, of course, broader reasons for the liberalized trade policy which is being proposed. These are being discussed before the committee. We must insure, for example, that Western Europe, which we worked so hard to bring back to economic health, does not slip now behind a paper curtain of trade restrictions which we will have helped staple together.

The report just this morning from Paris of a likely acceleration in the further lowering of tariff walls within the Common Market indicates the need for urgency in our own action.

Yet I have been speaking here only of the impact of trade policy upon employment and unemployment, because that is the area of our particular concern in the Department of Labor. As far as jobs are concerned, I am convinced that the soundest rule for foreign trade is the old football maxim, that the best defense is a good offense, which means concentrating here on increasing exports instead of on stopping imports.

I spoke earlier of the inadequacy today of attempting to meet the present unemployment situation by trying to protect jobs. Trying to protect a job behind a tariff wall is exactly like trying to protect a job behind a "make-work" rule. High tariff protectionism and "featherbedding" come down to the same thing, which is giving artificial respiration to a job that is economically dead, and making the consumer pay a higher price for it.

I come, in conclusion, to what has to be an essential part of any responsible program involving the prospect of a freer flow of some goods into this country. Concentrating on export expansion does not require and it cannot be permitted to mean ignoring the plight of those who are threatened with the loss of their livelihood by import competition. I have spent a good deal of time this year with the situation in the textile industry. To know this situation is to realize the inequity, if you will, and the bad business, I may add, of asking one industry or a part of it to pick up the tab for a broader trade policy that will benefit the economy as a whole. It is not fair and it is not necessary.

Part of the answer lies in the recognition that import controls can in no event be completely abandoned, nor has there been any proposal along this line. It is entirely consistent with even the most liberal trade policy to recognize that special measures must be taken where particular market disruption situations develop suddenly. We have found, in the textile negotiations with the newly developing and the lower cost countries, a general willingness to accept, to recognize this fact.

The proposals which have been made within the Government all assume that authority has to be retained to deal with the especially acute situations. I suspect that one of the greatest dangers in the debates which lie ahead is that the argument will polarize too much and too rapidly and unnecessarily around the equally unreal absolutes of protectionism and of free trade. It is not that simple. It is not black, and it is not white.

Beyond this retention of responsible discretion, there is the essential need to develop specific programs for insuring against injury those workers and those companies who would otherwise be adversely affected by increased imports resulting from a freer trade policy.

The President has pointed out in his recent address before the AFL–CIO convention that while, in the Nation as a whole, many more jobs will be created than lost as a result of a liberalized trade policy, this may not be true for particular companies or for individual workers.

> There will be cases—

the President said—

> in which some communities, some businesses, and some workers will not be able to maintain their footing against increased competition.

Then the President added:

> I do not intend to see them made victims for the national welfare. I do not intend to give them a medal and an empty grocery bag.

We in the Department of Labor are working closely and hard with the Department of Commerce and with the other departments and agencies concerned to develop a trade adjustment program.

Fuller discussion of the details of such a program will properly await a more appropriate occasion. Our present considerations are directed, however, toward the purpose of assuring that technological assistance as well as financial and related assistance to business, and retraining and readjustment allowances for workers will be available as early as possible. It will be important to assist in the economic development and redevelopment of the affected companies and workers before serious injury has occurred. There is a common public interest here which warrants a common absorption of whatever costs may be incurred.

I have spoken here from the very deep conviction that we are committed today as a nation to a bold, imaginative policy leading to the rapid and extensive liberalizing of trade possibilities. This possibility is taken in the context not only of the maximum possible benefit to American industry and American labor, but as a means of achieving economic growth and strength for industry and labor in the entire free world.

There are, unquestionably, situations in this country where difficulties have arisen and will arise through any approach to international trade which may increase imports in a narrow range of commodity line. However, the fact that these pockets of difficulty will develop does not point to the adoption of a policy which means injuring the many to protect the few. Rather, we must take the constructive approach of finding policies and operating programs that will benefit the many while, at the same time, finding means of safeguarding and readjusting the workers and industries where difficulties may come.

This is a policy, I submit, of the 20th century. It is a policy designed to take advantage of the great tide which is running in the economic world of today, particularly in the light of the phenomenal achievements, present and future, of the industrial countries of Western Europe.

We have a free and a clear choice. We can either take advantage of these stirring events and march forward to greater prosperity for our own workers and our own industries, or we could pull into a protective shell and achieve economic deterioration, atrophy, and stagnation.

I seem, Mr. Chairman, to have let my subject carry me away. I can only stress to you the strong feeling that we do face today a situation in which the most serious concern is warranted for problems of this kind.

Chairman BOGGS. Thank you very much, Mr. Secretary.

Do any of your colleagues have anything to add?

Mr. WIRTZ. I think we would prefer to respond to any questions you might ask.

Chairman BOGGS. Senator Pell?

Senator PELL. Secretary Wirtz, a couple of thoughts came to my mind as you were talking. I noticed in the beginning of your testimony, you mentioned that the present number of unemployed in this country is intolerable. Agreeing with you that any unemployment, we hope, would be intolerable, there has been a good deal of discussion, and actually, it was before this committee in the beginning of the last session of Congress that we had a statement to the effect that 6 percent was tolerable. I was wondering what you thought about this? Do you think there is a tolerable level of unemployment?

Mr. WIRTZ. Senator Pell, it is a matter of definition of terms. But I do not propose to fence with the question at all. Those figures which suggest that 4 percent is the best that we can achieve do not appeal to me.

Senator PELL. Maybe it was 4 percent. My recollection may be incorrect.

Mr. WIRTZ. I rather think 4 percent. I do not think anybody has suggested 6 percent, at least recently. But the 4 percent has been discussed.

The best picture I can give you in round figures is that as nearly as we can determine, of the present work force, between 1½ and 2 million people are almost inevitably going to be unemployed at any particular time as a result of what we call frictional unemployment, moving from one job to another. So I would assume the absolute floor is at about that figure. I am not inclined to go very much above that floor.

If there is realism in the 4 percent figure which has been bruited about, I should be inclined to continue to shoot perhaps a little higher than we expect we can quickly get to. I would think the solidest answer to your question was if we could move it down to some place around 1½ to 2 million, we would achieve virtually all we can achieve.

Now, that compares with the present figure of about 4 million, plus or minus. In percentage terms, it would be down around 3 percent.

Senator PELL. Is one of the reasons why this percentage or this figure exists in our country due to a difference in statistical methods in our country as opposed to European countries, where, as you know, in certain countries unemployment is reported as 1 percent or even less?

Mr. WIRTZ. There is a difference in statistical method. There are several differences. I may illustrate it by the fact that in European countries, they do not include new entrants into the work force in their unemployment figures. So they include only those that are separated from employment. There are other differences also which actually produce higher unemployment figures for them than our methods do.

I would like to say two things about that, if I may.

First, they are keeping their figures on a different basis from ours. The second is that, regardless of what measure you would use today, we would have to face up to the fact that our unemployment situation is substantially more unsatisfactory today than that of any other nation with which we would permit comparison, and by fair standards, there is full employment today in Scandinavian countries and a good many of the European, in Japan, in others that we might mention. So I would confirm the conceptual difference in the two statistical measures, but would return to the fact that regardless of what the measure is, we have more on our hands today that we have to do more about than those other countries.

Senator PELL. In your testimony, you estimated that 1,200,000 workers owe their jobs to the production of goods and commodities for export on your present estimate. Have you broken your estimate down on a State-by-State basis?

Mr. WIRTZ. We have not, but the exercise is presently in progress. I was advised there was a meeting this morning between representatives of the Department of Labor and the Department of Commerce, who are working extremely closely on this subject, along with other departments, and an attempt is being made to do that. Those results will be forthcoming.

Senator PELL. Do you have any idea when they may be forthcoming?

Mr. WIRTZ. No, I do not.

Senator PELL. Another question is in connection with trade adjustment, on page 11 of your testimony. I was wondering if you would give us some specifics. I note you say that we shall discuss it at a more appropriate moment.

What more proper moment could there be than this?

Mr. WIRTZ. After there has been an indication of the position of the administration through a source which I am not in a position to command. This is presently in a stage of discussion among the various departments in the executive branch.

The President has not spelled out his position in any detail.

I do not mean to avoid the issue at all, and would be glad to go into a listing of the various things that are being considered within the Department.

You will appreciate the restraint I feel, in view of the fact that there has not been any specific identification of the details of the policy.

Senator PELL. To us—at least to me—it makes it much more difficult discussing the whole program when we really do not know what the whole program is we are discussing.

Mr. WIRTZ. I think that is right.

I would suggest that we can be more helpful to the committee at a later date when there have been more details of the policy.

Senator PELL. Would you not feel free to outline even with a broad brush some of your thoughts in trade policy?

Mr. WIRTZ. I am not in any sense evading, but there has not been a crystalization of the details of this policy. I would be glad to enumerate those things which have been taken into consideration in the Government and in the public comments, on this subject.

Those would include, if that would be helpful, two sets of factors, one directed toward the situation of the industries which are involved, another directed toward the situation of employees who would be most directly affected.

Those matters which would receive the most serious attention in all considerations in this subject, public and within the Government, as far as industries are concerned, include such things as the tax concessions of one kind or another, as illustrated by the recent development in the textile industry. That would include the amortization provision.

It would include, hopefully, the development of cooperative technological programs and programs of new market research. I refer here to another of the points which has been developed in connection with the textile industry, one of the President's seven points announced last summer.

There would be the possibility of loan programs of one kind or another.

Those will be illustrative of possibilities on the side of assistance to management.

There would be, as far as assistance to the affected employees are concerned, the perhaps possible relevance of the lessons which we are learning in connection with area redevelopment and in connection with our consideration of employee training and development acts, provisions for retraining of individuals who would be involved.

There was discussion between the executive and the Congress last year about the possibility of relocation allowances in a situation of this kind. We have thought particularly about the retraining, which I mentioned before, but those would be, again, illustrative possibilities.

I have really, at this point, told you the various suggestions. I do not mean there have not been more detailed discussions, but this would be as fair a picture as I could give you of the outlines of the possibilities in this area, only illustrative.

Senator PELL. Have direct subsidies been thought of at all in the areas of affected industries?

Mr. WIRTZ. You say thought of. There have been discussions, there have been proposals, the source of which I could not identify at the moment. I think there have been proposals from the labor unions in those terms.

If the question is whether there has been thought or discussion within the executive, I would hope to be in a position to say most of these ideas have been discussed or considered or thought about, but that no order of priority or practicality has been established.

Senator PELL. I must say, representing a State where the largest percentage in the United States, of our workers, is employed in the textile industry, we have a particular interest or concern with this program of trade adjustment legislation. The only way the new trade program can be made at all acceptable is with sufficient emphasis on this side of it.

We get worried sometimes at the greater emphasis put on the reciprocal trade program and not the lack of specifics regarding the adjustment side of it. We feel, or I feel, that perhaps the trade thoughts are more advanced than the trade adjustment thoughts.

Would you think that was correct or not?

Mr. WIRTZ. Yes, I would think it is correct. There have been more specific suggestions on that side than on the other side.

I should like to draw from that the moral that there is more that needs to be done and needs to be done right shortly on this side.

If I could be helpful in connection with the textile industry and the experience there, we have accumulated a certain amount of experience, perhaps the most direct experience in that industry that we have.

But I go on to point out there has been no development there, except for the recent substantial tax changes, of what would be called a trade adjustment program.

Senator PELL. You have had a great deal of contact with us and we appreciate your testimony very much.

Thank you.

Chairman BOGGS. Mr. Secretary, have you completed the comparative wage study which the Department has been carrying on for some time? In making these studies, and, of course, I am not trying to anticipate your study, or what is included in it, I presume that you are including in wages all payments to a worker.

We found, with a subcommittee that I previously headed, in on-the-spot inquiries in Japan, for instance, that a mere statement of an hourly wage rate did not really give a comparative situation between, let us say, the Japanese textile industry and the American textile industry. The fringe benefit situation, for instance, in that country was much more—there were many more fringe benefits than there are in the United States. Does your study include those?

Mr. WIRTZ. With respect to wage rates, the comparison of wage rates in this country with the wage rates of other countries, there is no particular project underway at this point. There are several studies going on, and we shall be glad to bring those to the attention of the committee.

They, of course, confirm in their preliminary stage in which they now stand two facts: one that there is a difference unquestionably between wage rates in some of these areas, but second that the popular concession of that probably includes a considerable degree of exaggeration.

Among the reasons is the one you just mentioned.

In Japan, the hourly wage rates, taking the example you just mentioned, show a much lower, substantially lower, almost infinitesimal rate than the United States. But they add what we call fringe benefits of one kind or another, so that if you make a comparison of straight hourly rates there is much more of a disparity than if you go into these other things.

So in answering your question, we have some studies underway, but not on a broad scale.

In addition to that, this meeting I suggested of the new Manpower Development Commission of the OECD in February is to be set up specifically for an analysis of this, among other problems.

But I am afraid the figures of the results of those studies will not be available in time.

I shall see what we can supply, Mr. Chairman in connection with the matter, and we shall put it at your disposal.

Chairman BOGGS. As you know, this is a matter which immediately arises in the discussions in connection with the proposed legislation. There are many statements which have been made before this subcommittee that wage rates have been stated to be three, four, five, and six times the rates in given places in the world.

Mr. WIRTZ. Yes.

Chairman BOGGS. Have you made any studies which reflect the total cost?

Mr. WIRTZ. Unfortunately there is little information available in terms of per unit cost.

On that, we would not be in a position to supply a good deal of detailed figures. I do not know how complete they are.

I would point out on that, of course, our per unit costs compare very competitively with those of most of the producing countries in the world.

There has not been the increase, the percentage increase, in our productivity in the last 5 or 6 years that there has been in other countries, but that is obviously because they started from so much lower base that they can build up a higher percentage on that. But if we take the per unit costs, we can compete.

Let me make a broader statement. If we can get this economy on a full employment basis so that we are using all of it, with automation and the other advantages that we have, if we were operating at full employment, expanded economy, it would be my conservative, my restrained conclusion that we could compete effectively with almost any other producing country in the world, except with respect to particular items.

Chairman BOGGS. That leads to another question. In your judgment, are you apt to obtain full employment or more employment by passing a meaningful trade program than if you do nothing than—if you merely extend the existing legislation?

Mr. WIRTZ. We think that the answer to that question is the difference between full employment possibility in this country and the impossibility of full employment, and I do not exaggerate. I cannot project these various possibilities in terms of statistical results.

But we operate today from the conclusion that the liberalization of the trade policy along the lines that have been indicated is one of the crucial factors in our getting full employment, and that if we continue on our present basis, particularly with the developments today in Western Europe, we shall lose a substantial part of the market.

We shall lose a part of the market, and this will mean a loss of jobs in this country with the prospect of that impact being intensified in the future.

So my very short answer to your question is we count the liberalization of the trade policy essential to the job of achieving full employment in this country.

Chairman BOGGS. Assuming that that theory is correct, then the problem presented by Senator Pell of readjustment would be infinitely greater if we did nothing than if we do something?

Mr. WIRTZ. It surely will.

Chairman BOGGS. The readjustment problem brought about by this paper wall that you mentioned, or somebody mentioned, could be a much graver readjustment problem than that which may affect certain specific import competitive items; is that not right?

Mr. WIRTZ. That is correct. If we do nothing about the situation, the problem, not only in terms of unemployment generally but in terms of doing something about the industries which have already taken a severe injury from this situation, will be very acute. There is the textile industry, and the glass industry; I mention those two as illustrative.

Chairman BOGGS. Assuming the adjustment policy, this one among others which I presume will be recommended in the reports to Congress by the Council of Economic Advisers, by the President, and so on—assuming policies that would result in, again, either full employment or fuller employment, the readjustment matter becomes a somewhat more simple task. I do not like to say relatively insignificant, but if we can use the example of what has transpired and what is now transpiring among the Six in Europe, where there was a great discussion about readjustment and where the respective parliaments of the Six countries set up machinery to provide for this readjustment, and where, as a result of full employment, they have not had to use any of it—is it not more likely that—to take Senator Pell's specific worker—he would have a much easier time getting a job under those circumstances than he would if you put this paper wall around him?

Mr. WIRTZ. It is the only longrun answer we can possibly find, and if we could get the economy into full gear, we would not have to be worrying about these specific problems.

We would not have to be worrying about what to do with capital or with industries or with workers, because there would be other opportunities for them.

In the meantime, we face the rather serious problem of making adjustments.

Chairman BOGGS. But you do not see any hope of getting the economy into full gear if we do not recognize these new facts of life?

Mr. WIRTZ. I would see no hope.

Oh, that is an overstatement, but it would seem to me that this is surely one of the high priority elements in that picture.

I hesitate from the absolute only because, as I suggested earlier, I suppose that filling our own personal, unmet consumer needs is the most attractive possibility for this. But that is not going to be enough, and unless we have this possibility of an expanding foreign market, I see no possibility of putting the economy into high gear.

Chairman BOGGS. Do you have any further questions, Senator?

Senator PELL. No.

Chairman BOGGS. Do any of you gentlemen care to comment?

Mr. WIRTZ. No, thank you.

Chairman BOGGS. Mr. Secretary, you have been very helpful to us, you and your associates. We shall expect to call on you before the legislative committees.

Senator Pell has some questions.

Senator PELL. Mr. Chairman, I would like to have permission to introduce for the record the report, "Free Trade for a Free World" by Mr. Charles W. Engelhard, a businessman and industrialist who is active in civic affairs, whose reputation is not only statewide throughout New Jersey but is, in fact, national and international in scope.

He is well known to me as a man of the highest order of intelligence and integrity.

I would appreciate its inclusion.

Chairman BOGGS. Without objection it is so ordered.

(The report referred to is as follows:)

FREE TRADE FOR A FREE WORLD

(By Charles W. Engelhard, Newark, N.J.)

FORWARD

"Free Trade for a Free World" is an analysis of the consequences to the free world of regionalism and other economic developments since World War II, and an exploration of proposed and existing international economic structures.

The times demand such an examination. In the past 15 years the world economy has undergone radical changes. The rapid growth of regionalism in Europe, the emergence of the new nations, whose future development as members of the free world must be enhanced, and the economic offensive of the Soviet Union command us to study anew our intenational economic structures.

An analysis of current economic history and an exploration of alternatives for the future cannot be properly made in the abstract. Such studies must relate to our objectives. We seek a world which presents within reach of all men opportunities for economic, intellectual, and spiritual growth, growth in all the areas which enable a man to live in dignity and peace with himself and his fellows. The framework of any economic policy must be designed for these objectives or it serves no lasting purpose.

Last summer I asked Dr. Padraic Frucht, an economic consultant, to prepare a report with these purposes in mind. I wish to thank Dr. Frucht for his work as well as the following persons who gave invaluable assistance at various stages in the formation of this report: Prof. Henry B. Arthur, Moffet professor of agriculture and business, Graduate School of Business Administration, Harvard University; Mr. Sterie T. Beza, formerly of Princeton University, presently at the International Monetary Fund; Mr. William F. Butler, vice president, Chase Manhattan Bank; Mr. G. Griffith Johnson, vice president, Motion Picture Association of America, Inc.; Prof. Edward S. Mason, Lamont University professor, Harvard University; Dr. Alfred C. Neal, president, Committee for Economic Development; Mr. Courtlandt Nicoll, a New York attorney; Prof. Gardner Patterson, director of the Woodrow Wilson School of Public and International Affairs, Princeton University; Mr. Lester G. Shapiro, a New Jersey writer; Mr. David J. Steinberg, an economic consultant; Prof. Philip Taft, professor of economics, Brown University; Mr. William A. Waldron, a Massachusetts attorney.

This report is not to be considered, however, as an expression of the individual views of these men or of the various institutions with which several of them are associated.

CHARES W. ENGELHARD.

DECEMBER 9, 1961.

PREFACE

"Free Trade for a Free World" is a study of recent foreign economic history and an analysis of proposals for economic growth and unity in the free world. This preface is a brief summary of its contents.

From 1945 to 1958 the United States exercised leadership in rebuilding the economies of Western Europe and Japan, and in expanding trade on a multilateral foundation. The United States supported the creation of international institutions designed to complement these aims and carried a substantial part of the burden of rebuilding and liberalizing the world economy. During this period the United States permitted other countries to discriminate in trade against her while at the same time reducing her own tariff barriers. The unquestioned position of the dollar enabled the United States to occupy itself with foreign economic problems without too much concern for the internal ramifications of foreign economic policy.

The economic positions of the United States and the rest of the world, particularly Western Europe, had shifted by 1958. The imbalance in the U.S. external payments position, which had persisted for several years, now grew and was accentuated by a substantial outflow of gold. At the same time, the movement toward European economic integration, which we had been supporting in various forms since the end of World War II, was given its most meaningful and hopeful form in the European Economic Community (EEC).

The consequence of the external payments imbalance was that the United States began to turn its thoughts "inward." Unfortunately, this came at a time when the development of the EEC threatened to reverse the recent advances made toward multilateral free trade.

Britain's application for admission, in 1961, to the EEC less than 2 years after it had formed a rival bloc, demonstrates the enormous attraction of the EEC and the swift pace of current economic events. We can expect that within the next 5 years most of the nations of Western Europe and their dependencies will be members of the EEC, and that the trade liberalizing phase of European economic integration will be largely completed.

We will be beset by two kinds of pressures. In the first place, the lowering of trade restrictions within the EEC will make it more difficult for us to meet the competition of producers in that market. Secondly, the economic difficulties encountered by free world countries not in the Common Market will, to some degree, be laid at our door for solution.

There are three general courses which the United States can take in response to the developing changes in foreign economic patterns—a drive to increase protectionism, a policy of drift, or a drive to free trade for the free nations of the world.

Protectionism will elicit retaliation from foreign countries and mean a lower standard of living and slower rate of domestic economic growth. A policy of moderation or of drift would, in all likelihood, lead toward protectionism in view of the pressures in this direction in the United States today.

The solution suggested by this paper is free trade for the free nations of the world. An approach to free trade on a firm timetable for the elimination of tariffs and quotas will afford the developing nations an opportunity to concentrate their efforts in those areas of their economy to which the national production capacity gives them the greatest efficiency. Their "infant" industries can develop provided the timetable adopted affords them temporary protection.

Of importance to free world unity and the cold war is the interdependence which such a program will develop among the nations of the free world. Protectionism builds self-sufficiency and a host of nations thus isolated will be susceptible to Soviet penetration. But nations with economic links among them can grow along lines of mutual advantage and present a united front in the cold war.

For the U.S. domestic economy, free trade will bring favorable results. Our standard of living and our rate of economic expansion should improve. Consumers will have an even wider variety of products than at present from which to choose. Producers will be alert to match their most technologically advanced foreign competitors, with the expected improvement in efficiency.

The consequences on U.S. employment and on those industries which cannot compete in a free trade framework are not as severe as often imagined. They are by no means more serious than those which result from other forces in our free economy, or beyond effective solution through Government assistance programs.

The burdens and frustrations, while by no means unimportant, are far outweighed by the prospect of a more prosperous United States and a unified free world.

THE CHALLENGE

The radical changes and swift pace of current developments in the free world economy pose the most serious challenge American international leadership has faced since World War II.

The challenge springs from two sources: the developing divisiveness among the nations of the free world and the mounting aggressiveness of a Soviet economic and psychological offensive designed to exploit this divisiveness to the utmost.

These developments bring a new and unprecedented urgency to the prosecution of the longstanding U.S. goal of free world progress. What has appeared desirable in the past, has now become essential. U.S. leadership must succeed in developing a burgeoning economy at home and such economic and social benefits in the rest of the free world as will preclude defection to Soviet inducements. The alternative will be a search by the weaker members for economic help wherever they can find it, even at the risk of political pressures that may follow in its wake. While the Soviets can marshal their forces to strike at the area of greatest vulnerability, we must minimize such vulnerability across the board; we must see to it that the weakest link in the free world chain of unity is too strong to succumb to lures of Soviet offers, or to the pressures of internal subversion. It is essential, of course, that the means adopted to generate and maintain free world unity be designed to strengthen all its economies, including that of the United States.

The purpose of this report is to assess the appropriateness and adequacy of present U.S. foreign economic policies, and to evaluate alternatives for the future in the light of our basic international goals and domestic interests.

I. ECONOMIC DEVELOPMENTS 1948–58

General considerations

Since World War II, the course of free world economic developments and the exercise of U.S. international leadership can be roughly divided into two phases, with 1958 as the benchmark.

In the earlier phase, the dominant international developments were the rebuilding of the war-torn economies of Western Europe and Japan and the rehabilitation and expansion of world trade on a multilateral foundation. The period was marked by U.S. leadership that was imaginative, vigorous, and generally successful.

Even before World War II ended, the United States had played a leading role in laying the groundwork for a sound postwar economy and in the establishment of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (World Bank). The IMF was designed to assure an orderly international payments system by mobilizing international reserves and establishing rules to govern member countries in setting policies used in protecting their payments positions. The World Bank was set up to provide development loans capable of meeting strict financial criteria.

At the same time, the United States took progressive steps to liberalize its commercial policies on a most-favored-nation basis. The United States willingly took less than it gave in many cases as a major contribution to the rebuilding efforts in Europe and Japan. In 1948, with U.S. support, the major trading nations of the free world joined in the General Agreement on Tariffs and Trade (GATT), which is dedicated to the reduction of tariffs on a generalized multilateral most-favored-nation basis and the elimination of discriminatory provisions in trade.

The postwar period had scarcely begun when it became apparent that these institutions could not cope with the immediate situation. Only the massive injection of U.S. resources could provide the requisites of economic reconstruction in a Europe torn by grievous economic problems, social strife, and political instability. This lesson was driven home by the subversion of Czechoslovakia and the imminence of Greek and Turkish collapse into the Soviet orbit. Starting with economic and military aid to Greece and Turkey in 1947, the United States went on to develop a massive program of foreign aid (signaled by the Marshall plan) to insure a healthy Europe and Japan.

To enable the recipients to maximize the effectiveness of these contributions of foreign aid and their limited export earnings, the United States did not object to discrimination by these nations against the dollar. It seemed reasonable that countries into which the United States was pouring billions of dollars worth of foodstuffs, raw materials, and capital goods for reconstruction should be permitted to control and limit the spending of precious dollars on such things as American movies and other consumer luxuries. As the years passed, however, the exchange controls and quantitive restrictions imposed by Western Europe and Japan became more and more instruments of protection.

The principal concern during these years was with the industrial nations who were in a position to contain the Soviet and Chinese military and political offenses. The generally high prices received in this period by the primary producing nations (largely the less developed countries) made this emphasis tenable.

There is no doubt but that the size and scope of the foreign commitments of the United States, its willingness to liberalize, and the strength and vigor of its international leadership during the pre-1958 period were strongly bolstered by the international strength of the dollar. This made domestic support of foreign policy easier to obtain and gave the United States a commanding position in free world councils.

As the period drew to a close, the achievements of U.S. leadership came into sharp focus. Western Europe and Japan had recovered dramatically and were in the process of moving into new dimensions of domestic economic growth, trade expansion, and economic stability. Their payments balances attained soundness and inflation disappeared as a threat. They began to reduce their discrimination against the dollar although at a cautious pace.

While Western Europe was moving so impressively on the economic front, it made little progress in achieving a common military posture toward Iron Curtain pressures. NATO was a promising beginning to a collective defense, but further developments stalled, as was evidenced by the failure of the European Defense Community concept. Resistant to a German military buildup outside common control, but unable to achieve an effective basis for collective defense which would establish such control, Western European attention shifted in the direction of political integration. But, suspicious and jealous of sovereignty, they were unable to make a frontal assault on political union. Economic integration then became a vehicle for eventually evolving the political cooperation essential to effective defense.

Development of EEC

In 1957 a major step toward unity was taken by six European countries—France, West Germany, Italy, the Netherlands, Belgium, and Luxembourg. The Treaty of Rome which established the European Economic Community (EEC) was signed in March of that year and became effective on January 1, 1958. The formation of this Common Market is a development of major economic and political significance to the United States and the entire free world.

U.S. policy must be sufficiently flexible to cope effectively with the new and dynamic forces that have begun to reshape the economic and political face of the earth. The nature of this new European development, therefore, demands our most careful attention and understanding.

Customs duties on trade among members of the EEC have been reduced by 30 percent to date and a further cut to bring the total reduction to 40 percent (or possibly 50 percent) by December 31, 1961, is under consideration. All quotas on industrial imports within the EEC are to be eliminated by December 31, 1961. The first move toward the common external tariff (originally the arithmetical average of the tariffs of France, Germany, Italy, and the Benelux union, since reduced by 20 percent) took effect on December 31, 1960. On that date member countries raised or lowered their customs duties on imports from outsiders by 30 percent of the difference between their individual tariffs and the proposed common external tariff.

While the multiple factors responsible for the ratification of the Rome treaty cannot be extensively discussed in this paper, several of the fundamental impulses should be noted. The problem of a common posture vis-a-vis the East was a stimulus. The urgency of the desire to bind West Germany to Western Europe grew as the cold-war stalemate continued its intractable course.

It is evident also that the French, Germans, and Italians had begun to feel too small individually to exert much initiative in a world dominated by the United States, the U.S.S.R., and the British Commonwealth. Together they could hope to mobilize sufficient power to play a major role in world affairs. To these prospects, men of ideals and men motivated by practical considerations were drawn.

But the expected benefits of discrimination implicit in economic integration colored all attitudes and overcame all resistance; in union each member of the EEC saw net economic advantages unique to its own economy.

Integration foreshadows expanded markets and increased specialization in production. It means sharper competition which reduces waste while stimulating technological change and innovation in distribution. Such a development implies a growing cost consciousness within the markets of the union. This means that smaller price differentials affect the direction of purchases, increasing the impact on trade of any given tariff preference in favor of insiders. In addition, for some products, the larger market within the union affords increasing returns to scale which will augment the effect of the external tariff.

Discrimination means trade dislocation for nonmembers, the substitution of higher cost production for lower, and thus is a departure from the international division of labor implicit in a free trade arrangement. More specifically, discrimination means an increase in self-sufficiency for members. It does not follow, however, that this must necessarily diminish the volume of trade with nonmembers. It is even possible that integration within EEC may result in an increase in the trade of members with nonmembers through the increase in income of the members.

This discrimination is a direct consequence of economic liberalization within the market in conjunction with a common external tariff. Whereas, prior to economic integration, however high the tariffs of one country might be, with most-favored-nation principles all outsiders compete in markets on an identical tariff basis. Following the first steps to integration of EEC, outsiders face tariffs higher than members in the same market. Thus, only those products of outsiders that are relatively unique or substantially cheaper than those produced within the union would be able to compete effectively in the market.

Increased competition in a number of industries changes the competitive climate for all industries, shaking the economy by the roots, setting in motion new drives for profits, opening doors to new ideas and techniques.

The prospects of expanded markets increase the flow of capital investment for new capacity in all firms which feel capable of completing in sheltered but growing markets. Since new capacity is typically more productive than old, the competitive position of such firms will improve, inducing, if only in self-defense, acquisition by other firms of new productive facilities.

Gains from economic integration, then, consist pretty much of those which flow from an improvement in competition and a more favorable climate for and distribution of investment. There is little doubt that the formation of the Common Market will unleash strong impulses for economic efficiency and growth in Western Europe.

Although it is perhaps premature at this time to evaluate the influence of EEC on the increases in the flow of capital investment and on the extraordinarily high growth rate within the Market, the following tables may well be illustrative. Although the first tariff cut (10 percent) occurred as recently as January 1, 1959, the treaty was signed in March 1957, and at the time the broad course of future events could be anticipated. (Appendix, tables 1, 2, and 3.)

Significance of EEC to outsiders

It is particularly significant that the economic growth in the Common Market has meant an increase in its trade with the rest of the world at no greater pace than occurred prior to integration, despite the substantial elimination of direct exchange controls which restricted the imports from outsiders. The total imports of EEC countries from all sources including one another have risen rapidly, but the rise has been more rapid from member countries than from outside the EEC (appendix, table 4).

While the development of the Common Market has meant dislocations in product areas of concern to the United States and other nonmembers, some American exports of manufactures to EEC have suffered, particularly in those areas in which price rather than product uniqueness has been important. The most significant adverse effects of the Common Market appear likely in the long run to rest on the developing nations outside the preference system of the Common Market.

It is an unfortunate fact that the development of regional economic integration strikes at the bonds that tie together the free world as a whole while it is cementing the bonds among certain of its members. Through discriminations, both existing and prospective, the Common Market reduces its own members' relative dependence upon trade with outsiders, curtailing access by outsiders to its markets. The dislocations increase over time as discrimination generates investments which would not be viable without the prospect of preference.

Such developments breed new and possibly even more powerful vested interests against liberalization toward the outside world than previously existed. The industries most anxious for protection today are declining and outside the main stream of industrial development. While their voices may be powerful, their interests are often not vital to their nation's prosperity in the long pull. But, where integration results in the building of massive new capital installations whose viability depends on continued discrimination the case is somewhat different. Economic regionalism, therefore, is dangerous for a world in which a general strengthening of economic ties among nations is regarded as vital.

The apparent success of the European Common Market from the point of view of its members undoubtedly offers a powerful lesson to U.S. policymakers interested in generating closer bonds of unity in the free world. These countries searching for a means of creating strong bonds of mutual interest had failed, even in the face of a much feared enemy, to come to terms with each other through ordinary political and diplomatic means. Through economic integration, however, they have managed to lay the foundation of an association that is almost universally considered durable and likely to grow in closeness.

II. ECONOMIC DEVELOPMENTS SINCE 1958

U.S. monetary crisis

As the movement toward European integration gathered force in 1958, it became apparent that the economic position of the United States relative to the rest of the world was shifting.

Dollar shortage, at a peak of intensity in 1957 due to Suez, was transformed into dollar crisis in 1958. This focused attention on the deterioration in the deficits in the U.S. balance of payments that had been occurring for several years. The United States has had balance-of-payments troubles ever since (appendix, table 5). This development largely reflected the growing economic strength and competitiveness of the Western European nations. They had become strong enough to build up their official gold and dollar reserves (appendix, table 6).

This growth in reserves initially had U.S. support because it strengthened the holders against balance-of-payments difficulties, and thus contributed to an easing of restrictions against imports by those countries. But, as dollar holdings mounted, and the earnings on dollars became less important to those increasingly affluent economies, the temptation grew to take a growing share of additional dollar earnings in the form of gold.

These developments place the United States in a dilemma. It appears that the expansion of world trade requires some, perhaps a roughly proportionate, expansion in international liquid reserves. But with free world trade expanding at roughly 5 percent per year, this would require a manifold increase in gold production for monetary reserves or a drastic appreciation in the value of gold. The first possibility being hopeless, and the second unappealing for many reasons, the United States in effect has been providing a flow of dollars for reserves by running current deficits in its balance of payments.

But as foreign dollar claims piled up, the ratio of these claims to U.S. monetary gold stocks climbed steadily. The reserve backing of the dollar thus became increasingly vulnerable, encouraging repeated attacks on the U.S. gold stock (table 7).

If the United States should call a halt to deficits, the growth in international reserves might be slowed considerably with adverse consequences for the expansion of free world trade. It has often been suggested that an increase in the trade balance—purchased by domestic deflation or at least a rigorous holding of the line on prices—would solve the dollar program. This is obvious. What is not obvious is how the adverse effects of a U.S. balance-of-payments surplus, or a reduced deficit, on world trade expansion can be offset. In the absence of such a remedy, we must continue to choose between supporting an expansion of trade and protecting our stock of gold, barring the success of collective solutions such as those proposed by Professor Triffin or Dr. Bernstein which would revise and expand the functions of the International Monetary Fund.

It is possible that we can run deficits without losing gold if we are also willing to inhibit our economic development by resorting to very high domestic interest rates, thus attracting private foreign short-term dollar balances. This is a price that thhe United Kingdom has been paying for years and which we have begun to pay. It is a heavy price because it then becomes more difficult to sustain an adequate rate of growth at home.

U.S. departure from world trade liberalization

The emergence of U.S. payments problems in 1958 coincided with a decline in U.S. aggresiveness in the campaign for world trade liberalization. The steam went out of the drive; the Reciprical Trade Act was renewed in 1958, but only with tighter "peril point" and "escape clause" provisions, supplemented by new and potentially significant exceptions for "defense essentiality." At the same time, the United States moved substantially away from liberalization by placing import quotas upon several key minerals—lead, zinc, and oil.

While moving sideways on trade policy, the United States in supporting the EEC in effect turned from its traditional multilateralism. By 1960 we find a split developing in Europe as the European Free Trade Association (EFTA) was organized.

To the rest of the world, these developments could hardly have failed to be disturbing. The two unions comprise about half the industrial market of the free world, and both unions hold out discriminatory preferences to raw materials producers associated with them.

Since 1958 U.S. foreign economic policy has lost most of its former vigor and initiative. While the United States has stepped up its aid to the underdeveloped nations, this shift from Western Europe has been accompanied by a corresponding shift from an emphasis on economic aid to military assistance. And, the total value of annual aid expenditures has been falling, although they represent a large multiple of Soviet aid resources.

In the meantime the shift in Soviet tactics toward economic penetration has been picking up momentum with a policy of concentrating aid where it carries the greatest political weight. By allowing the steam to go out of its drive toward multilateralism, the United States has unwittingly aided the Soviets. While they can effectively mobilize for aid—or at least as effectively as we can—they would be at an increasing disadvantage in counteracting the benefits that significant free world trade liberalization would bring.

United Kingdom applies for EEC membership

The force of developments discussed above is dramatically heightened by the prospect of entry by the United Kingdom, with at least Norway and Denmark, into the European Common Market, which is under discussion in the fall of 1961.

The hope of the United Kingdom that EFTA would bring sharp improvements in trade for the member countries was not borne out (appendix, table 8).

Furthermore, afflicted with the lowest rate of economic growth of any major industrial nation for a number of years the United Kingdom considered that a massive effort to increase this rate was essential. In addition the United Kingdom's balance-of-payments position deteriorated rapidly in 1960–61. In 1960 its adverse condition was masked by heavy inflows of short-term capital which brought about a substantial increase in gold and foreign exchange holdings. But Britain's external position continued to deteriorate in 1961, and despite the help received from other European countries which accumulated large pound holdings under the Basle agreement, she eventually turned to the International Monetary Fund for assistance.

It was concluded in the light of these developments that the opportunities were better within the EEC than in the narrow confines of EFTA.

III. EFFECTS OF AN EXPANDED EEC

General considerations

Expansion of the EEC by the addition of the United Kingdom, Denmark, and Norway will undoubtedly mean a heightening of discriminatory effects upon outsiders. It will mean that more than half the industrial markets of the free world will be inside the shelter of a common external tariff (the imports of the EEC, the United Kingdom, Denmark, and Norway totaled nearly $46 billion in 1960, while imports of these countries, the United States, Canada, Japan, and Australia, aggregated $72 billion in that year. An EEC expanded by these three countries will confront the United States and other nonmembers with increased discrimination in a major part of the market in which they sell.

Structure of world imports, 1960

[In millions of dollars]

World	119,000
Industrialized nations:	
Western Europe	57,350
United States	16,051
Canada	6,124
Japan	4,491
Total	84,016
European Common Market:	
Benelux	8,488
France	6,281
West Germany	10,107
Italy	4,721
Total	29,597
United Kingdom	12,765
Denmark	1,803
Norway	1,461
Total expanded	45,616

PERCENTAGE SHARES OF IMPORTS, 1960

Present EEC in world imports	24.9
Present United States in world imports	13.5
Present EEC in imports of industrialized nations	34.7
Present United States in imports of industrialized nations	19.1
Expanded EEC in world imports	38.3
Expanded EEC in imports of industrialized nations	54.3

Source: International Financial Statistics, November 1961, International Monetary Fund.

A major difficulty in analyzing the external effects of EEC expansion is that a number of key aspects of the merger will be decided in the negotiations with the United Kingdom. A major problem confronting the negotiators involves the status of overseas members of the British Commonwealth. It is probable that members whose outputs fall into the category of tropical raw materials will be given preferential status analogous to that of the overseas associates of France.

The cases of India and Pakistan, however, will present serious difficulties in view of their export potentials in cotton textiles. Hong Kong textiles and other light manufactures also will pose serious problems. Canada and Australia with agricultural exports and manufactures that compete directly with Europe will pose further problems.

Another issue of great significance will be the effect of United Kingdom entry upon the level of the EEC common external tariff. It appears that United Kingdom tariffs are generally higher than the average levels of the present EEC tariffs. Thus, if British tariffs are permitted to influence the EEC levels, the entry of the United Kingdom into EEC will increase its effective protectionism and the discrimination implicit in an expanded Common Market.

Its entry into EEC means a surrender by the United Kingdom of virtually all its power to execute unilateral initiative in external commercial policies, a weakening of commonwealth ties, and a possible abandonment of sterling key currency responsibilities. These shifts in Britain's foreign economic role will lessen her ability to protect the economic status of outsiders. They mean still greater burdens upon U.S. leadership at the same time that pressures upon its own trading position and balance of payments are likely to be sharply increased.

On the underdeveloped nations

Expansion of the EEC will affect both the exports of primary products and light manufactures from the underdeveloped nations.

The oversea associates of EEC, principally former French colonies, which are given preferential treatment in its markets can be expected to gain enormously. The United Kingdom may bring with it some of the tropical members of the Commonwealth on an associated basis. Their established exports will be more readily marketable and their prospects will improve as this rapidly expanding market grows.

Over the longer pull, however, the export and growth prospects of oversea affiliates of the EEC will be even more strongly boosted in product areas which do not figure significantly at present in their production or exports. The affiliated nations in west and central Africa possess the material resource endowments to supply the EEC with many of the raw materials it now imports wholly or partly from other primary producers. These potentialities are already beginning to influence the economic development of the oversea affiliates, and will find accelerating realization through aid from the European member nations and with increasing flows of private investment spurred and attracted by the EEC's market shelter. By the same token, present nonaffiliated EEC raw materials suppliers face the somber prospect of a diminishing share of the market and a possible decline in total exports to EEC.

These potentialities apply mainly to tropical zone products. However, non-EEC producers of temperate zone products face a continuation and heightening of already heavy discrimination in favor of agricultural production in north Africa and Europe.

It has been argued that, since the oversea associates of France and the United Kingdom have been accorded even more preferential treatment in the past than is contemplated by the EEC, the effect of EEC preferences on their trade and development will not be profound. However, these new nations are dominated as never before by internal pressures and demands for economic development. In addition, this magnified desire for growth is given greater force by the expansion of their preferential markets from those of the "mother" country to the entire EEC market. Thus, internal pressures for rapid exploitation of export potentials create conditions under which EEC preferences can become significant.

While affording its affiliates and associates preferential treatment in its own markets, the EEC also permits these countries to protect their own "infant industries" from the competition of EEC producers. Presumably a large share of such newly established industries will be in the light manufacturing category, and directly competitive with those of Japan and the newly industrializing areas, such as Hong Kong, Pakistan, and India.

The potentialities of the EEC for moving toward self-sufficiency in raw materials and light manufactures will obviously be raised by its expanded scope. This will redound to the betterment of the underdeveloped affiliates. But it also means that, increasingly, nonmember primary producers and underdeveloped economies will have to find other export outlets. It means, therefore, greater pressure upon non-EEC industrialized nations to import from these countries and implies that these primary producers will be forced into greater economic diversification than otherwise would be justified. Such diversification means lessened economic specialization and lessened interdependence among the nonmember industrialized and nonindustrialized.

Satisfying the export needs of less developed and newly industrializing nations outside ECC will pose several important problems for U.S. leadership. Liberalization in their behalf by the United States would either give them preferences as against ECC members and associates, violating multilateralism and the GATT directly, creating, in effect, a U.S. centered trading bloc, or else it would require the extension of similar concessions to the ECC group.

On the industrializing economies

While the impact of an expanded ECC upon the underdeveloped outside nations bears primarily upon their trading prospects, its effects upon many of the industrializing economies outside should be felt immediately.

It seems apparent that Canada and Australasia, with exports of both raw and semiprocessed materials, and manufactures which do compete directly with continental European producers, will be excluded from the expanded EEC. This will mean not only a loss of the present preferences in the United Kingdom, but a shift into active discrimination against their products. Australasia will feel this more keenly than Canada, which has become closely geared to the U.S. market. Both, however, will be strongly affected and will be anxious to develop stronger trading ties with other large traders.

Such an exclusion will pose the problems mentioned in the following paragraph. Of still greater concern to the United States however, would be an attempt by the United Kingdom to seek an associated status for Canada and Australasia at the expense of restrictions on U.S. exports to the expanded Common Market area.

In this picture, the trading prospects of Japan may be much enhanced. Japan would be capable of absorbing a substantial part of the "excess" exports of Canada and Australasia, provided, of course, they increased their purchases from Japan. For this reason, the Japanese and the Australians are already giving thought to the potentialities of economic union. Such a move, however, would reduce U.S. exports to these countries without correspondingly reducing its own imports from them If such a union should develop, and if it should expand to include such nations as India, Pakistan, and other Asian members of the Commonwealth, it would mean the rise of another major and potentially self-sufficient bloc. The consequences of such a development for the U.S. economy, for Latin America, and for the other remaining underdeveloped nations of the free world would be serious.

On the European economy

It is not easy on purely economic grounds to explain the apparent receptivity of the Six to the prospective entry of the United Kingdom. British competition will impose a number of heavy economic adjustments on the Six. In textiles, automobiles, chemicals and machinery, Britain should increase its share of the continental market substantially. British textiles, in particular, should compete very favorably on the Continent and challenge the position of French producers.

British entry into EEC undoubtedly will mean an intensification of competition throughout the Common Market, leading to an increase in capital investment in the Six as well as in Britain, and to an accelerated rate of productivity increase. This factor may partly explain the attitude of the Six, but remains a less-than-adequate explanation since such benefits would be still further augmented by a move toward full-scale trade liberalization throughout the free world.

The addition of Britain to the Six, however, does give promise of bringing the EEC to an economic size comparable to that of the United States. This would unite a trading area where total imports are almost three times the size of U.S. imports. Although the total gross national product (GNP) of the expanded group ran at only about $260 billion in 1960 in comparison with a U.S. GNP of $504 billion, the much faster economic growth of the EEC countries will speedily eat into the U.S. lead, unless a greater dynamism develops in the U.S. economy. If we, for instance, assume that the expanded EEC can grow, as in the recent past at approximately twice the rate of the United States, both economies will be at the same level in 15 to 20 years.

It is likely that the economic vigor and entrenched EEC leadership position of France and Germany, to be supplemented undoubtedly by conditions laid upon the United Kingdom in the merger negotiations, will insure that the United Kingdom will for some time to come play a subordinate policymaking role in the EEC to the Franco-German alliance. Indeed, as Britain turns to meet the challenges of both export opportunity and import pressure, it is likely that she will for a while become preoccupied with these matters at the expense of her traditionally wider concerns. In the course of time, however, British administrative skills and experience, the best available in Western Europe, will increasingly be brought to bear within the EEC.

Entry of the United Kingdom into EEC thus promises to augment sizably the status and influence in the free world of the Franco-German entente. It will also strengthen the bonds of European economic unity by widening the scope and intensifying the degree of economic interdependence. As the scope of the union broadens, geographic economic specialization also tends to increase. This increases the stake of each member economy in continued association.

When the need for unity became evident, the turn was to expanded economic liberalization as the most dependable tie that binds. This lesson must not be lost to American statesmanship and public opinion as we mobolize our own resources of will and imagination for the far greater task of binding together the more numerous and infinitely more heterogeneous aggregate of free world nations into an enduring community.

On sterling liabilities

Although a matter of great consequence at this juncture, little can be said as to the impact of the merger on the international payments system. The pound has been one of the two key currencies—along with the dollar—which have been held in the postwar period as foreign exchange reserves. It is significant, of course, that total sterling liabilities have been held within the level set in 1954. Thus, excepting the additions of newly mined gold in the foreign exchange reserves of the free world, the entire burden of meeting the liquidity needs of an expanding world economy has fallen upon the United States. A move by the United Kingdom to extinguish these foreign obligations would add significantly to U.S. responsibilities in this area.

It is, of course, quite possible that the Six might decide to take over in some fashion the key currency role of the United Kingdom by the development of a common reserve currency, such as deposits in a group clearinghouse which would be freely convertible into member currencies. This would call for a general shift by the member nations into a current deficit position against the outside world. An alternative approach would be for West Germany to take over this key role. Certainly this nation is, by its economic circumstances and the disciplines which created them, admirably suited to the task.

There is little basis, however, for predicting a move in the near future by these countries toward a key currency status. To date their policies have been oppositely directed; they have bent their efforts toward building gold and foreign exchange reserves and minimizing their current foreign liabilities.

It is obvious that a major reason for the British move toward the EEC is the desire to break the United Kingdom out of its rut of economic semistagnation. This indicates a British retreat from its key currency status and heavily militates against such an assumption by the Six. These nations are not likely to slow their progress and reduce their mounting economic influence on the rest of the world by donning key currency responsibilities. Thus the United States could be left to carry this burden alone until a satisfactory collective solution to the problems of creating adequate international liquidity could be developed.

On the cold war

It is obvious that the creation of a single market embracing most of Western Europe is too momentous a development not to affect the strategy and conduct of the cold war. It is not, however, easy to assess the repercussions. Such an analysis is beyond the scope of this paper and will not be attempted. But some areas in which repercussions may be expected will be noted, as our foreign economic policymaking must reflect a concern with possible cold war exigencies.

Western European economic integration means that, so far as its members are concerned, Soviet pressure must be exerted on the group rather than on a divide and conquer basis. This enormously complicates the Soviet problem of generating effective pressure on these nations since union increases their economic strength while it reduces their fear of Soviet military pressures or political subversion. It may well be, for instance, that the intensification of Soviet belligerency regarding Berlin and the recent Soviet nuclear tests are a reflection of this fact. We can anticipate a succession of Soviet attempts to bring about a neutralization of the EEC in the cold war. In such a context, the strengthening of NATO will be essential.

We can look forward to greater Soviet economic pressures upon the Western European nations outside EEC. Lacking the strength that comes from union and adversely affected by the EEC, some of these nations may become relatively easy marks for Soviet influence. The Soviet "invitation" to Finland in November 1961 for mutual defense conversations is indicative.

It is illuminating to remember that Marxist thought lays great stress upon "capitalist imperialism" and analyzes it as an international version of the class struggle. Its classic prediction is that in areas dominated by capitalistic economic organization, "the rich get richer and the poor get poorer." But the failure of Marxist subversion to make headway within the industrialized nations of the West reflects the fact that free enterprise operating in a context of free markets yields rising real incomes per capita and steadily reduces income differentials.

The record is not so clear when we turn to the underdeveloped nations. In recent years their growth rates have slowed and their prospects have dimmed. Anticolonialism is a mighty force among the new nations. In this context, any intensification of discrimination against them in major industrial markets presents a danger. It is apparent that free world unity cannot be expected to survive developments in the organization of free world trade in which gains for industrialized nations can be construed as being at the expense of the underdeveloped.

In essence, our problem in seeking to bind the industrialized and nonindustrialized nations of the free world together is to create and to maintain a free world economic structure which will as effectively nullify the Marxist class struggle thesis when applied to all the free world economy as it does within the leading industrial nations. Otherwise, the attractions of the quick totalitarian "solution" to the problem of getting a takeoff in growth will be reinforced by bitterness against the affluent West.

It would be a strange paradox if, in seeking to bind the free world and to promote its overall economic progress, we fail to use our greatest cold war asset—the free market. To talk economic freedom to those who doubt its merits and then to act against its dictates is a questionable way to document our case and demonstrate our sincerity.

On the formation of other trading blocs

If we assume that the United States takes no significant steps to counteract these adverse effects, we may see the consolidation of the free world into a group of trading blocs. One may well be developed by former members of the British Commonwealth. Two have recently been organized—the Latin American Free Trade Association and the Central American Common Market. Others have been formally or informally proposed in north Africa, in middle Africa, the Near East, and south Asia. These would disturb the trading positions of the nations left outside—possibly Japan, Hong Kong, Israel, South Africa, Finland. It would stimulate increasing Government controls over trade and payments and the subordination of market processes to the dictates of political pressures. It would present the Soviets with an opportunity to play one bloc against another.

Under these circumstances, the problem of maintaining free world unity would be magnified.

On the United States

An expanded EEC will adversely affect the U.S. balance of trade with Western Europe, barring further changes. It will mean greater discrimination against U.S. products in the United Kingdom and continental six because in each market they will compete less advantageously against the products of the other market than before the merger. On the other hand, sharper competition and its fruits in productivity advances within the larger common market will favor increased imports to the United States from the EEC.

To be sure, the rise in real incomes to be expected in the EEC will militate in favor of increased EEC imports—certainly for raw materials, machinery and equipment, and consumer goods. But the increased raw materials imports will be only slightly in favor of U.S. products, many of which are competitive with continental products. In the two latter categories in which the United States has been in the lead, as natural barriers fall and those against us remain comparatively constant, we can expect a rapid increase in European competition.

Augmenting these forces is the present expansion of European capacity in these categories. The extraordinary growth in European real incomes and the rising importance of the middle income classes in these countries is sparking an unprecedented buildup of European industries devoted to satisfying the consumer demands of this increasingly large and affluent group.

There is little doubt but that the expansion of EEC will be highly adverse to our long term private capital export balance. The sheltered market, which will be larger by far, will bring a rise in U.S. direct capital exports and in U.S. portfolio investments in EEC securities markets. In addition, the merger will enable the European branches of U.S. firms to serve a larger market with a broader choice of alternatives in production sites. Where proportions of the input factors vary significantly among the stages of production, the wider market opens greater possibilities of cutting costs via geographical diversification of production stages than previously existed. These factors all make direct U.S. private investment in Europe more attractive after the merger than before.

In third markets, the U.S. position will be weakened by expansion in the EEC. The EEC will, by virtue of its greater internal competitiveness and invigorated business climate, compete even more favorably in these markets than it has in the recent past.

The foregoing considerations suggest that the U.S. balance of payments will be under still heavier pressure with an expanded European Common Market. A continued buildup of current dollar liabilities held by EEC countries may develop, and in that event the vulnerability of the U.S. monetary gold stock would increase.

The prospect of an increasingly more powerful EEC indicates that the United States has much to gain from a substantial mutual liberalization of U.S. and EEC tariffs. Apart from enabling both the United States and the Europeans to make better use of their resources, this would eliminate the attraction of a sheltered market in Europe for American producers, and would spark a dynamism in the U.S. economy similar to that resulting in the six from its economic integration. American domestic investment would be stepped up and EEC producers would undoubtedly augment their long-term investments in the United States.

Expansion of EEC will thus mean major changes in the trading structure and perhaps even in the political organization of the free world. It will significantly affect the United States in its trade, its domestic economy, and its future role in world affairs; it will have heavy impacts upon the underdeveloped nations and possibly jeopardize their relations with the industrialized nations; it will pose serious problems for the industrializing nations such as Canada, Japan, and Australasia; it will significantly affect the cold war balance of power, and will produce new strains and potentialities for the Soviets to exploit.

IV. THE DANGERS IN DRIFT

The United States is entering a stage of crisis in its international economic position and leadership. Events have reached a stage at which further temporizing may place in jeopardy both its own interests and the integrity of the free world. Indeed, it is difficult to see how, in the absence of a vigorous drive toward general free world trade liberalization, the United States can avoid moving toward economic isolation.

The voices of protectionism are already heard. Pressures by industry for tariff and quota relief under peril point, escape clause and "defense essentiality" provisions are increasing. In some cases the administration has resorted to formal and informal quota agreements.

U.S. protectionism cannot be expected to improve the U.S. foreign or domestic position. Such defenses are easily countered by foreign countries. Domestically, this means increasing costs, reduced competition and slower economic growth. To choose this route is to weaken and economically isolate America, to turn our backs on our international responsibilities and abet the Soviet economic offensive.

A logic of sustained retreat runs through this chain of events. A process that begins with failure to appreciate the extent of our international responsibilities may well end in the need to abandon them. What begins as Government intrusion into the market place to protect complaining industries against import competition may result in even greater Government intrustion into the economy to protect the Nation from the errors of its ways. The short-term economic gains which complaining industries may have won, and the temporary political respite won by the Government that yielded to their pleas are bought at a very high price.

In view of the pressing need to preserve and develop our business stake in Western Europe and our stake in the cohesiveness of the free world community, we must run fast even to stay in the same place. Our approach must be unprecedently liberal. It is not enough for the United States to seek amelioration. Moderate liberalization is a singularly inappropriate goal for a nation in an adverse position in trade and payments, and with its effective leadership on the wane.

For those who caution moderation, who minimize the forces of change in the U.S. international economic and leadership position, the example of Britain carries a lesson. Few observers could have believed, as the EFTA was established in 1959, that by mid-1961 the British would have applied for membership in EEC. It is apparent that international economic developments are moving with almost unprecedented speed.

V. TOWARD WORLDWIDE FREE TRADE

General considerations

It is apparent that, acting unilaterally, the United States cannot itself "save" the free world. Indeed, not even a collective drive by all the major industrialized nations can offer assurance that free world unity will survive. We can act on the view that because nothing is certain we should do whatever is easiest at the moment, taking credit for favorable developments and blaming unfavorable ones on intractable realities. This is the easy approach. Conversely, we can take the view that history is broadly affected by underlying forces, by structural conditions which can be altered by rational men acting rationally so as to condition the development of events along favorable lines.

When the underlying structure and processes of international economic behavior are stable and sound, it is possible to deal with particular problems on an ad hoc basis. Potentially adverse effects of opportunism can then be swamped by the stronger pull of more fundamental forces. But when the structure is unsound and in the process of radical change, opportunism is particularly dangerous. At such times, effective policymaking must be attuned to the requirements of basic developments.

It is impossible to avoid the conclusion that the most important condition of free world unity and progress is a successful drive to full-scale free multilateral trade among all nations. This is also vital for the United States, not only because it will improve our balance of payments and prospects for price stability, but more fundamentally because it will improve the efficiency of our economic system and promote our economic growth.

In reviewing potential weapons for unifying the free world, free trade is the obvious choice. It is the one method that is both sanctified by our traditions and unavailable to the Soviets. It is an approach calculated to reduce anticolonialist fears and sensitivities in underdeveloped nations. It makes their imports and exports a function of terms and prices established in an impersonal world market by the interaction of multitudes of buyers and sellers.

When a primary producer deals with the Soviet-bloc countries, every step of purchase and sale is subject to negotiation. Such trade can be manipulated easily in the interests of the powerful state trader and against those of the weaker country. To do business on this basis over a long period is to risk independence by providing the state trader with the opportunity to shape economic development.

The appeal of Soviet trade and aid proposals will grow in attractiveness with a shift of the free world market towards restrictionism. Americans might have been less shocked by Nehru's antiwesternism on Berlin at the Belgrade Conference in the fall of 1961 had they given greater thought to his request a few days earlier for greater export opportunities in the EEC market.

Free trade and developing countries

It is not enough to offer a moderately expanding market to certain products of less developed countries such as India, Pakistan, or Brazil. These countries are in the process of attempting to increase their productive activities dramatically. They view their trading prospects as more significant than their present export situation. If they are to emphasize investment in export industries, they need to be assured of rapidly expanding markets for such products. Otherwise, they will plow their investment funds into industries which provide substitutes for imports and thus conserve foreign exchange.

Evidence shows that it is typically far easier for underdeveloped nations to expand their production of exports than to force production of import substitutes. Their exports tend to utilize their human and natural resources far better than do import substitutes. Export industries follow the lines of international comparative advantage, while the production of import substitutes fostered by government policy runs against natural advantages.

In most underdeveloped economies, the internal market for new producers is typically difficult to exploit because it is usually too small to permit an efficient scale of operations, and the organization of distribution is often inadequate. For domestic producers to be attracted to such markets, high levels of protection against imports are usually necessary, often supplemented by outright subsidies.

Creating tariff and subsidy conditions necessary to stimulate private investment in import competitive industries will often prove too great a task for inexperienced and sometimes unstable governments. Moreover, internal political and social tensions may well make it impractical to implement policies which, in effect, guarantee large profits for private firms. For these reasons, underdeveloped nations which aim toward greater self-sufficiency usually stress government ownership and control.

The situation is very different when economic development is directed toward satisfying an expanding world market. The world market, though risky, is more competitive and far better organized than most internal markets. Where these world markets are expanding, exports of primary products and light manufactures face no serious problem in distribution.

Not only is the world market more accessible to such producers, but when unrestricted it is also more profitable. Gains from trade are large when the productive factor combinations between countries are most dissimilar. Trade between underdeveloped and industrialized nations runs between economies rich in labor relative to capital and rich in capital relative to labor. In each case, the country pays in its own goods a much smaller price for imports than they would cost to produce in its own economy. In a free market, the large gains implicit in such trades are maximized and shared by all.

These propositions are well documented by economic history. The resurgent economic development of Western Europe during the renaissance is testimony to the vital role of trade. And it was the revival of commerce that nurtured the rise of modern Europe. The rapid development of the U.S. economy was based on the broad and unrestricted scope of its territorial base for trade. Modern Germany was the result of the extension of free trade to the many small German states. In the dramatic expansion of trade and income in the EEC, we find present day confirmation of the contribution of trading freedom to economic development.

Americans, who have become greatly concerned about the failure of foreign aid to raise income levels as anticipated in the underdeveloped nations, have signally failed to relate this aid failure to developments in world trade. Yet logic and evidence indicate that the effectiveness of foreign aid is strongly influenced by the actual and prospective export earnings of underdeveloped nations.

77636—62——26

Foreign trade subject to restrictionism and discrimination is no way out of this foreign aid dilemma. Trade in Western markets under such conditions need not be an obvious improvement over trade with the Soviets. Aid and trade controlled by the state rather than impersonal market forces favors planned economies. To compete with the Russians and Chinese on this basis is to deny our inheritance and fight with unfamiliar weapons against an adversary schooled in them.

The answer to these problems and reactions is a trading system in which political control over access to markets for the underdeveloped nations is minimized. We must make it apparent that the markets of the West will become and remain open to them on a competitive basis for any and all products they may produce, or we shall be charged with trying to keep them in a subordinate status. To put the matter another way, the price of tying the economies of the underdeveloped and uncommitted nations more closely to those of the industrialized West is to increase the interdependence of the industrialized countries with all other free economies. To believe that the trading opportunities we can offer the underdeveloped nations would be adequate while we still maintain an uneconomic diversification in our production base through protection is to fly from reality.

There is, of course, the danger that some underdeveloped nations may use their increased export earnings to insulate their economies from the outside world—to move toward greater self-sufficiency, which is often equated with national independence. This arms supporters of self-sufficiency with an emotional appeal that obscures the economic and political justifications for interdependence. These forces will, at least initially, be strong.

But it is difficult to believe that ambitious nations will, in the long run, starve the growth of industries which produce solid and growing export earnings. As these nations reach and exceed the development takeoff stage, the cost of uneconomic allocations of investment capital will become increasingly apparent.

At present the economic development of most underdeveloped countries stands in sharp contrast to the prospects we have been discussing. The difference lies partly in the circumstances of trade. The rewards for developing export industries in accordance with their existing comparative advantages and potentials are limited in a world with trade restrictions in force. It is not surprising that the flow of private investment from the industrialized nations has been far less than desired.

Under a free trade regimen, a program for stabilizing the export earnings of nonindustrialized primary producers may be essential. Stabilization would lessen fears that a greater involvement in trade would create unmanageable shifts in balances of payments. Designing such a system so that the countries involved benefit equitably without, at the same time, stimulating and compounding waste involves a number of complexities. It is not within the purview of this paper to analyze the various proposals currently suggested, or to develop new ones. To illustrate, however, it might be desirable to undertake buffer stock arrangements for primary commodities. With financial resources contributed by countries interested in a particular commodity, its world price could be stabilized. The buffer stock authorities would sell from their holdings when the world price rose above a certain level, and would buy for stockpiling purposes when the price fell below a certain level.

As the free world economy becomes more closely knit, and increased export earnings lead to development of more export industries, export earnings as a whole will become more stable. But the assurance of an effective backstop of stabilization measures in the early years would contribute to that end.

Effect of free trade on the United States

The previous discussion regarding the significance of a move to full-scale trade liberalization has centered about its potential for unifying the free world and stimulating economic growth in less developed nations. It is now appropriate to consider the probable consequences of such a policy for the U.S. economy. Should it appear that the international fruits of liberalization would come at the expense of our domestic economic health and progress, the United States would be in a dilemma. Fortunately, however, this is not the case: free trade would be a boon to the U.S. economy.

As has been the case recently in Western Europe and throughout history, the opening of our market will expose our economy to competitive forces which cannot but revitalize its internal processes and lead both to increased investment in new plant and equipment and to greater stability in prices.

Exposure to free trade would greatly increase productivity, for two major reasons: (i) the more rapid rate of capital investment will both add to the total stock of capital and develop more efficient technologies, (ii) the resulting joint growth of our imports and exports means a general relocation of labor from the low wage-low productivity industries to the high wage-high productivity industries. Our most efficient industries would expand, our least efficient would contract.

A move to free trade between the United States and the expanded Common Market can be expected to improve the U.S. balance of payments. The American market is less sheltered than the present EEC and United Kingdom markets—and much less protected than the expanded EEC will be when it has achieved a common external tariff and eliminated its internal tariffs. Thus, free trade on their part implies a greater increase in effective accessibility to foreign exports than it does for the United States. And, elimination of discriminations and tariffs will improve U.S. payments by removing a major cause of direct long-term U.S. capital investment in Europe.

While the trade balance with an expanded EEC can be expected to become increasingly favorable as free trade conditions are approached, this involves only about one-third of U.S. trade. The remainder comprises our commerce with third countries.

It is apparent that we would find our imports from all these countries increasing with free trade, but it is highly probable that the increase in their exports to the EEC nations would exceed the increase to the United States for two reasons: (i) the larger effective liberalization by the EEC, (ii) the fact that most of the larger exporters of manufactures—Scandinavia and the major Commonwealth nations—are strongly oriented toward British and continental European markets. There is little doubt also that Japan would increase its presently almost trivial exports to Western Europe far faster than to the United States.

Our imports from the less developed nations would increase substantially, but mainly in primary products. While their exports to us of light manufactures would increase very rapidly, the small base from which they would grow would keep them small in relation to our total imports for many years to come.

It is important to realize, however, that if the United States were to do no better than hold its present trading position in third markets, this would insure that its overall trade balance would be substantially increased. Taking these nations as a whole we are confronted with a group which has and will have for many decades to come a trade deficit. For most of these economies are underdeveloped or industrializing; they are capital importing nations rather than capital exporting ones. With an improved trade balance with Western Europe, the United States would have to suffer a major cut in its share of third markets for its overall trade balance to worsen—a highly improbable event.

Although free trade would improve the U.S. long term private capital export balance with the industrialized nations, it is likely that this trend would be more than offset by heavy net outflows to the less developed and industrializing nations. The opportunities for private enterprises in these countries to sell in wholly unrestricted industrial markets could not fail to attract a mounting tide of U.S. business investments. Other things being equal, this would offset at least a good part of the payment gains in the trade balance.

But from every possible point of view, this would be a desirable development. We want American business capital to pour into these countries because with it goes American business know-how and initiative; its direct contributions to growth of these countries will be magnified by "demonstration" effects and the development of new labor skills and administrative experience. Such a trend would significantly reinforce the impulses of these nations toward the closer free world bonds developed by the opening of industrial markets. It would add weight and momentum to the cause of free enterprise in these countries—a cause already invigorated by free trade.

Foreign aid

It appears then that the major contribution we can make to a more effective utilization of foreign aid is to lead the way toward complete freedom of access by the underdeveloped countries to the industrial markets of the West. Our great mistake has been to construe foreign aid as a substitute for rather than as a complement to a vigorous program of trade liberalization. When a breakthrough to free trade is achieved, we will be able to count on the pulling power of export earnings potentials in a competitive world market to guide and discipline the use of aid. Reinforcing vectors of trade and aid are required if the barriers against economic growth in underdeveloped areas are to be overcome and the climate for private investment is to be brightened. Meanwhile the imperatives of aid remain. We must drastically improve the economic payoff of our aid and induce increased aid contributions from our major industrialized allies.

VI. DOMESTIC ASPECTS OF FREE TRADE

General considerations

If free trade can contribute so monumentally to the unity of the free world and the economic health of our productive system, why then does the United States hesitate to take this vital step?

Until very recently the pros and cons of free trade have been argued almost exclusively in a context of extremism. The debate has placed the interests of the Nation as a whole against those of adversely affected groups on an "all or nothing" basis.

In the long history of this debate we find various intellectual transformations. Statesmen in previous strongholds of free trade sentiment in the South have, in remarkable coincidence with the rapid shift of textiles to the South, suddenly found flaws in the logic of the free trade position. The industrial North, whose protectionism was a root cause of the Civil War, now—with increasingly modern capital intensive rather than labor intensive plant—finds wisdom in the free trade principles of Adam Smith. On this issue, as on so many others, the realities of specific group interests dominate the debate. But there are times, and this is one of them, when the clash of immediate interests must yield precedence to the imperatives of national interest.

To make a more decisive impact on international developments we must embrace economic change. This means a hard look at domestic antigrowth policies as well as international economic policies.

Tariff barriers and unemployment

Although a liberal commercial policy improves the allocation of resources in the long run, it may have transitional economic effects that are extremely painful. Thus, it is important to make an assessment, albeit a rough one, of the effects of reductions in tariff barriers on employment. Specifically, we shall ask what the impact on employment would be if the United States unilaterally reduced her tariff barriers to zero over the next 10 years. It is obvious that the increase in unemployment would be smaller, or perhaps nonexistent, if other countries reduced their tariff barriers by roughly comparable amounts at the same time. But for the sake of illustration, let us assume that there are no such reductions in any degree by other countries.

Of the $15 billion of U.S. imports in 1960 less than one-half or approximately $7 billion, was subject to tariffs. Assume the elimination of tariff barriers would lead eventually to an increase in these imports from $7 to $17 billion per annum, an increase of $10 billion. (For an increase of this magnitude to take place both American demand and foreign supply would have to be highly responsive to change in price, but at this stage it is better to overestimate rather than underestimate the influx of foreign goods in response to the lowering of U.S. tariff barriers.) Suppose, further, that this increase of imports of $10 billion takes place over a 10-year period, or at the rate of $1 billion per annum. What is a plausible figure for the amount of unemployment created each year by the $1 billion rise in imports?

With national income per person employed running at about $6,500 per year, an increase of $1 billion in imports would displace annually about 150,000 workers in import-competing industries, if product per person employed were as high in these industries as the national average. If the workers in the import-competing industries produce, per head, only half as much as the national average, then the unemployment created by displacement would rise to 300,000. A detailed exposition would attach many qualifications to the figures presented above, but most of the qualifications would be by way of showing that our rough calculations exaggerate the unemployment problem.

In any event, it is clear that the numbers involved are not large, particularly when it is realized that each month our economy successfully reabsorbs a comparable number of displaced workers. In any given year the number of workers affected would be less than one-half of 1 percent of the labor force. Some may argue, however, that over the course of the 10-year liberalization somewhere between 1 or 2 million workers will have been displaced by imports. But the aggregate figure is of little relevance. The problem of unemployment is the problem of what happens in the short run, and in judging the effects of a 10-year import liberalization program it would be folly to count in 1961 the unemployment expected from liberalization in 1965 or 1970, and it would be equally misleading to count in 1970 the unemployment that had been created 9 years earlier in 1961.

In each year the Government will be dealing with the residual unemployment created by imports as well as other economic factors remaining after the new job opportunities created by the natural resources of the economy have been filled.

Of course, the unemployment figures presented refer only to the direct impact of increased imports on unemployment. They do not measure the total unemployment that would develop if the primary increases in unemployment were not offset, which we assume would be the case. That is, in the absence of Government policies designed to offset primary unemployment, the reduced spending by the unemployed would lead to further unemployment.

The unemployment figures in the preceding paragraphs are the maximum which would follow directly from the elimination of U.S. tariff barriers. As such they are illustrative, but inapplicable to any concrete situation. The purport of this paper is that any substantial tariff reductions by the United States will be met by comparable reductions abroad which in turn will develop and increase U.S. exports together with the concomitant employment. It is highly unlikely and not the recommendation of this paper that the United States embark on a program of unilateral tariff reduction. The net employment figures thus resulting from an increase in export industries and a decrease in import-competing industries may well be even or a net gain.

We conclude that even when changes in commercial policy have the immediate effect of causing unemployment, most of this unemployment will be of limited duration.

Adjustment assistance

To the extent that a prosperous economy fails to eliminate unemployment the Federal Government can and should provide adjustment assistance. It should help business to develop new product bases through, for example, accelerated amortization of obsolescent machinery and credits for modernization. It should lay the necessary groundwork of labor market information, job retraining opportunities, and financial assistance in relocation to reduce the human costs of employment dislocation to a minimum. Indeed, with a national system of employment information coupled with a census of labor skills and qualifications, labor retraining facilities and relocation assistance, we can dramatically reduce "frictional unemployment" and "disguised unemployment"—where labor capable of higher productivity is used in employments of lower productivity. With such a program we can reduce the social costs of progress and at the same time give progress new impetus.

"Adjustment assistance" is not a new idea. It is established in the EEC and has played a major role in reducing business and labor opposition to the unleashing of import competition manifested in the drive toward regional economic integration.

It means that as society reaps the benefits of trade liberalization it also bears collectively a major part of the costs of such progress, which otherwise would fall on a few. To argue, as some may tend to, that government should not be so closely involved in private economic processes is to ignore the nature of tariffs and quotas which are also direct interference by government in private markets.

Unless one is willing to argue for an all-out free trade program with no succor to the injured, the choice lies fundamentally between two lines of governmental intervention. One, trade restrictionism, is not a reasonable approach for the United States today. It means the erosion of the international basis of our security, a shirking of our international leadership responsibilities, and a relative stagnation in our domestic economy. The other, adjustment assistance, would promote our security, strengthen and justify our international leadership, and freshen the springs of our domestic economic growth.

A beginning has been made in the last year by the Federal Government. The Area Redevelopment Act of 1961 is a long-range program for area economic redevelopment. The skills and experience developed in the administration of this act in the field of employee reorientation and industrial redevelopment will be invaluable to such adjustment assistance as may be required by free trade.

Current trade restrictions

To make a more decisive impact on international developments we must embrace economic change. This means a hard look at domestic antigrowth policies as well as international economic policies. It means that the "peril point," "escape clause," and "defense essentiality" rationalizations must go. Their whole thrust is to preserve the status quo. Moreover since they cripple our progress they fail in the end to achieve their narrow goal—domestic prosperity.

The status quo defenses built into our present trade legislation are more dangerous to international economic progress than might be imagined because they promise or threaten the imposition of heightened trade barriers even where such barriers are presently of no consequence. It is bad enough for foreign exporters to face U.S. trade barriers of known levels; to live in the knowledge that they may rise to whatever level is required to dam the flow of imports is to stifle hope that in new exports, in a more diversified production of exports, lies the answer to their export problems. If the answer for these countries does not lie in export specialization, nor in a diversified export base, the thrust to development must be toward self-sufficiency—away from, not toward, private enterprise.

The protectionists realize that even a partial maintenance of the status quo requires increasingly rigorous measures. At present they are shifting from tariffs to quotas and international market-sharing agreements as their answer to import pressures. This is a natural development, but a painful threat to our domestic and international interests. Tariffs are designed to distort markets, but in altering the terms of exchange they still leave the market free to accommodate itself to the altered conditions. Precisely for this reason, the contemporary protectionists aim for the approaches that will throttle economic freedom in the international market and eliminate the market forces entirely at our borders.

The "defense essentiality" provisions of the Tariff Act operates as a cloak for the narrowest protectionist pressures. This cloak is potentially a most useful one, for the public is not ready to ask many questions of a step alleged to be in the interests of national security. Since its introduction into the 1955 extension of our trade legislation, the clause has seen little use—mainly because of zealous Presidential scrutiny of requests under its provisions.

Barring a firm Presidential hand, it offers the argument of national security to those seeking protection from competition. We need to discipline applications of the device so as to restrict it to cases which do involve our security importantly.

Such a way exists: it is to replace the tariff or subsidy, paid by consumers directly, with a cash subsidy paid from the defense budget. Where important security needs are involved, the Defense Department would support such expenditures and Congress presumably would be ready to levy the taxes required. But where the plea is not based on real security needs, it would be difficult to secure the support of either group. It would be extremely difficult to imagine a more grievous assault on "fiscal integrity" than legislative subsidies hidden from those who pay them.

VII. PROBLEMS IN IMPLEMENTING FREE TRADE

Simply to conclude that we must and will move toward ever-increasing trade freedom leaves unanswered a number of broad and narrow questions of principle, of strategy, of timing, and of organization.

Timetable to free trade

The first question is, How far should we go toward the pole of free trade? The answer is that we must go all the way. There is no stopping place short of free trade. We can be reasonably certain that full-scale free trade will help our economic growth and balance of payments, and contribute powerfully toward free world progress and unity. These potential benefits will be diminished as our goal falls short of full trade liberalization.

It does not follow, however, that full trade freedom must be achieved at one swoop. Practical considerations as well as logic and the compelling evidence of EEC experience suggest that if the free trade goal is unequivocal and the steps to this goal are prescribed in an orderly and unequivocal sequence under law, the flows of investment and trade will swiftly move to anticipate the patterns expected to obtain when the final goal is reached.

The time needed to attain free trade should be short enough to galvanize into action producers who are currently or potentially exporters but long enough to bring the adjustment problem down to proportions easily manageable in a strong and prosperous economy. No single time span would please everyone. If 1 year is too long for the zealous free trader, 50 years is too short for the embattled protectionist. It is suggested that the legitimate needs and aspirations of all parties involved, domestic and foreign, could be adequately met with a program which reduces our tariffs by 10 percent of their initial level in each subsequent year. This program could be established, as in the EEC, subject to the provision that no time extensions could be granted, but with opportunity for a speedup if desired. Speedup latitude is useful because with the handwriting on the wall, the necessary adjustments would be made very swiftly and with relative ease in all but a minority of cases. Thus, it is only in the "hard core" cases that more than a few years for adjustment is useful or necessary. If tariff reductions are on an across-the-board basis, as advocated in the next section, the acceleration of general tariff reduction will cause no serious strains and facilitate greater action in the residual problem areas. The EEC has found this to be the case.

Across-the-board liberalization

There are compelling reasons for abandoning our present commodity-by-commodity procedures in tariff determinations and negotiations.

In the first place, the more narrowly defined the product area covered by a tariff rate, the more concentrated are the losses and the smaller the net social gain from any particular reduction. This approach maximizes the discrepancies between the income effects of any given change in the tariff level upon the average citizen and upon those connected with the particular industry. It thus enhances the ability of protectionists to exploit the principle that it is the squeaking wheel that gets the oil. But as the tariff bargaining area is widened the income losses from tariff increases, or the income gains from tariff decreases affect a greater number of people and cumulate for those involved, thus making more persons ready to exert themselves to advance their interests.

Secondly, narrowly defined tariff bargaining forces each contracting country to submit to a procedure in which to gain a benefit for one of its export industries it must in effect allow the other nation to dictate the product area to be liberalized. If a country takes the initiative in offering concessions, it loses some of its initiative in the selection of the area to be liberalized abroad in return. With all the imponderables inherent in any prediction of the effects of the initial bargain as a result of its generalization to all most-favored-nation countries, it is not surprising that even minor tariff adjustments are a formidable undertaking.

If, however, we switch to a broad product range for tariff cutting—so that the total range of dutiable products is collected into, say, 10 groups, the situation can be much improved. If, for instance, a general 10 percent cut is made in each category, the right could be given each country to achieve this cut, based on a weighted average of the rates on products included) by whatever pattern of individual product rate cuts it desires in each category—so long, of course, as the percentage cuts in each successive year are based on the initial year rates and weights. This would give each nation far more freedom than it now possesses in distributing reductions among its list of protected products. It would thus enable each nation to concentrate the bulk of its cuts in product areas whose rapid progress toward adjustment reduces or minimizes consequent burdens from rising imports. Thus, each nation could retard in the first few years the pace of liberalization for industries with particularly heavy adjustment difficulties.

Such autonomy in distributing tariff cuts would create a significant additional benefit. Once a nation gears itself for adjustment and begins to make significant progress toward it, the economy begins to produce more and more examples of success in adjustment. Rising expectations are generated by the multiplying evidence of the export growth opportunities created by the liberalizations carried on abroad in return. This will reduce the fears and insecurities which figure so prominently among the factors responsible for resistance to adjustment in "hard core" areas, setting the stage there for more rapid progress than might otherwise be anticipated.

Finally, there is a most compelling practical reason for the change to a broad-based tariff bargaining system. The members of EEC have established this approach for handling their internal liberalization and they insist that future bargaining with the United States and other outsiders must be on this basis. We cannot succeed in upholding on grounds of principle our narrowly based system and we cannot afford to take the consequences of a failure to induce major tariff concessions from them.

Alternative U.S. strategies for liberating trade

Although susceptible to countless variations in details and approach, the basic routes through which the United States might move toward effective free trade for the free world can be reduced essentially to three:

(1) The United States might join a major regional bloc of industrialized nations and work from within to tie the rest of the free world in bonds of increasing mutual interdependence to such a union. This approach—such as entry into the EEC, formation of an Atlantic Community of the OECD countries, a union of NATO countries—would involve as a first step moving towards internal free trade among the members.

(2) The United States might initially form a regional bloc with non-European nations, perhaps a Pan American Economic Union, in which it would function as the industrial heart.

(3) The United States might stay outside regional blocs and work directly for generalized free trade.

The United States entry into some version of an "Atlantic Community" has considerable appeal. It appears to provide an acceptable answer to our pressing international economic problems and would extinguish the threat of narrow isolationism. Its adherents say such a union would unite in ever tighter bonds the centers of Western civilization and culture, whose preservation they argue is a central goal of our foreign policy.

Such a union, however, is a dubious solution to the problem of binding the free world. Western Europe is not ready to contemplate yielding on its discriminatory treatment of outsiders to accept the United States or any other country with a guarantee that membership, on a regular or associated basis, will be open to all the countries of the free world. The achievement of discrimination, after all, is an important element in the development of the EEC. We cannot expect the Community to accept readily the enormous pressures incident upon U.S. entry into its union and in addition abandon its discrimination against the rest of the world. Such a move would be to Europe's advantage in the long run by expanding its opportunities, but this overlooks the fact that (relevant in the short run only) unexploited opportunities of this sort exist now. Entry of the United Kingdom and possibly other EFTA members will offer new opportunities with the concomitant need for adjustment. While still wider markets in the United States and elsewhere would be of some interest to the EEC, it seems unlikely that these advantages would compensate this group for the immediate pressures from increased imports.

Should the United States enter the EEC without insuring that the rest of the free world would be included and on generous terms, there are strong reasons for believing that free-world unity would be jeopardized. This would exacerbate already inflamed fears and anti-Western sentiment among the less-developed nations. Antiimperialism would be reinforced.

Nations of the non-Western world gain a measure of security regarding their trading future in European markets from the fact that presently they make common cause with the United States. They and the United States are interested in greater access to European markets, and—given its policy of multilateralism—U.S. gains are also gains for them. Under present circumstances, they have cause to feel that in dealing with the EEC American self-interest works in favor of their own interests. Should the United States enter an Atlantic economic union, however, this correspondence of interests would be weakened.

An Atlantic union which offered the rest of the world less than it offered its members would inevitably appear as a combination of affluent, capitalist nations against the rest of the world. World opinion would find unseemly a union for mutual aggrandizement by the wealthy few on a basis which slights the lot of the impoverished many. This could not help but make Soviet overtures more attractive, relatively, even with the attendant risks. Unless we are ready to abandon the non-Western free world, the Atlantic union approach is not realistic.

If upon our entry into an Atlantic union we were able to secure terms of admission for the rest of the world regarded as generous by all nations concerned, then the approach would really partake of the multilateral free trade offered by the third alternative.

Entry by the United States into a non-European regional bloc would be inadvisable. Even if such a union were as successful as its limited scope allows, it would be against our interest. It would tend quickly to estrange Western Europe politically as well as economically. It would put our mutual defenses in jeopardy. The many non-European nations excluded would be embittered because of this discrimination by the United States.

In this approach, as in the previous alternative considered, the dynamics of ensuing developments would run against any hopes of eventual reversal of the exclusionary trends set in motion. As time passes, the initial forces which militated against general multilateralism become stronger and increase in number as well. Regionalism breeds internal changes in the pattern of investment and production which are inconsistent with liberalized multilateral trade. Discrimination produces increasingly powerful vested interests against external liberalization which reinforce the initial pressures that generate systematic discrimination. To outside nations, therefore, there are valid reasons to dismiss as pious hypocrisy any "pledges" that after an adjustment period, regionalism will be abandoned for general liberalization.

The only reasonable approach to the urgent problems confronting our foreign economic policymakers is for the United States to go all out for free trade across the free world, although to assert this, even waiving the domestic political problems involved, is to raise a number of difficult questions.

It is obvious that an invitation by the United States to the rest of the world to move in a prescribed timetable to free trade would not be enthusiastically received in every quarter.

As already noted, there are many reasons to doubt that the EEC would relish entering into any programs that would reduce its economic exclusiveness. Such a step would certainly enhance Western Europe's real income potentials and bind Europe to the United States and the rest of the world in ever stronger economic ties. But this would also reduce the relative position of Europe in the free world. A united Europe in a divided free world is stronger than a Europe integrated with the rest of the free world. It is unreasonable to expect a resurgent Europe to look upon such a development with equanimity.

Despite these drawbacks, the long-range benefits to Europe of joining the free world in free trade are formidable. Greater acecss to U.S. markets and those of other industrial countries, the increase in productivity through greater specialization and competition—in short, gains from free trade—would raise the standard of living in Europe in the same manner, but to a greater degree, as in EEC itself. Vigorous leadership by the United States—its position reinforced by a firm commitment to a free-trade policy—could be persuasive.

Our problem in choosing the right strategy for liberating world trade is nevertheless a most difficult one. There is no easy answer, save to drift on while the free world disintegrates around us. If we do drift we shall very likely find ourselves with no other alternative than to turn to the EEC. Acceptance into the EEC with reasonable safeguards for our interests may then be difficult.

An offer of free trade from the United States should embrace terms binding on all participants. In particular, these terms should include the following:

(1) Every signatory nation, with the exception noted in paragraph 5 below, would agree to follow a stated timetable for trade liberalization.

(2) Tariff liberalization would be on an across-the-board basis, with annual reductions of 10 percent of the weighted average of the rates obtaining at the time the U.S. offer is made; thus in 10 years all tariffs would be eliminated.

(3) All import quotas would be automatically increased by 20 percent each year, with the additional provision that at the close of the 10-year period, no quota restrictions would remain.

(4) Each signatory country must agree to abstain from other measures that would offset the effect of lowered trade restrictions, e.g., discriminatory excise taxes.

(5) Underdeveloped countries would be permitted to restrict imports of certain products for a specified period to provide time for adjustment. A longer restriction of tariffs is also justified in these countries in view of the importance of customs revenue to their fiscal systems.

(6) Relations between the signatory nations and outsiders would be governed by GATT procedures.

(7) Nations applying for membership after the process of liberalization has gotten underway would be required to match the liberalization already made by member nations. This would tend to discourage delay in entering the signatory group.

The system envisaged here is not perfect, but it would promote generalized trade liberation throughout the free world. It utilizes the classical system of rewards and penalties. Thus, to nations most interested in expanding markets for exports, the liberalization program offers a most attractive reward. For nations more concerned with import pressures than with the need for expanding exports, the potential loss of existing exports through exclusion from the new free trade area would be a disturbing contingency. The program would continuously raise the cost of nonparticipation.

In a world of perfectly rational nations such penalties would perhaps be unnecessary. This classical system of rewards and penalties is, however, indigenous to a free market system and is particularly appropriate to a domestic free enterprise society striving to establish conditions for freedom and individual opportunity in the world.

We stand at a turning point in history: We must go forward toward free world economic unity or set aside our hopes for dynamic growth at home and abroad.

This paper has been written in the firm belief that Americans can and will rise to the imperatives of the times once they understand the issues. Clarification of these issues is a crucial function of the public debate now in progress. It is hoped that this paper will contribute to that purpose.

TABLE 1.—*Industrial production in the European Economic Community, 1953–60*

	1953	1958	1959	1960
General industrial production	100	148	158	178
Manufacturing industries	100	151	163	184

Source: European Economic Community, Bulletin Général de Statistiques, 1961, No. 2, p. 77.

TABLE 2.—*Net flow of U.S. direct investment into the European Economic Community and other areas, 1957–60*

[Million dollars—data in parentheses show percentages of the total]

	1957	1958	1959	1960 [1]
To all areas	2,482 (100)	1,181 (100)	1,372 (100)	1,694 (100)
To the EEC	96 (3.9)	106 (9.0)	180 (13.1)	282 (16.6)
To the rest of Europe	191 (7.7)	84 (7.1)	304 (22.2)	[2] 680 (40.1)
To Canada	718 (28.9)	421 (35.6)	417 (30.4)	471 (27.8)
To Latin America	1,163 (46.9)	299 (25.3)	218 (15.9)	95 (5.6)

[1] Preliminary.
[2] Ford stock investment of $368 million in Britain occurred in this year.

Source: U.S. Department of Commerce, Survey of Current Business, August 1961, p. 22; U.S. Business Investments in Foreign Countries (1960), pp. 136–137.

TABLE 3.—*Industrial investment in the European Economic Community, 1954–60*

[Volume indexes, 1954=100]

	1954	1955	1956	1957	1958	1959	1960 [1]
Total EEC	100	115	126	132	130	134	151
France	100	112	125	141	147	149	162
West Germany	100	122	125	124	124	132	155
Italy	100	111	120	132	126	135	158
Netherlands	100	118	124	134	120	135	149
Belgium	100	105	124	114	105	104	118

[1] Provisional.

NOTE.—Because of various statistical qualifications, these indexes do not possess strict comparability.

Source: European Economic Community, "Statistiques Industrielles," 1961, No. 1, p. 53.

TABLE 4.—*Trade of EEC countries with themselves and with outside world, 1953–60*

[Million dollars]

	1953	1954	1955	1956	1957	1958	1959	1960
Total imports	14,918	16,630	19,269	22,353	24,816	22,895	[1] 24,313	[1] 29,558
Imports from EEC	3,954	4,571	5,564	6,336	7,032	6,786	7,968	10,140
Imports from outside EEC	10,964	12,059	13,705	16,016	17,784	16,109	16,164	19,416
Total exports	14,095	15,788	18,355	20,077	22,440	22,775	25,227	29,729
Exports to EEC	4,035	4,666	5,647	6,436	7,154	6,864	8,176	10,246
Exports outside EEC	10,061	11,122	12,708	13,641	15,286	15,911	17,051	19,483

[1] These totals are approximate, not exact, sums of the component parts shown.

Source: European Economic Community, "Commerce Exterieur par Pays 1953-58," (1959) pp. 4-5. Import data for 1959 and 1960 are from U.S. Department of Commerce, Foreign Commerce Weekly, July 31, 1961, p. 5. Export data for 1958 through 1960 are from European Economic Community, "Commerce Exterieur, 1961," No. 6, p. 22.

TABLE 5.—*The U.S. international payments balance and its disposition, 1946–60*

[Millon dollars]

Year	Balance [1]	Change in U.S. gold reserves [1]	Change in foreign holdings of U.S. short-term liabilities (private and Government)[2]	Change in foreign holdings of U.S. Government long-term securities
1946	933	+623	−310	
1947	4,862	+2,850	−2,012	
1948	1,006	+1,530	+524	
1949	211	+164	−47	
1950	−3,602	−1,743	+918	+941
1951	−343	+53	+1,055	−659
1952	−1,092	+379	+1,169	+302
1953	−2,102	−1,161	+1,023	−82
1954	−1,516	−298	+1,210	+8
1955	−1,149	−41	+579	+529
1956	−968	+306	+1,409	−135
1957	−468	+798	+382	−52
1958	−3,477	−2,275	+1,171	+31
1959	−3,826	−731	+2,426	+669
1960	−3,836	−1,702	+2,100	

[1] Excluding subscriptions to International Bank for Reconstruction and Development and International Monetary Fund.
[2] Mostly payable in dollars.

NOTE.—Plus sign signifies increase; minus sign signifies decline. In balance-of-payments accounting, the reverse signs are used in the recording of gold changes. Thus, in this table, the combination of sign will not add to the sign of the total payments balance for that year.

Source: U.S. Department of Commerce data, as presented in U.S. Senate Commerce Committee staff report, "United States and World Trade" (1961), table 1 opposite p. 4; modified by data in U.S. Department of Commerce, Survey of Current Business, March 1961, table 4, p. 8.

TABLE 6.—*Official gold and foreign exchange positions of the United States and selected areas, 1951–61*

[Millions of dollars—end of period]

Country or area	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	June 1961
All countries:											
Gold	33,935	33,920	34,360	34,970	35,445	36,095	37,360	38,075	37,870	38,050	38,385
Foreign exchange	15,095	15,615	17,145	18,245	18,780	19,745	18,925	19,215	19,175	21,690	22,345
Total	49,030	49,535	51,505	53,215	54,225	55,840	56,285	57,290	57,045	59,740	60,730
United States:											
Gold	22,873	23,252	22,091	21,793	21,753	22,058	22,857	20,582	19,507	17,804	17,603
Foreign exchange	------	------	------	------	------	------	------	------	------	------	186
Total	22,873	23,252	22,091	21,793	21,753	22,058	22,857	20,582	19,507	17,804	17,789
Rest of free world:											
Gold	11,062	10,668	12,269	13,177	13,692	14,037	14,503	17,493	18,363	20,246	20,782
Foreign exchange	15,095	15,615	17,145	18,245	18,780	19,745	18,925	19,215	19,175	21,690	22,159
Total	26,157	26,283	29,414	31,422	32,472	33,782	33,428	36,708	37,538	41,936	42,941
Canada:											
Gold	842	885	986	1,073	1,134	1,103	1,100	1,078	960	885	906
Foreign exchange	984	979	841	882	776	841	736	870	917	951	1,087
Total	1,826	1,864	1,827	1,955	1,910	1,944	1,836	1,948	1,877	1,836	1,993
Latin America:											
Gold	1,955	1,830	1,920	1,835	1,855	1,870	1,890	1,735	1,640	1,360	1,425
Foreign exchange	1,035	1,180	1,380	1,300	1,340	1,810	1,930	1,380	1,380	1,595	1,360
Total	2,990	3,010	3,300	3,135	3,195	3,680	3,820	3,115	3,020	2,955	2,785
Continental Europe:											
Gold	4,365	4,775	5,430	6,055	6,930	7,540	8,215	10,050	11,335	13,230	14,090
Foreign exchange	3,050	3,440	4,530	5,515	6,190	5,995	5,930	7,175	6,120	8,170	8,635
Total	7,415	8,215	9,960	11,570	13,120	13,535	14,145	17,225	17,455	21,400	22,725
United Kingdom (estimated):											
Gold	2,200	1,500	2,300	2,550	2,050	1,800	1,600	2,850	2,500	2,800	2,400
Foreign exchange	174	458	246	248	106	476	774	255	250	439	378
Total	2,374	1,958	2,546	2,798	2,156	2,276	2,374	3,105	2,750	3,239	2,778

NOTE.—Data do not include positions of these countries or areas in the International Monetary Fund. Because of various statistical qualifications, the data should be used as indicating only orders of magnitude.

Source: International Monetary Fund, "International Financial Statistics," November 1961, pp. 23–25.

TABLE 7.—*U.S. short-term liabilities, payable in dollars, on foreign account, and U.S. gold reserves, 1956–61*

[Millions of dollars]

End of period	Grand total	Total to banks and official institutions	Total to other holders	Gold reserves (excluding position in IMF)
1956	14,890	12,860	2,030	22,058
1957	15,099	12,847	2,252	22,857
1958	16,099	13,669	2,430	20,582
1959	19,311	16,913	3,398	19,507
1960	21,213	18,986	2,227	17,804
May 1961 (preliminary)	20,936	18,759	2,177	[1] 17,603
To Europe	8,593	7,871	722	
To Canada	2,612	2,362	250	
To Latin America	2,289	1,241	1,048	
To Asia	3,174	3,048	126	
To other areas	349	317	32	
To international institutions	3,920	3,920		

[1] June.

Source: Federal Reserve Board, Federal Reserve Bulletin, September 1961, table 2, pp. 1116–1117, except or gold figures which are from table 6.

TABLE 8.—*Foreign trade patterns of the European Free Trade Association, 1959 and 1960*

[Millions of dollars]

	1959	1960	Increase in 1960
Imports by EFTA members (c.i.f.):			
From all sources	20,016	23,081	+3,065
From one another	3,242	3,731	+489
From EEC	5,614	6,567	+953
From outside Western Europe	10,262	11,673	+1,411
Exports by EFTA members (f.o.b.):			
To all countries	17,002	18,533	+1,531
To one another	3,042	3,501	+459
To EEC	3,944	4,425	+481
To outside Western Europe	9,110	9,578	+468

Source: European Free Trade Association, "EFTA's Foreign Trade in 1960" (1961), pp. 42–43.

Chairman BOGGS. Now, Senator Bush, a member of this committee, had requested to have inserted into the record at this point an article from the Wall Street Journal, appearing in the Wall Street Journal of Monday, December 11, entitled, "Review and Outlook—the Place To Begin."

If there is no objection, it will appear in the appendix.

Thank you again, gentlemen.

The committee will adjourn until tomorrow morning at 10 o'clock, when we shall hear from the Department of Commerce.

Whereupon, at 3 p.m. the subcommittee recessed until the following day, December 14, at 10 a.m.)

FOREIGN ECONOMIC POLICY OF THE UNITED STATES

THURSDAY, DECEMBER 14, 1961

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee of the joint committee met, pursuant to recess at 10:07 a.m., in room 4221, New Senate Office Building, Hon. Hale Boggs (chairman of the subcommittee) presiding.

Present: Representative Boggs and Senator Pell.

Also present: William Summers Johnson, executive director; and Richard J. Barber, clerk.

Chairman BOGGS. The subcommittee will come to order.

We continue hearings this morning on foreign economic policy. We are fortunate to have Under Secretary of Commerce Edward Gudeman, our primary witness. Mr. Gudeman has brought with him three of his expert assistants—Jack N. Behrman, Assistant Secretary of Commerce for International Affairs; Mr. Hickman Price, Assistant Secretary of Commerce for Domestic Affairs, and Mr. Robert Giles, General Counsel.

Mr. Jones is not here.

Mr. Gudeman, we are pleased to have you here and we would like to hear from you.

STATEMENT OF HON. EDWARD GUDEMAN, UNDER SECRETARY OF COMMERCE; ACCOMPANIED BY JACK N. BEHRMAN, ASSISTANT SECRETARY OF COMMERCE FOR INTERNATIONAL AFFAIRS; HICKMAN PRICE, ASSISTANT SECRETARY OF COMMERCE FOR DOMESTIC AFFAIRS; ROBERT GILES, GENERAL COUNSEL

Mr. GUDEMAN. Mr. Chairman and members of the committee, on behalf of myself and my colleagues of the Department of Commerce, I want to express our appreciation for this opportunity to appear as a panel before your committee.

Mr. Chairman, we do not come here today to present a framework of national policy which might guide us in the years ahead. Such framework is now being put together within the executive branch, and in due time the President will have his specific recommendations to place before Congress. We are here to offer some general observations and to try to answer any specific questions concerning our present trade situation which the committee might address to this panel.

I would emphasize that Secretary Hodges, myself, and other officials of the Department of Commerce have for many weeks participated in the studies and conferences which have taken place in the executive departments on this subject. We in the Department of Commerce have the specific responsibility of fostering and promoting commerce and industry of this Nation. We are vitally concerned with any development—in or out of Government—which might help or hinder our Nation's economy. Our observations and the subject of America's foreign economic policies are made in full recognition of and based on our departmental concern for American business.

For many years, our Nation has benefited from a bipartisan trade policy of expanding international commerce through adjustment and lowering of world trade barriers. The United States has consistently enjoyed a favorable balance of trade with the rest of the world—generally selling more than we buy from other countries. Last year, the United States exported approximately $20 billion in industrial and agricultural products. We imported some $15 billion of goods. Parenthetically, we should note that of the $15 billion in imports, at least two-thirds, or $10 billion, was in goods and commodities which we do not produce in this country or cannot readily produce in sufficient quantity to supply our needs. Thus only one-third, or $5 billion, of our imports last year may be characterized as directly competitive with American-produced goods.

The $20 billion in exports last year had a direct and very important impact on the American economy, representing thousands of jobs in industry and in agriculture.

Our Nation is faced today with a critical need to maintain and expand our present level of exports. We cannot be a selling nation only in the world marketplace. The nation which sells must also buy.

For some time, there has been increasing recognition in America that our present statute law governing international trade is inadequate to meet the rapidly changing economic conditions that have developed in the last decade. Our present statutes force a rigidity of approach that does not permit our Government to deal realistically and promptly with the conditions that actually prevail in the world marketplace.

The fairly recent development of the European Common Market, which offers much promise for the economic strength of the free world, has given added emphasis to the previously recognized inadequacy of our trade legislation. This emphasis has taken on the proportions of a crisis which can no longer be ignored. If effective steps are not taken, we face the very real possibility of a damaging deterioration in our oversea export market—principally in the European area which presently accounts for more than one-third of total exports. Perhaps even more tragic, we face the possibility of a growing economic division between nations of the free world at the very time economic cooperation, economic friendship if you will, is vitally necessary to cope with the growing challenge of the Soviet bloc.

It is, therefore, our firm conviction that the new approach taken by President Kennedy on trade policy will assure that more industries, workers, and communities in the United States will gain direct and tangible benefit from our trade with the rest of the world than heretofore.

For example, with such authority we will be able to offer the booming European Common Market nations sufficient inducement to persuade them to lower their own external tariff. They will lower their barriers only if we are prepared to lower ours; there must be true reciprocity.

With the lowering of the Common Market external tariff, U.S. producers will then be able to compete with their European counterparts on a more equal footing as far as tariff barriers are concerned. Under such circumstances, with growth trends in Europe continuing, we would expect at least to maintain and perhaps to improve the present advantageous trade relations we enjoy with Europe, whereby we export considerably more than we import.

Without reduction of the Common Market external tariff, U.S. producers selling in Europe will have to pay an increasingly greater tariff duty than will their European competitors. The effect of this would be gradually to squeeze our profit margins on much of our export business as we are forced to cut prices to compete, and, in many cases in the next few years, the differential between the internal and external Common Market tariffs will materially exceed the American profit margins. Under these circumstances many of our price-sensitive industries will either abandon the business or, where they can, transfer production to Europe. This could cause our exports to dwindle sharply, thus adversely affecting the jobs and profits supported by such exports, as well as our balance of payments.

As to U.S. imports from Europe, the growth of European exports has been based on production costs reduced with the help of our former aid programs. The expansion of European trade has been sought by us as well. And we need not fear an increase of trade. If U.S. tariffs are reduced, our preliminary estimates are that European competition would probably be increased only moderately since the U.S. duties in a number of cases are not very high. Also, the threat of European competition would result in American industries becoming more competitive, as was the case with European industries when the establishment of the Common Market was agreed upon.

In brief, our exports are seriously threatened by the presently scheduled Common Market external tariff which will cause the dislocation of at least some U.S. exporting industries and their employees if it is not lowered. The mutual elimination of duties by ourselves and the Europeans would, we believe, increase our exports significantly while at the same time the response of domestic industries to European competition would probably hold further increases in U.S. imports of European manufactures to moderate proportions. Our export balance would thus likely be improved.

A further advantage of the proposed trade arrangement is that U.S. capital investment in domestic exporting industries would tend to be somewhat larger with the removal of European tariff discrimination. Otherwise, as I mentioned earlier, there will be an increased tendency to abandon export businesses and, where possible, to substitute United States-owned European productive facilities for capacity in the United States, with the resultant loss in many jobs and some profits.

While I have used the Common Market to illustrate the importance of the President's trade program to American workers, farmers, and businessmen, I want to reiterate what Under Secretary of State George Ball stressed when he appeared before you 2 days ago. We are very much mindful of the mutual benefits we all will derive from expanding our commerce with all other nations of the free world, including our friends in the British Commonwealth, Japan, and the developing nations in Africa, Asia, Latin America, and the Middle East.

We believe that the economy as a whole, and the public at large, can only benefit in the long and short run from trade policies tending to maximize opportunities for our efficient industries, which incidentally pay the highest wages and still compete most successfully abroad. In the aggregate, employment opportunities of superior attractiveness will be expanded by trade policies that provide maximum access to world markets for our more efficient industries and allow import competition to stimulate efficiency in all U.S. industry.

We fully recognize that expanded international trade, meaning both expanded exports and imports, poses the possibility that some American business firms may incur temporary dislocations. As the President said last week, he does not intend to see any industries, any workers, or any communities made the sacrificial victims for what might be regarded as the total national welfare. A trade adjustment program, the details of which are now being worked out within the executive branch, will be proposed to avoid just this. Such an adjustment program will be realistic, businesslike, and economically sound. We do not believe that increased imports will in fact constitute a problem of massive proportions. We are talking about an orderly expansion of international trade—not a pellmell, overnight change in trade relations with which American free enterprise can cope only at unreasonable expense.

Every day, American ingenuity and creativity meet and conquer competitive forces far greater than any we can reasonably expect to be created under conditions of an orderly expansion of international trade. Every day technological, style, wage, and price changes in our own domestic economy present greater challenges to American producers than will any foreseeable import competition. We not only survive such challenges, we prosper and grow great because of them.

Our ability to continue to survive and prosper in the face of import competition is further assured by the fact that any reductions in our own tariffs will take place gradually over a period of years, providing U.S. producers time to adjust to increased imports. In this connection, it is interesting to note that while the Common Market nations provided for adjustment assistance in connection with the lowering of their internal tariff, the industries involved have thus far adjusted so successfully that they have not had to draw on their adjustment program in any substantial fashion whatsoever as a result of the tariff reductions.

Thus in large measure the trade adjustment program can be looked upon as insurance against any unexpectedly severe impacts from increased foreign competition since, in the vast majority of cases, we believe the impact will be sufficiently gradual and our ability to withstand or adjust sufficiently strong so that assistance will not be required. Where such assistance is required, however, it will not be in the form of a subsidy, nor will it be used to prop up a permanently inefficient enterprise. It will be utilized to strengthen the ability of our businessmen and workers to compete and thus to prosper, to strengthen our free enterprise system.

Mr. Chairman, Americans are justly proud of our free competitive enterprise system. We must continue so, and we must match this pride with our faith in the future of our free enterprise system. We are confident that American commerce and industry can and will, in this decade of the 1960's, step out into the marketplaces of the world and more than hold its own in the arena of international trade.

To enable us to meet the economic challenge of this decade our governmental procedures relating to international trade cannot be continued in a statutory straitjacket. It certainly is no longer plausible to attempt to delineate by statute specific trade relations with the rest of the world. No one can possibly anticipate in advance what economic conditions will develop, and nations cannot negotiate with one another through the medium of statutory law.

Such negotiation must be an executive function, with responsibility and authority vested in appropriate executive officials. The time is now upon us when the President of the United States must be entrusted with sufficient authority to enable the United States to meet the changing conditions of the world marketplace, to enable our Government, in matters of international trade, to deal on a hardheaded, businesslike basis with the nations of the world.

Thank you.

Chairman BOGGS. Thank you, Mr. Secretary. Do your associates have statements?

Mr. GUDEMAN. No, they have no statements, but we shall all try to answer questions.

Chairman BOGGS. Thank you very much.

Senator Pell?

Senator PELL. Mr. Gudeman, I wondered what your thought was with regard to trade adjustment legislation, if you could spell it out a little further. I was interested in your thought, for instance, that subsidy would be improper. By that, do you mean subsidy in the form of financial assistance to an area that was hurt, or what?

Mr. GUDEMAN. Let me answer you this way, sir. We definitely have stated that trade adjustment must be a part of any new legislation. When we are talking about subsidy, we are talking about a permanent subsidy, a permanent payment to an industry. We do not believe that the trade adjustment should be in that regard. We believe that it should be an assistance to an industry, to a business, or to the workers to adjust to any new competitive situation that arises from this type of legislation.

Senator PELL. Could you spell out in a little bit more detail your thoughts as to suitable, adequate trade adjustment legislation?

Mr. GUDEMAN. No, sir; at this time, I could not. As I mentioned in my statement, we are working with the other agencies, we are working very closely with the Labor Department on this. We are not ready yet, nor is the administration ready yet to spell out the details, and we are not in a position to do so at this time.

Senator PELL. I noticed in this mornings' press there was some comment to the effect that the agriculture industry was worried that if this reciprocal trade program worked, they might be frozen out of the Common Market, because there would only be arrangements made for manufactured goods. At the same time, they did not seem particularly interested in the idea of reducing the subsidies they receive at the present time. I was wondering if you had engaged in any conversations with Agriculture to pull together the reciprocal trade policy that would apply to both raw materials and finished goods.

Mr. GUDEMAN. As far as our part in this whole endeavor is concerned, I have to answer you "no." Frankly, we have had our hands full working on the commercial and industrial end. While we have, of course, heard about agriculture, I do not think any of us here today is in a position to give you an answer or a viewpoint on that, but I am sure agriculture would be delighted to talk about it.

Senator PELL. One further thought, question, is that I was wondering, would your views be with regard to the thought of insisting that American corporations abroad pay income taxes at the American rates as earned, instead of waiting to be repatriated?

To my mind, that thought runs a little bit counter to the very philosophy we are trying to spread through the reciprocal trade program of more freedom of movement of capital and labor.

Mr. GUDEMAN. Well, of course, in our department, primarily because of the balance-of-payments situation and because we are interested in American business over here, and in jobs, we favor, if one wants to put it that way, exports over American production abroad.

Frankly, I think that our viewpoint on taxing profits in American-owned foreign companies or partially owned foreign companies does not loom as a very important point point to us one way or the other, sir. After all, those companies pay foreign taxes, and we are talking about the developed countries now, not the less developed countries.

Senator PELL. Correct.

Mr. GUDEMAN. Because there we have a different viewpoint. But in the developed countries, the American companies pay a—pay foreign taxes and receive a credit on it over here. While those taxes are somewhat lower than our own, they are not materially lower, so that whether one tax them that little bit or not, we do not believe affects materially at all foreign investment, and the company that wants to invest abroad is going to do so regardless of which way you gentlemen decide on that particular tax proposal. That is our viewpoint. Maybe the other men would like to add something. Jack, do you want to?

Mr. BEHRMAN. No.

Senator PELL. Have you made any sort of survey as to what industries are going to be badly hit by a full implementation of this program?

Mr. GUDEMAN. We are working on that, and I would like Assistant Secretary Price to cover that point, if he will.

Mr. PRICE. Mr. Chairman, the Bureau of the Census puts out every 5 years, a complete census on U.S. manufactures. I wish for this purpose that we did so every year, because the last available figures are 1958. We have made an examination of the totality of American industry, based on the 1958 figures.

There are, excluding textiles, 5,106 seven-digit codes that are published by the Bureau of the Census in its Census of Manufactures. We have examined these to determine which commodity groupings might be considered as sensitive to impact of imports. Of this total of 5,106, there are 325 commodity groupings, to be exact, which would fall in this sensitive classification.

To arrive at this 325 groupings, we have subtracted from the total of 5,106, all cases where imports represent less than 2 percent of domestic shipments (which includes sales to domestic market and also at export), or where exports are larger than imports by 5 percent. We have also eliminated from our consideration the textile industry, which in the case of cotton textile products is receiving special attention, as you are, of course, aware. Therefore a total of 7 percent of all commodity groupings can be, we believe, considered as sensitive.

It would be worth while to look very quickly at the figures: in 1958, those 325 commodity groupings represented domestic shipments in the amount of $15,900 million and imports in that same year, in those same categories, were $1,700 million or, in other words, 11 percent of domestic shipments.

We have made a projection, looking at it possibly a bit pessimistically, as to what this would be in the year 1967. We have, of course, made various assumptions in order to get there. These include, for example, first that the overall growth rates in the economies of the United States, the Common Market area and Japan over the next 5 years would be about the same as over the past 5 years; second, that the commodities in question would maintain a continuation of growth or decline trend of recent years; third, that there would be a 50-percent reduction in present tariff levels, spread evenly over the next 5 years; fourth, we have not attempted to consider any increases in exports resulting from reciprocal reduction in tariff rates abroad; last, that there would be no significant changes in overall price levels.

I realize, of course, that these assumptions are necessarily somewhat academic, but we must start from some kind of a base.

Using these assumptions, the same 325 sensitive commodity groupings would be producing, in 1967, $23.5 billion of domestic shipments, and there would be, in that same year, projected imports at the rate of $4,100 million, so that the 11-percent ratio of imports to domestic shipments in 1956 would increase, by 1967, to approximately 17 percent of domestic shipments.

Again, I must point out that we are talking about 325 commodity groupings out of 5,106 or, in other words, about 7 percent.

Senator PELL. Do you think it is fair to exclude from those figures the textile industry which, as you are equally familiar, we agree is getting special treatment, but is still an industry which will probably suffer more than any other and will be at the very top of the list? I speak, obviously, from what you might call a parochial point of view, because our State has the highest percentage of workers of any State in that industry.

Mr. PRICE. Senator Pell, we have deliberately excluded them simply because of the fact that there is in effect presently what is known as the short-term arrangement with respect to cotton textile products reached at Geneva by international agreement on July 17 of this year. That lasts for a period of 1 year. There is now in process of negotiation a longer term agreement, under which a continuing specific rationalization of the international movement of textiles would take place if those negotiations are successful. Consequently, cotton textile products would appear to be in a special situation which is why we eliminated them from this.

Senator PELL. For the immediate future; but in the long haul, they would be included.

Mr. PRICE. In the long haul, textiles represent a very serious problem, and that is why the administration has proceeded in accordance with the statement by the President on this subject on May 2 of this year.

Senator PELL. Thank you.

Chairman BOGGS. Pursuing Senator Pell's inquiry of a few minutes ago, about investment abroad, the studies that we have both in this committee and the legislative committees, indicate that the notion that investment abroad means a decline in exports has not only, so far, not been shown to be true but, quite the contrary has been shown to be true. I wonder if you would care to deal with that?

The place where we have the biggest investment is Canada, and we export more to Canada than any other place on earth.

Mr. GUDEMAN. Yes, we would like to comment on that, and Assistant Secretary Behrman will handle it.

Mr. BEHRMAN. I think you are quite correct, Mr. Chairman; however, we do not know precisely what the relationship between direct investment and exports is. The evidence that you have had presented to you and some evidence which we are gathering indicates that the exports associated with a particular investment may actually increase in one of two ways, or in both of these ways, in direct exports to the subsidiaries through component parts, or in exports distributed by the subsidiary to fill out the line of products which the subsidiary is offering.

In addition, we can recognize full well that the parent would not have invested abroad if it had anticipated that it could have maintained or increased its export market.

Therefore, the investment is made as a result of an anticipated decline in exports.

We might expect, obviously, a temporary decline in exports forced by the investment because it anticipates an expected decline. There may, therefore, be a short-run decline in exports.

But what we are concerned with in the Department of Commerce, particularly in this trade bill, is that we not permit the development of a situation in Western Europe or in the rest of the world which, because of artificial trade barriers or high tariffs, makes it more economic to invest abroad than to export.

If the situation is still one which induces investment after trade barriers are reduced as much as can be through direct bargaining, than we would have no objection to that investment and would not attempt to restrict it.

Our point is simply this, that we would not want investment to be induced by high barriers to exports, which we can, in fact, reduce through negotiation.

Chairman BOGGS. Well, you are, in the Department, encouraging exports, is that not so?

Mr. BEHRMAN. That is correct.

Chairman BOGGS. The amount of exports to the so-called underdeveloped areas, where investment is relatively small, where it is limited to a few specific things such as the extracting industries, is almost nonexistent, is it not?

Mr. BEHRMAN. That is correct, sir. Outside of Latin America, it is still a very small volume of trade that we have.

Senator PELL. May I interrupt a moment?

Chairman BOGGS. Yes.

Senator PELL. Were there not some figures published 4 or 5 days ago which showed there was a total investment in the underdeveloped countries of $200 million in the past year, as related to the total of $2.50 billion?

Mr. BEHRMAN. Excluding Latin America.

Chairman BOGGS. They must have the figures. What is the total investment in underdeveloped countries as compared to developed countries?

Mr. BEHRMAN. Net capital outflow in 1960, totaled $1.7 billion, of which Europe received $960 million; Latin American Republics, a total of $95 million; Canada, $471 million; Africa, $81 million; Asia, Oceania, a net of $21 million.

Senator PELL. In other words, to oversimplify the investment in developed countries, is about seven times that of underdeveloped countries?

Mr. BEHRMAN. That is correct.

Chairman BOGGS. Well, I have before me a study entitled, "The New European Market," which I am certain you are familiar with, made by the Chase Bank. Their figures show a total investment in the European countries for the period 1950 through 1959, of $5,300 million. Is that relatively accurate?

Mr. GUDEMAN. Yes, it was $4,900 million.

Chairman BOGGS. Now U.S. exports to Western Europe, despite the fact that the amount of investment continues upward, in Western Europe in 1960, we had a total, according to these figures, of about $6.2 billion in exports to Western Europe. This broke down into 3.4 to the EEC, or the Six, and about $2.2 billion to the EFTA countries. What are our total exports to Canada? Do you have that?

Mr. BEHRMAN. 1960, total exports to Canada, $3.7 billion.

Chairman BOGGS. $3.7 billion. What are our imports from Canada? The dollar value of our imports from Canada?

Mr. BEHRMAN. In 1960, approximately $3 billion in imports.

Chairman BOGGS. And what were the exports?

Mr. BEHRMAN. $3.7 billion.

Chairman BOGGS. What were our exports to Japan?

Mr. BEHRMAN. Exports to Japan, in the first 6 months of 1961, there were exports of $900 million and imports of $470 million.

Chairman BOGGS. What was the figure for 1960 for Japan?

Mr. GUDEMAN. $1,330 million.

Chairman BOGGS. Now, roughly, what were the totals of the exports to Western Europe, Canada, and Japan?

Mr. BEHRMAN. Exports, total, to Western Europe, Canada, and Japan—we have the Common Market of $3.4 billion, other Western Europe, $2.6 billion, making a total of a little over six—$6.1 billion for total Western Europe. Latin American, $3.5——

Chairman BOGGS. Leave Latin America out.

Mr. BEHRMAN. All right, Canada, $3.7, and Japan, $1.3.

Chairman BOGGS. What is the total?

Mr. GUDEMAN. $11 billion.

Chairman BOGGS. What were our total exports?

Mr. BEHRMAN. Total exports, $19.5 billion.

Chairman BOGGS. What accounts for the rest of it?

Mr. BEHRMAN. Latin America, $3.5, other countries $5—well, you have to take Japan out of there.

Mr. GUDEMAN. Other countries, $4.2.

Chairman BOGGS. Included in that figure are Public Law 480 items?

Mr. BEHRMAN. Yes, and special categories. That is the total exports.

Chairman BOGGS. And what else?

Mr. BEHRMAN. Special categories.

Chairman BOGGS. What is that?

Mr. BEHRMAN. That is items of military origin.

Chairman BOGGS. Eliminating Public Law 480 and special categories, how much do you have in that figure other than to developed countries? Do you understand my question?

Mr. BEHRMAN. I do not have the Public Law 480 separated.

Chairman BOGGS. Let me put it another way. In the $12 billion figure that you gave me, the amount of Public Law 480 and other categories is relatively small, is that not so?

Mr. GUDEMAN. In the broken down figures we gave you, they were not included, but in the total figures, they were included.

Chairman BOGGS. How much Public Law 480 is involved in trade with Canada?

Mr. GUDEMAN. None.

Chairman BOGGS. How much with Europe?

Mr. GUDEMAN. They were not in the figures we just gave you.

Chairman BOGGS. I know, but they were included in the figures of the total. I am trying to separate them.

Mr. GUDEMAN. The total export figure we have down here on commodities is $18,800 million.

Chairman BOGGS. That is everything?

Mr. BEHRMAN. It excludes special categories.

Chairman BOGGS. The next figure I want you to give me is a breakdown on Latin America.

Mr. BEHRMAN. By commodity or country?

Chairman BOGGS. Well, by area, by total of Latin America.

Mr. BEHRMAN. Total of Latin America for 1960 is $3.5 billion, excluding special category exports.

Chairman BOGGS. And Public Law 480?

Mr. BEHRMAN. It would include Public Law 480 to Latin America; yes.

Mr. GUDEMAN. Do you want that broken down by commodity?

Chairman BOGGS. Yes, you might break it down. Suppose you do that.

Shipments of agricultural products under title I, Public Law 480, to Latin American Republics, 1959 and 1960

[Value in thousands of dollars]

	1959		1960	
	Quantity	Market value	Quantity	Market value
Argentina:				
Rice ... 1,000 hundredweight	60	358		
Soybean oil ... 1,000 pounds	6,591	697	2,145	206
Total		1,055		206
Brazil:				
Wheat ... 1,000 bushels	21,928	37,537	14,935	25,343
Tobacco ... 1,000 pounds			64	159
Total		37,537		25,502
Chile:				
Wheat ... 1,000 bushels			1,196	2,002
Corn ... do			225	297
Cotton ... 1,000 bales			17	2,334
Tobacco ... 1,000 pounds			179	179
Total				4,812
Colombia:				
Wheat ... 1,000 bushels	2,751	4,899	1,781	3,124
Wheat flour ... 1,000 pounds	55,882	2,259	29,058	1,220
Tobacco ... do			565	529
Nonfat dry milk ... do			648	59
Cottonseed oil ... do			954	117
Soybean oil ... do	19,157	2,500	28,222	3,274
Total		9,658		8,323
Ecuador: Wheat ... 1,000 bushels	259	451		
Mexico: Corn ... do	382	509		
Peru:				
Wheat ... do			1,521	2,545
Rice ... 1,000 hundredweight			485	2,197
Soybean oil ... 1,000 pounds			8,457	846
Total				5,588
Uruguay:				
Wheat ... 1,000 bushels			7,504	12,633
Barley ... do	1,051	1,048	1,931	2,090
Corn ... do	755	972	2,483	3,098
Cotton ... 1,000 bales	50	7,149	1	150
Tobacco ... 1,000 pounds	6,345	5,697		
Total		14,866		17,971
Total, all Latin American countries:				
Wheat ... 1,000 bushels	24,938	42,887	26,937	45,647
Wheat flour ... 1,000 pounds	55,882	2,259	29,058	1,220
Corn ... 1,000 bushels	1,137	1,481	2,708	3,395
Rice ... 1,000 hundredweight	60	358	485	2,197
Barley ... 1,000 bushels	1,051	1,048	1,931	2,090
Cotton ... 1,000 bales	50	7,149	18	2,484
Tobacco ... 1,000 pounds	6,345	5,697	808	867
Nonfat dry milk ... do			648	59
Cottonseed oil ... do			954	117
Soybean oil ... do	25,748	3,197	38,824	4,326
Total		64,076		62,402

Source: U.S. Department of Agriculture, Foreign Agricultural Service.

Chairman BOGGS. Well, now, these figures indicate that by way of broad generalization, one can say that the most developed countries are our best customers, Canada is probably next to us in per capita income and Canada buys and sells more to us than any other nation on earth, in spite of the fact that it is a relatively small country. Next to Canada comes Western Europe; all of Western Europe, not just broken down by country.

Again, you are dealing with highly developed areas, where the amount of American investment is very large.

The third area—not country, again, area—would be Latin America, again an area that, although classified as undeveloped, an area of heavy American investment. Is that not so?

Mr. BEHRMAN. That is correct.

Chairman BOGGS. And, of course, the fourth area is Japan, which is the only other industrialized section of the earth outside of the Soviet orbit.

Now, I do not quite understand this business you have been promoting of trying to discourage investment and, at the same time, encourage exports. I do not see how you can do this. I am not impressed with that thinking.

Mr. GUDEMAN. Well, sir, if we gave you that impression we were incorrect.

Chairman BOGGS. Well, you did give that impression.

Mr. GUDEMAN. Then let us correct it.

This is not a case of discouraging investment, but it is definitely a case of encouraging exports. So it is a matter of emphasis.

Chairman BOGGS. They seem to me to go hand in glove.

Mr. GUDEMAN. Well, they do go hand in glove, as Assistant Secretary Behrman pointed out, both on parts and on products to fill out a line. But if preference can be given on a short-term basis because of our balance of payments, then it should be given to exports.

Chairman BOGGS. You know in balance of payments that one of the pluses is return on investment abroad, and the minuses are some of these others.

Mr. GUDEMAN. Yes, I think there is a question of short term versus long term, because the return on investment abroad does not come back immediately, but, of course, the dollars from exports come back right away.

I think there is another point, sir, which we would like to emphasize and on which we are working particularly, and I believe that possibly this is the reason you think we are putting such emphasis on exports, and we are. We recognize that relatively few companies in the United States are in the export business and that by and large, these are the larger companies.

Now, we use a figure, although I am not sure that we could prove this figure, but it is the best we can get, that out of the 400,000 manufacturing companies in the United States, roughly some 14,000 do any kind of a substantial export business, or less than 4 percent.

Now, we are interested in having more companies do more export business. Our endeavor over the last few months since we have come here to Washington and been in office has led us to believe that lack of knowledge of how to conduct an export business is preventing many medium sized and smaller companies from entering this market. So that what we are endeavoring to do is not only to promote exports, but to be helpful from an educational purpose, to show people how to get an agent in a foreign country, how to work with bills of lading, how to take out export insurance, and all the rest of that.

Now, this is just added volume. We are not trying to substitute it for anything else, we are only trying to increase the number of companies that do an export business so that we increase our export trade.

Chairman BOGGS. For instance, there are some companies which carry on a great export business, which also have heavy investments abroad. Now, I wonder if there is not a very direct connection between the two?

I do not like to take individual companies, but I do it only to give an example. Sears, Roebuck, for instance, goes into Lima, Peru. That did not exist; the market was not there. It was not a question of losing a market, it just was not there at all. They develop, they import from the United States certain items that they will sell there. They try to manufacture most of them there. Would you discourage that kind of operation?

Mr. GUDEMAN. Of course, Mr. Chairman, you are talking about the woman I love, because I used to work for that company. I was vice president there.

Chairman BOGGS. I did not mean to put it so directly.

Mr. GUDEMAN. Well, I can talk very directly about that.

Of course we would not discourage that. Quite the contrary, we would encourage it. I must say that when I was with Sears, Roebuck, our theory was to manufacture or have manufactured for us within the country as much as we possibly could and export as little as we could.

But to answer your question, definitely, it is a combination of both.

Chairman BOGGS. How much total investment do we have in Canada?

Mr. GUDEMAN. I shall see if we have those figures.

Mr. BEHRMAN. Outstanding investment, Mr. Chairman?

Chairman BOGGS. Yes.

Mr. GUDEMAN. $11 billion.

Chairman BOGGS. Now, do you have before you, by chance, the investment we have, say, in Pakistan?

Mr. BEHRMAN. I shall see if it goes down that far. It is going to be very little, if there is any.

No, that particular country is not here. India, Indonesia——

Chairman BOGGS. How much do we have in India?

Mr. GUDEMAN. $160 million.

Chairman BOGGS. Eliminating special category and Public Law 480, how much trade do we have in India?

Mr. GUDEMAN. $640 million in 1960.

Chairman BOGGS. That is exclusive of special categories and Public Law 480?

Mr. GUDEMAN. Yes. That excludes special categories. We are pretty sure it includes Public Law 480.

Chairman BOGGS. Does include Public Law 480?

Mr. GUDEMAN. I would think so, sir, because it does not say down here that it is excluded. We would have to check to be perfectly certain.

That is the figure.

Chairman BOGGS. In the overall foreign economic policy of our Government, is it not your belief that we should, at least insofar as the so-called developing countries are concerned, encourage investment by American capital?

Mr. GUDEMAN. Yes, sir.

Chairman BOGGS. What do you recommend as the encouragement for this investment?

Mr. GUDEMAN. What do we recommend to encourage that?

Chairman BOGGS. Yes.

Mr. GUDEMAN. We definitely recommend and have said so to the administration that profits produced in the less developed countries not be taxed so that they can be reinvested for further development, both of our own trade and of that country.

Chairman BOGGS. Now, you have recently announced a program to assist exports by providing certain guarantees against losses to American businessmen?

Mr. GUDEMAN. Well, the Export-Import Bank has.

Chairman BOGGS. You have been working with them on that, have you not?

Mr. GUDEMAN. Yes, we have.

Chairman BOGGS. I wonder if you would go into that a little bit?

Mr. BEHRMAN. The program, Mr. Chairman, which we have established, which will be in operation some time in January, is aimed at expanding the commercial and political risk guarantees, which will be provided both on short-term and medium-term loans for export. The private group which will extend these guarantees, will make the credit investigation, will extend the commercial risk guarantee, and the political risk guarantee, will be backed up by the Export-Import Bank. The organization itself will be a private organization with agencies throughout the United States; insurance companies and banks will cooperate. We shall cooperate in our field offices. We would also cooperate through the Department of Commerce itself, here in Washington, in promoting interest in this program.

The contract itself has provisions which will be quite comparable to that which is offered by the United Kingdom, Germany, and the rest of the Western European countries. We feel once this program is in being, it will be comparable to that which is offered Western European exporters by their people.

Chairman BOGGS. Do you think that the American business community is sufficiently aware of the—shall I say—dangers, which may be ahead if our Government is not in a position to negotiate realistically with the approaching united Europe?

Mr. GUDEMAN. I think this is a very difficult question to answer. All three of us here talk to businessmen just as much as we can and, as you know, we go out and give any number of speeches, probably too many, to businessmen. I shall give you my own feeling, and then I would like each Assistant Secretary to tell you how they feel about this, because one cannot measure this exactly.

I do not believe that businessmen understand our tariff situation. I am talking now generally. I am really not talking so much about big business as I am about medium-sized and smaller businessmen. I shall come to the location of that business in a minute.

I do not believe that they understand our present tariff regulations and statutes and laws, and I think they are only beginning to recognize what the Common Market is, how it developed, and all the rest of that. In other words, I think part of our job in the Commerce Department, as well as the job of other agencies, including the White House, is to inform businessmen, and we were very happy that the President took the occasion in his speech before the NAM to concentrate on this subject, because we think it is very, very necessary.

And I might add, sir, that in every speech that we give to businessmen, we always cover this and will continue to do so for the coming months, because we think education is required.

Now, if you want to break that down across the country, my impression is this, that in the eastern part of the United States, the business community is a little more sophisticated than it is in the Midwest, and the further West you go, the less knowledge there is of this subject, although I do believe, when you get out to California, you find businessmen knowing or being better informed than in the Midwest. Now, maybe Assistant Secretaries Price and Behrman—Mr. Behrman said watch out for Chicago, because I come from there.

Go ahead. Do you want to add anything to that?

Mr. PRICE. Yes; I would be very glad to. I think that in our contacts with American industry, which are perhaps the closest of any Government agency, we have come to the conclusion that by far the larger part of American industry does understand and views with sympathy the problem of changing trade patterns which we face as a nation and which is under consideration here.

For example, I would like to refer you to a statement on foreign trade policy made the day before yesterday in the form of a resolution by the directors of the American Cotton Manufacturers Institute. This statement is well worth studying. It shows a degree of statesmanship and breadth of vision with respect to our overall foreign trade problem and with respect to ultimate solutions of it which a great many other industries, both domestic and foreign might well emulate.

I think the fact that this industry, which has suffered considerable impact from imports, went as far as it did in this statement, particularly in the absence of any great details with respect to the forthcoming bill, is evidence in itself of a strong trend within American industry to view this problem with considerable sympathy.

Chairman BOGGS. Yes. I would like very much to have a copy of that statement or resolution for the record.

(The resolution referred to appears in the appendix.)

Mr. BEHRMAN. May I comment on that question from a slightly different background, Mr. Chairman?

Chairman BOGGS. Certainly.

Mr. BEHRMAN. I think there are a large number of the major corporations which are cognizant of the changes abroad, particularly in Europe. But, I have had the privilege of lecturing on Common Market problems in the past, particularly investment and licensing as it affects these countries, and the majority of the company representatives that I have been privileged to talk to have lacked basic information about the developments in the Common Market.

In a few instances, even the membership of the Common Market is not known by the individuals in the forefront of the international operations of the company; by that, I do not mean there would be an international division; these would be medium- and small-sized companies, beginning to look into the foreign field for export or investment, or things of this nature, not quite sure what they want to do. So I would assert, in some modification of what has just been said, that there are a large number of small-sized companies and medium-sized companies that are looking overseas that are not cognizant of the changes which are coming about, and as part of our job, we shall be out trying to explain to them the challenges which exist, both in the Common Market and in the developing countries.

While I am talking, may I revert back to a previous question which you asked about our role in the developing countries, particularly. We have recently reorganized the international side of our activities in the Department and have created an Office of International Investment which has as its role the promotion of investment and licensing, the transfer of skills, and know-how to the developing countries both from the private sector directly into the private sector abroad, and in cooperation with the aid agencies, to expand as much as possible the role of the private sector in the development program of the aided countries.

Now, this is a new operation, one which we are just getting off the ground, but it does indicate to you, I think, that we are not looking only at expotrs, though this is a primary concern of ours; we are also looking toward the long-range association of private business here with the economies of the less developed countries.

Chairman BOGGS. I have asked this question of other witnesses. We have heard a good deal in and out of Congress about the impact that legislation such as that proposed by the President might have on certain industries which may be adversely affected by imports. What, in your judgment, would be the impact upon American business generally if we fail to act at all in this field?

Mr. GUDEMAN. We believe that over the long range, this would be quite disastrous to our economy. We in our Department feel very strongly that we cannot build among our 50 States over here a high wall and take care of our expanding population and have our standard of living even maintain itself, let alone increase. Our population growth is going forward, and those people who enter the labor market each year must be provided with work. We cannot conceive how there can be full employment if we are to build a high tariff wall around us.

We believe also that from a political standpoint, wholly apart from the economics, it would be a disastrous thing, because then many of the underdeveloped countries, as well as some of the developed, would trend in their trade and in their thinking toward the Communist bloc. So that we feel from this standpoint, our trade with other countries and our assistance in helping the underdeveloped countries expand their trade, both agricultural and commercial and industrial, is a must for our country over the coming years.

Now, as we said in our remarks, we do not fear this at all. After all, our exports are at $20 billion a year, and our imports are $15 billion, of which, as we mentioned, $10 billion, roughly, is in goods that we do not have over here, either make, buy, or grow.

So that, Mr. Chairman, we feel that our country could not maintain itself socially, economically, diplomatically, or politically if we were to build high tariff walls. That is how important we think this issue is.

Chairman BOGGS. Mr. Price?

Mr. PRICE. Mr. Chairman, I would like to answer that a little bit. I would not attempt the high level that Under Secretary Gudeman has given the international political scene. I would like to restrict my few very brief remarks only to our domestic economy.

Mr. Chairman, I come from Michigan. The three counties which comprise Metropolitan Detroit have had for the first 11 months of this year an 11.3 percent average unemployment rate. We are struggling in our State, as are a number of States, with an adjustment to the absorption of more than our share of approximately 1,800,000 persons per annum who are being displaced in this country by improved technological processes on the one side, and another more than 2 million coming onto the labor force annually. We must find ways to increase, and substantially, our growth factor, which I believe you will agree, sir, has lagged seriously in recent years.

This growth rate is, among all of the industrial nations, second from the bottom, the bottom being the United Kingdom. History will show the United Kingdom learned the hard way that it was impossible to stay out of a liberal trading arrangement with its fellow countries on the Continent, which is why it has applied for admission to the Common Market.

I am not, obviously, proposing that we join the Common Market. However, I do say that what happens with respect to the growth of our world trade in this country cannot help but have a major impact and a favorable impact upon our total rate of growth and upon our unhappy employment situation, which, as you know, despite the gains in our gross national product over the past 9 months has nevertheless remained stubbornly above 6 percent.

It seems to me, sir, that just as our forefathers 100 to 150 years ago went west to Louisiana, or to Michigan, or to California when economic times got tough in the East, we have before us what constitutes a comparably great challenge on the one hand and opportunity on the other. We must grasp that challenge and find new frontiers, as they found new frontiers, in the opening up of world trade on a basis that we have never known in the past. We have largely looked for expansion within our own frontiers in the past. If we put our

American ingenuity to work in the development of world trade in the largest sense of the word, I believe, sir, that we can solve many of our internal domestic problems. If we do not do so, I fear, indeed, that we shall stagnate at our present low rate of growth and that we shall have missed a great opportunity, not only for our generation but for a long time to come.

Thank you, Mr. Chairman.

Chairman BOGGS. I think Assistant Secretary Behrman would like to add something.

Mr. BEHRMAN. If by your question, Mr. Chairman, you were inferring that nonaction on this bill would mean a reversion to a protectionist sentiment or no future negotiating authority whatsoever, so that we moved no inch further toward liberal trade, I would say this would be a signal for the rest of the world that we were accepting restrictionist sentiments, and therefore, would encourage them to move toward nationalistic policies of self-sufficiency, which many of them simply cannot afford, nor can we.

For example, though the Under Secretary has spoken of $10 billion of imports which we do not produce—they are noncompetitive, generally—these are important to our production, our industrial advancement, and to our standard of living. We need imports as well to maintain our high rate of growth and our standard of living.

In addition, this trade, and we can expect an expansion of our imports as well as our exports, is necessary to the developing countries. They, by and large, are small economically. There are only a few of them which have a potential of internal development from their own generation of capital and skills which could carry them very far. Without trade, they cannot import the capital equipment they need without exports, and the exports that they seek have to be generally directed toward the industrialized countries.

If we adopted a restrictionist policy, we would cut off a sizable amount of assistance to their development, which we hope now to continue.

In addition, in order to carry the aid programs which we have been carrying on and our military commitments, there is no doubt that we shall have to continue to expand our exports, hopefully at a rate higher than the expansion of our imports, at least sufficient to carry these additional burdens.

Chairman BOGGS. Well, one other question and then I shall let you gentlemen go.

A few years back, when we extended the existing trade agreements program, the Department of Commerce made some studies indicating the impact of exports and imports in given areas of the United States. I found, and this is not reflection upon anyone, particularly upon my colleagues, that sometimes they, themselves, do not know the economic role that exports play in their own area. Those who seek protection sometimes are more vocal than the others.

My question is, Are you making similar studies, and if you are, will they be made available to the Congress by the time we are considering this legislation?

Mr. GUDEMAN. Mr. Chairman, we are making those studies, and I shall let Assistant Secretary Price expand on it, but we are well underway in that program. He might cover it in more detail.

Mr. PRICE. Mr. Chairman, in my brief remarks a few moments ago, I neglected to mention that there are sensitive industries, some of which I referred to earlier, where some form of cushioning of the impact obviously is necessary. However, the number of these, as I have also pointed out, is relatively small in our total economy. It does not mean that the people who are employed by them are not flesh and blood and that something must not be done to cushion such an impact. We are now deep in studies of these problems, and, prior to the introduction of the forthcoming legislation, we shall be prepared to discuss each case, industry by industry.

Chairman BOGGS. When do you anticipate making your recommendations in that respect to the President so that he, in turn, can make his to Congress? In other words, I am trying to get a timetable established here.

Mr. PRICE. Well, of course, sir, we are operating in conjunction with all the other parts of the administration on this total matter.

Chairman BOGGS. Do you anticipate these recommendations coming to the Congress quite early in the session so that we can move along on it?

Mr. PRICE. I have not been informed by the rest of the administration as to when they will be ready. Our part will certainly be ready in the very early part of the session.

Chairman BOGGS. Mr. Secretary, do you have anything to add to that?

Mr. GUDEMAN. No, I was going to say that presentation to Congress is really not in our hands, and I was just going to reiterate what Secretary Price said, that our own work will be ready shortly after the first of the year.

Chairman BOGGS. Well, I think the work of your Department in this area is most important.

Mr. GUDEMAN. We recognize that, and we are working very hard on it.

Chairman BOGGS. Well, gentlemen, you have been helpful to the committee and we are quite grateful to you, Mr. Secretary Gudeman and Mr. Price and Mr. Behrman.

Before adjourning, I would like to insert into the record for the information of my colleagues, a study entitled "The New European Market, a Guide for American Businessmen," by the Chase Manhattan Bank.

(The study referred to is as follows:)

THE NEW EUROPEAN MARKET

a guide for american businessmen

THE CHASE MANHATTAN BANK

contents

introduction

Developments today in Western Europe are influencing business decisions taken in all parts of the United States. European economic integration, rising competition from European manufacturers, and the prospects for increased sales in an expanding European market are causing many American firms to reorganize their international operations. Others are becoming interested in Europe for the first time. Knowledge of European developments has become a must for many American companies.

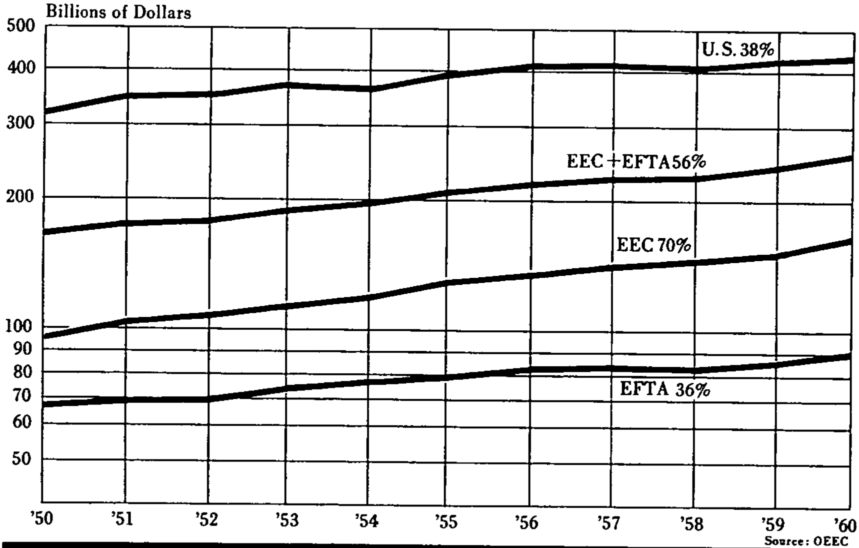
The purpose of this booklet is to provide a concise report on the new European market—its present structure and prospects, its likely effects on American exports and investment, its characteristics as a market and a place to do business.

Since the end of World War II Western Europe has been racing through a period of rapid change. Efficient new factories have restored the countries of Western Europe to their previous positions among the industrial leaders of the world. Regional economic groups have begun to break down the partitions that divided pre-war Europe into protected national compartments. A new way of life is emerging, based on higher incomes, greater demand for goods and services, and the desire for higher living standards.

- The industrial growth that began with post-war reconstruction has continued at a fast pace. Since 1950 the economy of Western Europe has been growing at an average rate of almost 5% a year, compared with about 3% a year in the U.S.
- The six countries of the European Economic Community (West Germany, France, Italy, the Netherlands, Belgium, and Luxembourg) are removing trade barriers between them and taking steps to integrate their economies.
- The seven countries of the European Free Trade Association (Britain, Switzerland, Sweden, Norway, Denmark, Austria, and Portugal) are moving toward free trade among themselves in industrial goods.
- The people of Western Europe are buying more meat, more cars, more television sets, more refrigerators. Modern apartment buildings, department stores, supermarkets are being erected throughout Britain and the Continent. Advertising, packaging, and distribution are being influenced by the American example of marketing in a vast consumer economy.

These changes pose both challenges and opportunities for U.S. business. For many American manufacturers they mean stiffer competition in overseas markets and at home. At the same time, they mean a larger market in Europe for raw materials, industrial equipment, and consumer goods.

TOTAL PRODUCTION HAS GROWN FASTER IN EUROPE THAN IN THE U.S.



steps toward economic integration

Before turning to a more detailed examination of Europe's two economic groups, it is necessary to look briefly at the recent political and economic events from which they developed. Many Europeans view economic integration as a first step toward political unification, and it is impossible to divorce the commercial effects from their political implications.

the marshall plan and european cooperation

The idea of a united Europe has been a powerful force since World War II. One of the first formal steps toward economic unity was taken as a result of the Marshall Plan. In 1947, seventeen European nations formed the Organization for European Economic Cooperation (OEEC) to allocate U.S. financial aid and to coordinate their economic development and reconstruction programs. Through OEEC were developed the European Payments Union and a code of trade liberalization, which helped to restore commerce among members. OEEC was given no powers independent of the member states, but it served as a negotiating body and as a forum for exchanging views on problems of trade and international payments.

In 1961 OEEC is to be replaced by the Organization for Economic Cooperation and Development (OECD), which adds the U.S. and Canada as full members and takes on new functions, including the coordination of aid to underdeveloped countries. OECD, like its predecessor, is a vehicle for cooperation among sovereign nations. Members may debate freely and accept proposals for concerted economic policy, but countries voting against a proposal cannot be forced to participate in its execution.

benelux and the coal and steel community

Another early step toward economic integration was the establishment of Benelux. Belgium and Luxembourg had set up a customs union as far back as 1921. During World War II they agreed to join with the Netherlands to expand the customs union to include the three countries. Today Benelux constitutes a single market, with a common external tariff and virtually no legal obstacles to the free movement of goods, capital, or labor among the three members.

The most immediate progenitor of the European Economic Community is the European Coal and Steel Community (ECSC). In 1952 the three Benelux countries, France, Italy, and West Germany, established a unified market for coal and steel. Since then tariff and quota restrictions on these products among the six countries have been abolished, discriminatory transport rates and many legal obstructions at the frontiers have been eliminated. The supervisory institutions of ECSC are subordinate to no national government. In many respects, they served as the model for the institutional framework of the Common Market.

the free trade area negotiations

In March 1957, the six members of ECSC signed the Treaty of Rome establishing the European Economic Community (EEC). This step followed almost a year of debate in the forum of OEEC. Britain and a number of other European nations, although they favored the idea of free trade, felt that further economic integration of Europe should follow the cooperative pattern of OEEC rather than the supranational approach of the Coal and Steel Community. Some of them also objected to the EEC's plan for a common external tariff — notably Britain, whose trade with the Commonwealth is partly based on a system of preferential tariffs.

Britain had taken the lead in proposing the creation of a wide European Free Trade Area, including the Six, which would not have any supranational institutions and would leave each member free to set its own tariffs against the outside world. After the signing of the Rome Treaty, representatives of the interested governments met in Paris to try to negotiate a solution acceptable to all. The negotiations continued unsuccessfully into 1958, and then were broken off.

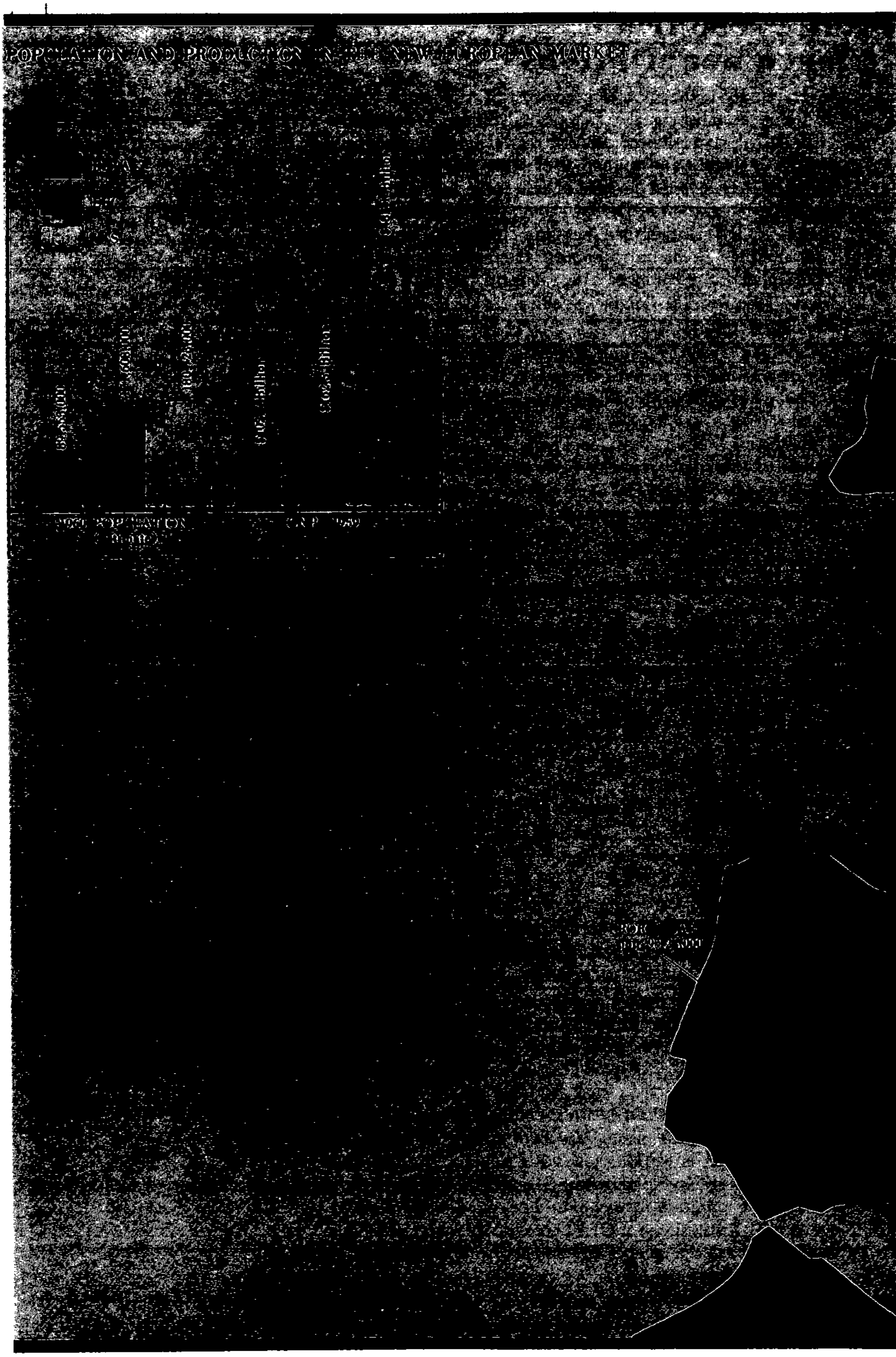
the six and the seven

The six members of the EEC ratified the Rome Treaty before the end of 1957 and made their first internal tariff cuts and quota expansions on schedule, January 1, 1959. In July representatives of Britain, Norway, Sweden, Denmark, Switzerland, Austria, and Portugal met in Stockholm to form their own "little free trade area" — the European Free Trade Association — which came into existence in May 1960.

The two groups both profess the desire for a "bridge" between them to prevent their independent tariff cutting schemes from distorting established patterns of trade and to avoid the possibility of economic and political division among the free nations of Europe. Spokesmen of both EEC and EFTA assert that the implications of a split Europe are important enough to assure that some means of associating the two groups will be found.

Many plans have been advanced for bridging the gap between the Six and the Seven: Britain and other members of EFTA could join the EEC; the EEC could join EFTA as a group, retaining its own goal of close economic integration; the two groups could exist side by side, devising special measures to prevent shifts in established patterns of trade. The new OECD, which includes all the members of both groups, has an important role to play in working towards a solution. But the basic philosophical difference remains: The EEC countries favor a far-reaching program of economic integration supervised by community institutions; the EFTA countries prefer economic cooperation among independent nations with a minimum of institutional structure.

However the differences are resolved, the American business community cannot wait for a solution. Some $5 billion worth of export business is at stake. The ground rules for doing business in Europe have already begun to change, and U.S. firms are modifying their policies and plans accordingly.


POPULATION AND PRODUCTION IN THE NEW EUROPEAN MARKET

what is the european common market?

The Common Market is the most ambitious step yet taken toward economic integration in Europe. The Treaty of Rome binds France, Italy, West Germany and the three Benelux countries together into the European Economic Community (EEC). It calls for the creation of a customs union — an area of unrestricted trade surrounded by a common tariff wall. More than that: It calls for free movement not only of goods, but of capital, services, and labor throughout the territory of the Six. To implement these plans, the treaty sets up institutions which are responsible to no individual country, but to the Community as a whole.

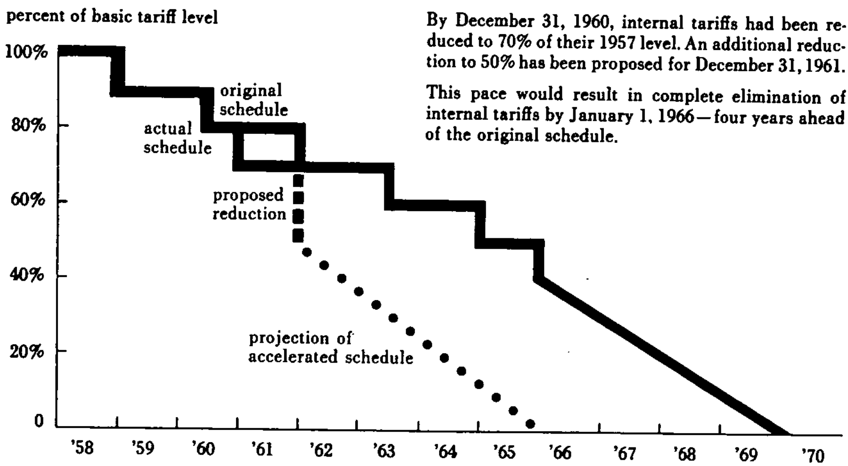
The Rome Treaty says nothing about integrating the Six politically — setting up a United States of Europe — but the European Economic Community could be an important step toward close political association among the Six.

The aspect of the Common Market that is of most direct concern to U.S. business is the customs union, and it is here that progress has been most rapid. The original treaty of 1957 allowed 12 to 15 years for progressive elimination of tariffs and quotas among the Six and adjustment of external tariffs to a common level. This transition period was broken into three stages, of four to five years each.

In May 1960, however, the Six agreed to speed up the timetable. On January 1, 1961, internal tariffs already had been cut 30% below their 1957 levels. Another 20% reduction proposed for the end of 1961 would bring tariffs half-way down only four years after the beginning of the Common Market. Although the rate of further tariff cutting may be sped up or slowed down (depending on business conditions), the target date for complete elimination of internal tariffs is now 1966.

Quantitative restrictions (quotas) among the Six are also to be abolished over the transition period. On industrial products, all quotas within the Common Market must be eliminated by the end of 1961. On other goods, the target date is 1970. Meanwhile, no new import quotas may be introduced.

TARIFFS WITHIN EEC WILL BE ELIMINATED...



By December 31, 1960, internal tariffs had been reduced to 70% of their 1957 level. An additional reduction to 50% has been proposed for December 31, 1961.

This pace would result in complete elimination of internal tariffs by January 1, 1966 — four years ahead of the original schedule.

the common external tariff

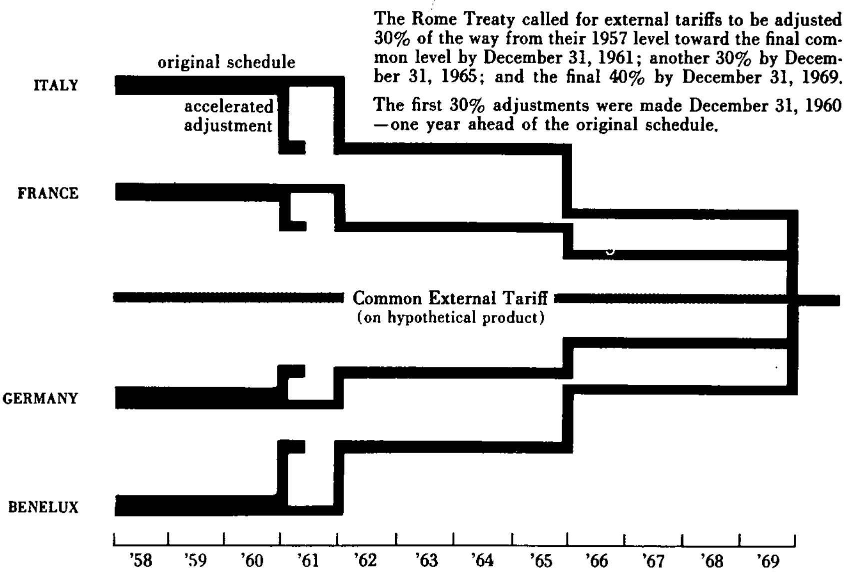
At the end of the transition period, the Six will levy the same tariff on products from outside the Common Market. For most products this tariff will be based on the average of the four customs areas—France, West Germany, Italy, and Benelux.

For example: Before the Common Market, the tariff levied on bookbinding machines by Italy was 18%; by France, 16%; by Benelux, 6%; by Germany, 5%. The common tariff is the arithmetic average: 11%.

The Rome Treaty calls for the Common Market countries to adjust their tariffs to this average in three steps. The first step took place on December 31, 1960—one year ahead of schedule. Steps two and three are scheduled for the end of 1965 and the end of 1969, but they too may be accelerated. The final level of the common external tariff will depend on the outcome of reciprocal trade negotiations, in which the Six now bargain as a unit. EEC has offered to reduce its external tariff by 20% in exchange for concessions from other nations.

Some products have been placed on special lists prescribing a common tariff level different from the arithmetic average. Most raw materials and processed commodities will have maximum duties of 3% and 10% respectively (lists B and C). A number of raw chemicals will have a top duty of 15% (list D), and another group of chemical products will have a top duty of 25% (list E). Another list contains products whose duties have been fixed by negotiation among the member states (list G). Most of these are raw materials, semi-manufactures, and farm products. On a few products, such as refined petroleum, no agreement has yet been reached.

EXTERNAL TARIFFS WILL BE BROUGHT TO THE SAME LEVEL...



Keeping track of the Common Market's internal and external tariff levels during the transition period will be a complicated business. When adjustments are made, however, one result will be a simplification of customs procedures. Eventually there should be no internal tariffs, and one list of external duties should apply to the whole Community.

harmonizing national policies

Tariffs and quotas are not the only artificial barriers to trade among countries. Exchange restrictions, subsidies, differences in taxation, restrictive agreements between firms, and even the national fiscal and monetary policies can distort the pattern of trade. The Common Market aims to harmonize economic policies and business law, turning the Six as effectively as possible into an economic unit. Specific fields include capital and labor mobility, competition, transportation, and agriculture.

free movement of capital and labor

The Rome Treaty calls for all restrictions on the movement of capital within the Common Market to be removed during the transition period. In May 1960 the Six abolished restrictions on direct investment and on the transfer of earnings of direct investments from one member country to another. At the same time they liberalized exchange regulations governing medium and long-term loans, stock offerings, and trading in listed securities within the Common Market. A country with serious balance-of-payments difficulties may still restrict capital movements without consulting the other members, but even here the action is subject to review.

Restrictions on the right of a business firm domiciled in one of the Six to establish a subsidiary, branch, or independent enterprise anywhere in the Common Market also are to be eliminated during the transition period. Actually, expansions and mergers across national boundaries inside the Community already have become common. The first two years of the Common Market saw hundreds of these industrial "interpenetrations." A program to eliminate discriminatory restrictions on services (legal, insurance, banking, etc.) among member countries was being developed in 1960.

By the end of the transition period all types of labor, including professional men and managers, will be free to accept employment anywhere in the Common Market. Movement of people is a much slower process than movement of capital, but the Six hope to encourage it by ironing out differences in labor laws and retraining workers. More than 200,000 Italians recently have moved into West Germany, helping to relieve Italy's unemployment problem and Germany's labor shortage.

Increased movement of goods, capital, and labor should spur the Common Market's growth, and this may help U.S. firms by increasing the demand for their products. Moreover, the U.S. producer who operates inside the Common Market will be aided directly by this increased freedom of maneuver. He will be able to branch out from a subsidiary in one country to other countries in the area, and he will also find it easier to employ the services of professional and skilled labor without regard to their nationality within the Common Market.

free competition

The Rome Treaty provides the outline for a fairly strict anti-trust policy within the Common Market, but it leaves an important loophole. Article 85 of the treaty prohibits agreements which hinder the free play of competition within the Common Market by means of: 1) Direct or indirect price fixing; 2) market sharing; 3) limitation or control of markets, production, or investment; 4) discriminatory pricing; 5) tie-in sales or contracts.

The same article goes on to say, however, that these provisions do not apply to agreements, practices, or merger decisions which contribute to improve the production or distribution of goods, or to promote technical or economic progress, so long as the consumers receive a fair share of the benefits. This clause reflects the traditional European attitude toward cartels, which is considerably more tolerant than the American. Prior to the Rome Treaty, member countries had little or no anti-trust legislation. Despite this loop-hole, the intent of the treaty is clearly to provide a framework in which active competition is stimulated and where cartel practices which prevent the entry of new firms are discouraged.

No timetable for putting the common anti-trust policy into force has been set. Experience of the Common Market's first three years of operation indicates that the EEC probably will move very cautiously in this field, placing emphasis first on strengthening anti-trust legislation in each of the six countries, then on measures to place cartels under the same kind of regulation throughout the Common Market.

First concrete proposals for administering the anti-trust program were announced late in 1960. Under these proposals, companies operating across boundaries in EEC would be obliged to register all agreements and prove that they do not run counter to the treaty. Companies failing to register such agreements, rendering false reports, or failing to terminate agreements adjudged illegal could be liable to fines. Simple licensing agreements would be exempt from registration.

How rigidly such a system might be enforced is questionable. But the EEC's anti-trust policy is almost certain to result in more restrictions on cartels than have existed in the past.

Subsidies and other government aids which distort competition by favoring domestic producers also are prohibited by the Treaty. Not all subsidies fall under this ban, however. Direct grants, low-cost loans, and special tax concessions to promote investment in underdeveloped areas or zones of unemployment have been allowed for social reasons.

a common transport policy

Preferential freight rates and frontier levies can restrict free competition between countries in much the same way as tariffs. The Rome Treaty seeks to eliminate discrimination against the movement of goods across national boundaries and to prevent governments from subsidizing domestic industries by allowing them to pay lower rates for public transportation than those paid by foreign producers.

The governments of the Six all have a hand in transportation — especially in the railroads — but the part they play and the policies they follow vary from country to country. An important aim of the Common Market will be to bring these national policies gradually into line over the transition period.

The Common Market will also help to coordinate transportation investments in the Six, to improve the links between countries and to open up underdeveloped areas. Important projects benefiting the Community may be eligible for financing from the Common Market's Investment Bank.

agricultural policy

The Rome Treaty says that the Common Market will extend to agricultural products and that the Six will set up a common agricultural policy. The aims of this policy will be to increase productivity, raise farm income, stabilize markets, guarantee regular supplies of farm products, and to assure reasonable prices to the consumer.

Detailed proposals for the common agricultural policy were presented in 1960. The key to the proposed policy is a scheme to equalize support prices of the member countries in order to encourage trade in farm products among the Six. Intervention by national governments would be coordinated by central marketing organizations — one for each product.

Protection against farm imports from outside the Common Market would be put on a new basis. Most imported food products would be subject to variable levies, which would be kept high enough to make up the difference between world commodity prices and the fixed internal prices of the Six. For other farm products, protection would be provided by tariffs.

The national governments of the Six already are deeply involved in agriculture. More than 20% of the Common Market's workers live from the land. At the same time, farms are generally small — about 60% have less than 12 acres — and often inefficient. All six countries follow policies that protect agriculture, and the Common Market will seek to coordinate these policies rather than eliminate them.

In the long run, however, the success of the common agricultural policy will depend on how effectively it encourages high-cost farmers to leave the land and find new jobs in industry. Because farmers retain much political power in each member country, this will be one of the EEC's most difficult problems.

other measures for integration

The Six also have agreed to work together on other economic and social problems within the Community and within the overseas territories and former territories of the member countries. The $1-billion European Investment Bank lends long-term capital to companies for projects in the Common Market — primarily in its less developed areas. It does not discriminate against subsidiaries of U.S. corporations. The European Social Fund finances retraining and relocation of workers within the Six. A Development Fund promotes the growth of overseas territories and countries that choose to maintain their ties with the Community. Subscription of its $581 million capital is prorated among the Six.

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The relationship of these overseas countries and territories (mostly in Africa and mostly French) to the EEC is still unsettled. The Rome Treaty offers them the benefits of the reduced internal tariff of the Common Market — an important advantage over their competitors, the other primary producing countries of Africa and Latin America — while allowing them to maintain sufficient tariffs and quotas against the Six to protect infant industries. But the decision of a newly-independent country to maintain its association with the EEC can turn on political as well as economic considerations, and the exact terms of association are open to negotiation.

The treaty also leaves the door open for other European countries to join the Common Market as associate members. Greece opened negotiations with EEC in 1959, and an association agreement was signed in early 1961. Turkey also has indicated a desire to associate itself with the Common Market.

euratom

At the same time that they established the Common Market, the Six signed another treaty creating the European Atomic Energy Community (Euratom). The purpose of Euratom is to coordinate development of nuclear power and other peaceful uses of atomic energy.

High costs have thus far kept nuclear power plant construction well below Euratom's original estimates, but Euratom conducts an extensive research program — cooperating with the U.S. Atomic Energy Commission—and present plans call for 40 million kw of nuclear power capacity by 1980.

the institutions of the common market

The Rome Treaty sets forth a fairly detailed outline of policy for the Common Market, but it is only an outline. To fill in the outline with specific policies and to administer their execution, the treaty established a number of Community institutions. The most important of these institutions are:

1. **A Commission,** which proposes Community policy and has day to day administrative authority,
2. **A Council of Ministers,** which decides Community policy and has prime executive responsibility,
3. **An Assembly,** which serves as a limited parliament,
4. **A Court of Justice,** which passes judgment on legal issues arising under the treaty.

Although the Rome Treaty does not confer supranational powers on these institutions, their importance is more than administrative. They represent a nucleus from which a European government could some day evolve, if the six member countries want this evolution to occur.

The Commission is a nine-man body charged with administering the Common Market, working out detailed policies for implementing the Rome Treaty, and supervising the execution of policies approved by the Council of Ministers. It sits at Brussels, Belgium. Members are appointed by the member states for a term of four years — the first Commission's term running until the end of 1961. Although the Commission has no power to make policy itself, it initiates proposals for common policy. Under the leadership of its first president, Dr.

Walter Hallstein of Germany, the Commission's influence on policy has been great.

The Council of Ministers is made up of representatives of the six member states. The Council makes all policy decisions — and many of them must be taken unanimously, giving each member a technical veto power. Although members of the Council represent their own countries' interests, experience so far has shown that it has generally been possible to work out compromises on policy which could be accepted by all. Significantly, the treaty calls for many of the decisions requiring unanimity to be made by majority vote after a period, thus paving the way for closer coordination of the Six.

The Parliamentary Assembly is a 142-man body appointed by the parliaments of the member states. It has few powers, at present, except to debate and recommend. It may censure the Commission by a two-thirds vote, which obliges the Commission to resign. It has no power over the Council of Ministers.

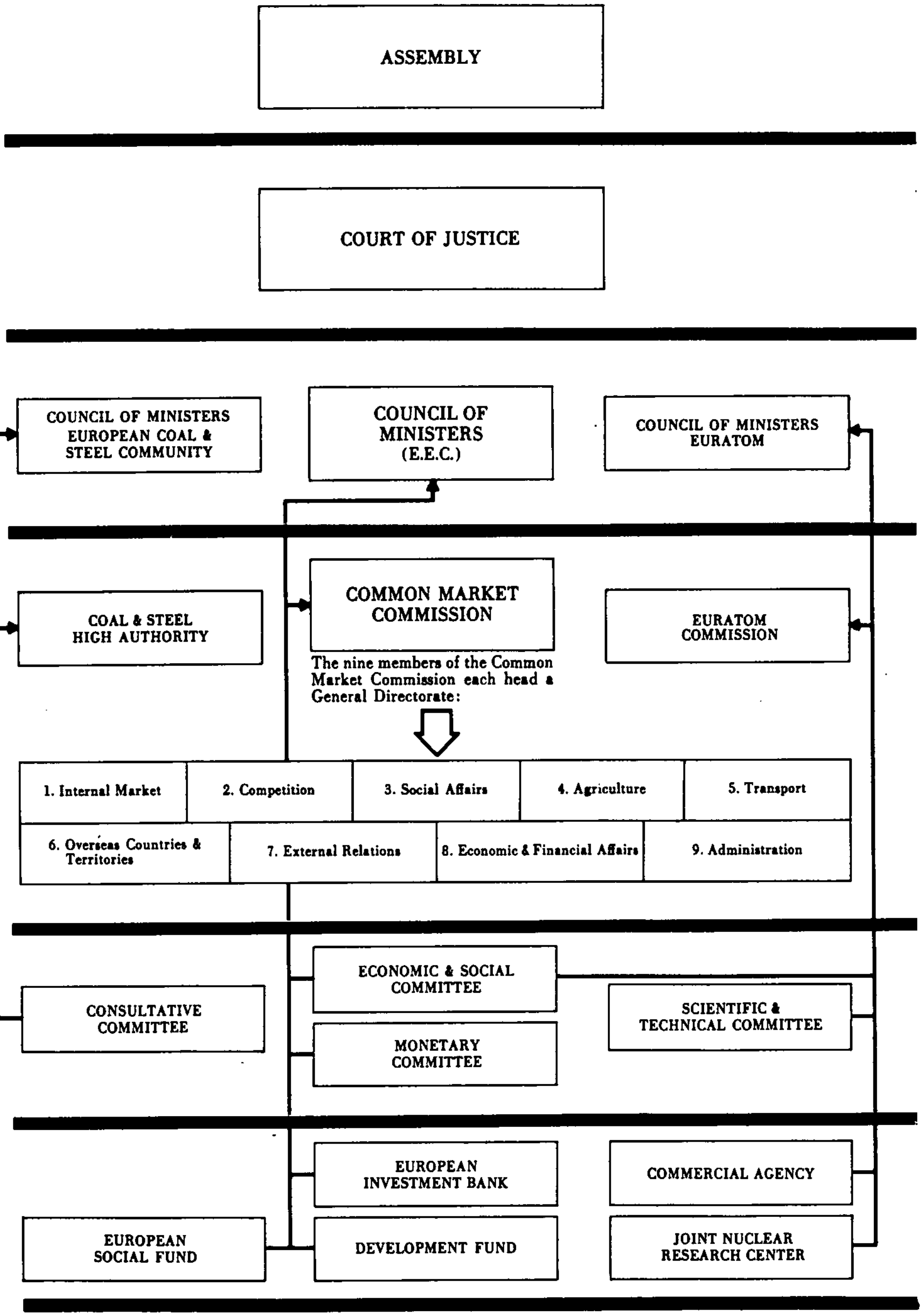
But the Assembly's importance may be greater than its present powers. The treaty calls for its eventual election by universal vote within the Community; and this body, representative of the people, then could assume some of the powers of the Council. It is important as a possible forerunner of a federal legislature for the Six.

The Court of Justice is a seven-man body which interprets the Treaty in cases brought by member governments or other Common Market institutions. It also hears appeals of firms or persons affected by decisions of the Commission or Council.

In addition, the Rome Treaty establishes a number of consultative committees designed to promote cooperation among the member countries on monetary policy, transportation policy, and economic and social matters.

Although the drafters of the Rome Treaty visualized political unity as one main objective, the speedy evolution of a United States of Europe seems most unlikely. National pressures, external events, and centuries of divergent cultures cannot be overcome quickly, even by intelligent and dedicated leadership. There is no question, however, that the Rome Treaty is bringing about a much closer integration of business and economic policy within the Community, and that its institutions could play an important role in achieving a political association closer than any past system of alliances.

INSTITUTIONS OF THE EUROPEAN ECONOMIC COMMUNITY



1. Members: 142 delegates: Belgium 14; France 36;
   Germany 36; Italy 36; Luxembourg 6; Netherlands 14.
2. Representation: Local and national interests.
3. Selection: First selected by country parliaments; subsequently elected by universal suffrage.
4. Functions (for EEC.)
   a. In some cases approve decisions of Council.
   b. By two-thirds majority, censure Commission, which must then resign in a body.
   c. Approve budget.

1. Members: 7 judges and two advocates general.
2. Representation: Independent of national or local interests.
3. Selection: Appointed by agreement among Member States.
4. Functions (for EEC.)
   a. Ensure observance of rules of law in interpretation and application of Treaty.
   b. Hear cases brought by Member States, individuals, or other C.M. organs.
   c. Review legality of decisions by Council and Commission.

1. Members: One representative from each State.
2. Representation: Broad national interests.
3. Selection: Appointed by Member Governments.
4. Functions (for EEC.)
   a. Coordinate economic policies of Member States.
   b. Formulate general policy for guidance of Commission.
   c. Vote on recommendations of Commission (unanimous vote required for amendment of such recommendations).

1. Members: Nine
2. Representation: Independent of national or local interests.
3. Selection: Appointed by agreement of Member States.
4. Functions (for EEC.)
   a. Generally supervise application of Treaty.
   b. Decide technical questions of Treaty application.
   c. Recommend to Council on basic issues.
   d. Exercise powers conferred by Council.

Main Fields of Interest of Each Directorate:
1. Tariffs, establishment, problems of business.
2. Cartels, state aids, dumping, indirect taxation.
3. Employment, training and movement of workers, social security, Social Fund.
4. Development of common agricultural policy, agricultural efficiency.
5. Development of internal transport net, elimination of discrimination in EEC.
6. Problems of association, coordination of aid, Development Fund.
7. Negotiations with other states on tariffs or association.
8. Economic studies, capital movements, monetary and financial policy.
9. Personnel, finances, other internal affairs of EEC.

Economic and Social Committee: 101 members appointed by Council from lists submitted by Member Governments. Thus: 12 from Belgium, 24 from France, 24 from Germany, 24 from Italy, 5 from Luxembourg and 12 from the Netherlands.

Monetary Committee: Two members each appointed by Member Governments and Commission representing national and community interests.

what is the european free trade association?

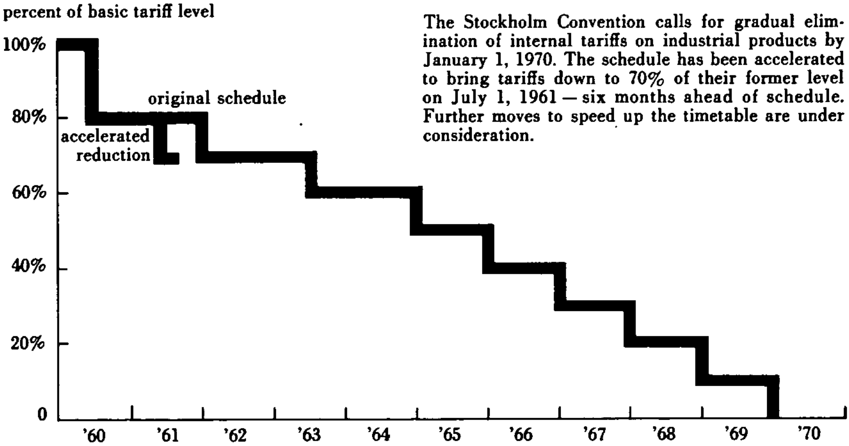
The European Free Trade Association (EFTA) is a much less complicated organization than the Common Market, with a considerably less ambitious program. In signing the Stockholm Convention, its seven members — Britain, Austria, Denmark, Norway, Sweden, Switzerland, and Portugal — agreed to establish a free trade area in which they will gradually eliminate tariffs and quotas among themselves, but will establish no common external tariff. EFTA seeks to promote economic cooperation among members, but stops short of the economic integration called for by the Common Market Treaty. Although the Stockholm Convention puts no limit on the extent to which member countries may "grow together," it does not empower institutions to set policy for the Seven and does not purport to lay the groundwork for political federation. Also it allows a member to withdraw on 12 months' notice.

The convention states one of EFTA's principal aims as "the early establishment of a wider multilateral association to promote freer trade and economic cooperation in Europe." Specifically, the EFTA nations seek to establish free trade with the Common Market — without taking on the formal political commitments of the Rome Treaty. Until this wider association is possible, EFTA gives the Seven a stronger position for negotiating with the Six, as well as a means of expanding trade and developing a large free market of their own.

tariffs in EFTA

On July 1, 1960, all EFTA members reduced import duties by 20% on most industrial goods shipped from other member countries. The convention scheduled additional 10% cuts as shown in the chart below, calling for elimination of protective tariffs by January 1, 1970. EFTA members agreed to make the first cut on July 1, 1961—six months ahead of schedule—and are considering further acceleration of the timetable, so that tariffs among the Seven could fall away well ahead of the 1970 deadline.

TARIFFS WITHIN EFTA WILL BE ELIMINATED...



The Stockholm Convention calls for gradual elimination of internal tariffs on industrial products by January 1, 1970. The schedule has been accelerated to bring tariffs down to 70% of their former level on July 1, 1961 — six months ahead of schedule. Further moves to speed up the timetable are under consideration.

Portugal, because of its relative underdevelopment, is excused by the convention from further cuts until 1965 and is given until 1980 to eliminate protective tariffs.

In March, 1961, Finland signed an agreement of association with EFTA. Finland will take part in tariff reductions, but is not a member of the association.

Duties and excise taxes levied for revenue, rather than protection, need not be eliminated within EFTA. This means that certain luxury articles and products not produced in a given country may remain subject to high rates of duty so long as no advantage accrues to domestic producers.

The Stockholm Convention will not affect tariffs levied by members on goods originating outside the area of EFTA.

rules of origin

Because there is no common external tariff, the members of EFTA had to devise rules to prevent goods being shipped into a low-tariff country and then distributed throughout the EFTA area at reduced rates of duty. The method chosen by the Seven was to write "rules of origin" into their treaty.

There are three ways that goods flowing within the Seven may qualify as being of "area origin" and therefore become eligible for the reduced tariff rates:

1. If they have been wholly produced within the EFTA area.
2. If they have been produced by certain specified processes within the area (the "process rule").
3. If at least 50% of their value has been added within the area (the "percentage rule").

An annex to the Stockholm Convention (Annex B) lists qualifying processes and also a number of materials that count as being of area origin under the percentage rule even if imported. Most of these materials are primary products.

Associated overseas countries and territories of the members are not included within the EFTA area (except for Greenland, the Faroes Islands, Malta, and Gibraltar). Goods from the British Commonwealth do not receive area treatment.

Importers who claim reduced rates of duty must file a certificate of origin attesting that a consignment of goods is qualified for area treatment, and must offer proof if challenged. Although critics consider EFTA's system of origin rules difficult to enforce, the system has drawn very few complaints.

quotas

The convention calls for EFTA members to do away with quantitative restrictions (quotas) on industrial goods imported from other member countries. Existing quotas must be enlarged by at least 20% a year, and must be opened up completely by the end of 1969.

Quotas on agricultural products are not affected by the convention. Other exceptions include goods produced by government monopolies, and gold and silver.

The convention also allows a member state to reimpose quantitative restrictions in order to safeguard its balance of payments or to cope with "an appreciable rise in unemployment" in an industry or region, caused by rising imports from another member country. After 18 months, a majority of EFTA members may exert pressure for removal of these restrictions, but the ultimate decision rests with the affected state.

agriculture and fishing

Unlike the Common Market Six, the Seven have no plans for an integrated farm policy. EFTA seeks higher farm productivity, stable markets, adequate supplies at reasonable prices, and an adequate standard of living for farmers; but leaves the pursuit of these goals largely up to the member states. Most farm products are excluded from tariff cuts and quota enlargements demanded by the treaty. The same is true for fish.

To encourage trade in agricultural products, the convention calls for an annual review of trade among members. A study of EFTA fisheries is to be completed by January 1, 1962.

competition and free trade

The convention prohibits internal measures of a member government that would stifle free trade in industrial goods. Export subsidies, drawback of taxes or duties, and preferential rates for power, transportation, or government services fall under this ban. Also prohibited are agreements and practices by firms that counteract the benefits expected to result from the freeing of trade.

How these prohibitions are to be enforced is covered only in bare outline by the convention. It provides for no special administrative machinery nor direct sanctions against offenders. It does require further study of the problems arising from restrictive business practices, however, and notes that the convention may be amended if all member countries feel that further provisions are needed.

The convention also denounces discriminatory restrictions against persons or firms from member countries who wish to establish businesses anywhere in the EFTA area, and forbids imposition of any new restrictions. It also requires further study of free establishment by the end of 1964 and leaves the door open for further rules to encourage it.

EFTA institutions

The institutional structure of EFTA consists simply of a Council of Ministers, a small secretariat, and such temporary committees as the Council needs to assist it.

The Council includes a representative of each member government. Its duties are to supervise execution of the treaty, make recommendations to member governments concerning further cooperation, and rule on complaints by members as they arise. Although most of its decisions must be taken unanimously, complaints are decided by majority vote.

Temporary examining committees may be appointed by the Council to investigate complaints and report findings. The convention charges member states to furnish facts to these committees and cooperate with their investigations.

The Council established a secretariat, with Mr. Frank Figgures of the U.K. as its first Secretary General, to handle day-to-day administration of EFTA. Its headquarters are in Geneva, Switzerland. The permanent staff is very small, reflecting the desire of EFTA members to leave most of the operational details to the member governments.

Economic integration will play an important part in changing the face of Europe over the next decade. It will also affect American exporters.

Changing tariff levels in both the EEC and EFTA will give preference to goods produced within each group over those produced elsewhere. In the Common Market, common agricultural and fuel policies also are likely to give a competitive advantage to EEC producers.

Freer internal trade will stimulate competition and advance the efficiency of European industry. In the past many European firms have served small protected markets, using inefficient methods and equipment. As trade barriers come down, other producers will enter these markets. Survival will depend on improved production and marketing techniques, better equipment, and greater specialization. Successful firms will serve larger markets and gain the advantages of mass production.

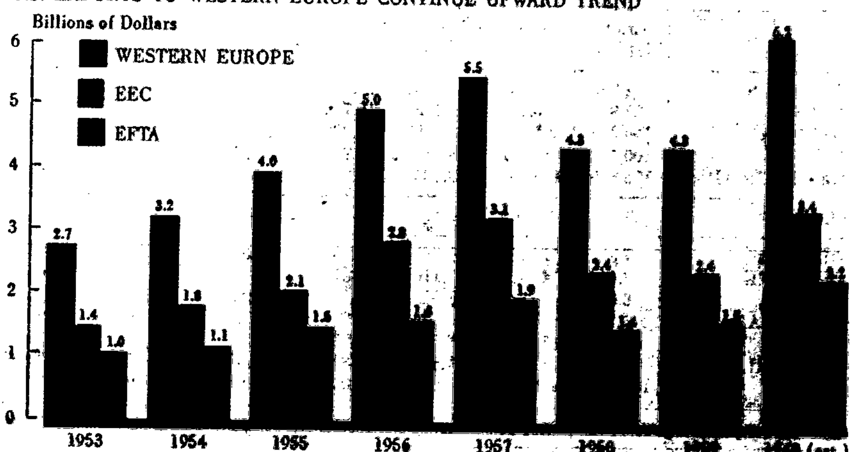
Economic integration will stimulate Europe's growth —as a customer as well as a competitor. As the European economy grows, its import requirements also are likely to grow. This growth of the market could more than make up for the trade diversion caused by tariff preferences.

U.S. exporters will be affected in different ways by these developments. To see where the impact is likely to be felt, consider the composition of U.S. exports to Western Europe.

• About 25% of U.S. exports to Western Europe are raw materials: ores, textile fibers, non-mineral oils and raw chemicals. Tariff changes in EEC and EFTA will not affect many products in this category, since duties on most of them will remain low. Industrial growth in Europe is likely to increase shipments from the U.S.

• Some 5% of U.S. exports to Western Europe are fuels: coal and petroleum products — most of which will also remain subject to low tariffs. But the prospects for U.S. fuel exports depend more on the degree of quota protection provided for

U.S. EXPORTS TO WESTERN EUROPE CONTINUE UPWARD TREND



Source: U.N., U.S. Department of Commerce

Europe's high-cost coal industry and how much oil is developed in Europe and its associated overseas territories or countries. Total use of energy in Europe has been growing at a rate of 8% a year since 1950 and promises to keep growing rapidly in the future. European coal production is not expected to grow much. Although oil from North Africa undoubtedly will fill part of the demand and nuclear power will eventually become competitive, U.S. exports of fossil fuels probably will remain important for some time.

• Another 30% of European imports from the U.S. consist of food and tobacco. Tariffs on these goods vary widely, but even more important to U.S. exporters are devices such as quotas, subsidies and administered pricing, which already provide a high degree of protection for European farmers. The EFTA virtually excludes agriculture from its agreement, and will have practically no effect on U.S. exports of food and tobacco. But the EEC's common agricultural policy will affect U.S. exports of farm goods in two ways: It will extend national preferences to producers throughout the entire EEC area, rather than in a single country; it will stimulate competition among EEC farmers and encourage more efficient production of foodstuffs inside the Six. Whether these effects will be offset by the expected rise in total demand for food and tobacco is debatable. The EEC probably will import less of some products, such as wheat, and more of others, such as soybeans.

• About 40% of U.S. exports to Europe are manufactures—chiefly machinery, transportation equipment, and chemicals. Nearly all these products will have substantial tariffs against them, while tariffs inside EEC and EFTA will go to zero. This means, for example, that U.S. machine tools will compete with German machine tools in the French market at a 5% to 15% tariff disadvantage. At the same time, European producers are likely to enjoy cost advantages caused by increased efficiency. As a result, many American producers will find European competition increasingly difficult to meet, and some products now successfully exported to Europe may cease to move there.

PATTERN OF U.S. EXPORTS TO EEC AND EFTA—1959 (Thousands of Dollars)

	Crude Materials	Foods & Tobacco	Fats & Oils	Mineral Fuels	Chemicals	Manufactures & Equipment	TOTAL
BELG.-LUX.	41,943	102,640	4,015	19,895	59,618	108,427	337,627
FRANCE	87,951	26,773	1,438	16,779	44,624	156,132	334,908
GERMANY	146,265	205,912	28,415	51,292	65,901	233,664	736,179
ITALY	100,412	50,792	28,357	56,862	58,712	109,311	408,513
NETHERLANDS	106,515	194,892	39,184	38,356	61,669	100,828	541,991
EEC	483,086	581,009	101,409	183,184	290,524	708,362	2,359,218
AUSTRIA	7,511	16,254	368	7,998	3,138	30,322	67,086
DENMARK	18,654	48,135	116	3,878	8,486	26,158	105,796
NORWAY	8,048	26,862	1,315	5,766	5,834	28,767	76,908
PORTUGAL	1,543	7,316	4	3,040	3,311	11,741	27,447
SWEDEN	19,472	31,801	3,278	13,935	21,439	115,187	205,950
SWITZERLAND	18,763	31,293	1,385	3,878	21,056	104,981	182,451
U.K.	141,094	365,995	3,690	28,077	74,118	248,603	863,962
EFTA	215,085	527,656	10,156	66,572	137,382	565,759	1,529,600

Source: U.N.

competing in world markets

For many manufacturers, this increasing competition will extend to markets outside Europe. Western Europe must export manufactured goods in order to import needed raw materials. Since 1948 Europe has steadily increased its share in world trade. The Six EEC countries now export more than the U.S.

This does not mean that U.S. manufacturers will be unable to compete in world markets, or even that they will be unable to export to Europe. One of the outstanding characteristics of the U.S. economy has been the growing emphasis on research to improve products and reduce costs. Through research, companies can find ways to produce some goods cheaper and better than they can be produced anywhere else.

Experience shows that highly industrialized nations tend to exchange manufactured goods that are superficially the same. Steel comes in many thousands of shapes, sizes, and alloys. Machines are designed in such an infinite variety of models, styles, and specifications that it becomes virtually impossible for one country to produce all types and all components best. For example, the U.S. both exports and imports textile machinery, electric motors and a very large number of other finished goods, component parts and accessories.

As the European economy grows and becomes more specialized, it will become capable of producing a wider range of goods cheaply, but its imports are likely to grow as well as its exports. The EEC has expressed the intention to pursue a liberal trade policy and given it substance by offering to reduce the common external tariff by 20% in exchange for reciprocal tariff concessions. European interests lie with expanding trade, not reducing it.

In the long run those U.S. exports will fare best which in some respects are unique — in performance, design, or cost. This is true today, from drugs to tractors to atomic reactors. Technical progress should be rapid within the United States in coming years, and it will be exportable.

IMPACT ON U.S. EXPORTS WILL NOT BE UNIFORM

Some exports could be partly displaced by European products . . .	others, to a lesser extent . . .	and others, scarcely at all.
Machinery	Motor Vehicles	Aircraft
Electrical Equipment	Iron and Steel	Scrap Metals
Instruments	Corn and Feed Grains	Metal Ores
Finished Chemicals	Tobacco	Basic Chemicals
Wheat	Petroleum and Products	Cotton
Animal Fats and Oils	Coal	Soybeans

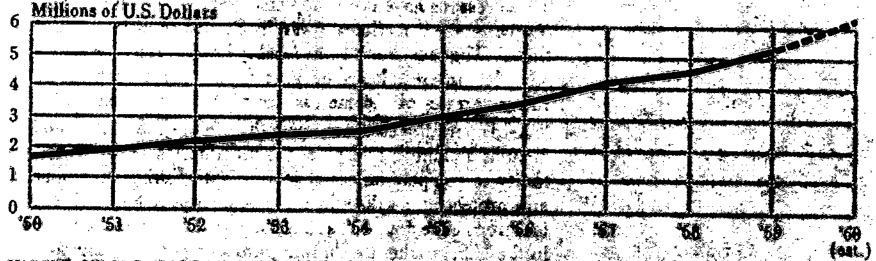
The development of the new European market has influenced many American companies to set up production facilities in Europe. From 1950 to 1960 the value of U.S. direct private investment in Western Europe more than tripled — rising from under $2 billion to more than $6 billion. Although this figure represents less than 1% of U.S. domestic investment, it has been increasing at a much faster rate.

This movement has accelerated since the birth of EEC. From 1958-1961 more than 800 American firms started new operations in Western Europe, entered into joint ventures with European partners, or licensed the manufacture of their products by a firm in Europe.

why u.s. firms go to europe

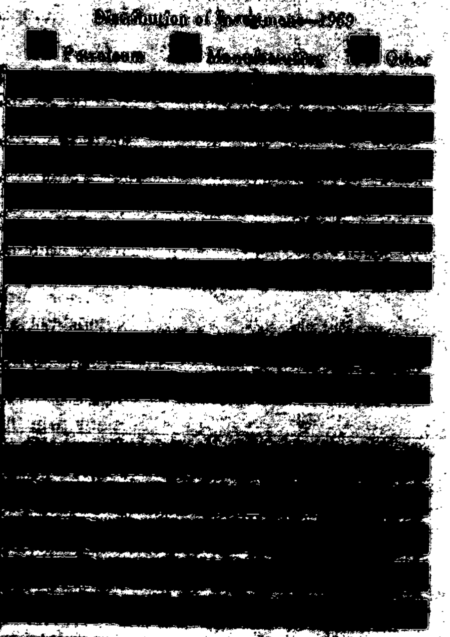
There are a number of reasons for the surge of American investment in Western Europe. Immediately after World War

U.S. DIRECT INVESTMENTS IN EUROPE UP SHARPLY IN RECENT YEARS



VALUE OF U.S. DIRECT INVESTMENTS

	1950 (Millions of U.S. Dollars)	1958	1959
BELG.-LUX.	69	208	[illegible]
FRANCE	217	546	632
GERMANY	204	666	795
ITALY	63	280	[illegible]
NETHERLANDS	84	207	[illegible]
EEC	[illegible]	[illegible]	[illegible]
AUSTRIA	13	[illegible]	[illegible]
DENMARK	32	[illegible]	[illegible]
NORWAY	[illegible]	[illegible]	62
PORTUGAL	[illegible]	[illegible]	26
SWEDEN	58	[illegible]	[illegible]
SWITZERLAND	[illegible]	[illegible]	[illegible]
UNITED KINGDOM	[illegible]	[illegible]	[illegible]
EFTA	[illegible]	[illegible]	[illegible]
EUROPE, TOTAL	[illegible]	[illegible]	[illegible]



Source: U.S. Department of Commerce.

II, European exchange restrictions and political instability held down the amount of U.S. investment. Returning prosperity brought freer convertibility and more stable government, and confidence of U.S. investors gradually was restored.

The birth of EEC focused American attention on the European market. Some firms with important European export business have moved their production to the Common Market in order to avoid the EEC's external tariff. Many others, including companies with little or no previous business in Europe, have been attracted by the prospect of a large, integrated market with rapidly rising levels of income.

Development of the new European market places a premium on the kind of experience that U.S. firms have gained by operating in the American mass market. Many U.S. firms have a considerable head start in the large-scale distribution, marketing, and mass production techniques that will become increasingly important in Europe as trade barriers come down over the next decade. Also, opportunities are opening up for ventures such as supermarkets and ready-made clothing — fields that are new to Europe, but have already been developed to a high degree of efficiency in the United States.

These reasons have been supplemented by the fact that operating costs are sometimes lower in Europe than in the United States. Wage scales are considerably lower. Many governments offer low-interest loans or grants that reduce capital costs. Effective rates of income tax are often lower in Europe.

Where operating costs are lower than in the U.S., the establishment of a plant in Europe allows an American firm the opportunity to compete on equal footing with European producers and protect its markets in third countries. A few U.S. manufacturers have found that they can compete more effectively in the U.S. market by shipping finished goods or components from a European production base.

problems of investment

It is important for U.S. firms to realize that investing in Western Europe has pitfalls as well as rewards. The problems of setting up in a new environment should not be underestimated.

Competition will be keen. Not only have hundreds of American firms already staked out claims in the new European market, but thousands of European firms have expanded, reorganized, or regrouped in anticipation of its development. U.S. companies in Europe, which are subject to U.S. anti-trust law, may compete at a disadvantage against local firms — at least until EEC's anti-cartel policy becomes effective.

Finding good management for a European operation can also be a difficult problem. So can recruiting skilled labor. Although many firms have established profitable production facilities in Western Europe, many others find that exporting from a U.S. plant is the best way to reach the European market.

organizing european production

U.S. firms that have decided to set up in Europe face a number of further choices. Some have decided to centralize production in one place; others, to produce in several countries.

Centralization often allows greater efficiency through large-scale production and takes the fullest advantage of the progressive removal of trade barriers. On the other hand, national tastes and preferences will be harder to erase than tariffs and quotas. Recent studies have indicated, for example, that French consumers still show a strong preference for French brands. Although the "Common Market" label is gaining acceptance, national tastes probably will predominate for some time. Some companies follow a compromise plan. A plant in Italy may specialize in one model of a product, while a plant in Belgium specializes in another. Or each plant may specialize in a different component, ship part of its production to the other, and the finished product may be assembled in both locations. The degree of centralization can depend on the product. Automobiles, for example, can be assembled efficiently in one plant for sale in several countries; while drugs may have to be finished in the country where they are to be sold, owing to differences in standards.

investment vs. licensing

There are several ways in which an American company can have its product manufactured in Europe. Some U.S. firms establish wholly-owned European subsidiaries. Some enter into partnership with an established European firm. Others license a European producer in return for a royalty on his sales.

A wholly-owned subsidiary has the advantage that it leaves full control in the hands of the U.S. parent. All earnings from such a venture belong to the U.S. company with enough capital and managerial talent to set up and operate it successfully.

Partnership with a European firm usually requires less capital investment than a wholly-owned subsidiary, and is a good way for a smaller firm to take an equity position in Europe. Several other advantages commend such joint ventures to companies of all sizes. A joint venture is less likely to be a target for local resentment against foreign-owned industry. An established European partner can provide a reputation in Europe, knowledge of the market, distribution outlets, and qualified managers. In a tight labor market it can also bring in skilled workers. On the other hand, the U.S. partner does not have full control of management.

Licensing makes it possible to produce in Europe with little or no capital outlay other than "know-how" and advice. It is often the best way for a firm to make a start in foreign operations, but it does not always insure a good long-term position in the European market. A poor licensee may hurt the U.S. firm's reputation in Europe, while a good one can learn enough to become a strong competitor in the future.

Recently, many U.S. firms have bought into their European licensees or set up joint subsidiaries with them. Licensing provides an opportunity to size up a European company prior to buying into it. Some American firms have included in their licensing agreements an option to buy a part interest in the European licensee at a later date or have made provision to take their royalties in stock, thus building up an equity position with little initial outlay.

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choosing a location

Where to set up in Europe is also an important decision. Britain has been the most popular country with American investors — it has the unique advantage of a common language and business practices similar to our own. Recently, however, the EEC countries have claimed more attention, principally because of their more rapid rate of growth and more ambitious plans for economic integration.

No country can be singled out as the best location for an American investment — the best proof of this is the wide distribution of recent U.S. ventures across the map of Europe. One U.S. manufacturer recently set up in Britain because he felt the market potential for his product was greatest there. Another chose Germany, because the best available European partner was a German firm. Financial aid drew another to South Italy. Another set up in Luxembourg, to occupy a particular site which the government had helped him to select.

WHERE AMERICAN FIRMS ARE INVESTING IN EUROPE (New operations 1958-1961)

	Belgium	Luxem-bourg	France	Germany	Italy
Machinery, Non-electrical	19	1	33	21	20
Electrical Machinery & Electronics	8		11	7	21
Household Appliances			6	5	4
Transportation Equipment	9		15	4	11
Agricultural & Constr. Equipment	1		4	5	3
Office Machinery	3	1	4	6	2
Instruments & Watches	2		7	13	8
Basic Metals & Metal Products	12	1	12	8	6
Research & Engineering	2		6	5	1
Petroleum	2		7	3	8
Chemicals	29	2	8	17	28
Rubber	4		7	2	2
Glass	2			1	1
Paper	3		5	3	3
Textiles & Clothing	5		2	4	4
Food, Beverages & Tobacco	4		4	10	5
Services	2	2	7	6	5
Other	3		7	6	3
TOTAL	110	7	145	126	135

Source: The Chase Manhattan Bank

Actually the choice of a site does not turn on any single point, but on a host of considerations that have different weight with different companies: Taxes; labor supply and wage rates; access to markets and raw materials; investment incentives; competition; and the attitude of the national and local governments. In setting up a joint venture, the country of location can be much less important than the characteristics of the potential European partners. Each company must weigh the facts for itself, as they apply to its own situation. Help in finding the particular facts needed may be obtained from professional management consultants and market research firms, the U.S. Department of Commerce, and agencies of European governments, as well as from The Chase Manhattan Bank.

But first it may be helpful to take a broader look at some of the characteristics of the new European market.

Netherlands	TOTAL EEC	United Kingdom	Switzerland	Other EFTA	TOTAL EFTA	Other Europe	TOTAL EUROPE
14	108	31	18	2	51		159
5	52	10	6	4	20		72
2	17	7	4	1	12		29
3	42	7	5	1	13		55
2	15	6	2	1	9		24
5	21	3	5	1	9	2	32
9	39	4	5		9		48
	39	7	4	1	12	2	53
5	19	4	4		8		27
1	21	1	2	1	4	1	26
24	108	15	10	5	30	5	143
1	16	2			2		18
	4	1	1		2		6
	14	4	3	1	8	2	24
5	20	4			4		24
5	28	8	4	1	13	2	43
3	25	4	3	4	11	2	38
1	20	2			2		22
85	608	120	76	23	219	16	843

Western Europe is densely populated, highly industrialized, and heavily dependent on trade. Income per person averages about half the U.S. level, but the recent rate of economic growth has been nearly twice as fast.

These generalizations cloak many national and regional differences, however. Economic integration will tend to iron out some of them, but it is no more likely to eliminate them than U.S. economic integration has removed the differences between Massachusetts and Texas. Therefore it is important for U.S. businessmen to keep these differences in mind when appraising the European market.

The countries of EEC and EFTA hold a population of roughly 260 million in an area about one-third that of the United States. The most densely populated regions are in the EEC — particularly in the Netherlands, Belgium, Luxembourg, and the Ruhr in Western Germany. The Netherlands has nearly 900 people per square mile, compared to 60 in the U.S.

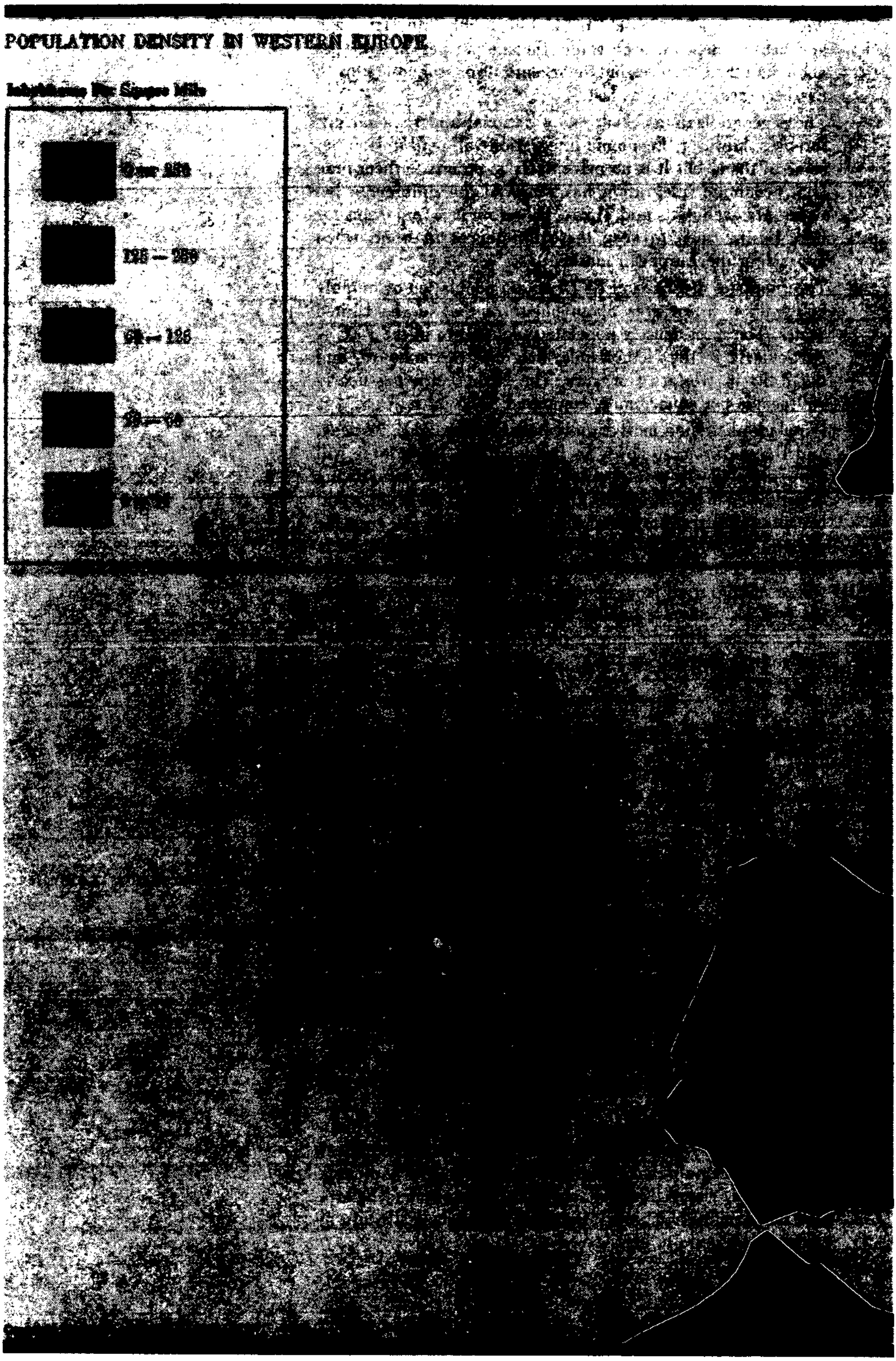
Population is rising most rapidly in the Netherlands, Norway, and Denmark; most slowly in Belgium. The labor force will grow more slowly than population in most of Europe, owing to depressed birth rates during World War II. This is important because industrial growth in the '60's, probably will keep the demand for workers high and result in continued pressure on the labor market. It is particularly important in Germany, where immigration from the East has accounted for much of the post-war increase in the labor force. The Netherlands is an exception. Here the annual increment of new workers will rise sharply starting in 1962.

industry in europe

The degree of industrialization also varies throughout Europe. Switzerland, Belgium, the United Kingdom, Sweden, and Germany employ the highest proportion of the working population in manufacturing. The least industrialized countries are in the South — Portugal, Greece, Spain, and the south of Italy. France, the Netherlands, and the rest of Europe fall between.

The greatest concentration of industry lies along a belt extending from the Ruhr in Germany through Luxembourg, Belgium, parts of the Netherlands and Northern France. In the United Kingdom, manufacturing is well scattered throughout the country, but particularly concentrated around London and in the Midlands. In Italy, most industry is in the north.

Most European coal and steel production lies in these areas, and many manufacturing industries have grown up near the mines and mills. Steel mills are now being built on the coast, while discoveries of oil and natural gas are helping to stimulate industrial growth in other areas, such as the south of France. Paper pulp making is most important in Scandinavia and Austria, where timber is plentiful. Germany and Britain lead in output of machinery, autos, and chemicals; Britain in clothing; Belgium in glassware.

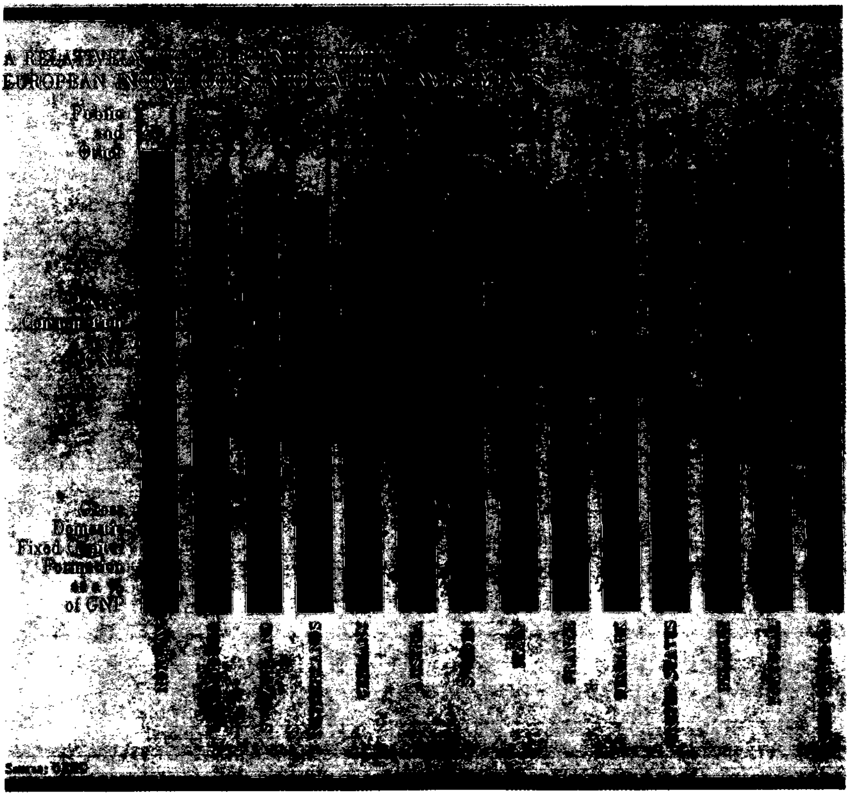

POPULATION DENSITY IN WESTERN EUROPE
125 — 250

Industrial growth has been rapid, particularly on the Continent. Germany, Italy, and Austria have among the fastest-growing economies in the world. Significantly, these countries also rank among the leaders in investment — devoting more than 20% of gross national product to capital formation, compared to only about 15% in Britain and the United States.

The fastest-growing industry in Europe is chemicals, with metal manufactures a close second. Consumer goods industries of all types are growing rapidly, and are likely to keep growing as the income of the average European rises in the '60's. The EEC is expected to realize the greatest income growth, although standards of living in EFTA countries now are somewhat higher.

The importance of agriculture in Western Europe is declining as more workers shift into industry. Farming is an important export industry in Denmark and the Netherlands, however, and a large proportion of the people in less developed areas such as South Italy still live directly from the land. Rising incomes probably will result in more emphasis on production of meat and fodder, less on bread grains.

Farm workers represent an important pool of future industrial labor on the Continent, and particularly in Italy. In Britain the situation is different. There farmers make up only about 5% of the labor force, and a large proportion of food is imported from the Commonwealth.



the pattern of european trade

Foreign trade is much more important to the countries of Western Europe than it is to the United States. Exports account for almost one-fourth of national output, on the average, and in Norway and the Benelux countries they account for about 40%. In comparison, the U.S. exports only 5% of its production.

Much of this trade takes place inside Europe, and the trading patterns of the EEC and EFTA nations are thoroughly intertwined. A little over half of German exports go to other European nations, with as much going to the EFTA countries as to her EEC partners. The EFTA countries actually export more to the EEC countries than to each other. Austria sells half of her total exports to the EEC; Switzerland, about 40%.

These figures point up the importance of European economic integration and the commercial pressures favoring some form of union between the two trading groups. As trade barriers come down inside the EEC and EFTA, many exporters fear that normal patterns of trade will be disrupted. This has not happened yet, although internal trade in both groups has expanded rapidly. In the EEC, cross-investment among members also has shown a marked increase.

In 1960, trade among members of EEC increased by about 25%. The rise included a greater exchange of finished goods as well as raw materials. A high level of business activity in the Common Market countries accounted for much of the increase. EEC imports from the rest of the world rose by about 20%. In EFTA, where no tariff cuts were in effect before July, trade among members rose by about 15%.

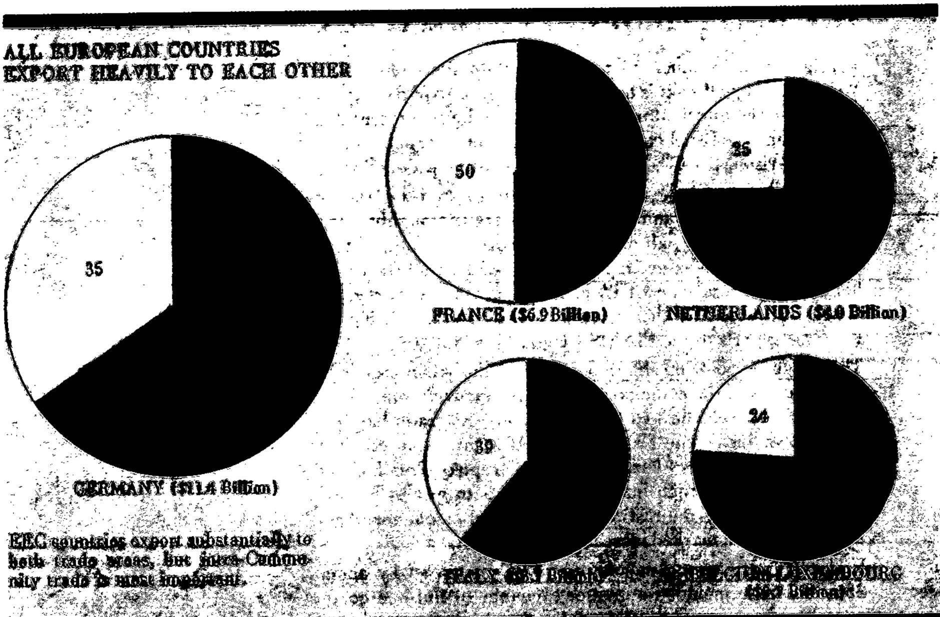
transportation

The transportation system of Western Europe reflects its dependence on trade. The map of Europe is laced with an extensive network of railroads, highways, and canals. From the great seaports—such as Rotterdam, Antwerp, Hamburg, Marseilles, Genoa — goods can move rapidly to the interior.

European railroads, all of which are nationalized, provide excellent service between all major markets and industrial areas. Freight rates run somewhat higher than in the U.S., but distances are shorter. The many canals and navigable rivers allow cheap transportation of bulk commodities such as fuels, minerals, and building materials. Highway systems are not so well developed as in the U.S., and truck transportation is not yet so common. Germany still has the best highway network on the continent, but extensive road-building programs are underway all over Europe. Among the most important new projects are two tunnels through the Alps that will link the highways of France and Switzerland to those of Italy.

All European countries have large international airports. Major airlines, American as well as European, fly out to all parts of the globe. Internal air transport is somewhat less important than in the U.S., owing to the shorter distances involved.

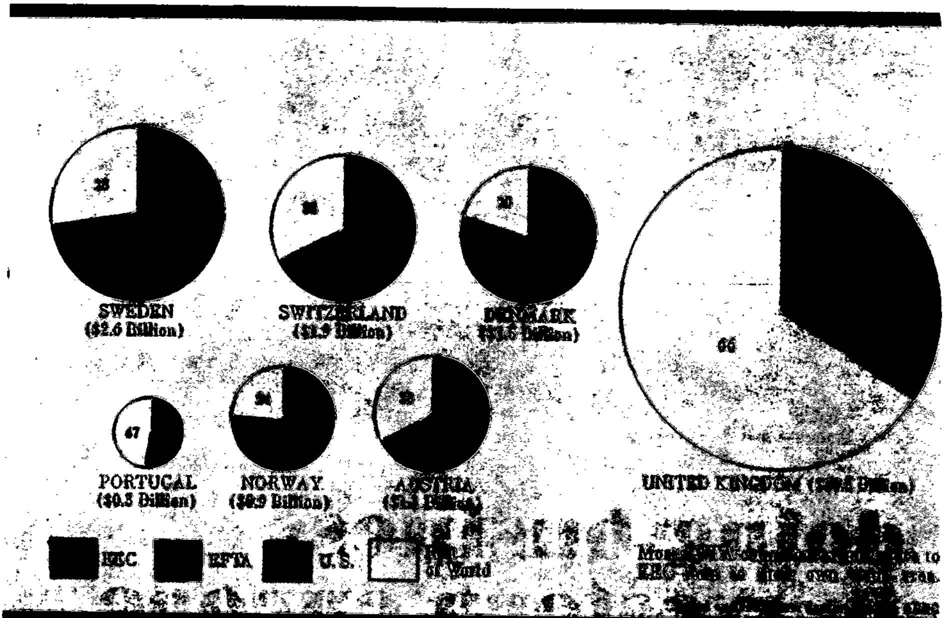
Reliance on overseas trade has caused a number of European nations to develop important merchant fleets. The U.K. has the world's largest active merchant marine. Other nations with large fleets are Norway, Italy, the Netherlands, and Greece.



STATISTICAL PROFILE OF EUROPE

	Population 1960—est. (thousands)	% of Population in Labor Force 1960—est.	1970 Population Forecast (thousands)
BELGIUM	9,159	39.3	9,560*
FRANCE	45,547	41.7	46,660
GERMANY	55,787	45.7	53,840
ITALY	49,307	41.6	51,890
LUXEMBOURG	328	45.7	—
NETHERLANDS	11,480	36.5	12,410
EEC	171.608	43.1	174.360
AUSTRIA	7,076	50.8	7,030
DENMARK	4,579	43.6	4,935
NORWAY	3,589	41.7	3,875
PORTUGAL	9,124	35.0	9,800
SWEDEN	7,504	42.6	7,545
SWITZERLAND	5,298	41.6	5,430
UNITED KINGDOM	52,383	45.9	54,210
EFTA	89,553	44.9	92,825
UNITED STATES	180,723	38.7	215,000

*including Luxembourg



Gross National Product 1959 (Billions of U.S. Dollars)	GNP Growth Rate 1951-1960 %	Industrial Production Growth Rate, 1951-1960 %	1960 Wholesale Price Index 1953=100
11.5	2.6	2.4	102.6
52.5	4.2	6.6	129.7
59.5	7.2	8.8	106.7
28.4	5.8	8.5	98.8
.4	2.9	3.5	—
10.2	5.1	6.0	103.4
162.5	5.3	7.4	108.5
5.2	6.0	6.9	112.8
5.5	3.7	4.4	102.0
4.2	3.4	5.7	111.5
2.2	3.6	7.1	102.3
11.3	3.8	3.7	110.5
7.9	5.0	—	100.9
66.4	2.7	3.2	113.3
102.7	**3.2**	**3.6**	**107.8**
482.1	2.6	3.0	108.6

Source: U.N., OEEC, Economist Intelligence Unit, Ltd., IMF

doing business in western europe

Most American firms have found the new European market a good place to do business. Competition is keen and likely to become more so; but operating costs often run lower than in the United States, and profits often run higher. The market is growing rapidly. U.S. firms find in Europe a business environment that differs from this country's in many respects.

Post-war uncertainty about investing in Europe has largely disappeared. Governments are generally stable and hospitable to U.S. capital. Restrictions on transfer of earnings and repatriation of capital have almost all been removed.

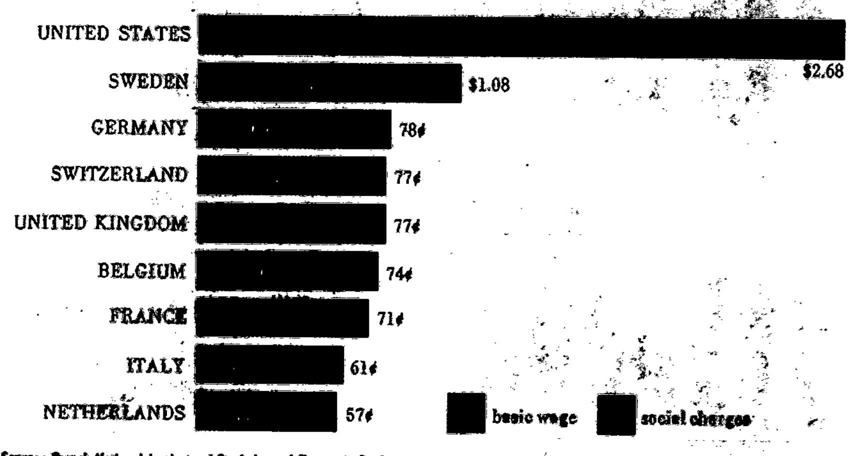
Transfers out of Germany and Switzerland require no government authorization whatever, and the controls still in effect in most other countries of Western Europe are today little more than formalities. Italy and Spain draw a distinction between investments considered to be economically beneficial to the country and those that are not, giving more liberal treatment to beneficial investments. Many U.S. firms find it helpful to register European investments with the exchange control authorities, who can usually guarantee transferability in advance.

Credit is available through Europe's many excellent commercial banks, supplemented by private banks and government financial institutions as well as by branches of U.S. banks. The Chase Manhattan Bank maintains branch offices in such European centers as London, Paris, and Frankfurt, and enjoys close correspondent relationships with all leading European banks. Venture capital can also be raised in Europe. Commercial banks in several countries are allowed to underwrite securities, and a number of large American firms now list their shares on one or more of the European stock exchanges.

wage costs in europe

Wages in Western Europe are still far below U.S. levels. In 1959 average rates for manufacturing workers ranged between 70¢ and 80¢ an hour (including fringe benefits). A comparable figure for the U.S. was $2.68.

AVERAGE HOURLY WAGE COSTS IN MANUFACTURING INDUSTRIES (April, 1959)

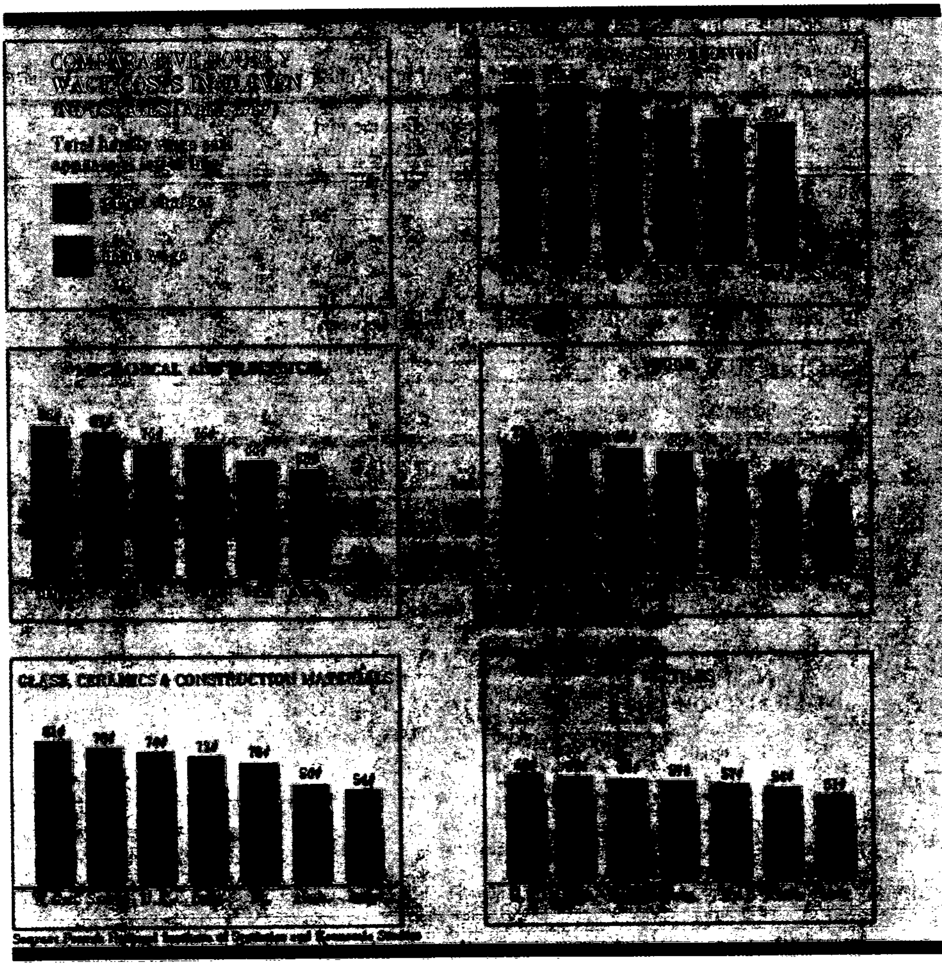


Source: French National Institute of Statistics and Economic Studies

This wide difference can be misleading, however. If hourly wage rates could be related to productivity — or actual output per man-hour — the spread between U.S. and European labor costs would not appear so great. American workers generally are supported by more capital equipment, which increases the work they can do in an hour. Also, some U.S. firms have found that the skilled European worker is not quite so productive as his U.S. counterpart—not because he is less skilled, but because he is oriented more toward craftsmanship and less toward maximum output.

Recently European wages have been rising at a faster rate than U.S. wages, and they are likely to keep rising rapidly as long as industrial expansion continues. A shortage of skilled labor is putting heavy pressure on wages. Unions are growing stronger and are placing more emphasis on collective bargaining.

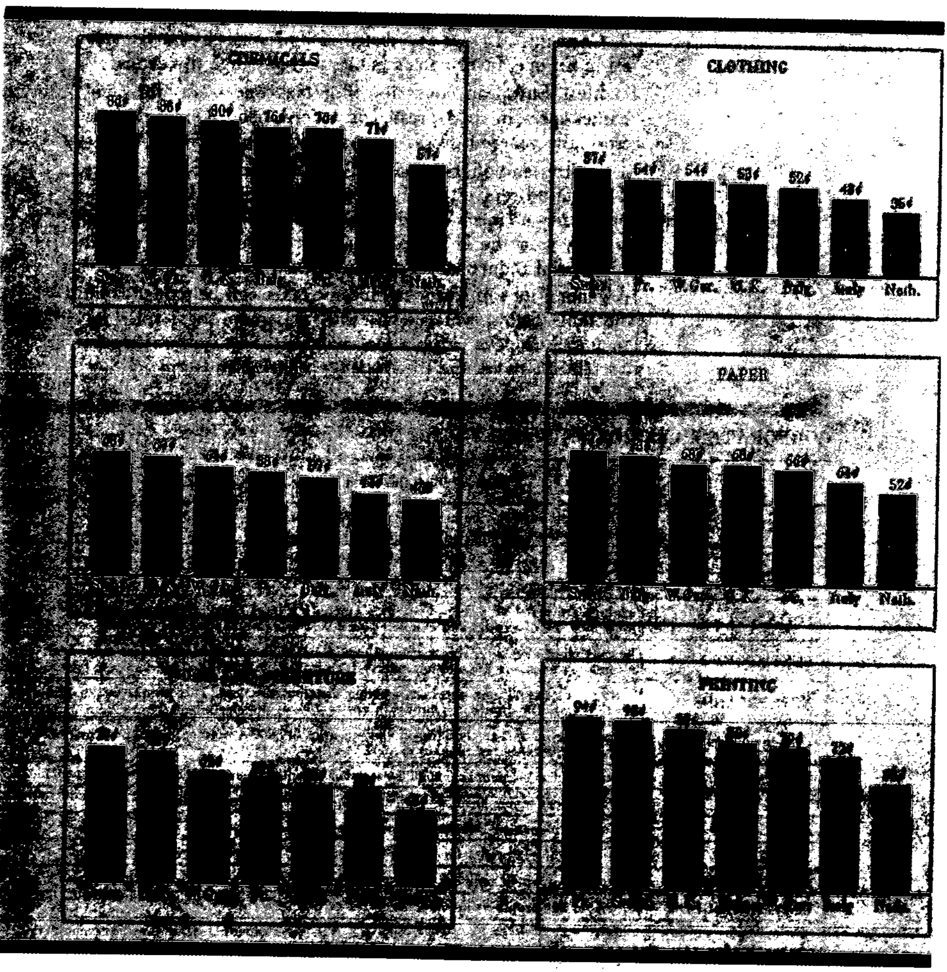
But productivity is also rising in Europe, and this trend too is expected to continue as more advanced equipment is installed and more modern techniques are adopted. In many European



industries, recent productivity gains have been large enough to support rising wages and still give European manufacturers an edge in international trade.

Other operating costs may offset this competitive advantage. Some raw materials that are produced cheaply in the U.S. must be imported into Europe, which raises their cost. Fuels are a good example. European coal is costly to mine, and oil also is generally more expensive. Electricity rates run higher in Europe, except in areas (such as Norway) where hydroelectric power is abundant.

American firms find that fringe benefits make up a larger part of the total cost of labor in Europe than in the U.S. In Italy they account for more than 40% of the total cost. In addition to the "fringes" familiar to U.S. companies (paid vacations, pensions, unemployment insurance, etc.), European laws often prescribe such benefits as a family allowance based on the number of a worker's children.



a quick look at taxes

Direct comparisons between European and American business taxes are even harder to make. For one thing, not only the rates but the philosophy of taxation varies widely from country to country in Europe. Depreciation allowances are computed differently, and tax reductions to encourage investment take many forms. A further complication is the fact that tax administration is more liberal in most European countries than it is in the U.S., and negotiation of tax settlements is more common. Thus, the actual effective rate of taxation is frequently much lower than the nominal rate.

Specific information on a company's tax picture in Europe can be given only by a qualified tax attorney who is familiar with local conditions. Among the few general statements that may be made about European taxes are the following:

1. Depreciation rates are considerably more liberal in Europe than in the United States. The extremely rapid depreciation allowed in Belgium and the Netherlands has made those countries particularly attractive for growth companies planning to finance expansion out of retained earnings.

2. Germany's 15% tax on distributed profits is by far the lowest in Europe, favoring companies that pay high dividends.

3. Most European countries offer tax concessions for companies operating in depressed or underdeveloped areas. Italy is especially generous toward firms locating in the South.

4. Switzerland offers important tax advantages for companies that plan to reinvest foreign earnings overseas. Holding companies pay no income tax in some of the Swiss cantons, and tax treaties with the U.S. and other European countries permit substantial reductions in the overall tax burden.

A general idea of European income taxes can be gained from the table below, which deals with maximum legal rates for regular European corporations such as the French or Belgian *Société Anonyme* and the *Aktiengesellschaft* in Germany.

CORPORATE TAXATION IN WESTERN EUROPE

	Maximum Tax Rates For European Corporations
BELGIUM	The maximum rate on retained earnings is 42% on amounts over $200,000. The effective maximum rate on distributed earnings works out to about 47%.
FRANCE	Corporations pay a tax of 50% on earnings, whether distributed or not.
GERMANY	Retained earnings are taxed at a 51% rate. The tax on distributed earnings is 15%.
ITALY	Earnings are taxed at a rate about 28% (including local charges), plus a 15% tax on profits over 6% of capital and reserves plus a 0.75% tax on capital and reserves.
LUXEMBOURG	The maximum rate is 40% on earnings over $26,000. In addition, there is a municipal business tax of about 8% and a property tax of about ½% of fixed assets.
NETHERLANDS	Maximum rate is 47% on earnings, whether distributed or not. This may be cut to 43% by July, 1961. On distributed profits, a cut to 28% is under study.
AUSTRIA	National maximum rate is 52% on income over $19,000—whether distributed or not. Local trade proceeds tax runs up to 15%.
DENMARK	Effective 1961 maximum rate is 44%—whether distributed or not. Local rates run 4-5%.
NORWAY	Including local taxes, about 54-55% on net profits—whether distributed or not.
PORTUGAL	On "quota companies", about 33% on assumed gross profit.
SWEDEN	About 47% on net profits (including 12% local tax)—whether distributed or not.
SWITZERLAND	About 38% of which only 8% is federal. Cantonal (state) taxes vary widely.
UNITED KINGDOM	53.75% on net profits—whether distributed or not.
	*To non-resident U.S. corporate shareholder.

Turnover and sales taxes have a more important place in the tax structures of Europe than in the U.S. Several countries (e.g. France, Germany, Italy) actually obtain more revenue from these taxes than from income tax. In many countries (e.g. Austria, Germany, Italy, and the Benelux countries) turnover tax is levied each time goods change ownership as they pass through stages from raw material to finished product. This system, called "cascade," encourages vertical integration of industry. The French turnover tax is levied only on the value added by each seller.

A number of other national and local taxes complicate the comparison of total tax burdens. These include various levies on capital, property, patents, and payroll.

Investment Incentives

In many areas of Western Europe, the governments have taken steps to encourage foreign investment. For some American companies planning to build plants in Europe, these "development areas" may offer the most fertile field for investment. These areas basically fall into two categories: Underdeveloped agricultural regions; and depressed areas that need new industries to bolster declining employment.

For new U.S. investors, location in these areas offers several significant advantages: 1) American capital is generally more welcome in these areas; 2) Labor and land are more readily available than in the more highly industrialized regions; 3) Investors are offered financial incentives, which include low-interest loans, construction aid, and outright plant subsidies, as well as tax concessions.

Supplementing the national governments, the EEC's European Investment Bank provides long-term financing for public and private enterprises that contribute to the economic development of the EEC's less developed regions.

Withholding Tax On Dividends*	Tax Concessions Available To European Corporations
None	Belgium's tax incentives include extremely liberal depreciation allowances and the deductibility of retained profits tax as a business expense.
15%	Declining balance depreciation allowed on plant acquired since Jan. 1, 1960.
15%	Maximum accelerated depreciation allowance on plant and equipment 20%.
None	Exemption from taxes—for up to 10 years—is available for companies which locate in the underdeveloped South of Italy.
15%	The Grand Duchy authorities are willing to allow substantial tax concessions to U.S. companies which invest in Luxembourg.
None	In addition to normal write offs, Holland offers both special investment deductions and accelerated depreciation up to 33⅓% on new buildings and equipment.
5-8.85%	Accelerated depreciation for new investments: Fixed—20-25%, movable—40-60% in first year. Losses may be carried forward up to 5 years.
None	Corporation may put up to 15% of profit into a tax-free investment reserve.
5%-15%	Extra initial write-off may be granted for investments in the North.
16%	Tax reductions may be offered on investments beneficial to national economy.
10%	Up to 40% of annual profits may be charged to a tax-free investment reserve.
5%-15%	Holding companies pay no income tax in some cantons.
None**	Depreciation allowances are increased 10-20% for new investment.

**U.S. shareholder may be entitled to credit against U.S. tax for a portion of U.K. taxes paid by U.K. corporation.

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REGIONAL INVESTMENT INCENTIVES

COUNTRY (Administrative Authority)	REGIONS & SCOPE	LOANS & GRANTS	TAX INCENTIVES
(1) BELGIUM (Ministry of Economic Affairs)	Industrial areas with severe unemployment and underdeveloped agricultural areas scattered throughout Belgium.	Government-subsidized low-interest loans for plant and equipment, remodeling, conversion, and research. Subsidy cuts commercial rate by 2-4%. Rate may go as low as 1% during recession. Capital grants up to 20% of construction cost and 7½% of equipment cost.	Tax exemptions on up to 30% of profits earned during first three years in development area. Exemptions on reinvested capital gains. Some local tax concessions for enterprises not receiving loans or grants.
(2) FRANCE (Ministry of Industry and Commerce)	Areas of underemployment or low economic development. Purpose to draw industries away from over-industrialized Paris basin.	Government loans for plant, equipment, land, and working capital. Grants up to 20% of total investment, including plant construction, machinery, plant extension or conversion, and equipment transfer. Some local authorities also provide construction aid and special utility rates.	Slightly accelerated amortization for some plants & equipment acquired after 1950. 50% accelerated amortization on investment for research and development. Some tax deductions on capital gains. Local taxes may be reduced or eliminated.
(3) W. GERMANY (State Governments)	Along eastern border; along western border of Saarland; low-income agricultural areas.	Government loans for establishment of new plants at 3¼% for 15 years, provided jobs guaranteed to specified number of workers.	Accelerated depreciation for new industries in border areas not to exceed $69,000. This applies to 30% of fixed assets; 50% of movable assets.
(4) ITALY (Cassa per il Mezzogiorno)	All areas roughly south of Rome, including Sicily and Sardinia. Also a few northern localities.	Loans up to 65% of capital for new plant or expanding facilities in South. Rates run 4-5½%; period, up to 15 years. Grants up to 20% of capital for construction or expansion of plants in towns of less than 200,000. Reduction of 50% in freight rates for machinery and raw materials needed for such plants.	Exemptions from customs duties on imported machinery and materials. 50% reduction in turnover tax on machinery and materials. 50% reduction of tax on power. 10-year income tax exemption on investments beginning operation before July 1965. Municipal authorities may grant exemptions on local taxes.
(5) LUXEMBOURG (Board of Industrial Development)	All of Luxembourg, with minor exceptions.	Low-cost financing for up to 100% of plant, with right of early repayment. Capital loans guaranteed by government. Site improvements and utility connections without cost.	A 10-year special schedule cuts income tax rates by more than 50%, withholding rates by nearly 50%. Depreciation on cost of asset plus 20%. Rapid amortization for some equipment. Other concessions offered to holding companies.
(6) NETHERLANDS (Netherlands Industrial Institute)	Primarily agricultural provinces in the North and extreme South.	Grants up to 50% of land cost and 30% of construction cost.	Accelerated depreciation allowance on 1/3 of initial investment, and special investment allowance of 5% annually for first 2 years on new depreciable assets.
(7) AUSTRIA (Social Ministry)	Less developed areas, including Burgenland, parts of Styria, Carinthia, Vienna basin.	Local governments provide land and buildings at low cost or rental, site improvements and utility connections at no cost to investor.	Special amortization rates for investments in development zones. Reductions on community payroll taxes.
(8) DENMARK (Regional Development Board)	Most of Denmark except Copenhagen.	Loans and loan guarantees up to 90% of cost of plant construction and machinery; up to 45% for machinery used in rented plant. Construction loans repayable over 15 years; for machinery, 10 years. Grants for site improvement and project preparation. Local governments can offer low-cost building sites and reduced utility rates.	
(9) NORWAY (Office of Mr. Trygve Lie)	Northern provinces of Nordland, Troms and Finmark; and districts with unemployment or low income problems.		Extra initial write-off on equipment, and advanced deductions for up to three years on ordinary write-off. Corporations liable to taxation in Norway may make payments into tax-exempt fund for later investment in development areas.
(10) PORTUGAL (Economic Council)	For processing industries in Portugal that assure employment, use national raw materials, produce exports or replace imports.	Priority for development credit, technical assistance, market surveys.	Exemption or reduction of import duties on raw materials; reductions in industrial tax, capital investment tax, and other taxes.
(11) SWEDEN (Labor Market Board)	Generally, areas that need industrial diversification or new employment opportunities.	Loans up to $10,000 to small enterprises, extended through provincial industrial associations. Typical rate, 5%; typical period, 10 years. Larger commercial loans may be guaranteed by government.	
(12) SWITZERLAND (Cantonal Governments)	Several cantons tax holding or trading companies at low rates.		Tax rates vary by canton.
(13) UNITED KINGDOM (Board of Trade)	Areas with high and persistent unemployment. Special local incentives offered in many cities, parts of Wales and Scotland, and Northern Ireland.	Loans of variable amount and terms for land, plant, and equipment. Grants to aid plant construction, improve basic services, or reclaim neglected areas. Low rents for existing industrial plants. Northern Ireland has special incentives, including grants, construction aid, and labor training.	Real estate taxes on industry are reduced by 50%; in Northern Ireland, by 75%.

the national markets

Despite the movement toward European economic integration, the local markets of individual countries will remain important for some time to come. This will be true particularly during the EEC and EFTA transition periods. Local producers will have some tariff advantage until the transition is complete, and the preference of consumers for local goods undoubtedly will remain long after artificial trade barriers have been removed. Therefore it is worthwhile for Americans who plan business ventures in Europe to take a good look at the national markets.

The usual comparisons of market size — based on national incomes translated into dollars at official exchange rates — greatly underestimate the size of all the European markets and fall short as a yardstick for measuring one against another. When gross national product figures are adjusted to reflect the real purchasing power of the various national currencies, the countries of Western Europe together show a market almost three-fourths as large as that of the United States.

These figures show that Germany and the United Kingdom have the largest national markets in Europe, each with a total purchasing power of just under $80 billion in 1959. Then come France ($63 billion) and Italy ($43 billion).

Purchasing power *per capita* gives an indication of comparative living standards in Europe and the United States. All European countries fall far below the U.S. level, but incomes are rising rapidly. Another indication of living standards is the ownership of consumer goods. Here again Europe is far behind the U.S. But, with growing incomes and a strong taste for better living, this adds to the attractiveness of Europe as an unsaturated and expanding market for consumer goods.

THE RAPIDLY GROWING EUROPEAN MARKET

	GNP-1959 Adjusted* (Billions of U.S. Dollars)	Per Capita GNP-1959 Adjusted*	Automobiles per 1000 Population 1960
BELGIUM	12.7	$1,393	87**
FRANCE	62.9	1,395	109
GERMANY	77.8	1,418	85
ITALY	42.7	871	41
LUXEMBOURG	.5	1,543	–
NETHERLANDS	14.3	1,262	47
EEC	210.9	1,239	76
AUSTRIA	8.8	1,243	58
DENMARK	6.4	1,421	88
NORWAY	5.3	1,479	59
PORTUGAL	4.3	471	17
SWEDEN	11.3	1,512	158
SWITZERLAND	7.8	1,486	96
UNITED KINGDOM	77.7	1,495	106
EFTA	121.6	1,367	94
UNITED STATES	479.5	2,698	339

*Gross national product adjusted to reflect purchasing power of national currencies **including Luxembourg

advertising in europe

In recent years European advertising methods have been greatly influenced by U.S. practice, but several important differences remain. Europeans are a far less homogeneous group of consumers than Americans. Their interests and backgrounds vary widely. Even more important to an advertising campaign, they do not all speak one language. These differences inhibit mass media advertising as practised in the U.S. and require European firms to rely more heavily on personal selling.

Printed media are the most widely used in all European countries. Radio and television advertising is gaining in importance, although some countries have no commercial stations and national stations often prohibit advertising. Television advertising is used mostly in Germany and Britain. Radio advertising is popular in several countries, notably Germany and Italy. Radio Luxembourg and Radio Monte Carlo, two of Europe's most powerful commercial stations, have many listeners in France, Belgium and the Netherlands, where advertising on domestic radio stations is prohibited.

Outdoor displays are used in all countries, although highway billboards are strictly regulated in France. In Britain, Italy, and Germany, spot commercials in motion picture houses are widely used. Direct mail advertising is growing in importance, especially in Germany and Switzerland. Point of sale advertising is generally less important than in the U.S., but is developing rapidly. Trade fairs and specialized technical exhibitions attract many visitors and play an important role in introducing new products to the market.

There are many advertising and market research firms throughout Europe, including branches of some U.S. firms. Generally these organizations provide efficient service.

TV Sets per 1000 Population 1960	Radios per 1000 Population 1959	Telephones per 1000 Population 1960	Newsprint Consumption 1959 (Kg. per Person)	Electric Power Consumption 1960 (Billions Kwh.)
44	272	119	10.9**	14
33	238	91	10.6	70
76	287	101	8.6	113
37	123	72	4.9	54
18	293	144	—	1
61	271	132	12.2	16
50	225	93	8.3	267
21	274	93	11.2	14
87	328	224	18.3	5
5	289	194	9.8	31
4	85	40	2.6	3
108	351	354	23.1	34
20	262	298	14.1	18
209	287	151	22.1	130
142	271	166	17.8	235
297	948	397	36.0	845

Sources: OEEC, UN, *The American Automobile*, *TV Factbook*, American Telephone & Telegraph Company

Chairman BOGGS. Mr. Secretary, we would like to have those tables that you referred to in the record, and also any other information which is pertinent to this subject.

Mr. GUDEMAN. Yes, sir.

(The tables referred to are as follows:)

WORLD
TRADE
INFORMATION
SERVICE

Part 3, No. 61-23

STATISTICAL REPORTS

trade of the United States with Western Europe

years, 1958-60, and half-years, July-December, 1959-60

This report presents a statistical summary of United States trade with Western Europe. Table 1 shows total values for export and import trade in the years 1958–60 and in the half-years July-December 1959–60 with all Western Europe, members of the Organization for European Economic Cooperation (OEEC), the Common Market area, and the Free Trade Association area, as well as trade with each of the individual countries of Western Europe. Commodity data for the same periods, by principal countries and country groups, appear in table 2.

Export figures for all periods conform to the 1960 Schedule B commodity classifications and security regulations. Data contain revisions issued through December 1960.

A general explanatory note in the World Trade Information Service report, part 3, No. 59–8, discusses the basis of valuation in the U.S. foreign trade statistics, the commodity coverage, and the classification by country. This report, together with report No. 56–54, gives greater commodity detail in trade with individual Western European countries for the years 1952–57. Earlier issues of this summary report are Nos. 58–31, 59–19, 59–39, 60–12, and 60–34.

Table 1.--United States Exports to and Imports from Western Europe by Country, Annual 1958-1960, and July-December 1959-1960
(Millions of dollars)

Country	Exports, including reexports[1]					General imports				
	Annual			July-December		Annual			July-December	
	1958	1959	1960	1959	1960	1958	1959	1960	1959	1960
Western Europe:										
Total nonmilitary[2]	4,738.7	4,790.8	6,755.8	2,604.6	3,518.1	3,297.1	4,522.7	4,183.9	2,375.3	1,920.1
Percent of U.S. total[3]	29.0	29.2	34.6	30.9	35.6	25.7	29.7	28.6	30.5	27.4
MSP military exports[4]	703.7	659.3	399.8	329.7	163.5	-	-	-	-	-
Total exports	5,442.4	5,450.1	7,155.6	2,934.3	3,681.6	-	-	-	-	-
Total, excluding "special category"[5]	4,509.4	4,529.6	6,298.7	2,483.9	3,281.0	-	-	-	-	-
Percent of U.S. total[6]	28.3	28.5	33.4	30.3	34.5	-	-	-	-	-
OEEC countries, total[7]	4,360.4	4,363.8	6,156.4	2,416.3	3,196.2	3,231.6	4,436.7	4,091.0	2,332.7	1,878.0
Common Market countries	2,446.9	2,415.8	3,448.2	1,330.8	1,743.8	1,681.6	2,401.6	2,263.3	1,280.9	1,058.1
Netherlands	441.5	552.1	711.9	320.6	382.0	189.8	216.0	213.0	111.3	108.4
Belgium and Luxembourg	331.6	350.9	435.8	185.7	213.1	269.8	416.0	364.2	215.3	161.7
France	437.5	346.2	580.2	186.4	290.9	310.8	462.1	396.1	248.0	169.6
West Germany	737.7	749.0	1,067.6	414.4	518.6	635.3	920.0	896.8	493.1	426.4
Italy, including Trieste	498.6	417.7	652.7	223.6	339.2	275.9	387.6	393.1	213.3	192.1
Free Trade Association, total	1,449.2	1,569.9	2,281.1	890.9	1,222.0	1,373.4	1,803.2	1,607.6	941.3	725.7
Sweden	196.7	208.5	300.0	116.8	161.9	125.3	184.6	170.2	93.7	74.6
Norway	69.3	77.4	89.4	38.2	43.2	75.0	99.0	65.6	50.7	30.8
Denmark	78.6	107.2	110.1	61.9	58.4	84.6	104.4	98.3	50.9	47.9
United Kingdom	851.8	894.2	1,410.1	518.0	775.4	868.1	1,137.2	992.6	589.6	428.6
Austria	57.6	67.4	80.3	42.1	34.9	41.1	55.9	49.3	30.3	24.7
Switzerland	164.1	188.2	252.7	101.2	127.6	157.1	195.8	196.7	112.5	102.5
Portugal	31.1	26.9	38.5	12.6	20.6	22.3	26.4	34.9	13.6	16.6
Iceland	11.5	13.4	11.5	6.7	5.5	10.4	11.8	10.5	6.6	5.9
Ireland (Eire)	31.0	30.4	38.6	18.6	24.8	16.4	26.2	28.3	12.8	15.1
Spain	215.9	154.9	189.6	64.6	123.7	57.4	77.5	87.7	40.6	40.2
Greece	75.1	53.5	61.9	24.8	34.3	37.0	34.0	33.4	19.1	16.0
Turkey	129.9	125.7	124.9	79.7	41.9	55.4	82.2	60.2	31.4	17.1
Finland	33.5	43.6	56.4	28.8	31.2	36.0	48.8	52.2	24.5	23.6
Yugoslavia	115.4	122.2	86.0	38.8	53.6	29.6	37.1	40.6	18.0	18.5

1 Data for all periods shown adjusted for aviation fuel and lubricating oils for which security restrictions were removed in 1960. 2 MSP military exports are excluded. 3 Export percentages are based on U.S. total excluding all MSP military shipments. 4 Grant-aid shipments, chiefly military equipment, under the Mutual Security Program. 5 For security reasons, export statistics for "special category" commodities (mainly military types) are not available by country. 6 Percentages are based on total U.S. exports excluding "special category". 7 Spain is included for all periods.

U.S. DEPARTMENT OF COMMERCE • **Luther H. Hodges, Secretary**

BUREAU OF FOREIGN COMMERCE • Loring K. Macy, Director

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Table 2.—Leading Commodities in U.S. Export and Import Trade with Western Europe
(Millions of dollars)

Commodity and period	Selected areas[1]				Principal Countries									
	Total Western Europe	OEEC Countries[2]	Common Market Countries	Free Trade Association	Belgium[3]	Netherlands	France	West Germany	Italy[4]	Sweden	Norway	United Kingdom	Switzerland	Spain
	Exports to Western Europe													
Total, excluding "special category"[5]:														
Annual, 1958	4,509.4	4,360.4	2,446.9	1,449.2	331.6	441.5	437.5	737.7	498.6	196.7	69.3	851.8	164.1	215.9
1959	4,529.6	4,363.8	2,415.8	1,569.9	350.9	552.1	346.2	749.0	417.7	208.5	77.4	894.2	188.2	154.9
1960	6,298.7	6,156.4	3,448.2	2,281.1	435.8	711.9	580.2	1,067.6	652.7	300.0	89.4	1,410.1	252.7	189.6
Semiannual, July-December 1959	2,483.9	2,416.3	1,330.8	890.9	185.7	320.6	186.4	414.4	223.6	116.8	38.2	518.0	101.2	64.6
July-December 1960	3,281.0	3,196.2	1,743.8	1,222.0	213.1	382.0	290.9	518.6	339.2	161.9	43.2	775.4	127.6	123.7
Agricultural:														
Annual, 1958	1,757.3	1,651.5	821.5	585.2	102.5	205.5	86.4	285.5	142.6	44.4	25.0	409.3	36.5	144.5
1959	1,827.9	1,714.9	929.8	622.5	123.4	321.0	62.4	305.0	117.9	36.5	31.8	425.8	39.5	89.9
1960	2,077.0	2,029.9	1,101.8	739.1	136.9	319.5	128.2	354.9	162.3	46.6	33.0	509.6	54.0	113.1
Semiannual, July-December 1959	1,058.0	1,024.1	562.3	384.3	69.7	195.1	43.1	180.2	74.2	24.7	15.4	265.1	26.3	30.7
July-December 1960	1,115.3	1,082.7	543.8	432.1	73.2	178.3	52.3	160.3	79.7	29.9	15.0	306.1	29.6	77.6
Nonagricultural[6]:														
Annual, 1958	2,752.1	2,708.9	[illegible]	864.0	229.1	236.0	351.1	452.2	356.0	152.3	44.3	442.5	127.6	71.4
1959	2,701.7	2,648.9	[illegible]	947.4	227.5	231.1	283.8	444.0	299.8	172.0	45.6	468.4	148.7	65.0
1960	4,221.7	4,126.5	2,346.4	1,542.0	298.9	392.4	452.0	712.7	490.4	253.4	56.4	900.5	198.7	76.5
Semiannual, July-December 1959	1,425.9	1,392.2	768.5	506.6	116.0	125.5	143.3	234.2	149.4	92.1	22.8	252.9	74.9	33.9
July-December 1960	2,165.7	2,113.5	1,200.0	789.9	139.9	203.7	238.6	358.3	259.5	132.0	28.2	469.3	98.0	46.1
AGRICULTURAL														
Grains and preparations:														
Annual, 1958	497.1	453.3	228.2	187.4	53.5	94.1	2.1	68.3	10.2	6.0	9.4	145.2	4.0	6.2
1959	625.3	568.5	314.2	229.6	66.9	143.0	7.4	83.5	13.2	7.1	15.6	162.5	3.9	9.9
1960	539.8	538.6	264.3	214.5	54.7	120.0	1.1	65.8	22.7	3.0	12.1	158.5	5.7	19.3
Semiannual, July-December 1959	306.2	290.8	167.9	113.1	32.7	81.3	1.1	46.8	6.1	3.6	6.1	76.0	3.1	4.9
July-December 1960	271.8	271.8	141.2	101.3	29.2	68.7	.9	22.7	19.7	1.8	4.3	77.8	3.5	18.7
Fruits and vegetables:														
Annual, 1958	127.6	125.5	69.4	53.4	13.3	16.8	2.8	35.6	.9	13.5	4.9	24.2	7.6	(X)
1959	126.1	122.9	58.0	60.5	11.4	13.6	5.6	26.0	1.4	11.7	4.0	34.4	6.7	1.5
1960	139.2	134.5	58.4	72.1	10.2	13.3	6.3	26.7	1.9	13.0	5.2	42.3	6.9	.8
Semiannual, July-December 1959	75.1	73.8	35.1	36.1	6.4	7.4	4.6	15.8	.9	6.9	2.4	20.6	3.8	.9
July-December 1960	76.8	74.8	32.8	40.0	5.5	7.6	3.5	14.6	1.5	7.2	2.3	23.8	3.9	(X)
Other foodstuffs, except fats and oils[7]:														
Annual, 1958	77.0	76.8	38.7	28.4	5.2	9.5	1.4	14.6	8.0	2.8	1.6	15.1	7.1	2.9
1959	152.0	151.5	89.6	50.4	10.3	25.6	4.0	38.7	11.0	2.7	1.5	30.6	10.6	4.2
1960	149.0	147.5	90.8	49.9	8.2	22.5	6.7	44.3	9.1	3.0	1.5	29.4	11.6	4.0
Semiannual, July-December 1959	107.8	107.3	64.5	37.4	8.1	18.9	3.1	28.0	6.5	1.9	.6	24.2	6.3	2.3
July-December 1960	85.8	84.8	51.5	31.2	4.1	12.8	3.5	27.5	3.5	1.7	.6	18.9	7.6	.8
Fats, oils, and oilseeds, edible and inedible:														
Annual, 1958	291.5	275.7	136.8	47.7	11.1	49.5	6.4	37.1	32.7	.9	3.7	28.8	2.9	64.5
1959	390.2	376.2	230.0	70.9	14.3	106.1	11.1	66.4	32.2	3.5	6.3	42.4	2.9	44.3
1960	388.5	380.9	236.2	88.0	19.3	97.0	13.9	76.8	29.2	2.9	7.4	55.0	4.3	49.7
Semiannual, July-December 1959	229.1	223.3	136.3	43.5	8.9	66.7	6.9	33.7	20.1	2.9	4.4	24.9	1.8	18.2
July-December 1960	209.1	202.0	119.2	51.4	10.4	54.6	4.3	37.0	12.9	[illegible]	4.8	29.2	1.4	30.5
Tobacco and manufactures:														
Annual, 1958	295.9	293.0	106.4	169.2	11.4	13.5	11.5	62.1	7.9	12.0	5.9	124.5	9.8	6.0
1959	277.4	273.2	98.4	155.8	14.5	14.3	9.8	49.1	10.7	10.2	5.7	111.5	10.3	9.7
1960	322.9	319.6	106.8	200.0	13.6	23.6	9.9	52.5	7.1	16.6	6.7	146.2	11.6	1.0
Semiannual, July-December 1959	190.2	187.3	51.0	122.6	8.9	8.5	4.8	24.2	4.6	8.3	3.1	95.7	6.5	6.1
July-December 1960	234.8	231.8	57.1	165.5	8.4	16.6	4.8	24.5	2.8	14.5	3.8	129.2	6.7	1.0
Cotton, unmanufactured:														
Annual, 1958	365.1	347.2	200.4	93.1	12.2	11.8	66.0	50.6	59.8	11.6	.9	64.2	5.6	53.0
1959	201.9	180.4	108.3	49.9	8.5	10.1	29.1	28.6	32.1	5.9	.6	33.9	5.8	21.8
1960	478.8	462.9	317.4	113.0	34.5	32.5	93.9	79.2	77.2	12.3	2.2	71.9	15.4	30.6
Semiannual, July-December 1959	128.8	125.6	90.5	34.8	6.6	9.6	25.2	24.3	24.8	4.5	.5	22.5	5.2	.2
July-December 1960	214.4	200.4	128.9	46.1	17.4	14.7	36.9	29.1	30.8	5.2	.6	27.5	7.3	24.9
INDUSTRIAL MATERIALS[8]														
Synthetic rubber and rubber manufactures[9]:														
Annual, 1958	99.0	98.8	61.3	21.8	8.4	2.8	22.7	18.6	8.7	4.5	.5	12.5	3.0	1.8
1959	114.1	113.7	74.9	26.5	11.9	4.8	29.9	18.4	9.8	6.0	.6	13.8	3.9	2.2
1960	152.5	151.4	99.2	39.9	13.0	7.9	34.6	24.9	18.9	7.9	.9	23.3	4.7	3.5
Semiannual, July-December 1959	60.9	60.6	42.0	14.5	8.0	2.6	15.8	10.3	5.3	3.5	.3	7.3	2.3	1.3
July-December 1960	69.9	69.5	46.6	16.9	5.0	3.8	15.3	13.1	9.3	4.0	.4	8.4	2.5	1.7
Synthetic rubber:														
Annual, 1958	71.3	71.2	53.4	16.3	7.1	1.6	20.7	16.7	7.4	2.7	.1	11.6	1.2	1.1
1959	89.1	88.8	66.3	20.4	10.0	3.2	28.2	16.2	8.6	4.4	.1	12.6	1.8	1.6
1960	117.0	116.6	84.1	29.6	10.1	4.7	31.5	21.1	16.8	5.6	.2	19.8	2.3	2.5
Semiannual, July-December 1959	49.6	49.4	37.0	11.2	6.9	1.8	14.8	8.9	4.6	2.6	.1	6.5	1.2	.9
July-December 1960	51.0	50.9	38.1	11.3	3.4	2.0	13.5	11.0	8.3	2.7	.1	6.4	1.3	1.2
Textile semi- and finished manufactures:														
Annual, 1958	96.7	96.1	57.8	33.4	8.4	10.8	4.0	18.5	16.1	4.9	3.1	12.2	9.5	.9
1959	128.2	127.5	77.7	45.5	10.2	11.0	5.7	30.0	20.8	7.6	3.8	18.1	11.4	.7
1960	177.1	175.9	100.5	69.8	14.7	15.6	13.2	36.0	20.9	8.9	2.9	43.7	9.1	1.8
Semiannual, July-December 1959	73.5	72.9	43.4	27.2	5.2	5.7	3.6	17.4	11.5	4.4	2.0	12.0	6.0	.3
July-December 1960	87.0	86.2	46.9	36.1	7.4	8.4	5.4	16.4	9.2	4.1	1.4	24.3	4.2	1.1
Wood, wood pulp, wood products, paper and paper manufactures:														
Annual, 1958	117.0	116.8	52.2	57.3	4.4	6.8	13.0	18.5	9.5	3.1	.8	48.9	2.7	2.4
1959	142.9	142.6	66.1	71.3	5.1	8.9	10.5	28.5	13.1	3.8	1.1	61.2	2.9	1.4
1960	211.4	210.6	107.8	95.2	8.1	14.0	15.9	45.0	24.8	4.5	1.4	80.3	4.3	3.0
Semiannual, July-December 1959	81.8	81.6	36.6	42.2	2.8	5.0	5.0	17.0	6.9	2.2	.6	36.3	1.7	.6
July-December 1960	107.8	107.3	54.4	48.6	4.4	6.6	8.1	22.6	12.7	2.5	.7	40.8	2.3	1.8
Coal and related products:														
Annual, 1958	332.9	328.2	282.4	32.8	22.5	56.6	34.4	94.9	74.0	8.2	2.2	.2	4.1	7.0
1959	181.2	177.4	144.6	21.6	11.0	31.5	11.1	42.2	48.7	7.2	1.0	.2	2.3	7.0
1960	154.5	149.9	128.7	16.7	10.3	26.0	7.0	42.2	43.2	6.0	.7	.6	2.6	3.1
Semiannual, July-December 1959	75.2	73.5	58.0	11.2	3.1	11.9	5.3	16.4	21.2	4.1	.6	.2	1.3	3.2
July-December 1960	78.0	75.9	64.6	9.0	5.6	13.0	3.7	22.9	19.5	3.6	.4	.3	1.4	1.1
Petroleum and products:														
Annual, 1958	151.1	149.7	66.3	62.0	11.1	12.6	17.1	11.0	14.5	8.0	3.4	43.4	2.1	3.1
1959	128.8	127.4	54.5	57.4	9.4	7.7	12.5	10.6	14.2	8.0	5.1	37.3	2.1	3.9
1960	127.1	125.4	64.8	46.1	9.9	15.2	10.8	10.6	18.4	6.2	5.2	26.5	2.1	2.8
Semiannual, July-December 1959	62.3	61.4	27.4	25.9	4.7	4.4	4.8	5.3	8.2	3.3	2.1	17.0	1.1	2.6
July-December 1960	59.5	58.7	31.1	20.0	4.4	7.1	6.0	5.3	8.3	2.9	2.3	10.9	1.1	1.7

See footnotes at end of table

2

Table 2.—Leading Commodities in U.S. Export and Import Trade with Western Europe—Continued
(Millions of dollars)

Commodity and period	Selected areas[1]: Total Western Europe	Selected areas[1]: OEEC Countries[2]	Selected areas[1]: Common Market Countries	Selected areas[1]: Free Trade Association	Principal Countries: Belgium[3]	Netherlands	France	West Germany	Italy[4]	Sweden	Norway	United Kingdom	Switzerland	Spain
	Exports to Western Europe—Continued													
INDUSTRIAL MATERIALS[8]—continued														
Iron and steel making raw materials:														
Annual, 1958	56.5	56.5	52.5	.7	1.6	(X)	4.6	4.6	41.6	.1	-	-	-	3.3
1959	20.8	20.1	14.3	2.9	.4	(X)	.3	2.8	10.8	2.9	-	(X)	.1	2.9
1960	84.1	82.5	58.1	19.7	.5	.4	4.7	19.4	33.1	9.3	.3	9.8	.3	4.7
Semiannual, July-December 1959	16.4	15.8	12.4	2.8	.4	(X)	.3	2.3	9.3	2.7	-	(X)	.1	.6
July-December 1960	53.1	52.1	33.1	15.3	.5	.2	3.3	12.5	16.6	5.5	.3	9.3	.1	3.7
Iron and steel-mill products:														
Annual, 1958	85.2	85.0	46.1	33.2	3.4	12.1	1.2	23.2	6.2	6.7	2.5	16.9	4.9	2.0
1959	54.6	54.3	30.0	21.5	2.8	8.4	.6	12.5	5.7	9.5	1.4	6.3	2.9	.5
1960	183.7	182.2	70.6	102.0	6.0	17.5	5.3	23.3	18.5	20.9	2.6	61.3	13.1	3.1
Semiannual, July-December 1959	18.6	18.4	9.9	7.2	.8	2.9	.4	3.3	2.6	2.7	.5	2.1	1.2	.2
July-December 1960	90.6	89.7	41.0	43.5	3.0	10.4	2.9	13.0	11.6	10.2	1.3	23.9	6.1	1.3
Aluminum, ores, scrap, and semifabricated:														
Annual, 1958	19.0	19.0	6.5	12.3	(X)	.6	.1	4.3	1.5	(X)	(X)	12.1	(X)	.2
1959	52.8	49.2	20.1	28.9	.2	2.0	2.1	13.0	2.7	.2	(X)	26.3	2.3	.1
1960	137.4	132.7	66.3	66.1	3.1	4.1	5.3	42.9	10.9	.5	.2	61.1	4.0	(X)
Semiannual, July-December 1959	38.6	34.9	15.4	19.5	.1	1.2	1.9	10.7	1.5	.2	(X)	17.0	2.3	(X)
July-December 1960	61.6	60.4	27.8	32.4	1.4	3.0	.4	17.8	5.1	.3	.2	29.6	2.0	(X)
Copper, and copper-base alloys:														
Annual, 1958	187.8	186.1	114.2	69.7	1.3	8.1	46.7	40.9	17.1	3.8	2.2	56.9	6.0	1.5
1959	88.5	86.6	65.7	19.7	.3	4.6	24.8	26.3	9.7	.9	1.0	15.6	1.3	.8
1960	269.8	262.0	183.1	73.8	3.8	11.5	36.4	83.8	47.5	4.2	2.2	61.1	5.0	4.4
Semiannual, July-December 1959	28.7	27.6	22.3	4.7	.2	1.5	4.8	12.6	3.2	.4	.1	3.7	.3	.3
July-December 1960	158.9	152.9	109.7	39.9	2.1	7.1	21.8	46.8	28.9	2.8	1.3	34.3	3.9	2.7
Chemicals and related products[9]:														
Annual, 1958	386.1	382.2	247.9	110.7	55.7	45.8	47.7	52.9	45.8	16.9	7.2	55.8	18.0	6.2
1959	446.8	441.9	282.3	129.0	58.9	61.4	43.3	60.8	57.7	20.7	6.5	66.3	20.5	14.2
1960	561.5	550.2	364.7	166.9	68.0	90.6	44.1	82.4	79.5	20.7	7.4	101.5	22.4	9.8
Semiannual, July-December 1959	234.2	231.7	147.1	70.3	29.7	35.2	20.9	32.4	28.8	11.7	3.6	36.2	11.0	6.6
July-December 1960	280.6	272.3	178.6	86.7	34.0	44.2	20.3	39.3	40.8	10.5	3.9	53.5	11.5	5.0
FINISHED MANUFACTURES														
Machinery[9]:														
Annual, 1958	626.7	607.6	330.2	206.7	38.0	34.1	101.9	79.4	76.9	46.0	13.1	93.5	28.4	24.7
1959	694.6	666.8	338.8	255.1	43.4	40.4	83.4	102.8	68.8	54.0	15.8	110.9	32.6	19.5
1960	977.0	932.7	496.5	344.9	60.0	67.4	116.1	150.7	102.3	64.1	17.4	175.2	41.1	32.8
Semiannual, July-December 1959	367.1	349.3	175.4	131.5	21.8	21.2	41.6	57.2	33.6	28.6	7.6	51.8	15.9	11.1
July-December 1960	517.8	493.0	269.1	176.5	33.2	39.0	59.1	79.6	58.3	31.9	7.6	94.9	21.2	21.5
Electrical machinery and apparatus[9]:														
Annual, 1958	113.0	110.3	63.6	31.9	8.7	6.1	15.7	12.0	21.2	8.6	1.5	10.4	6.8	6.2
1959	143.2	141.7	73.6	49.9	12.4	6.6	14.4	18.7	21.6	9.6	2.0	20.2	8.4	6.0
1960	171.0	168.5	89.5	60.6	10.6	13.6	21.5	22.7	21.1	14.3	2.6	24.3	10.5	9.5
Semiannual, July-December 1959	77.4	76.4	37.9	27.4	6.6	3.2	7.5	9.4	11.2	5.2	1.2	9.7	4.8	3.1
July-December 1960	94.7	93.4	49.5	32.0	5.5	9.1	11.2	12.7	11.1	7.8	1.4	12.4	5.6	8.2
Industrial machinery, total[9]:														
Annual, 1958	408.5	394.4	219.0	130.9	24.1	21.8	73.0	50.6	49.5	27.9	8.4	63.7	14.9	15.8
1959	422.6	401.0	206.7	154.1	26.0	24.9	51.9	64.8	39.1	33.4	9.1	68.8	16.7	10.9
1960	623.6	588.5	318.6	215.1	43.6	41.9	69.6	94.7	68.7	36.8	10.6	116.1	20.6	16.9
Semiannual, July-December 1959	224.3	210.2	107.7	79.5	12.7	13.7	25.5	37.9	18.0	17.7	4.4	31.6	7.9	6.3
July-December 1960	329.8	309.4	172.2	110.3	25.0	24.1	35.0	47.9	40.2	18.6	4.6	63.4	10.7	8.9
Construction, excavating, and mining machinery:														
Annual, 1958	109.6	103.7	44.4	40.7	4.1	6.0	15.7	11.5	7.1	9.7	3.1	16.1	6.4	3.4
1959	112.1	104.4	41.8	46.9	5.0	3.8	14.7	11.8	6.5	12.1	4.3	16.5	8.1	1.8
1960	147.4	137.8	57.6	53.8	8.4	7.9	14.6	15.5	11.3	10.6	4.3	22.2	9.2	2.9
Semiannual, July-December 1959	54.8	51.2	21.6	21.3	2.7	2.1	7.4	6.2	3.2	6.0	2.0	6.7	3.6	.7
July-December 1960	74.5	69.9	30.5	26.8	4.8	4.0	7.3	7.3	7.1	4.0	2.1	12.0	4.9	2.0
Manufacturing and service industry machinery[10]:														
Annual, 1958	143.9	139.4	86.1	41.9	9.0	9.4	25.9	17.8	23.9	9.0	2.6	20.0	4.9	3.1
1959	145.3	135.9	77.8	46.3	8.3	12.3	18.0	19.0	20.3	10.5	2.6	21.8	5.9	3.6
1960	225.7	206.6	119.8	73.1	14.4	18.9	27.7	31.7	27.0	15.6	3.9	39.7	7.1	4.7
Semiannual, July-December 1959	77.8	70.0	39.8	24.0	4.3	6.3	9.1	10.7	9.3	5.7	1.4	10.6	3.1	1.9
July-December 1960	122.0	109.1	63.6	38.5	8.2	10.6	14.5	15.8	14.5	9.0	1.6	21.2	3.6	2.1
Automobiles, parts, and accessories[9]:														
Annual, 1958	80.0	77.9	39.4	28.1	24.2	4.5	6.1	2.5	2.1	15.3	1.4	2.1	4.8	1.7
1959	97.6	95.3	37.5	32.9	21.1	4.8	4.9	3.8	2.9	17.1	1.3	2.3	5.9	1.1
1960	135.6	131.8	56.5	49.5	27.1	12.0	8.3	5.9	3.2	20.5	1.9	6.5	10.8	1.5
Semiannual, July-December 1959	51.1	1150.0	16.6	15.9	8.4	2.8	2.4	1.7	1.3	8.7	.7	1.3	1.9	.4
July-December 1960	58.7	1156.8	25.0	24.3	12.3	5.2	3.2	2.7	1.6	8.7	1.0	4.2	5.4	.9
Aircraft[9]:														
Annual, 1958	88.3	84.3	61.5	17.6	8.6	13.9	14.7	14.6	9.8	3.8	1.7	5.2	3.2	.4
1959	50.6	50.5	42.1	5.3	5.4	9.2	17.5	9.5	.5	1.6	.2	.4	2.8	.8
1960	378.2	378.0	222.8	146.8	21.7	57.1	95.5	30.9	17.6	39.5	.8	87.9	18.1	.4
Semiannual, July-December 1959	41.7	40.3	37.1	1.7	5.4	9.2	16.9	5.4	.2	1.0	.1	.3	.1	.8
July-December 1960	195.5	195.5	106.0	81.8	(X)	26.7	60.7	7.0	11.5	22.2	.4	52.9	6.1	.2
UNDISTRIBUTED														
Other exports, including total reexports[9]:														
Annual, 1958	528.9	500.7	248.7	183.7	37.3	37.6	33.1	85.5	55.3	28.6	4.8	90.7	40.4	28.1
1959	555.2	537.8	268.7	235.2	44.9	44.7	32.6	95.5	51.7	27.9	5.9	120.2	57.0	8.4
1960	730.6	707.1	354.7	306.2	49.1	63.7	51.2	124.3	66.7	36.0	10.4	168.0	59.6	13.3
Semiannual, July-December 1959	296.6	290.2	141.9	128.8	23.5	24.6	17.0	49.6	27.0	15.2	2.9	68.9	29.3	4.0
July-December 1960	369.3	360.3	179.2	155.5	24.8	32.3	26.8	64.2	34.6	20.2	5.6	81.7	29.4	5.1
	Imports for consumption from Western Europe													
Imports for consumption, total:														
Annual, 1958	3,272.0	3,207.1	1,679.4	1,344.3	270.2	189.2	310.3	633.7	276.0	125.2	50.8	862.6	157.5	57.0
1959	4,464.4	4,380.9	2,396.1	1,764.2	416.7	215.8	457.9	921.9	383.9	183.9	74.4	1,124.2	195.4	78.1
1960	4,216.3	4,124.1	2,258.6	1,632.7	362.7	212.0	394.7	894.6	394.5	170.4	87.7	996.0	196.0	86.3
Semiannual, July-December 1959	2,352.8	2,310.6	1,279.5	918.7	216.3	111.1	247.0	493.6	211.5	92.9	37.8	581.1	112.2	40.5
July-December 1960	1,951.5	1,907.9	1,060.7	734.6	162.0	107.3	170.2	426.3	194.9	74.8	40.2	427.7	102.3	40.3
Foodstuffs and beverages:														
Annual, 1958	427.9	425.8	170.5	193.8	2.6	61.2	37.7	18.7	50.5	2.1	11.1	116.6	9.1	34.2
1959	470.1	468.0	178.0	212.1	2.9	68.1	40.3	19.1	53.6	1.9	15.4	130.4	10.2	38.9
1960	485.5	482.9	178.0	226.4	3.9	58.3	42.6	20.8	52.3	2.4	12.4	146.2	10.0	35.8
Semiannual, July-December 1959	253.5	252.5	95.3	118.8	1.6	30.1	22.9	9.9	30.8	1.0	8.2	77.4	6.0	19.8
July-December 1960	263.0	261.3	97.9	124.6	2.1	30.0	24.1	10.8	30.9	1.2	6.5	82.7	6.1	17.7

Table 2.--Leading Commodities in U.S. Export and Import Trade with Western Europe--Continued
(Millions of dollars)

Commodity and period	Selected areas[1]: Total Western Europe	Selected areas[1]: OEEC Countries[2]	Selected areas[1]: Common Market Countries	Selected areas[1]: Free Trade Association	Principal Countries: Belgium[3]	Principal Countries: Netherlands	Principal Countries: France	Principal Countries: West Germany	Principal Countries: Italy[4]	Principal Countries: Sweden	Principal Countries: Norway	Principal Countries: United Kingdom	Principal Countries: Switzerland	Principal Countries: Spain
	Imports for consumption from Western Europe--Continued													
Furs, leather, leather manufactures and other animal products, and animals, inedible:														
Annual, 1958	129.9	126.2	62.9	56.7	2.9	5.0	15.2	18.6	21.1	11.1	8.0	24.8	2.9	1.6
1959	177.9	172.5	88.3	73.3	3.0	6.7	20.7	26.8	31.1	12.3	9.1	32.7	4.7	3.9
1960	185.3	179.2	101.7	68.0	3.1	6.2	23.1	29.2	40.1	11.0	8.4	30.3	4.6	3.4
Semiannual, July-December 1959	91.2	89.0	48.5	34.0	1.7	2.8	11.1	14.5	18.5	3.8	3.3	18.6	2.8	2.4
July-December 1960	89.8	78.4	54.5	28.2	1.8	3.3	12.4	16.0	21.1	2.4	2.5	15.7	2.5	1.6
Tobacco, flower bulbs, and other inedible vegetable products:														
Annual, 1958	[12]143.5	137.8	51.0	11.5	1.8	18.8	13.5	9.9	6.9	.6	.4	6.3	1.1	2.0
1959	[12]172.7	167.2	64.7	23.1	2.6	24.8	18.9	11.2	7.2	1.9	.4	12.9	.5	2.2
1960	[12]170.6	164.0	64.1	19.4	2.9	24.0	18.7	10.0	8.4	2.1	.3	10.7	2.1	2.0
Semiannual, July-December 1959	[12]92.3	90.1	36.3	13.3	1.0	15.9	11.1	4.7	3.6	1.1	.3	7.6	.3	.9
July-December 1960	[12]84.9	81.8	33.1	9.2	1.4	14.6	8.5	4.5	4.0	.9	.1	4.6	1.7	1.0
Textile manufactures:														
Annual, 1958	271.8	271.3	144.8	124.1	36.2	12.3	24.3	26.7	45.3	2.5	.5	88.3	18.7	.9
1959	344.7	343.9	193.8	145.3	47.0	12.8	30.4	33.8	69.8	5.7	.8	100.2	20.4	2.4
1960	369.1	368.7	210.5	146.2	47.4	13.0	33.6	31.6	84.9	2.9	.6	99.3	19.2	10.2
Semiannual, July-December 1959	174.0	173.4	101.7	68.4	24.3	5.3	16.5	18.3	37.3	2.9	.4	45.8	10.3	1.9
July-December 1960	174.9	174.7	104.9	64.1	22.2	6.2	16.0	16.3	44.2	1.2	.4	41.8	9.7	4.7
Wood and paper:														
Annual, 1958	123.8	88.5	28.2	57.9	4.7	3.1	3.3	11.1	6.0	30.8	5.2	8.3	.4	2.4
1959	167.5	120.9	40.6	76.8	8.7	3.0	5.3	15.2	8.4	46.7	5.8	9.3	.5	3.3
1960	163.3	111.6	42.2	66.4	9.6	2.4	4.9	14.7	10.7	37.2	5.1	8.5	.6	2.8
Semiannual, July-December 1959	89.2	64.9	23.8	39.3	5.3	1.5	3.1	8.6	5.2	23.4	3.2	4.8	.4	1.7
July-December 1960	81.4	56.4	22.1	32.8	4.9	1.1	2.3	8.2	5.6	18.2	2.3	4.1	.3	1.4
Nonmetallic minerals, chiefly glass, glassware, chinaware, and precious and semiprecious stones[13]:														
Annual, 1958	257.1	255.4	146.3	106.2	76.5	6.6	11.2	27.4	24.1	3.0	1.6	87.5	2.2	1.9
1959	353.4	350.3	199.1	145.6	114.6	7.3	15.4	32.2	29.7	3.5	1.9	120.0	4.6	2.6
1960	326.3	323.1	181.7	133.4	97.0	8.6	16.3	32.8	26.9	4.0	1.4	110.3	6.6	4.6
Semiannual, July-December 1959	180.5	179.1	99.6	76.9	56.0	3.9	8.4	16.5	14.9	1.7	1.0	63.9	3.3	1.5
July-December 1960	162.8	161.4	88.9	68.3	46.7	4.6	7.5	16.5	13.6	2.2	.6	55.2	4.1	2.4
Metals and manufactures:														
Annual, 1958	496.4	482.0	303.5	159.2	113.0	29.9	38.6	100.0	21.9	22.9	18.4	89.8	11.7	6.9
1959	876.7	859.3	567.0	273.2	196.8	32.4	91.3	202.2	44.3	37.3	34.4	153.8	15.7	13.2
1960	748.3	730.2	474.4	235.3	152.2	26.5	73.7	178.0	44.0	33.0	52.1	114.6	14.4	15.6
Semiannual, July-December 1959	478.7	469.6	310.9	150.1	102.8	15.2	47.3	117.8	27.8	20.6	18.3	84.7	8.1	5.9
July-December 1960	293.3	285.0	182.1	95.1	57.9	8.9	27.9	69.3	18.1	14.6	24.3	40.5	5.7	5.9
Iron and steel-mill products:														
Annual, 1958	185.9	185.0	148.9	35.5	83.0	8.0	18.3	35.5	4.2	10.5	1.2	21.6	.4	.5
1959	417.7	414.4	343.1	67.7	157.3	13.8	60.3	100.5	11.3	15.3	2.9	44.9	1.2	3.6
1960	362.4	359.4	291.4	65.1	124.8	14.7	46.2	89.5	16.1	14.0	1.7	43.8	1.5	2.5
Semiannual, July-December 1959	234.9	233.0	188.9	42.3	82.4	7.8	32.9	57.2	8.6	8.1	1.7	29.6	.6	1.9
July-December 1960	120.0	118.9	96.4	21.6	45.6	4.4	14.8	27.4	4.5	6.2	.5	12.9	.7	.5
Nonferrous metals and ferroalloys:														
Annual, 1958	230.7	217.5	111.2	87.9	27.6	18.6	15.7	37.9	11.4	6.1	16.6	48.2	5.1	6.1
1959	354.6	340.6	165.7	159.9	35.4	12.2	23.3	70.3	24.5	14.1	30.4	83.4	7.2	9.1
1960	280.6	265.9	123.5	125.4	24.9	5.6	21.7	53.7	17.6	11.5	49.4	45.3	6.0	12.6
Semiannual, July-December 1959	189.2	181.5	91.7	83.7	18.3	4.2	10.8	43.9	14.5	7.9	16.0	42.3	3.6	3.7
July-December 1960	123.4	116.3	54.7	54.6	11.2	1.9	10.3	23.3	8.0	4.2	23.2	17.6	2.8	5.1
Machinery:														
Annual, 1958	284.2	284.1	156.4	127.6	4.3	16.3	8.3	106.5	21.0	15.9	.7	81.4	23.4	.1
1959	373.1	373.1	189.8	183.2	5.3	23.0	8.5	124.6	28.4	22.0	.7	125.1	28.5	(X)
1960	417.7	417.4	224.8	191.6	5.0	30.8	11.7	138.0	39.3	27.6	1.4	119.7	32.6	1.0
Semiannual, July-December 1959	202.2	202.2	103.0	99.2	3.4	12.0	4.6	67.5	15.4	11.9	.3	68.0	15.2	(X)
July-December 1960	203.2	203.1	117.8	84.4	2.3	17.9	5.9	71.0	20.7	12.9	.7	51.3	14.5	.9
Automobiles and parts:														
Annual, 1958	548.2	548.2	314.1	232.5	.2	.2	91.4	187.1	35.1	23.5	(X)	208.8	.1	(X)
1959	823.5	823.5	503.4	320.1	(X)	.3	147.4	301.7	53.9	36.0	(X)	284.0	.1	(X)
1960	611.8	611.8	383.7	227.0	1.1	1.0	72.7	278.3	30.7	28.5	-	198.2	.2	(X)
Semiannual, July-December 1959	407.3	407.3	253.0	154.2	(X)	.2	77.3	149.4	26.1	18.2	(X)	136.0	(X)	(X)
July-December 1960	211.6	211.6	149.5	61.4	.3	.2	12.9	130.0	6.1	10.0	-	51.3	.1	(X)
Chemicals and related products:														
Annual, 1958	139.6	139.2	96.1	40.6	7.7	16.6	15.6	47.7	8.5	2.0	2.4	20.5	11.9	2.2
1959	176.2	175.4	116.9	54.6	11.0	21.1	21.9	51.9	11.0	2.8	2.9	27.0	18.5	3.1
1960	178.7	177.4	118.1	54.4	12.6	16.3	29.1	50.5	9.7	2.1	2.4	27.1	18.4	4.3
Semiannual, July-December 1959	91.8	91.3	62.8	26.7	5.6	11.6	12.6	27.5	5.4	1.4	1.0	13.5	8.9	1.6
July-December 1960	85.6	85.3	57.0	26.0	6.0	7.7	14.3	24.4	4.5	.9	.6	13.0	9.3	2.1
Other imports:														
Annual, 1958	449.6	448.6	205.6	234.2	20.3	19.2	51.2	80.0	35.6	10.8	2.5	130.3	[14]76.0	4.8
1959	528.6	526.8	254.5	256.9	24.8	22.3	57.8	103.2	46.5	13.8	3.0	128.8	[14]91.7	8.5
1960	559.7	557.8	279.4	264.6	27.9	24.9	68.3	110.7	47.5	19.6	3.6	131.1	[14]87.3	6.6
Semiannual, July-December 1959	292.1	291.2	144.6	137.8	14.6	12.6	32.1	58.9	26.5	6.9	1.8	60.8	[14]56.9	4.8
July-December 1960	301.0	299.9	152.9	140.5	16.4	12.8	38.4	59.3	26.1	10.3	2.2	67.5	[14]48.3	2.6

1 See table 1 for countries covered. 2 Spain in included for all periods shown. 3 Luxembourg is included. 4 Trieste is included. 5 Totals shown here include reexports; commodity data cover only U.S. merchandise. Data for all periods shown include aviation fuel and lubricating oils for which security restrictions were removed in 1960. 6 Including all reexports. 7 Data include relatively small amounts of nonagricultural exports, such as fish and alcoholic beverages. 8 The commodity groups shown below represent chiefly industrial materials although certain of them include some items usually classed as manufactures. 9 "Special category" commodities are excluded. 10 Excludes power generating machinery, machine tools and metalworking machines, textile sewing, and shoe machinery. 11 Exports to Turkey, July-December 1959-1960 were valued (in millions of dollars): $16.2 and $5.7 respectively. 12 Includes tobacco imports from Greece and Turkey in 1958-1960 and July-December 1959-1960 as follows (in millions of dollars): $71.2; $74.3; $76.6; $38.0; and $37.6, respectively. 13 Imports from the United Kingdom and Belgium are chiefly diamonds, including rough, cut, and bort, credited to country of shipment when country of origin is unknown. 14 Imports of clocks, and watches in years 1958-1960 and July-December 1959-1960 were (in millions of dollars): $49.4; $58.4; $54.2; $35.2; and $30.0, respectively. (X) Less than $50,000.

July 1961

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STATISTICAL REPORTS

Part 3, No. 61-26

trade of the United States with Southern, Southeastern, and Eastern Asia

years, 1958-60, and half-years, July-December, 1959-60

Note: For explanation of statistics, see page 2 of World Trade Information Service report, part 3, No. 61-4.

Table 1.--United States Exports to and Imports from Southern, Southeastern, and Eastern Asia by Country, Annual 1958-1960 and Semiannually July-December 1959-60

(Value in thousands of dollars)

Area and country	Exports, including reexports[1]			General imports			Imports for Consumption		
	1958	1959	1960	1958	1959	1960	1958	1959	1960
Total	2,234,554	2,313,571	3,145,970	1,646,461	2,257,532	2,408,679	1,646,964	2,236,429	2,385,508
Percent of U. S. total	14.0	14.5	16.7	12.8	14.8	16.4	12.9	14.9	16.3
Southern and Southeastern Area:									
Afghanistan	10,357	6,918	9,188	13,952	16,431	19,801	13,372	16,452	20,461
India	312,200	336,338	639,852	191,140	207,257	227,930	185,974	209,282	229,972
Pakistan	112,085	104,131	168,811	26,845	35,449	36,041	26,795	34,975	36,025
Nepal	176	208	695	7	12	27	8	12	27
Ceylon	21,859	23,116	14,304	27,076	34,651	38,736	26,988	34,567	38,675
Burma	7,258	8,061	8,335	1,201	2,269	1,175	1,203	2,136	1,010
Thailand	52,395	62,759	61,689	57,235	90,565	55,522	57,162	90,530	55,508
Viet-Nam	61,945	56,447	53,109	4,940	10,747	4,402	5,066	10,811	4,393
Laos	2,409	2,685	1,620	(X)	47	-	(X)	47	-
Cambodia	7,195	5,591	7,111	9,270	12,847	6,618	9,270	12,848	6,618
Malaya, Federation of	7,990	8,679	17,985	93,369	159,367	156,256	93,380	159,378	156,265
Singapore, State of	29,243	31,882	41,320	32,475	29,150	19,007	32,445	29,148	19,007
Indonesia, Republic of	63,234	67,069	85,815	173,135	190,366	216,130	172,595	190,534	216,135
Philippines, Republic of	292,886	276,211	295,102	273,969	312,168	306,386	273,438	304,205	306,913
Macao	166	130	748	339	542	628	339	542	628
Goa and Damao, Diu and Timor	1,713	830	1,445	417	497	1,139	363	408	1,139
Southern and Southeastern Asia, n.e.c.	888	157	173	59	74	5	59	75	5
Eastern Area:									
China, including Manchuria	[2]5	[2]3	-	142	200	256	204	202	263
Outer Mongolia	-	-	-	4,453	7,015	2,658	5,677	5,628	2,253
North Korea	-	-	-	2	3	3	2	3	3
Korea, Republic of	215,737	135,787	153,453	2,402	4,007	5,206	2,430	3,999	5,103
Hong Kong	71,987	96,237	122,558	51,775	99,779	138,850	51,771	97,521	135,689
Taiwan	102,179	107,313	110,238	10,847	14,056	20,460	10,315	13,838	20,354
Japan	844,675	966,325	1,330,376	670,821	1,028,655	1,148,643	677,604	1,017,997	1,126,530
Nansei and Nanpo Islands, n.e.c.	15,973	16,694	22,043	589	1,371	2,800	501	1,291	2,535

Area and country	July-December		July-December		July-December	
	1959	1960	1959	1960	1959	1960
Total	1,156,576	1,579,723	1,213,168	1,180,547	1,201,318	1,171,680
Percent of U. S. total	14.1	16.6	15.6	16.8	15.6	16.7
Southern and Southeastern Area:						
Afghanistan	2,757	5,307	7,067	8,980	6,754	9,897
India	120,815	321,335	103,917	113,539	106,936	114,144
Pakistan	53,001	85,397	14,627	14,405	14,223	14,414
Nepal	157	313	4	12	4	12
Ceylon	11,558	7,085	17,008	17,042	16,937	17,013
Burma	5,396	4.202	850	547	729	406
Thailand	30,614	28,49[illegible]	49,434	24,321	49,400	24,315
Viet-Nam	25,968	27,973	4,171	1,589	4,182	1,565
Laos	1,060	880	47	-	47	-
Cambodia	3,207	4,465	6,429	2,215	6,430	12,215
Malaya, Federation of	5,096	9,433	90,064	75,107	90,079	75,116
Singapore, State of	15,294	22,433	14,194	6,977	14,192	6,976
Indonesia, Republic of	40,026	39,190	89,763	107,470	89,820	107,465
Philippines, Republic of	146,339	149,806	163,072	151,830	159,320	147,238
Macao	115	367	260	353	260	353
Goa and Damao, Diu and Timor	440	844	139	579	139	579
Southern and Southeastern Asia, n.e.c.	75	114	71	3	71	3
Eastern Area:						
China, including Manchuria	-	-	61	104	61	104
Outer Mongolia	-	-	4,308	588	3,172	505
North Korea	-	-	3	-	3	-
Korea, Republic of	71,778	67,086	2,431	2,785	2,593	2,681
Hong Kong	51,201	56,728	57,186	65,735	55,022	64,999
Taiwan	49,283	51,702	8,808	11,746	8,610	11,335
Japan	515,470	684,997	578,289	573,150	571,450	568,996
Nansei and Nanpo Islands, n.e.c.	6,926	11,573	964	1,469	883	1,350

1 Data exclude "special category" exports, and percentages are based on U. S. totals excluding "special category". Data for all periods adjusted for aviation fuel and lubricating oils for which security restrictions were removed in 1960. 2 Includes printed matter under general license and shipments to diplomatic missions of friendly foreign countries. (X) Less than $500. n.e.c. Not elsewhere classified

U.S. DEPARTMENT OF COMMERCE • **Luther H. Hodges, Secretary**

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Table 2.--Leading Commodities in U.S. Exports to Southern, Southeastern, and Eastern Asia
(Thousands of dollars)

Commodity and period	Total area	Japan	Other Southern, Southeastern, and Eastern Asia Countries									
			Total[1]	India	Paki-stan	Thai-land	Viet-Nam	Indo-nesia, Rep. of	Philip-pines, Rep. of	Korea Rep. of	Hong Kong	Taiwan
Total, excluding special category[2]:												
Annual, 1958	2,234,554	844,675	1,389,879	312,200	112,085	52,395	61,945	63,234	292,886	215,737	71,987	102,179
1959	2,313,571	966,325	1,347,246	336,338	104,131	62,759	56,447	67,069	276,211	135,787	96,237	107,313
1960	3,145,970	1,330,376	1,815,594	639,852	168,811	61,689	53,109	85,815	295,102	153,453	122,558	110,238
Semiannual, July-December 1959	1,156,576	515,470	641,106	120,815	53,001	30,614	25,968	40,026	146,339	71,778	51,201	49,283
July-December 1960	1,579,723	684,997	894,726	321,335	85,397	28,493	27,973	39,190	149,806	67,086	56,728	51,702
Agricultural:												
Annual, 1958	936,900	361,300	575,600	176,000	65,400	8,300	18,700	12,000	75,800	111,100	25,700	53,800
1959	879,811	334,011	545,800	209,042	56,450	10,318	20,242	19,033	50,555	59,579	35,263	53,556
1960	1,336,400	485,200	851,200	425,300	99,200	6,600	21,900	23,700	65,400	71,400	46,500	58,400
Semiannual, July-December 1959	418,800	182,000	236,800	64,400	19,800	5,300	8,000	18,000	30,300	28,800	20,800	26,500
July-December 1960	638,900	229,900	409,000	211,300	50,600	2,700	11,500	6,100	36,200	25,800	19,800	27,200
Nonagricultural[3]:												
Annual, 1958	1,297,654	483,375	814,279	136,200	46,685	44,095	43,245	51,234	217,086	104,637	46,287	48,379
1959	1,433,760	632,314	801,446	127,296	47,681	52,441	36,205	48,036	225,656	76,208	60,974	53,757
1960	1,809,570	845,176	964,394	214,552	69,611	55,089	31,209	62,115	229,702	82,053	76,058	51,838
Semiannual, July-December 1959	737,776	334,470	403,306	56,415	33,201	25,314	17,968	22,026	116,039	42,978	30,401	22,783
July-December 1960	940,823	455,097	485,726	110,035	34,797	25,793	16,473	33,090	113,606	41,286	36,928	24,502
AGRICULTURAL												
Grains and preparations:												
Annual, 1958	438,873	110,965	327,908	148,314	59,588	234	2,312	5,440	28,457	50,386	1,380	14,878
1959	374,970	82,694	292,276	178,160	43,866	151	3,721	12,118	9,007	13,302	1,265	14,054
1960	565,519	71,310	494,209	325,225	83,306	183	3,102	15,728	12,660	25,415	822	17,969
Semiannual, July-December 1959	152,293	36,696	115,597	57,519	11,999	85	1,422	12,103	6,011	8,040	694	9,952
July-December 1960	280,103	40,169	239,934	164,352	39,023	82	1,999	2,757	6,605	8,963	449	10,497
Other foodstuffs[4]:												
Annual, 1958	79,501	13,692	65,809	3,429	2,460	1,176	9,455	705	29,419	4,487	5,263	738
1959	86,047	10,449	75,598	4,435	8,216	1,213	9,137	1,733	27,250	5,078	9,699	583
1960	96,467	18,148	78,319	1,757	8,814	1,108	10,073	776	27,261	5,357	11,881	529
Semiannual, July-December 1959	48,742	5,930	42,812	1,488	4,973	559	4,888	1,320	17,700	2,020	5,184	243
July-December 1960	54,756	9,990	44,766	1,137	7,244	545	5,197	611	16,442	2,027	5,819	319
Oilseeds and vegetable oils, inedible:												
Annual, 1958	90,219	72,322	17,897	49	-	9	140	8	675	6,411	114	10,483
1959	111,950	97,219	14,731	62	564	6	105	16	621	3,261	796	9,074
1960	129,060	106,909	22,151	179	6	15	35	14	683	3,757	532	15,989
Semiannual, July-December 1959	61,894	55,388	6,506	33	184	2	49	14	285	1,870	353	3,664
July-December 1960	70,717	59,681	11,036	105	3	2	11	13	313	1,714	152	8,269
Tobacco and manufactures:												
Annual, 1958	40,731	10,505	30,226	2,929	265	6,721	2,957	1,179	3,186	-	5,861	2,281
1959	46,520	11,292	35,228	1,949	770	8,439	3,287	1,696	2,666	-	7,931	1,753
1960	48,292	19,763	28,529	538	1,489	3,240	2,546	133	850	2	8,238	1,807
Semiannual, July-December 1959	24,367	7,219	17,148	24	629	4,115	181	1,074	2,189	-	4,376	1,037
July-December 1960	28,442	14,530	13,912	72	972	1,249	1,660	1	308	-	4,149	299
Cotton, unmanufactured:												
Annual, 1958	210,354	118,142	92,212	11,366	1,616	113	52	4,519	11,594	32,445	13,051	17,168
1959	190,951	92,629	98,322	15,121	2,093	486	20	3,362	13,371	26,385	16,164	20,380
1960	409,756	217,039	192,717	88,374	1,605	2,148	2,036	6,695	21,325	27,691	23,705	17,499
Semiannual, July-December 1959	102,438	58,195	44,243	3,208	1,069	473	20	3,301	5,327	11,545	10,189	8,901
July-December 1960	157,204	78,595	78,609	40,010	1,084	876	1,104	2,541	11,107	8,312	8,034	5,184
NONAGRICULTURAL												
Textile semi- and finished manufactures:												
Annual, 1958	78,941	7,909	71,032	345	622	5,019	5,982	3,873	38,709	1,204	9,048	426
1959	81,703	9,816	71,887	906	1,281	5,742	3,827	3,863	34,888	3,768	9,400	399
1960	83,142	8,274	74,868	2,814	2,414	4,283	1,924	4,025	36,753	2,987	10,978	223
Semiannual, July-December 1959	43,968	5,352	38,616	311	1,055	2,370	2,215	2,112	19,034	2,625	3,855	181
July-December 1960	40,513	3,671	36,842	2,138	1,113	1,524	680	2,751	18,556	1,244	4,554	129
Paper, paperboard, and related products:												
Annual, 1958	22,254	1,375	20,879	112	167	522	225	594	13,917	3,749	678	174
1959	22,218	2,057	20,161	130	159	549	399	473	14,472	1,655	1,189	165
1960	26,327	2,097	24,230	108	128	818	206	1,099	13,887	5,038	1,717	129
Semiannual, July-December 1959	11,640	1,017	10,623	67	87	389	290	176	7,420	885	712	81
July-December 1960	12,435	1,018	11,417	57	66	388	101	408	6,662	2,469	735	78
Coal and related products:												
Annual, 1958	38,587	35,289	3,298	7	-	-	631	242	8	2,408	-	-
1959	41,633	40,697	936	80	-	-	134	479	20	207	14	-
1960	53,995	53,405	590	50	3	(X)	120	220	22	175	-	-
Semiannual, July-December 1959	22,184	21,729	455	55	-	-	-	245	20	135	-	-
July-December 1960	26,831	26,653	178	50	-	-	-	110	-	18	-	-
Petroleum and products:												
Annual, 1958	83,082	46,830	36,252	6,970	2,818	1,602	2,385	5,713	7,103	1,066	727	2,567
1959	95,099	57,469	37,630	7,864	3,823	1,559	2,616	3,946	7,988	1,412	965	2,577
1960	119,349	77,871	41,478	10,897	4,228	1,760	2,819	5,405	6,445	2,130	916	2,917
Semiannual, July-December 1959	44,635	26,963	17,672	4,056	2,100	570	1,315	1,428	4,079	896	591	1,178
July-December 1960	57,863	36,469	21,394	5,202	2,938	940	1,529	3,194	3,038	1,416	367	1,463
Metals and manufactures:												
Annual, 1958	138,850	35,794	83,056	14,028	4,591	2,224	2,507	5,367	30,084	8,269	3,546	6,224
1959	221,852	150,515	71,337	7,856	4,930	4,451	1,748	5,537	24,506	3,668	4,420	9,515
1960	365,413	249,978	115,435	35,221	5,130	5,650	1,329	8,028	28,504	5,943	8,077	11,169
Semiannual, July-December 1959	122,204	88,263	33,941	3,725	3,295	2,750	611	2,239	10,725	1,874	2,260	4,472
July-December 1960	199,959	134,181	65,778	22,472	3,403	2,450	816	5,045	14,590	3,129	4,288	5,846
Iron and steel making raw materials:												
Annual, 1958	30,178	24,834	5,344	3,733	5	3	-	-	330	199	-	1,008
1959	115,569	112,164	3,405	-	2	-	5	-	111	21	181	2,709
1960	138,369	131,054	7,315	29	-	-	5	-	86	-	1,963	5,039
Semiannual, July-December 1959	70,071	68,219	1,852	-	2	-	5	-	42	21	179	1,467
July-December 1960	75,849	71,475	4,374	29	-	-	5	-	62	-	1,043	3,146
Iron and steel mill products:												
Annual, 1958	56,192	12,066	44,126	5,937	2,212	1,004	1,373	4,045	17,224	4,613	2,631	2,255
1959	42,711	9,532	33,179	3,930	2,493	2,082	963	4,096	11,061	1,738	2,674	2,466
1960	77,624	14,735	62,889	23,704	3,092	2,463	608	6,240	14,725	2,764	4,250	2,403
Semiannual, July-December 1959	19,477	4,569	14,908	1,740	1,629	1,223	229	1,656	4,324	828	1,282	1,247
July-December 1960	43,239	5,331	37,908	15,700	2,249	1,426	434	4,110	8,205	945	2,437	1,066
Copper and copper-base alloys:												
Annual, 1958	12,753	9,361	3,392	1,438	60	46	21	12	441	468	100	575
1959	16,917	13,495	3,422	1,680	85	121	32	21	507	72	557	122
1960	75,582	67,598	7,984	5,178	296	39	16	53	404	143	270	1,117
Semiannual, July-December 1959	7,549	5,734	1,815	829	36	119	29	6	251	54	304	88
July-December 1960	41,762	36,490	5,272	3,243	283	23	14	17	284	87	53	818

See footnotes at end of table
2

Table 2.—Leading Commodities in U.S. Exports to Southern, Southeastern, and Eastern Asia—Continued
(Thousands of dollars)

Commodity and period	Total area	Japan	Other Southern, Southeastern, and Eastern Asia Countries									
			Total[1]	India	Paki-stan	Thai-land	Viet-Nam	Indo-nesia, Rep. of	Philip-pines, Rep. of	Korea Rep. of	Hong Kong	Taiwan
NONAGRICULTURAL—Continued												
Machinery, total[5]:												
Annual, 1958	418,552	186,031	232,521	46,751	15,863	11,175	16,109	14,260	50,093	28,157	5,499	19,708
1959	412,464	169,453	243,011	48,205	15,220	18,519	12,470	14,047	59,973	19,696	7,062	22,845
1960	476,188	171,368	304,820	77,596	26,972	22,318	11,878	22,392	61,337	23,048	10,152	16,433
Semiannual, July-December 1959	204,643	80,414	124,229	24,554	9,580	8,952	5,836	6,869	33,385	11,158	3,375	7,432
July-December 1960	251,147	96,547	154,600	46,869	10,380	11,270	5,284	11,244	28,955	10,569	4,200	7,766
Electrical apparatus[5]:												
Annual, 1958	87,527	29,851	57,700	7,892	3,614	3,572	5,426	3,556	16,062	6,797	1,327	4,275
1959	104,549	50,381	54,168	5,605	3,392	4,507	1,964	2,352	19,470	5,926	1,479	4,431
1960	79,465	20,200	59,265	5,703	4,544	6,298	1,752	7,468	15,281	8,593	1,489	3,722
Semiannual, July-December 1959	54,425	28,900	25,525	2,286	1,463	2,055	798	1,155	8,948	4,002	682	1,626
July-December 1960	37,088	9,992	27,096	3,328	1,714	3,303	1,106	2,493	6,333	4,195	657	1,546
Industrial machinery, total[5]:												
Annual, 1958	292,566	[6]41,823	150,743	35,724	9,741	6,203	8,346	8,838	28,977	20,234	3,734	14,212
1959	259,812	[6]96,682	163,130	39,560	9,551	11,804	7,726	9,723	34,656	12,708	4,922	17,617
1960	324,262	[6]121,164	203,098	62,328	18,450	13,869	6,869	11,653	37,346	13,903	7,594	11,945
Semiannual, July-December 1959	124,509	[6]40,393	84,116	20,496	6,607	5,864	3,761	4,281	20,977	6,550	2,258	5,579
July-December 1960	175,128	[6]71,428	103,700	36,252	7,036	7,054	2,815	6,464	18,069	6,138	2,998	5,843
Construction, excatating and mining:												
Annual, 1958	66,509	10,106	56,403	8,403	4,636	2,149	4,955	3,418	6,716	13,446	405	4,370
1959	67,869	7,567	60,302	12,401	2,684	5,735	4,623	4,227	8,191	9,306	177	5,713
1960	82,708	9,130	73,578	20,864	5,969	4,676	4,371	5,248	7,128	9,179	1,009	5,585
Semiannual, July-December 1959	32,323	3,112	29,211	5,736	1,871	2,409	2,078	1,523	4,091	4,713	84	2,841
July-December 1960	40,214	4,321	35,893	10,214	2,674	2,178	1,525	2,931	3,486	4,400	457	2,696
Agricultural machinery and tractors:												
Annual, 1958	21,576	2,801	18,775	2,634	2,131	1,136	2,185	1,469	3,194	951	41	862
1959	22,267	2,415	19,852	2,634	1,934	2,003	2,627	1,430	3,503	591	67	621
1960	37,281	2,456	34,825	8,598	3,560	1,885	3,117	2,394	5,785	198	367	645
Semiannual, July-December 1959	12,078	880	11,198	1,606	1,291	953	1,196	1,106	2,127	216	54	113
July-December 1960	20,315	893	19,422	6,611	1,362	789	1,331	1,590	3,026	100	171	330
Automobiles, parts, and accessories[5]:												
Annual, 1958	65,304	3,327	61,977	14,609	4,573	5,979	3,291	7,911	12,347	1,559	363	2,207
1959	70,458	3,278	67,180	18,094	8,235	5,198	3,386	8,792	15,380	837	266	2,365
1960	82,420	5,398	77,022	19,368	12,865	4,265	3,807	9,903	16,551	1,087	304	1,984
Semiannual, July-December 1959	35,227	1,042	34,185	7,971	6,522	2,791	1,094	4,604	7,356	391	137	823
July-December 1960	38,428	2,039	36,389	9,992	4,645	1,647	2,818	3,698	8,090	449	117	924
Chemicals and related products[5]:												
Annual, 1958	203,183	80,607	122,576	19,027	2,859	9,637	5,022	6,168	30,443	24,193	9,800	7,062
1959	241,036	112,573	128,463	22,783	2,538	10,231	4,999	6,514	31,171	20,710	15,305	5,443
1960	273,707	126,902	146,805	33,170	6,658	9,801	3,660	5,672	30,416	18,189	22,091	6,993
Semiannual, July-December 1959	119,642	60,469	59,173	6,467	1,519	4,958	2,934	2,639	15,146	10,151	8,322	2,646
July-December 1960	141,335	65,607	75,728	13,035	4,407	4,734	1,976	4,116	15,772	10,140	11,622	4,314
UNDISTRIBUTED												
Other exports, including reexports[5]:												
Annual, 1958	326,123	[7]101,887	224,236	[8]44,264	16,663	7,984	10,877	7,255	36,851	51,403	16,657	18,263
1959	316,679	[7]126,184	190,486	[8]30,693	12,436	6,215	10,598	4,493	34,898	35,808	21,761	18,160
1960	416,335	[7]201,914	214,421	[8]44,555	15,193	6,100	9,574	5,725	38,408	32,634	23,145	16,597
Semiannual, July-December 1959	162,690	[7]66,793	95,906	[8]11,337	10,080	2,600	5,113	1,902	17,662	20,188	11,153	8,670
July-December 1960	219,990	[7]115,847	104,143	[8]15,844	10,119	2,786	4,798	2,701	19,368	16,636	12,242	6,614

1 Includes countries not shown separately. 2 Export commodity data cover U. S. merchandise. Data for all periods include aviation fuel and lubricating oils for which security restrictions were removed in 1960. 3 Includes reexports. 4 Data include relatively small amounts of nonagricultural exports such as fish and alcoholic beverages. 5 Special category commodities are excluded. 6 Exports of metalworking machinery and tools to Japan, annually 1958-1960 and July-December 1959-1960 were valued(in thousands of dollars): $59,045; $34,590; $60,859; $14,883 and $39,013, respectively. 7 Includes aircraft in 1958-1960 and July-December 1959-1960 as follows (in thousands of dollars): $13,542; $2,873; $25,897; $2,531 and $24,706, respectively. 8 Includes aircraft in 1958-1960 and July-December 1959-1960 as follows (in thousands of dollars): $4,230; $33; $15,197; $4 and $261 respectively. (X) Less than $500.

Table 3.--Leading Commodities in U. S. Imports from Southern, Southeastern, and Eastern Asia
(Thousands of dollars. For total imports from individual countries see Table 1.)

Commodity and country	Annual			Semiannually July-December	
	1958	1959	1960	1959	1960
Total imports for consumption	1,646,964	2,236,429	2,385,508	1,201,318	1,171,680
AGRICULTURAL					
Vegetables and fruits, and preparations	17,508	23,760	29,648	12,280	13,633
Philippines, Republic of (chiefly pineapples)	4,283	5,025	4,980	2,698	1,620
Japan (mandarins and vegetable preparations)	5,246	9,854	12,010	5,319	5,599
Thailand (Siam) chiefly tapioca	5,719	5,895	6,823	2,768	3,405
Taiwan	433	1,040	3,040	658	1,720
Edible nuts and preparations	40,650	43,300	44,716	26,581	25,193
Philippines, Republic of (chiefly coconut meat)	14,669	18,297	17,148	12,262	9,680
India (chiefly cashews)	24,712	23,734	26,597	13,807	14,707
Tea	43,272	44,030	48,208	21,037	22,308
Ceylon	18,929	21,599	24,776	10,267	11,457
Indonesia, Republic of.,	5,999	5,110	6,220	2,230	2,759
India	15,485	14,847	13,943	7,039	6,089
Spices	16,357	17,602	27,174	8,637	9,909
Indonesia, Republic of (pepper, nutmeg, cassia, mace)	10,903	12,522	13,582	5,643	7,064
India (chiefly pepper)	2,312	2,296	10,390	1,127	1,607
Sugar and related products	112,571	112,624	126,273	54,969	61,722
Philippines, Republic of	111,577	110,643	124,025	53,987	60,380
Hides and skins	7,189	10,758	10,874	5,716	5,662
Pakistan (chiefly goat and kid)	1,567	2,937	4,181	1,700	2,108
India (chiefly goat and kid)	5,110	6,988	6,087	3,480	3,289
Oilseeds and vegetable oils, inedible	77,176	98,706	89,964	53,519	45,606
India	933	5,094	9,673	4,252	5,005
Philippines, Republic of (chiefly copra and coconut oil)	73,707	90,716	76,528	47,389	39,159
Jute, unmanufactured	9,133	13,039	10,458	4,548	2,296
Pakistan	7,784	11,005	8,855	3,741	1,539
Hard fibers, unmanufactured	14,284	14,947	14,985	7,564	6,887
Philippines, Republic of (chiefly abaca)	10,995	11,204	10,326	5,509	4,433

Table 3.--Leading commodities in U. S. Imports from Southern, Southeastern, and Eastern Asia—continued
(Thousands of dollars. For total imports from individual countries see Table 1.)

Commodity and country	Annual 1958	Annual 1959	Annual 1960	Semiannually July-December 1959	Semiannually July-December 1960
AGRICULTURAL—CONTINUED					
Wool unmanufactured	18,733	25,026	17,810	10,648	7,476
Pakistan	7,230	10,001	8,228	3,580	3,939
India	4,887	7,833	4,044	3,501	1,067
Outer Mongolia	5,161	5,208	1,960	3,016	407
Afghanistan	1,002	1,679	2,896	437	1,636
Raw silk	15,197	24,154	26,920	15,018	14,855
Japan	14,628	23,375	25,933	14,358	14,401
Crude rubber	212,475	332,580	271,348	180,766	121,350
Ceylon	5,901	9,609	10,894	4,878	4,677
Indonesia, Republic of	73,599	96,684	108,000	54,598	49,683
Malaya, Federation of	49,091	110,032	91,630	64,274	42,991
Singapore, State of; British Borneo	23,712	22,176	12,129	10,429	4,469
Thailand	46,502	70,105	38,768	36,533	16,378
Viet-Nam	3,549	9,350	3,152	3,172	891
Cambodia	9,256	12,812	6,603	6,412	2,209
NONAGRICULTURAL					
Fish and shellfish	69,560	79,217	67,141	38,990	34,403
Japan (chiefly tuna, salmon, and crabmeat)	64,754	75,637	64,052	37,462	32,762
Furs and manufactures	15,086	17,148	20,055	7,248	8,923
Afghanistan (chiefly Persian lamb and caracul)	11,577	14,129	17,364	5,973	8,111
Japan	1,447	2,363	1,501	1,089	591
Shellac, similar gums, resins, and balsams	10,930	10,642	11,421	5,080	5,081
Thailand	1,285	849	1,755	331	653
India	8,778	8,392	7,848	4,068	3,419
Leather manufactures	14,222	18,823	23,919	13,081	14,762
Japan	10,238	15,321	19,279	10,971	12,044
Hong Kong	3,142	2,065	2,117	1,095	907
Philippines, Republic of	467	1,275	2,259	977	1,776
Rubber manufactures	14,037	59,206	99,757	35,774	51,161
Boots, shoes and rubber-soled footwear with fabric uppers	9,233	43,924	82,080	27,727	44,224
Hong Kong	623	4,160	4,892	2,496	2,804
Japan	8,332	39,148	76,754	25,220	41,407
Textile semi- and finished manufactures	312,009	429,332	488,877	234,779	239,550
Philippines, Republic of (embroidered wearing apparel, handkerchiefs, cordage)	18,437	20,212	21,791	11,905	12,337
Hong Kong (mainly cotton wearing apparel)	24,523	61,447	94,588	35,863	44,370
Japan, total	185,647	241,130	251,472	132,070	120,427
Cotton manufactures	71,775	76,859	73,393	39,119	36,887
Wool manufactures	41,612	55,582	67,587	30,612	28,959
Silk manufactures	40,619	54,100	49,590	31,891	23,849
Manufactures of man-made fibers	11,203	28,968	33,468	17,691	17,011
India (mainly burlaps)	75,151	92,621	101,165	46,734	52,122
Wood, lumber, and wood manufactures	93,350	137,858	118,030	74,223	52,179
Philippines, Republic of (mainly hardwood, lumber and plywood)	15,230	26,861	18,806	15,110	7,850
Japan (chiefly plywood and some hardwood lumber)	70,835	99,412	86,970	52,859	38,783
Petroleum and products	69,446	57,825	59,654	22,999	33,754
Indonesia, Republic of	62,840	53,203	53,181	20,411	30,344
Japan	6,598	4,622	6,118	2,548	3,174
Clay products	32,054	41,029	50,511	23,199	26,275
Japan (earthenware, chinaware, ornaments, and tile)	31,688	40,699	50,281	23,032	26,155
Mica and manufactures	9,648	9,512	4,531	4,235	2,108
India	9,415	9,123	4,177	4,003	1,945
Precious and semi-precious stones and imitations	13,232	16,830	17,427	8,321	7,629
India	1,791	2,406	1,896	1,300	984
Japan	10,605	13,443	14,135	6,465	5,889
Steel-mill products (chiefly Japan)	30,699	83,967	90,878	46,106	37,742
Iron and steel manufactures (chiefly Japan)	21,973	36,386	46,306	20,934	24,212
Ferroalloys, ores and metals	47,301	42,995	43,532	22,567	24,387
India (manganese, ilmenite)	22,326	17,076	22,660	8,539	13,300
Philippines, Republic of (chiefly chrome)	4,941	7,234	7,800	3,971	4,193
Japan (chiefly titanium metal and ferromanganese)	19,031	17,565	12,576	9,766	6,795
Nonferrous ores and metals	85,261	96,949	134,628	46,119	59,706
Copper	10,039	3,458	16,805	1,960	1,821
Philippines, Republic of	7,066	338	10,770	-	7
Japan	2,943	3,088	5,939	1,942	1,795
Tin	60,979	73,589	97,138	33,571	47,178
Malaya, Federation of	42,377	46,866	61,864	24,550	31,034
Singapore, State of; British Borneo	5,336	3,326	2,861	1,562	519
Thailand	382	4,964	2,814	2,850	675
Indonesia, Republic of	12,884	18,433	29,598	4,609	14,949
Precious metals, jewelery and plated ware	11,589	18,536	22,462	10,811	11,828
Japan (mainly costume jewelry and cigarette lighters)	10,796	17,202	20,723	10,044	10,817
Electrical apparatus	30,564	77,335	105,967	53,995	65,842
Hong Kong	2,241	3,295	3,713	2,037	1,965
Japan	28,310	74,038	102,083	51,958	63,713
Radio and parts	16,050	55,153	71,424	40,096	44,392
Other machinery	25,175	34,254	31,224	17,854	15,744
Japan (chiefly sewing machines)	24,878	34,124	31,066	17,812	15,686
Chemicals and related products	10,036	19,873	20,358	9,805	11,463
Japan	7,745	17,250	15,600	8,575	8,129
Toys, athletic, and sporting goods	30,218	43,056	49,817	23,871	25,187
Japan	27,594	39,717	45,777	22,245	23,232
Hong Kong	2,159	2,996	3,779	1,498	1,881
Photographic goods, scientific instruments, and supplies	21,057	25,167	31,542	15,312	18,534
Japan	20,575	24,650	30,901	14,987	18,225
UNDISTRIBUTED					
Other imports	94,972	119,963	129,093	64,772	64,313

Prepared in the International Economic Analysis Division, Office of Economic Affairs, from basic data of the Bureau of the Census, U. S. Department of Commerce

August 1961
4

Exports of United States to selected areas, by commodity, 1956, 1958, and 1960

[Millions of dollars]

Commodity	Total exports	EEC	Other Western Europe [1]	Latin America	Canada	Other countries
Total exports, excluding "special category": [2]						
1960	18,834	3,448	2,664	3,463	3,707	5,552
1958	15,919	2,447	1,857	4,085	3,438	4,692
1956	17,015	2,904	2,100	3,778	4,035	4,198
Grains and preparations:						
1960	1,650	264	240	175	55	916
1958	1,297	228	240	213	29	587
1956	1,338	358	278	180	24	498
Other food and beverages:						
1960	969	158	179	180	266	186
1958	926	116	178	215	237	180
1956	1,077	164	244	232	238	199
Oilseeds and crude vegetable oils:						
1960	485	177	93	11	49	155
1958	270	86	36	10	33	105
1956	302	148	25	15	35	79
Tobacco and manufactures:						
1960	476	107	216	27	4	122
1958	440	106	189	32	4	109
1956	399	86	179	26	3	105
Cotton, unmanufactured:						
1960	988	313	165	15	46	449
1958	661	198	167	12	29	255
1956	729	219	180	20	30	280
Other textile fibers and manufactures:						
1960	711	109	81	132	156	233
1958	620	64	42	164	151	199
1956	647	78	40	174	145	210
Pulp, paper, and products:						
1960	419	79	82	89	72	97
1958	304	41	47	94	66	56
1956	288	32	42	95	62	57
Petroleum and products:						
1960	479	65	51	96	62	205
1958	558	66	68	136	97	191
1956	766	119	119	176	138	214
Iron and steel-mill products, excluding pig iron and scrap:						
1960	611	71	106	142	133	159
1958	563	46	36	186	191	104
1956	777	60	82	207	280	148
Nonferrous metals and ferroalloys, including scrap:						
1960	714	291	215	40	40	128
1958	345	138	107	37	38	25
1956	414	171	65	40	50	88
Metal manufactures:						
1960	423	27	22	107	178	89
1958	480	20	18	184	179	79
1956	468	21	13	154	202	78
Electric machinery and apparatus:						
1960	793	90	74	222	230	177
1958	807	64	41	313	220	169
1956	747	49	37	241	264	156
Construction, excavating, and mining machinery:						
1960	756	58	67	211	167	253
1958	698	44	52	243	159	200
1956	787	52	49	231	245	210
Other industrial machinery:						
1960	1,749	261	204	416	403	465
1958	1,571	175	112	515	372	397
1956	1,350	165	133	346	417	289
Automobiles, parts, and accessories:						
1960	1,216	56	56	431	388	285
1958	1,087	39	33	452	327	236
1956	1,359	70	48	476	446	319
Aircraft, parts and accessories:						
1960	551	223	152	50	41	85
1958	217	62	22	64	16	53
1956	174	49	51	26	17	31
Chemical specialties:						
1960	663	122	89	143	121	188
1958	518	92	55	136	106	129
1956	463	67	48	131	110	107

See footnotes at end of table.

Exports of United States to selected areas, by commodity, 1956, 1958, and 1960—Continued

[Millions of dollars][2]

Commodity	Total exports	EEC	Other Western Europe [1]	Latin America	Canada	Other countries
Other chemicals and related products:						
1960	998	243	97	256	156	246
1958	825	156	68	267	136	198
1956	772	123	60	270	134	185
Other merchandise:						
1960	4,183	734	475	720	1,140	1,114
1958	3,732	706	346	812	1,048	820
1956	4,158	873	407	738	1,195	945

[1] Includes Finland, Spain, and Yugoslavia; excludes Greece and Turkey.

[2] "Special category" exports are commodities which, for security reasons, may not be reported by destination. The values for the years 1960, 1958, and 1956 respectively are, in millions of dollars, 1,665, 1,991, and 2,076.

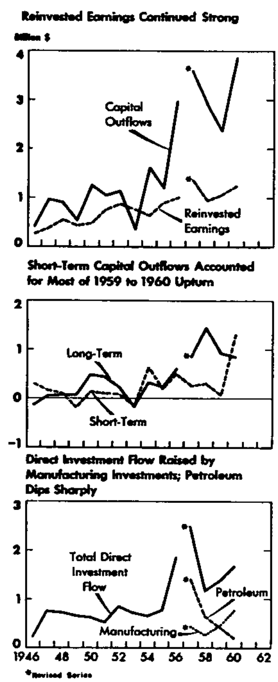
BY SAMUEL PIZER AND FREDERICK CUTLER

United States Assets and Investments Abroad

Private Capital Outflow at Peak in 1960
Earnings Score Broad Advance

UNITED STATES business concerns and other private investors, responding to continued economic growth in many countries and to possibilities for investing liquid funds profitably abroad, added over $5 billion to their assets and investments abroad in 1960, raising their total holdings to more than $50 billion.

Private Capital Outflows Reached a Postwar High in 1960



U. S. Department of Commerce, Office of Business Economics 61-8-10

Direct investments in subsidiaries and branches were pushed forward in most areas at a more rapid pace in 1960 than in 1959, though there were sharp reductions in certain situations, notably in resource development in some Latin American countries. In total, direct investment capital flows increased from $1.4 billion to $1.7 billion. About $200 million of this rise in direct investment capital outflows reflected increased cash outlays to purchase minority interests held by foreigners in existing subsidiaries abroad.

Although only limited data on direct investment capital flows in 1961 are now available, it appears that the total is likely to remain near the 1960 amount. Companies reporting on their expected outlays abroad for plant and equipment this year indicate substantial gains in both the manufacturing and petroleum industries, with little or no reduction projected for 1962. These data will be given in detail in the SURVEY OF CURRENT BUSINESS for September as part of a report on sources and uses of funds of direct-investment enterprises abroad.

Earnings of the direct investment enterprises improved in all major industries in 1960, and in nearly all countries. Aggregate earnings rose by 8 percent to about $3.5 billion, nearly equal to the peak reached in 1957. Of this total, foreign subsidiaries retained abroad about $1¼ billion, up from $1.1 billion in 1959.

The principal element in the overall rise in capital outflows in 1960 was the sharp rise in the flow of short-term funds to capital markets abroad. In contrast to the experience of earlier postwar years, when there were moderate outflows in most years corresponding in large part to the need for working balances to finance larger volumes of international transactions, the 1960 outflow appeared to result primarily from higher interest rates abroad, and to some extent from apprehensions about economic and political developments in the United States. These outflows have been greatly reduced since the first quarter of 1961, as discussed below.

Other private capital outflows dropped slightly in 1960, though remaining at a substantial rate of $850 million annually. Sales of new issues of foreign securities in the United States, especially Canadian issues, were lower, and continue to decline, and medium-term lending by U.S. banks has also been reduced. However, there was a resumption in the first half of 1961 of substantial purchases of foreign equity securities.

Direct Investments Abroad

WITH both capital outflows and reinvested earnings high in 1960, the value of direct investments abroad rose by $2.9 billion in the year to an accumulated total of $32.7 billion. Nearly half of the expansion represented the growth of manufacturing investments in many countries, bringing the total invested in this industry to $11.2 billion.

The buildup of petroleum investments has now fallen considerably behind manufacturing investments, accounting

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Table 1.—Factors Affecting U.S. Private Investments Abroad, 1959 and 1960

[Millions of dollars]

Type of investment	1959	1960
Direct investments		
Value, beginning of year	27,387	29,805
Add: Capital outflow [1]	1,372	1,694
Reinvested earnings	1,089	1,254
Other adjustments [2]	−43	−9
Value, end of year	29,805	32,744
Other long-term private investments		
Value, beginning of year	10,261	11,417
Add: Capital outflow [1]	926	850
Price changes	230	365
Value, end of year	11,417	12,632
Short-term assets		
Value, beginning of year	2,488	2,596
Add: Capital outflow [1]	77	1,312
Adjustments [2]	31	1
Value, end of year	2,596	3,909
Combined change	3,682	5,467
Capital outflow	2,375	3,856
Reinvested earnings	1,089	1,254
Other factors	218	357

[1] Included in the balance-of-payments accounts.
[2] Mainly changes in coverage, reclassifications, or revaluations.

for only about 20 percent of the 1960 combined total of capital outflows and reinvested earnings. Of the other industries, trade continues to grow in importance, mining investments were at a reduced rate in 1960, agricultural enterprises were not expanding in the aggregate, and growth in utilities was largely in the operation of ocean shipping and pipelines.

Mixed trends in Latin America

Because of the comparatively small overall capital flow for direct investment in Latin America—about $100 million in 1960—there has been some concern that political instability and losses in Cuba have stifled investor interest. However, the more detailed figures now available do not appear to support this view.

The sharp decline in capital outflows to this area reflected primarily a return to the United States of funds from mining properties in a few countries as expansion was completed and production began, together with continued relatively low activity in the petroleum industry resulting in a net capital inflow from Venezuela. These developments affected primarily Venezuela, Chile and Peru. Part of the overall decline was also attributable to Cuba, where capital flows exceeded $60 million in 1959 and have now virtually ceased. Nearly all of the U.S. investments in Cuba have now been seized, but they have not been written off in these tabulations.

In contrast to these developments, manufacturing ventures by U.S. companies in Latin America were expanded at a record rate in 1960, and appear likely to continue at a high rate in 1961. Most of the increase over 1959 was in capital flows from the United States, augmented by larger amounts of retained earnings as profits in the area rose. Capital outflows for manufacturing were increased in 1960 to most countries in Latin America, especially to Mexico, Brazil, Argentina and Venezuela.

Increased flows to Canada

Capital flows for direct investment in Canada rose to nearly $500 million in 1960, with most of the rise in the mining and petroleum industries. The capital flow for manufacturing was the lowest in many years, and was about $100 million less than in 1959, when it included a special outflow to purchase minority interests.

Projected plant and equipment expenditures for Canada indicate only minor changes in manufacturing and petroleum in 1961 and 1962 from the 1960 amounts, but a considerable reduction in mining. However, the flow of funds from parent companies in the United States will also be affected by differential interest costs in the two countries and expectations about the exchange rate.

European investment at peak

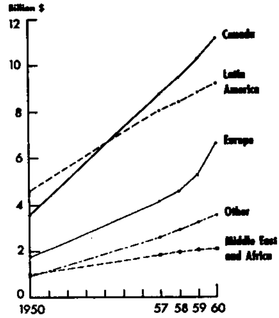
Over $1¾ billion was added to U.S. direct investments in Europe in 1960, raising the accumulated value to $6.6 billion. The previous high was the $725 million added in 1959, and about $300 million of the difference represented larger cash outlays by U.S. companies in 1960 to acquire minority interests in existing manufacturing companies. There remained, however, a broad upturn in investments in most countries and industries.

Common Market countries received capital outflows of $280 million from U.S. companies in 1960, plus over $150 million of reinvested earnings. Of the combined total, nearly $300 million went into manufacturing—double the 1959 amount—and petroleum investments were also raised. Nearly half of the amount added to direct investments in this area in 1960 went to Germany, and there were also substantial gains in the other Common Market countries.

The capital flow to the United Kingdom was extraordinarily high in 1960 because of the special transaction mentioned above—without this transaction there would still have been a moderate increase over the 1959 amount, mainly for larger petroleum investments. In the case of Sweden, there was a reduction in manufacturing investments as an old-established interest in a Swedish company was sold out.

GROWTH OF DIRECT FOREIGN INVESTMENTS, BY AREA

European Share Rises



U. S. Department of Commerce, Office of Business Economics 61-8-11

A continued and perhaps increased flow of investment capital to Europe may be required to finance the steep rise in plant expansion by U.S. companies under way in 1961 and scheduled to remain large in 1962.

Table 2.—Value of Direct Investments Abroad, by
Table 3.—Direct-Investment Capital Flow and Undistributed Subsidiary
Table 4.—Direct-Investment Earnings and Income, [1]

[Millions of dollars]

Line	Area and country	Table 2: 1950	1957 r	1958 r	1959 r	1960 p: Total	Mining and smelting	Petroleum	Manufacturing	Public utilities	Trade	Other	Table 3, Net capital outflows: 1959 r	1960 p: Total	Mining and smelting	Petroleum	Manufacturing	Other
1	**All areas, total**	11,788	25,394	27,387	29,805	32,744	3,013	10,944	11,152	2,546	2,397	2,692	1,372	1,694	158	455	802	278
2	**Canada [1]**	3,579	8,769	9,470	10,310	11,198	1,329	2,667	4,827	645	630	1,100	417	471	202	130	31	99
3	**Latin American Republics, total**	4,445	7,434	7,751	8,098	8,365	1,155	2,882	1,610	1,131	718	870	218	96	−73	−7	125	50
4	Mexico, Central America and West Indies, total	1,488	2,234	2,355	2,516	2,620	245	306	530	586	292	661	81	68	26	24	27	−8
5	Cuba [2]	642	849	879	956	956	(*)	147	111	313	44	341	63					
6	Dominican Republic	106	88	88	87	88	(*)	(*)	(*)	6	2	80	−7	(**)	(*)	(*)	(*)	(**)
7	Guatemala	106	106	116	122	131	(*)	26	(*)	66	5	34	14	−3	(*)	2	(*)	−4
8	Honduras	62	108	114	110	100	(*)	(*)	(*)	22	1	76	−4	−11	(*)	(*)	(*)	−11
9	Mexico	415	739	745	758	795	130	22	301	119	85	39	−7	56	26	1	28	2
10	Panama	58	201	385	327	406	17	66	9	22	145	156	18	30	-----	22	−1	7
11	Other countries	100	143	140	146	145	15	22	11	37	10	50	4	−4	1	−2	−1	−3
12	South America, total	2,967	5,200	5,396	5,562	5,745	910	2,576	1,079	545	426	205	127	27	−99	−31	90	55
13	Argentina	356	333	330	366	472	(*)	(*)	213	(*)	21	230	80	70	(*)	(*)	24	47
14	Brazil	644	835	795	828	953	18	76	515	200	130	23	24	53	2	−9	52	38
15	Chile	540	666	687	729	738	517	(*)	22	(*)	12	186	35	2	−10	(*)	(**)	12
16	Colombia	193	396	363	401	424	(*)	233	82	28	46	26	11	15	(*)	7	11	−2
17	Peru	145	383	409	428	446	251	79	25	19	42	20	18	7	9	−5	2	3
18	Uruguay	55	57	51	45	47	(*)	(*)	20	(*)	4	28	−2	(**)	(*)	(*)	(**)	(**)
19	Venezuela	993	2,465	2,658	2,690	2,569	(*)	1,986	130	32	165	197	−22	−150	(*)	−80	11	−101
20	Other countries	31	64	84	96	97	3	49	3	14	7	21	12	−1	(**)	−1	(**)	(**)
21	**Western Hemisphere dependencies**	131	618	696	768	864	176	382	21	49	64	182	40	54	13	31	(**)	10
22	**Europe, total**	1,733	4,151	4,573	5,323	6,645	49	1,726	3,797	45	736	291	484	962	(**)	273	607	81
23	Common Market, total	637	1,680	1,908	2,208	2,644	9	827	1,436	28	264	90	190	282	(**)	73	182	27
24	Belgium and Luxembourg	69	192	208	211	231	-----	52	148	1	29	4	−3	16	-----	(**)	6	4
25	France	217	464	546	640	741	9	223	402	10	76	21	81	53	-----	2	43	3
26	Germany	204	581	666	796	1,006	(*)	348	636	2	85	33	78	133	(*)	45	82	7
27	Italy	63	252	280	315	384	(*)	180	170	1	38	29	21	55	(*)	20	33	3
28	Netherlands	84	191	207	245	283	-----	143	80	15	36	9	22	31	-----	6	19	5
29	Other Europe, total	1,096	2,471	2,666	3,116	4,001	40	899	2,361	17	482	201	304	680	(**)	200	425	54
30	Denmark	32	42	49	48	67	-----	40	16	(**)	9	2	4	19	-----	18	(**)	1
31	Norway	24	51	53	62	83	(*)	42	21	(**)	5	16	9	18	(*)	17	(**)	1
32	Spain	21	44	48	53	50	(*)	17	27	3	8	4	1	2	(*)	2	(**)	1
33	Sweden	58	109	107	125	116	(**)	64	18	(**)	29	5	21	−7	-----	11	−22	4
34	Switzerland	25	69	82	164	254	(**)	7	91	(**)	104	53	86	27	-----	−2	12	17
35	Turkey	16	63	84	44	65	(*)	55	2	(**)	4	4	1	19	(*)	22	(**)	−4
36	United Kingdom	847	1,974	2,147	2,477	3,194	(**)	600	2,164	9	288	133	190	580	-----	120	432	26
37	Other countries	63	119	127	143	162	24	73	22	3	35	3	9	12	(**)	3	2	6
38	**Africa, total**	287	664	746	833	925	247	407	118	5	53	94	29	81	14	62	−5	9
39	North Africa	56	106	121	145	195	2	172	7	4	6	4	22	51	-----	49	(**)	1
40	East Africa	12	30	35	43	46	1	42	(**)	-----	4	(**)	6	1	(**)	1	-----	(**)
41	West Africa	42	147	153	228	290	126	80	1	1	9	74	23	42	18	19	-----	5
42	Central and South Africa, total	177	381	407	416	394	119	114	110	1	34	16	−12	−13	−4	−6	−5	2
43	Rhodesia and Nyasaland	36	80	65	72	82	72	(*)	(*)	-----	2	9	(**)	1	1	(*)	(*)	(**)
44	Union of South Africa	140	301	321	323	286	46	(*)	106	(**)	31	100	−11	−16	−6	(*)	−5	−7
45	Other countries	12	21	22	21	26	2	(*)	(*)	(**)	2	22	−1	4	2	(*)	(*)	3
46	**Asia, total**	1,001	2,019	2,173	2,237	2,315	24	1,655	296	183	137	119	2	−20	2	−57	14	20
47	Middle East	692	1,138	1,224	1,213	1,163	(**)	1,119	26	3	7	7	−3	−72	(**)	−76	2	2
48	Far East, total	309	881	954	1,024	1,152	24	536	269	99	130	108	5	52	2	20	12	18
49	India	38	113	120	134	159	(*)	(*)	51	2	12	98	3	13	(*)	(*)	4	9
50	Indonesia	58	169	198	163	178	-----	(*)	11	(**)	1	166	−44	2	-----	(*)	(**)	2
51	Japan	19	186	181	209	254	-----	(*)	91	1	27	135	14	15	-----	(*)	7	12
52	Philippine Republic	149	205	241	287	414	(*)	(*)	91	92	50	181	22	6	(*)	(*)	(**)	6
53	Other countries	46	108	116	131	147	(*)	(*)	16	3	40	88	10	13	(*)	(*)	1	13
54	**Oceania, total**	256	698	736	879	994	33	372	494	1	58	36	28	41	(**)	2	29	10
55	Australia	201	583	655	742	856	33	(*)	476	(*)	42	305	26	46	(**)	(*)	29	17
56	New Zealand	25	48	50	54	53	-----	(*)	18	(*)	16	19	1	−5	-----	(*)	(**)	−5
57	Other countries	30	66	81	83	85	(**)	(*)	-----	(*)	(**)	35	1	(**)	-----	(*)	-----	(**)
58	**International**	356	1,041	1,186	1,357	1,418	-----	861	-----	557	-----	-----	135	12	-----	12	-----	(**)

r Revised. p Preliminary. *Combined in other industries. **Less than $500,000.

NOTE.—Detail may not add to totals because of rounding.

[1] The value for U.S. direct investments in Canada for 1957 and subsequent years has been raised by $122 million to include certain liabilities of Canadian financial institutions to U.S. sources previously omitted.

[2] The estimated value of U.S. direct investments in Cuba in 1960 is carried forward from 1959 without change. No estimates have been made for net capital flows, reinvestment of subsidiary earnings, net earnings, or income receipts for Cuba for 1960.

Selected Countries and Years, and Major Industries, 1960
Earnings, by Countries with Major Industries for 1960
by Selected Countries, 1959–60, with Major Industries for 1960

[Millions of dollars]

Table 3—Continued						Table 4												
Undistributed subsidiary earnings						Earnings						Income						
1959 r	1960 p					1959 r	1960 p					1959 r	1960 p					Line
	Total	Mining and smelting	Petroleum	Manufacturing	Other		Total	Mining and smelting	Petroleum	Manufacturing	Other		Total	Mining and smelting	Petroleum	Manufacturing	Other	
1,069	1,254	56	157	627	414	1,241	2,548	394	1,292	1,176	633	2,206	2,342	337	1,143	550	319	1
293	389	35	46	234	72	713	718	88	97	336	134	345	361	47	60	176	78	2
202	215	−13	33	84	106	774	829	164	345	146	174	600	641	180	311	63	87	3
80	52	−17	7	12	50	156	126	17	2	32	74	90	85	33	−4	26	31	4
14	----	----	----	----	----	28	----	----	----	----	----	22	----	----	----	----	----	5
1	1	(*)	(*)	(*)	1	5	8	(*)	(*)	(*)	8	5	7	(*)	(*)	(*)	7	6
2	1	(*)	(**)	(*)	1	−1	−4	(*)	−4	(*)	(**)	−2	−5	(*)	−4	(*)	−1	7
1	1	(*)	(*)	(*)	1	6	1	(*)	(*)	(*)	1	5	(**)	(*)	(*)	(*)	(**)	8
20	−3	−17	1	10	4	52	54	10	3	29	12	35	65	26	2	24	14	9
41	48	1	5	1	42	59	62	1	4	2	56	19	16	(**)	−1	1	16	10
2	3	----	(**)	(**)	2	8	4	2	−2	(**)	3	7	1	2	−2	(**)	2	11
122	163	4	27	74	58	617	703	147	342	114	100	509	556	147	316	38	56	12
14	36	(*)	(*)	29	7	24	46	(*)	(*)	35	11	11	10	(*)	(*)	6	4	13
34	30	2	(**)	29	8	54	80	3	4	57	16	25	45	1	3	26	15	14
10	7	(**)	(*)	1	6	77	72	56	(*)	3	13	71	72	58	(*)	2	12	15
6	8	(*)	1	3	3	17	28	(*)	18	4	4	11	19	(*)	16	1	2	16
4	11	(**)	5	2	4	26	58	36	10	3	9	23	48	37	4	1	6	17
−1	2	(*)	(**)	1	(**)	1	4	(*)	(*)	3	2	2	3	(*)	(*)	2	1	18
53	59	(*)	12	8	40	425	428	(*)	321	9	96	373	371	(*)	309	1	60	19
2	1	(**)	(**)	(**)	(**)	−7	−11	(**)	−15	(**)	4	−8	−11	(**)	−15	(**)	4	20
24	63	5	5	(**)	52	96	141	90	26	1	55	71	78	55	30	1	3	21
266	326	−1	1	237	89	667	762	10	85	487	180	393	427	11	85	241	90	22
103	154	(**)	22	104	28	245	310	(**)	42	205	63	134	144	----	21	90	33	23
6	10	----	−1	10	2	22	35	----	1	28	7	13	21	----	2	14	5	24
26	48	(**)	20	17	10	48	72	(**)	26	31	16	20	22	----	6	11	5	25
52	76	(*)	3	66	8	131	148	(*)	7	120	21	71	66	(*)	5	49	12	26
14	14	(*)	−1	10	4	31	36	(*)	7	21	8	22	24	(*)	8	13	4	27
6	7	----	1	1	4	13	19	----	2	6	11	8	11	----	(**)	4	7	28
163	172	−1	−21	133	61	421	452	10	43	282	117	259	262	11	64	150	56	29
−2	(**)	----	−1	(**)	1	1	4	----	−1	3	2	3	4	----	(**)	3	1	30
1	2	(*)	(**)	3	(**)	2	5	(*)	(**)	3	1	1	2	(*)	1	1	1	31
4	4	(*)	1	2	1	4	5	(*)	(**)	3	2	(**)	(**)	(*)	−1	1	1	32
−3	−3	----	−2	1	−1	7	7	----	−2	2	7	9	9	----	(**)	1	7	33
13	35	----	−3	10	28	23	48	----	−3	17	34	10	14	----	----	8	6	34
3	2	(*)	1	(**)	(**)	−12	−9	(*)	−10	(**)	1	−14	−10	(*)	−11	(**)	1	35
140	123	----	−21	116	29	370	369	----	53	251	65	231	247	----	74	136	36	36
6	7	−2	5	(**)	3	25	24	9	6	2	7	18	17	11	1	1	3	37
48	60	30	13	3	14	55	33	61	−77	19	30	7	−17	41	−90	16	17	38
2	2	(**)	2	−1	(**)	−33	−69	1	−71	(**)	1	−36	−71	1	−74	1	(**)	39
2	2	----	2	(**)	(**)	3	−2	(**)	−3	(**)	(**)	(**)	−5	(**)	−5	----	(**)	40
22	19	11	−3	----	11	32	37	24	−13	----	25	10	18	14	−10	----	14	41
21	27	9	11	4	2	52	68	35	9	19	4	32	41	25	−2	15	2	42
7	10	8	(*)	(*)	1	12	19	18	(*)	(*)	1	5	10	10	(*)	(*)	(**)	43
14	17	1	(*)	4	12	42	50	17	(*)	19	14	29	34	16	(*)	15	2	44
(**)	(**)	----	(*)	(*)	(**)	−2	−2	----	(*)	(*)	−2	−2	−2	----	(*)	(*)	−2	45
56	86	2	45	17	24	785	901	3	799	42	58	732	816	1	759	20	23	46
−9	21	----	20	1	1	619	721	----	717	2	2	629	701	----	698	1	2	47
65	67	2	25	16	23	166	181	3	82	40	56	102	114	1	60	22	32	48
10	12	(*)	(*)	6	6	16	14	(*)	(*)	10	4	5	1	(*)	(*)	4	−2	49
12	13	----	(*)	2	11	54	70	----	(*)	2	68	46	60	----	(*)	----	60	50
13	17	----	(*)	5	12	23	32	----	(*)	8	24	10	15	----	(*)	4	11	51
24	21	(*)	(*)	3	18	60	52	(*)	(*)	17	36	33	28	(*)	(*)	12	16	52
5	3	(*)	(*)	1	2	13	13	(*)	(*)	4	9	8	10	(*)	(*)	2	7	53
65	74	5	15	50	4	112	115	8	14	82	11	43	37	2	−1	29	7	54
61	68	5	(*)	48	15	102	101	8	(*)	75	19	37	30	2	(*)	24	4	55
3	4	----	(*)	2	2	9	11	----	(*)	7	4	6	7	----	(*)	6	2	56
2	2	(**)	(*)	----	2	2	2	(**)	(*)	----	2	(**)	(**)	(**)	(*)	----	(**)	57
24	49	----	−2	----	51	41	47	----	−5	----	52	14	5	----	(**)	----	5	58

[1] Income is the sum of dividends, interest, and branch profits; earnings is the sum of the U.S. share in net earnings of subsidiaries and branch profits.

Other areas

Africa.—Petroleum companies considerably stepped up their expenditures to develop North African production in 1960. Part of this was reflected in a capital outflow of about $50 million, but an even larger amount was accounted for as exploration and development expenses and is reflected in large operating losses in the area. There was a net inflow to the United States of capital from mining and manufacturing investments in the Union of South Africa.

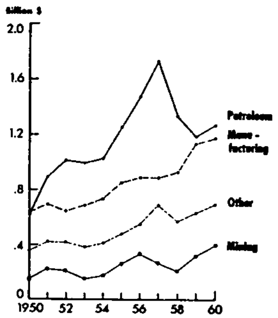
Asia.—In the Middle East capital outlays in petroleum were still being financed largely by the operating companies or their affiliates abroad, resulting on balance in a net capital inflow to the United States. Production of oil in the area increased substantially in 1960, and earnings also turned upward.

Most of the increased capital flow to Far Eastern countries in 1960 was accounted for by the petroleum industry, which had been withdrawing funds in 1958 and 1959.

Oceania—Direct investments in manufacturing in Australia rose considerably in 1960, with capital flows and reinvested earnings both larger than in 1959. There were minor inflows from New Zealand. Earnings in the area changed little.

International—In this category, representing shipping subsidiaries utilizing the flags of Panama, Liberia and Honduras, there was a sharp reduction in capital outflows in 1960 as compared with 1959. Most of this represented a decline in the financing of tanker subsidiaries of petroleum companies as ship mortgages were paid off. Earnings of the tanker fleets were further depressed, but other shipping enterprises reported some improved earnings.

EARNINGS OF DIRECT FOREIGN INVESTMENTS, BY INDUSTRY



U. S. Department of Commerce, Office of Business Economics 61-8-13

Industry Developments

Manufacturing—Responding to various attractions and pressures, United States manufacturing companies raised further in 1960 the amount invested abroad through capital outflows and reinvested profits. Europe was the area receiving the largest amount of these funds—over $800 million out of a world total of $1.4 billion for the manufacturing industry in 1960. Common Market countries received nearly $300 million and the United Kingdom about $550 million, but the latter included about $370 million for purchases of minority interests.

Manufacturing investments by United States firms in Canada continued to grow at a substantial rate, mainly out of reinvested earnings.

In Latin America, and in some others of the less developed countries, manufacturing investments are being carried out at a somewhat accelerated rate partly because of promising future markets, but also under the threat of exclusion from such markets unless local manufacture is undertaken.

Although this industry is now very actively expanding abroad, the sums being invested in Africa and Asia are still relatively small, amounting to $30 million for both continents in 1960, about the same as in 1959.

Among the major commodity groups in the manufacturing category, the fastest growing in 1960 were transportation equipment (largely automobiles), chemicals, food products, and machinery. Other commodity groups also expanded substantially abroad, as shown in table 5.

Table 5.—Direct Investments in Manufacturing Enterprises Abroad, 1950, 1957, 1959, and 1960, by Commodity

[Millions of dollars]

Area and year	Manufacturing, total	Food products	Paper and allied products	Chemicals and allied products	Rubber products	Primary and fabricated metals	Machinery (except electrical)	Electrical machinery	Transportation equipment	Other products
All areas, total										
1950	3,831	483	378	512	182	385	420	387	485	599
1957	6,009	723	722	1,378	401	941	927	731	1,204	983
1959	9,707	823	813	1,661	461	1,163	1,202	833	1,603	1,148
1960	11,152	943	861	1,902	520	1,256	1,333	918	2,118	1,301
Canada										
1950	1,897	227	368	198	89	249	204	141	160	292
1957	3,924	320	626	647	123	671	327	330	398	471
1959	4,565	367	687	742	142	773	301	367	560	535
1960	4,827	399	723	817	161	803	394	393	558	580
Latin America [1]										
1950	781	158	5	205	60	23	13	79	83	155
1957	1,280	201	39	334	133	60	52	126	134	190
1959	1,417	184	50	358	149	71	57	136	209	204
1960	1,631	228	52	408	165	82	70	169	231	227
Europe										
1950	932	64	5	74	31	111	175	153	192	128
1957	2,195	149	42	319	59	178	458	214	475	272
1959	2,947	196	55	447	75	277	677	270	604	344
1960	3,797	224	63	537	90	324	782	288	1,074	415
Africa										
1950	55	6	------	9	11	1	2	3	17	6
1957	106	10	3	12	21	5	17	5	27	6
1959	120	14	3	15	23	5	20	5	26	8
1960	118	14	3	16	23	6	20	6	22	8
Asia										
1950	60	9	------	12	14	**	5	2	6	10
1957	190	15	9	40	38	20	15	12	23	18
1959	244	19	13	58	48	27	15	14	27	23
1960	286	20	15	76	54	30	19	16	29	27
Oceania										
1950	107	18	1	13	8	2	22	9	26	9
1957	314	28	3	27	17	8	26	34	146	26
1959	415	41	5	40	25	10	42	41	177	34
1960	494	58	5	47	28	12	48	47	204	44

Note: Detail may not add to totals because of rounding.
[1] Includes minor amounts in the Western Hemisphere dependencies.
** Less than $500,000.

Investments in automotive plants overseas were raised by about $½ billion in the year, of which $370 million resulted from the special outlay in the United Kingdom discussed above. Automotive investments also increased substantially in other European countries and in Australia.

About $¼ billion was added to U.S. investments in the chemical industry abroad in 1960, not including petrochemical plants owned by petroleum companies. Expansion by this industry was significant in Canada, Latin America, and Europe.

More than half of the $215 million increase in investments in enterprises producing machinery was in Europe. Manufacturers of food products accelerated their rate of investment in most areas.

Petroleum—About $600 million was added by U.S. petroleum companies to their foreign investments in 1960, raising the total stake to $11 billion. This rate of investment was moderately higher than that of 1959, with most of the gain showing up in refinery construction in Europe and the Far East, and in distribution facilities in Canada and Europe. There was also heightened development activity in North Africa, as noted above, and in Argentina.

The industry remains moderately active in exploring throughout the world and is carrying out a large scale expansion in refineries, petrochemicals, transmission systems, and other phases of the industry.

Trade—Investments in enterprises whose major activity is trading or distribution are now growing at an accelerated rate—about $360 million was invested in such operations abroad in 1960. Many of these enterprises also perform additional functions including licensing, management and research services, and activity as financial intermediaries.

Earnings generally higher

With increased demand abroad for petroleum, metals, and manufactures, earnings of the direct investments continued a steady advance. However, the total was still under the 1957 record despite additional investments of nearly $7½ billion since that time.

Petroleum earnings rose most notably in the Middle East, where oil production by the companies increased 14 percent. There were moderate gains in earnings in other producing areas and from increased refinery output in Europe and elsewhere.

Earnings of the mining companies were much higher than in recent years as prices firmed and more properties reached the producing stage.

Improved earnings for manufacturing enterprises in most countries reflected general business expansion. An exception was Canada, where earnings were depressed as business activity remained low, and there was scarcely any change in manufacturing earnings in the United Kingdom.

Of the total direct-investment earnings of $3.5 billion in 1960, about $1.1 billion was branch profits and $2.4 billion represented the U.S. share in the profits of foreign subsidiary companies. Of the latter amount, about $1.25 billion, or 52 percent, was retained abroad, a proportion generally characteristic of the postwar experience.

Income receipts from abroad, as entered into the balance-of-payments accounts, included all branch profits, common dividends, preferred dividends ($10 million in 1960) and interest ($109 million), less any taxes withheld abroad. The income total for 1960 on this basis was $2.3 billion, about 5 percent more than the 1959 amount. More than half of the increase in earnings for the year was retained abroad.

Table 6.—Selected Short-term Banking and Commercial Claims on Foreigners, by Type and Area

[Millions of dollars]

Area and type	December 1959	June 1960	December 1960	May 1961
Banking claims, total	2,624	2,764	3,590	4,088
Loans	1,308	1,113	1,296	1,394
Acceptances and other	1,099	1,371	1,814	2,183
Payable in foreign currencies	217	280	480	506
By area and country				
Europe	534	575	717	695
United Kingdom	121	181	245	171
Canada	272	272	409	478
Latin America	1,176	1,111	1,354	1,336
Other countries	642	806	1,110	1,579
Japan	323	497	796	1,204
Claims by non-financial concerns, total	730	843	[1] 1,450	n.a.

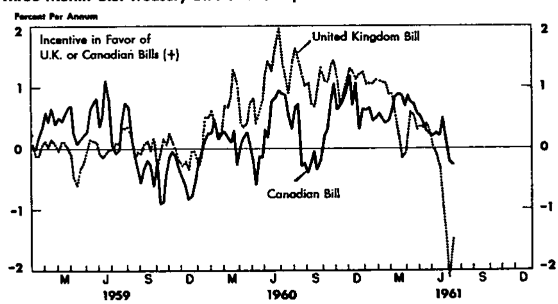
[1] Includes temporary holdings of sterling ($370 million) intended for direct investment in the United Kingdom.
n.a.—not available.

Source: Treasury Bulletin.

Other Private Foreign Investments

A significant part of the pressure on the balance of payments in 1960, offsetting gains made in the trade accounts, came from accelerated outflows of short-term funds beginning about mid-year. The accompanying chart, using the relationship between yields on United States Treasury bills and comparable bills in Canada and the United Kingdom as representative of broader changes in world money markets, shows the incentive for investing liquid funds abroad as it developed during 1960.

Interest Rate Differentials, With Forward Exchange Cover, Between Three-Month U.S. Treasury Bills and Comparable Canadian and U.K. Bills



U.S. Department of Commerce, Office of Business Economics Data: FRB 61-8-14

Table 7.—International Investment Position of the United States, by Area, 1959–60

[Millions of dollars]

Type of investment	Total		Western Europe		Canada		Latin American Republics		Other foreign countries		International institutions and unallocated	
	1959 [r]	1960 [p]	1959 [r]	1960 [p]	1959 [r]	1960 [p]	1959 [r]	1960 [p]	1959 [r]	1960 [p]	1959 [r]	1960 [p]
U.S. assets and investments abroad, total	64,830	71,407	18,426	20,442	15,917	17,231	12,675	13,537	10,612	12,760	7,136	7,431
Private investments	44,818	50,285	9,126	11,224	15,907	17,228	10,749	11,473	6,741	7,826	2,288	2,508
Long-term	41,222	45,376	8,229	9,912	15,473	16,900	9,311	9,850	5,917	6,490	2,288	2,508
Direct	29,806	32,744	4,323	6,645	10,310	11,198	8,098	8,365	4,717	5,118	[1] 1,357	[1] 1,418
Foreign dollar bonds	4,314	4,941	327	367	2,316	2,573	140	240	694	747	908	1,024
Other foreign securities [2]	4,229	4,617	1,473	1,780	2,503	2,817	40	53	175	153	23	66
Other	2,874	3,074	1,106	1,122	344	312	1,033	1,192	301	443	------	------
Short-term	3,596	4,909	897	1,312	434	328	1,438	1,623	824	1,339	------	------
U.S. Government credits and claims	20,012	21,122	9,300	9,218	10	3	1,926	2,064	3,871	4,934	4,848	4,923
Long-term	17,606	18,220	8,822	8,458	------	------	1,767	1,889	2,471	2,967	4,848	4,916
Short-term	2,407	2,902	638	760	10	3	159	175	1,400	1,967	------	7
Foreign assets and investments in the United States, total	42,146	44,682	23,120	24,048	6,907	6,196	3,794	3,726	4,402	4,837	3,927	4,965
Long-term	18,050	18,438	12,675	13,004	3,301	3,308	1,154	1,153	817	858	103	130
Direct [1]	6,604	6,881	4,457	4,713	1,895	1,949	129	130	127	139	------	------
Corporate stocks	9,363	9,302	6,866	6,826	1,250	1,206	742	728	478	460	38	30
Corporate, state and municipal bonds	534	648	304	449	15	9	64	75	20	28	66	81
Other	1,549	1,557	1,008	1,006	140	149	219	220	128	191	------	------
Short-term assets and U.S. Government obligations	24,096	26,244	10,445	11,044	2,606	2,883	2,640	2,573	3,585	3,979	3,826	4,845
Private obligations	10,888	12,113	4,451	4,883	1,704	1,961	2,358	2,211	2,236	2,709	144	319
U.S. Government obligations	13,208	14,131	5,994	6,161	902	912	282	362	1,349	1,270	3,680	4,526
Long-term	2,140	2,276	838	803	363	327	187	141	96	114	656	891
Short-term [3]	11,064	11,855	5,156	5,348	629	585	95	221	1,264	1,156	3,014	3,635

[r] Revised.
[p] Preliminary.
[1] Represents the estimated investment in shipping companies registered in Panama and Liberia.
[2] Consists primarily of securities payable in foreign currencies, but includes some dollar obligations, including participation in loans made by the International Bank for Reconstruction and Development.
[3] Total includes estimated foreign holdings of U.S. currency: 1959, $906 million; 1960, $910 million; not distributed by area.

Basic factors underlying the behavior of interest rates were sagging economic activity in the United States, which was accompanied by a fall in short-term interest rates from a peak at the beginning of the year to a low of a little over 2 percent at mid-year, and the booming economies of other industrial countries, leading to attempts by their monetary authorities to restrain credit. The flow of liquid funds toward the latter countries tended to frustrate their monetary policies, and eventually, as the loss of gold and dollars by the United States became very large, and fears of devaluation grew, flights of capital developed. In some countries this led to a shift from primary emphasis on monetary measures of restraint to increased reliance on measures other than high short-term interest rates. Short-term rates in the United Kingdom and Germany were consequently sharply reduced in the last quarter of the year, and, in the case of Germany, have continued to decline this year. Germany also appreciated the value of its currency in March 1961.

Short-term interest rates in the United Kingdom nevertheless remained well above the United States rates, but the incentive to move funds to that market was wiped out early in the year by a widening discount on forward sterling. Recent announcement of a sharp boost in the discount rate in the United Kingdom has altered this relationship. In the case of Canada, short-term interest rates remained attractive through the first five months of 1961, and then were offset by depreciation of the Canadian dollar and lower interest rates there.

By far the largest outflow of funds, however, was recorded for Japan, as shown in table 6. Interest rates in that country persist well above those in other industrial countries, attracting both United States funds and dollars owned by residents of other countries.

Monetary authorities here and abroad are now better prepared to mitigate the disturbing effects of such capital flows, cooperating in lending short-term support to currencies coming under pressure from this source.

Private portfolio investments

Long-term private portfolio investments abroad were increased by $1.2 billion in 1960—about the same amount as in 1959—reaching a total value of $12.6 billion. About $850 billion of the 1960 gain resulted from capital outflows, and the remainder consisted of improved market values for foreign stocks and dollar bonds.

U.S. purchases of new foreign securities offered here have fallen since the 1958 peak, when interest rates here were comparatively low. The total for 1960 was $573 million, with the volume reduced after the first half and continuing at a low level this year. Canadian borrowers have lately raised a much higher proportion of their needs in their own capital market, and the other major issuer here, the International Bank, has not entered this market to any extent in this period of balance-of-payments problems. There was a considerable variety of other issues offered here in 1960, led by a $100 million issue sold privately by a Mexican institution.

Investors in the United States added nearly $100 million to their holdings of other foreign bonds, purchasing sizable amounts of European issues and participating in loans originated by the International Bank.

Americans reduced their acquisitions of foreign corporate stocks in 1960, but accelerated their purchases again in the first half of 1961. Most of the stocks were issues of companies on the European continent; there were net liquidations of Canadian and United Kingdom equities in 1960, reflecting a downward drift of prices in those countries.

Medium term foreign loans by U.S. banks increased by $160 million in 1960 to a total of $1.7 billion. Most of the increase went to Argentina and Venezuela. There was a general but moderate reduction of outstanding bank loans in the first five months of 1961. Credits extended by non-financial concerns rose moderately in most areas in 1960.

BY FREDERICK CUTLER AND CHRISTOPHER DOUTY

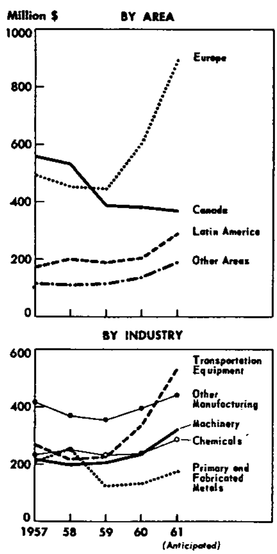
Foreign Capital Outlays and Sales of U.S. Companies

Expansion of Manufacturing Facilities at Peak Rate

Sales of Foreign Plants Continue Steady Rise

UNITED STATES direct-investment enterprises abroad are planning to spend over $4.5 billion this year for plant and equipment, and expect to maintain this rate during 1962. Of this total, nearly $4 billion is expected to be invested in production facilities for manufactures, petroleum, and raw materials of various kinds, the remainder for utilities, trade and distribution and service industries.

PLANT AND EQUIPMENT EXPENDITURES ABROAD
U.S. Companies Project for 1961 Notable Expansion of Manufacturing Facilities Abroad



U.S. Department of Commerce, Office of Business Economics 61-9-9

The 1961 amount exceeds the previous year's actual investment by more than 20 percent, and approaches the earlier high established in 1957 when the petroleum industry was extremely active abroad.

Capital outlays by U.S. manufacturing companies abroad are expected to reach a new peak of $1.8 billion this year, and are planned to continue at this rate in 1962. This compares with $1.3 billion spent in 1960, which was close to the previous record high of 1957.

Expenditures by the petroleum industry for investment abroad are rising in 1961 to $1.8 billion, after 3 years of decline. Although planned expenditures in 1961 would be far below the top of $2.3 billion set in 1957, they would be 20 percent higher than in 1960. Capital investment in mining is continuing to hold steady at about $400 million, with a slight decline expected in 1962.

Other industries, in the aggregate, are expected to spend at a rate of nearly $600 million in 1961 and 1962 for capital equipment. This represents a slight increase over 1960, accounted for by the rising expenditures of trading and distribution firms.

Large Increase in Manufacturing Investment

U.S. manufacturing companies anticipate an increase of 30 percent in outlays for capital equipment in 1961, with only a small decrease from this high now expected for 1962. All areas but Canada show an upturn for 1961, and most manufacturing industries are increasing their outlays, the rest remaining steady.

Europe.—Outlays in Europe—over half of the total—are rising sharply in both the Common Market countries and the United Kingdom. In 1962, expenditures are expected to drop somewhat, particularly in Germany, but will still be 40 percent over the 1960 level.

The United Kingdom still attracts the greatest volume of capital investment, but with Germany now nearly as high. Outlays in the Common Market are expected to increase more than 50 percent in 1961. Over half of this increase is in the transportation equipment industry, most of it in Germany.

Anticipated outlays are up by 45 percent in the United Kingdom in 1961, with this level of expenditures expected to be continued in 1962.

Canada.—Outlays for manufacturing in Canada are expected to remain steady through 1962. The decrease from the high of the 1957–58 period, when outlays totaled more than $500 million each year, is caused by the decline in the primary and fabricated metals and the paper industries, which completed major additions to capacity in those years.

Latin America.—Manufacturing outlays in Latin America are expected to be about 40 percent higher in 1961 than in 1960, and are currently anticipated to continue high in 1962.

Capital expenditures in Argentina for 1961 will be the highest in Latin America, followed by those in Brazil and Mexico. More than half of the Argentine expenditures in 1961 will be made by producers of transportation equipment. In Brazil, major expansion is continuing in the chemical and transportation equipment industries, while in Mexico the chemical industry will have the highest outlays.

Manufacturing in the rest of the world is concentrated in a few countries, notably Australia, Japan, India, the Philippine Republic, and the Union of South Africa. Outlays in all but the last are increasing, with Australian companies expanding at the fastest rate. Expansion in India has been uneven, depending on the activities of a relatively few large companies.

Petroleum and Mining

About $1.8 billion is expected to be spent by petroleum companies abroad in 1961, with slightly greater expenditures to be made in 1962. In addition, these companies spend abroad about $400 million annually for exploration and development which is charged against income. The peak outlay, in 1957, was $2.3 billion, exclusive of expenditures charged against income.

The 1961 expenditures represent an increase of about $300 million over the prior year. Important are outlays now being made in Europe for refining and distribution facilities, and in North Africa, especially Libya, to develop new producing areas. The high investment in these areas is expected to continue in 1962. A slight upturn is anticipated in investments in Latin America in 1961, but the amount is still less than half of the 1957 total.

In Canada, capital expenditures by petroleum interests are expected to remain stable. Outlays in Asia are increasing in 1961, primarily in the producing fields of the Middle East, but these are considerably below the levels of 1957–58.

Mining investment steady

Capital expenditures in the mining and smelting industry will remain steady through 1962 at an annual rate of somewhat over $400 million, plus about $30 million of expenditures for exploration and development charged against income.

In Canada, expenditures are expected to be about $40 million less in 1961 than the $290 million total for 1960, and will decline to $190 million in 1962, upon the completion of several large mining projects. Outlays were relatively low in Latin America in 1960 because of the cessation of investment operations in Cuba and because some major expansions have been completed in recent years, but larger outlays are expected in 1961 and 1962. The initiation of several large development projects in West Africa and Australia should require substantial investments there for several years.

Outlays by other industries, excluding companies engaged in international shipping, are holding at close to $600 million annually in the aggregate. Companies engaged in trade and distribution continue to raise their capital outlays, which are now substantial.

Outlays by utility companies are now substantially less than in the 1957–59 period because of the completion of some pipelines and rapid changes in Latin America, including the loss of Cuban properties and the sale of some enterprises in Argentina and Mexico. Outlays in agriculture also are down considerably from 1957.

Comparison with domestic outlays

Foreign plant and equipment expenditures are becoming an increasingly large proportion of the overall capital investment programs of many U.S. manufacturing industries, as shown in table 4.

In 1961, they account for 18 percent of total domestic and foreign expenditures in these industries, compared to 13 percent in the previous year. The most marked increase is in the transportation equipment industry, which plans to make 30 percent of its capital expenditures abroad in 1961, compared with 20 percent in 1960. However,

Table 1.—Plant and Equipment Expenditures of Direct Foreign Investments, by Country and Major Industry, 1959–62

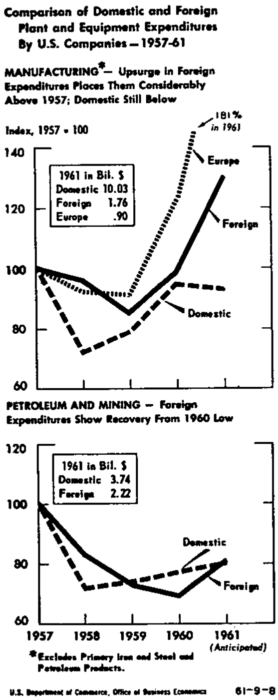
[Millions of dollars]

Areas	1959 [r]			1960 [r]			1961 [e]			1962 [e]		
	Mining and smelting	Petroleum	Manufacturing	Mining and smelting	Petroleum	Manufacturing	Mining and smelting	Petroleum	Manufacturing	Mining and smelting	Petroleum	Manufacturing
All areas, total	437	1,558	1,147	426	1,467	1,337	438	1,776	1,755	407	1,794	1,706
Canada	240	330	389	290	360	384	250	375	371	190	365	378
Latin American Republics, total	124	397	192	53	297	206	72	329	290	70	312	256
Mexico, Central America and West Indies, total	23	29	53	10	20	39	10	23	56	7	23	55
Cuba [1]	(*)	12	13	----	----	----	----	----	----	----	----	----
Mexico	8	1	40	8	1	37	9	1	51	5	1	51
Other countries	(*)	17	1	2	19	2	1	23	5	2	22	3
South America, total	96	308	139	44	277	167	62	306	234	63	289	301
Argentina	(*)	(*)	28	(*)	(*)	51	(*)	52	103	(*)	35	71
Brazil	2	5	73	2	5	63	2	7	60	2	4	72
Chile	41	(*)	3	25	(*)	3	22	(*)	5	30	(*)	4
Colombia	(*)	25	12	(*)	25	21	(*)	34	16	(*)	31	15
Peru	47	17	7	11	17	9	30	32	13	23	24	10
Venezuela	(*)	280	14	(*)	160	17	(*)	175	25	(*)	190	27
Other countries	(**)	8	1	(**)	6	3	(**)	(*)	3	(**)	(*)	2
Western Hemisphere dependencies	23	52	1	24	44	1	25	50	1	23	78	1
Europe, total	2	339	450	2	345	608	5	470	902	5	479	862
Common Market, total	1	176	214	(**)	145	328	1	229	504	1	244	455
Belgium and Luxembourg	(**)	11	8	(**)	20	15	(**)	8	15	(**)	6	16
France	1	41	46	(**)	32	66	1	41	82	1	32	70
Germany	(**)	60	138	(**)	55	205	(**)	87	344	(**)	130	305
Italy	(**)	20	11	(**)	18	20	(**)	72	35	(**)	39	43
Netherlands	----	44	11	----	20	22	----	22	25	----	27	21
Other Europe, total	(**)	163	236	2	200	260	4	341	398	4	235	407
Denmark	----	11	1	----	17	2	----	22	3	----	25	2
Norway	(**)	16	4	(**)	21	5	(**)	8	8	(**)	8	7
Spain	(**)	1	3	(**)	3	4	(**)	7	5	(**)	12	4
Sweden	----	12	3	----	17	4	----	28	3	----	35	4
Switzerland	(**)	3	4	----	4	8	----	4	8	----	5	10
United Kingdom	----	99	218	----	100	252	----	123	368	----	125	389
Other countries	(**)	21	3	2	39	5	4	48	6	4	26	12
Africa, total	24	74	10	44	115	10	61	195	10	69	228	11
North Africa	(**)	40	(**)	(**)	75	(**)	(**)	150	(**)	(**)	165	(**)
East Africa	(**)	9	(**)	(**)	7	(**)	(**)	7	(**)	(**)	12	(**)
West Africa	11	14	(**)	16	23	(**)	36	26	(**)	46	23	(**)
Central and South Africa, total	23	12	9	28	10	10	25	12	9	23	20	10
Union of South Africa	9	(*)	9	15	(*)	8	12	(*)	7	10	(*)	9
Other countries	14	(*)	(**)	13	(*)	2	13	(*)	2	13	(*)	1
Asia, total	1	172	45	(**)	176	72	(**)	210	91	1	196	75
Middle East	----	81	3	----	76	13	----	108	3	----	83	3
Far East, total	----	91	42	(**)	101	60	(**)	102	88	1	113	73
India	----	(*)	6		(*)	16		(*)	35		(*)	18
Japan	----	(*)	22	----	(*)	30	----	(*)	34	----	(*)	37
Philippine Republic	(*)	(*)	12	----	(*)	11	----	(*)	12	----	(*)	12
Other countries	(*)	(*)	2	(**)	(*)	4	(**)	(*)	7	1	(*)	5
Oceania, total	13	44	60	12	66	56	25	65	90	40	76	123
Australia	13	(*)	58	12	(*)	55	25	(*)	87	40	(*)	120
Other countries	----	(*)	2	----	(*)	2	----	(*)	3	----	(*)	3
International shipping	----	100	----	----	65	----	----	82	----	----	62	----

*Included in area total. **Less than $500,000. [r] Revised. [e] Estimated on the basis of company projections.
1. No estimates have been made for expenditures in Cuba in 1960, 1961, and 1962.
NOTE.—Detail may not add to totals due to rounding.

other manufacturing industries also are increasing the proportion of their plant and equipment expenditures abroad, especially the machinery, primary and fabricated metals, and food and beverage industries.

Expenditures for plant and equipment in foreign manufacturing are rising faster than for the domestic industry. The sharp divergence of this trend from the domestic experience is largely influenced by the transportation industry's expansion in Europe, and to a lesser extent in Latin America. Even in the other industries, however, domestic expenditures in 1961 remained practically unchanged, compared to 1960, while foreign expenditures show a strong upward trend.



In the mining and petroleum industries, the trend for both domestic and foreign expenditures is upward. Foreign expenditures, having dropped for a longer period, are now rising at a faster rate than domestic expenditures.

Inventories and Receivables Increase

In addition to the larger sums required to finance plant and equipment expenditures in 1960, as compared with 1959, inventories and receivables were expanded.

Inventories were up about $800 million in 1960 in the mining, petroleum, and manufacturing industries, about twice the amount for 1959. Most of the accumulation took place in manufacturing, with enterprises in Europe accounting for more than half of the total increase.

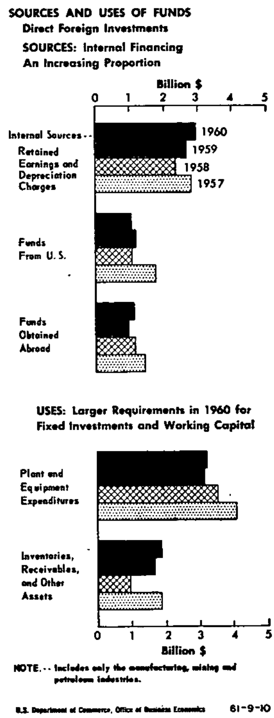
On an industry basis, the accumulation was greatest in transportation equipment, accounting for about one-third of the manufacturing total. The accelerated accumulation of manufacturing inventories in Europe, Australia, and the more developed countries of Latin America reflects a rapid growth of sales and some anticipated future expansion. In the mining industry there were some inventory accumulations, particularly in Canada. Petroleum companies increased their inventories slightly in 1960, after 2 years of net liquidation.

Receivables also grew at an increased rate in 1960, with about two-thirds of the increase accounted for by the manufacturing industry, and a considerable increase in receivables in the petroleum industry.

Other assets were increased by some $400 million in the three major industries in 1960, about half of the 1959 amount. The decline was shared by all three industries, and could be noted in most areas. A marked decline occurred in the manufacturing industry in Europe, reflecting a drawing down of these assets, primarily cash, by several large automobile manufacturers to finance the heavy investment in inventories and plant and equipment during 1960.

Sources of Financing

An important aspect of the data on sources and uses of funds of the direct investment enterprises abroad, now being collected annually by the Office of Business Economics, is the broader coverage of the financial resources utilized by U.S. business abroad. Some of this information, related to funds obtained from the United States and those available out of retained earnings, is similar to that collected for use in the balance-of-payments accounts. However, much of the foreign activity of the companies is financed out of depreciation and depletion charges of the foreign



enterprises, and through funds obtained from investors and capital markets abroad.

In 1960 about $5.1 billion was required by the manufacturing, mining, and petroleum industries to expand their fixed and other assets abroad. Of this sum, nearly 60 percent was provided from internal sources of the foreign enterprises, including retained earnings of $1.0 billion and depreciation charges of $1.9 billion. External financing was obtained from parent companies and others in the United States ($1.0 billion), and from foreign creditors and investors ($1.1 billion).

The volume of financing utilized in 1960 was about $250 million larger than in 1959, but below the peak amount of nearly $6 billion in 1957, the top year of investment abroad.

Depreciation charges make the largest contribution to the cash flow of the direct foreign investments. These charges for the three major industries amounted to nearly $2.0 billion in 1960 and are growing by about $150 million annually.

At current levels, depreciation charges in the aggregate finance about 60 percent of foreign plant and equipment expenditures. In comparable domestic industries the proportion is higher, covering recently about three-quarters of manufacturing requirements, and a still higher proportion for the petroleum and mining industries.

About $950 million of the depreciation charges for 1960 originated in the petroleum industry, including about $50 million for depletion. These charges were equal to over half of the industry's capital expenditures, matching present outlays for plant and equipment in Latin America, but falling much below the amount required for this purpose in Europe.

Depreciation charges by manufacturing enterprises were about $800 million in 1960, and are growing rapidly in line with the expansion of the industry. However, sharply increased requirements of funds for capital investment, as well as for inventory expansion, caused these companies to obtain a larger proportion of their financing from external sources abroad and retained earnings.

Retained earnings

Of the $1.0 billion of retained earnings in mining, petroleum, and manufacturing in 1960, over $740 million was accounted for by manufacturing enterprises. Net earnings in this industry increased by about $100 million in 1960, and most of this increase was reinvested. This increase took place in all areas except Canada, where the amounts earned and reinvested were somewhat lower than in 1959.

In the petroleum industry retained earnings increased somewhat to $150 million, although remaining much below the peak of $.8 billion in 1957. Earnings of this industry increased by about 14 percent in 1960, but petroleum companies continued to obtain their financing largely from depreciation and depletion funds, and capital flow from the United States.

Retained earnings by mining companies declined slightly in 1960, although the net income of these companies rose sharply. However, with the completion of several major projects in Latin America, the need for financing was diminished in that area, where a large part of the industry's earnings originate.

External financing

Funds provided by parent companies and others in the United States were moderately lower in 1960 than in the preceding year, with each of the major

Table 2.—Plant and Equipment Expenditures Abroad by U.S. Manufacturing Companies, by Area and Major Commodity, 1959–62

[Millions of dollars]

Areas and years	Total	Food products	Paper and allied products	Chemicals	Rubber products	Primary and fabricated metals	Machinery, except electrical	Electrical machinery	Transportation equipment	Other manufacturing
All areas, total										
1959 r	1,147	82	83	232	76	127	109	96	228	114
1960 r	1,337	97	78	237	68	133	132	104	336	152
1961 e	1,755	142	79	288	71	176	179	142	530	148
1962 e	1,706	112	73	301	74	182	167	128	519	150
Canada										
1959 r	389	22	65	78	14	65	10	27	65	43
1960 r	384	30	55	75	15	49	17	30	63	50
1961 e	371	30	60	66	18	50	22	35	45	45
1962 e	378	28	57	62	16	65	22	28	55	45
Latin America [1]										
1959 r	193	20	8	52	16	16	6	15	41	20
1960 r	207	24	7	49	12	11	8	18	47	31
1961 e	290	44	9	58	11	20	6	27	86	28
1962 e	257	33	7	60	12	21	9	34	63	27
Europe:										
Common Market										
1959 r	214	16	2	20	4	9	61	21	62	19
1960 r	328	17	2	44	11	10	72	21	128	23
1961 e	504	31	3	72	7	12	99	35	218	28
1962 e	455	21	3	65	6	12	83	30	206	30
Other Europe										
1959 r	236	13	5	60	23	30	26	17	40	22
1960 r	280	18	3	42	15	50	24	18	74	35
1961 e	306	26	4	50	14	55	41	31	143	33
1962 e	407	20	4	65	25	47	43	31	138	34
Other areas										
1959 r	115	11	3	22	19	7	6	16	20	11
1960 r	139	8	12	25	16	13	10	16	23	12
1961 e	191	11	4	41	19	39	11	15	28	13
1962 e	209	9	3	48	16	37	11	15	57	13

r Revised. e Estimated on the basis of company projections. NOTE.—Detail may not add to totals because of rounding. 1. Includes Western Hemisphere dependencies.

Table 3.—Plant and Equipment Expenditures of Direct Foreign Investments in Selected Industries, 1959–62

[Millions of dollars]

	1959 r	1960 r	1961 e	1962 e
All areas, total	563	559	591	592
Agriculture	79	73	66	63
Public utilities [1]	191	143	141	126
Trade	198	256	291	312
Miscellaneous	95	87	93	91
Canada, total	170	225	208	190
Agriculture	35	35	38	35
Public utilities	35	85	55	50
Trade	45	60	65	55
Miscellaneous	55	45	50	50
Latin America, total	214	125	151	150
Agriculture	37	30	20	20
Public utilities	128	40	65	65
Trade	31	35	45	45
Miscellaneous	18	20	21	20
Europe, total	115	137	147	166
Agriculture	(**)	(**)	(**)	(**)
Public utilities	6	5	5	5
Trade	101	125	135	155
Miscellaneous	8	7	7	6
Other areas, total	64	72	85	86
Agriculture	7	8	8	8
Public utilities [1]	22	13	16	6
Trade	21	36	46	57
Miscellaneous	14	15	15	15

r Revised. e Estimated on the basis of company projections. **Less than $500,000.
1. Excludes international shipping.

Table 4.—Domestic and Foreign Expenditures for Plant and Equipment in Selected Industries, 1959–61

[Amounts in millions of dollars]

	Expenditures—1959 r				Expenditures—1960				Expenditures—1961			
	Total	Domestic	Foreign	Percent of foreign to total	Total	Domestic	Foreign	Percent of foreign to total	Total	Domestic	Foreign	Percent of foreign to total
Mining and petroleum, total	5,475	3,480	1,995	36	5,523	3,630	1,893	34	5,984	3,770	2,214	37
Selected manufacturing industries, total	7,373	6,340	1,033	14	8,786	7,600	1,186	13	9,007	7,400	1,607	18
Primary and fabricated metals [1]	1,127	1,000	127	11	1,143	1,010	133	12	1,056	880	176	17
Electrical machinery	616	520	96	16	784	680	104	13	822	680	142	17
Machinery, except electrical	1,019	910	109	11	1,232	1,100	132	11	1,279	1,100	179	14
Transportation equipment	1,256	1,030	226	18	1,646	1,310	336	20	1,700	1,170	530	31
Paper and allied products	713	630	83	12	828	750	78	9	799	720	79	10
Chemicals	1,462	1,230	232	16	1,837	1,600	237	13	1,938	1,650	288	15
Rubber products	266	190	76	29	298	230	68	23	291	220	71	24
Food products	912	830	82	9	1,017	920	97	10	1,122	980	142	13

r Revised.
1. Excludes primary iron and steel producers.
NOTE: Foreign expenditures include acquisitions of existing fixed assets, which are excluded from the domestic series.

Table 5.—Sources and Uses of Funds of Direct-Investment Enterprises, by Area and Selected Industry, 1958–60

[Millions of dollars]

SOURCES OF FUNDS

Area and industry	Total sources			Net income			Funds from United States			Funds obtained abroad [1]			Depreciation and depletion		
	1958 r	1959 r	1960	1958 r	1959 r	1960	1958 r	1959 r	1960	1958 r	1959 r	1960	1958 r	1959 r	1960
All areas, total	6,441	6,774	7,336	2,611	2,837	3,255	1,065	1,181	1,046	1,150	985	1,108	1,615	1,771	1,927
Mining and smelting	669	873	1,015	242	372	519	227	184	158	55	155	147	145	162	191
Petroleum	3,307	2,893	2,930	1,325	1,196	1,366	529	528	454	623	255	153	830	914	957
Manufacturing	2,465	3,008	3,391	1,044	1,269	1,370	309	469	434	472	575	808	640	695	779
Canada, total	1,707	1,845	1,737	541	711	786	423	376	371	235	202	−22	508	556	602
Mining and smelting	225	395	447	62	112	157	78	171	202	35	95	13	50	67	75
Petroleum	591	441	549	76	99	159	234	112	138	103	41	45	178	189	207
Manufacturing	891	1,009	741	403	500	470	111	143	31	97	66	−30	280	300	320
Latin America, total [2]	1,650	1,470	1,745	653	655	789	272	238	89	290	106	345	435	471	522
Mining and smelting	342	343	332	127	187	230	130	36	−60	10	46	61	75	74	92
Petroleum	914	702	730	409	333	380	75	132	24	130	−90	−24	300	327	350
Manufacturing	394	425	683	117	135	170	67	70	125	150	150	308	60	70	80
Europe, total	1,539	1,877	2,061	503	620	658	162	381	513	511	447	433	363	429	457
Mining and smelting	12	12	11	8	8	10	1	(**)	(**)	2	3	−1	1	1	2
Petroleum	640	578	493	105	116	87	65	150	273	348	144	−12	122	168	145
Manufacturing	887	1,287	1,557	390	496	561	96	231	240	161	300	446	240	260	310
Other areas, total	1,545	1,582	1,793	914	851	1,022	208	186	73	114	230	352	309	315	346
Mining and smelting	90	123	225	45	65	118	18	27	16	8	11	74	19	20	22
Petroleum	1,162	1,172	1,158	735	648	740	155	134	19	42	160	144	230	230	255
Manufacturing	293	287	410	134	138	169	35	25	38	64	59	134	60	65	69

USE OF FUNDS

Area and industry	Total uses			Property, plant, and equipment			Inventories			Receivables			Other assets [3]			Income paid out		
	1958 r	1959 r	1960	1958 r	1959 r	1960	1958 r	1959 r	1960	1958 r	1959 r	1960	1958 r	1959 r	1960	1958 r	1959 r	1960
All areas, total	6,441	6,774	7,336	3,561	3,142	3,230	−33	378	793	358	487	661	661	818	390	1,894	1,949	2,260
Mining and smelting	669	873	1,015	427	437	426	−30	37	96	15	67	37	47	79	41	210	253	413
Petroleum	3,307	2,893	2,930	1,834	1,558	1,467	−55	−8	20	167	65	164	200	192	58	1,161	1,086	1,221
Manufacturing	2,465	3,008	3,391	1,300	1,147	1,337	52	349	677	176	355	460	414	547	291	523	610	626
Canada, total	1,707	1,845	1,737	1,128	1,009	1,034	−92	164	93	92	118	60	235	202	160	344	352	390
Mining and smelting	225	395	447	165	240	290	−5	18	58	1	26	−10	5	50	25	59	61	84
Petroleum	591	441	549	430	380	360	−22	−4	5	56	12	25	57	−5	60	70	58	99
Manufacturing	891	1,009	741	533	389	384	−65	150	30	35	80	45	173	157	75	215	233	207
Latin America, total [2]	1,650	1,470	1,745	967	780	625	12	90	124	62	95	287	100	17	25	511	488	684
Mining and smelting	342	343	332	218	147	78	−20	18	22	10	25	31	33	19	−50	101	134	251
Petroleum	914	702	730	548	449	340	−17	−30	−24	−9	30	105	36	−35	−50	356	288	359
Manufacturing	394	425	683	201	193	207	49	101	126	61	40	151	30	33	126	54	58	74
Europe, total	1,539	1,877	2,061	872	791	955	18	94	453	149	237	220	130	372	70	291	383	361
Mining and smelting	12	12	11	2	2	2	(**)	(**)	(**)	−1	−1	−3	1	(**)	1	10	11	9
Petroleum	640	578	493	414	330	345	−20	5	29	110	23	3	41	96	29	95	125	87
Manufacturing	887	1,287	1,557	456	450	606	38	89	424	60	215	220	147	286	40	190	247	265
Other areas, total	1,545	1,582	1,793	594	553	616	29	31	123	45	37	94	129	227	135	748	734	825
Mining and smelting	90	123	226	42	48	56	−6	1	16	5	17	19	8	10	65	40	47	69
Petroleum	1,162	1,172	1,158	442	390	422	4	21	10	10	(**)	31	66	146	19	640	615	676
Manufacturing	293	287	410	110	115	138	30	9	97	30	20	44	55	71	51	68	72	80

** Less than $500,000.
r Revised.
1. Includes miscellaneous sources.
2. Includes Western Hemisphere dependencies.
3. Includes miscellaneous uses.

industries shown in table 5 drawing somewhat less on this source. However, within the principal regions there was a considerable variation in behavior.

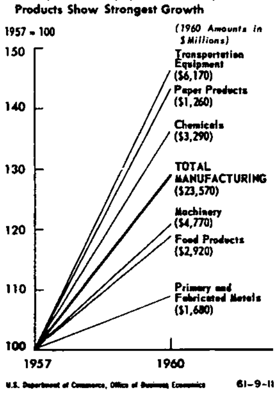
Where investment activity was not expanding, a more than proportional drop occurred in parent company financing, with other sources making up the difference. This was characteristic of manufacturing investments in Canada, mining and petroleum investments in Latin America, and petroleum investments in the Middle East. On the other hand, an increased flow of funds from the United States was required to finance accelerated investment programs in Latin American manufacturing, petroleum refineries and other facilities in Europe, and the development of new mining properties in Canada.

Funds obtained abroad

Foreign creditors and investors provided about $1.1 billion of financing in 1960 for the three major industries, about $120 million more than in 1959. This type of financing used by manufacturing companies increased more than $230 million, to a total of more than $800 million. Manufacturing enterprises in Europe and Latin America

SALES OF MANUFACTURES BY DIRECT-INVESTMENT ENTERPRISES ABROAD, 1957-60

Transportation Equipment and Paper Products Show Strongest Growth



U.S. Department of Commerce, Office of Business Economics 61-9-11 each obtained an additional $150 million from this source. Canadian manufacturing companies decreased their outstanding liabilities by $80 million, reflecting their reduced need for working capital.

Petroleum companies further reduced their use of foreign financing as the growth of internal sources of funds continued to outstrip the need of funds for investment. The decline was largest in Europe, where there was a slight decrease in foreign liabilities in 1960.

It is noteworthy that the manufacturing and petroleum industries diverged in the utilization of local financing in Europe in 1960, when higher short-term interest rates in that area were attracting very large amounts of liquid funds from the United States. The data in table 5 suggest that the manufacturing companies, needing exceptionally large amounts to finance additions to both fixed assets and working capital, drew heavily on local sources, while the petroleum companies, not confronted with larger financing requirements, tended to advance funds from the United States.

Manufacturing Production Abroad by U.S. Companies

TOTAL sales of manufactures by the foreign subsidiaries and branches of U.S. companies were valued at $23.6 billion in 1960. This was a gain of some 12 percent over the previous year, and over $5 billion more than their sales in 1957, the first year for which data are available.

Output of U.S. companies in Europe is gaining rapidly, advancing by 22 percent from 1959 to 1960, and accounting for 60 percent of the overall increase in foreign sales since 1957. Sales of Canadian plants have increased moderately as shown in table 6, matching the lower pace at which industrial production in that country has been growing. Most of the recent gain in output in Latin America is in the production of automobiles, especially in Argentina.

On a commodity basis, increased output of transportation equipment accounted for over $1 billion of the total $2.5 billion 1959–60 increase in manufacturing sales of foreign plants. Increased output in the machinery categories, and in chemicals, was also substantial, and each of the other major lines of manufactures registered gains.

Comparison with exports

Between 1957 and 1960, exports of manufactures [1] from the United States advanced from $10.8 billion to $11.3 billion. In 1958 and 1959 such exports were under $10 billion a year. In the same period production in the U.S.-owned manufacturing plants abroad rose from $18.3 billion to $23.6 billion.

[1] Secs. 5 to 8, inclusive, of the Standard International Trade Classification.

While this comparison is indicative of the rough magnitudes and trends involved, it must be noted that the commodity makeup of U.S. exports of manufactures is different from that of foreign production, and experience also varies in different foreign markets. In addition, sales of the foreign plants often include a substantial amount of materials or components exported from the United States.

In table 8, the trends for some specific major commodities are shown in principal areas. For these major manufactures, export growth from 1957 to 1960 was significant mainly in Europe and a few countries elsewhere. Exports of these items to Western Hemisphere markets were considerably reduced. In the same period production of these commodities in local plants rose substantially in each of the areas shown.

The strong growth of overall demand in Europe supported increases in both exports from the United States and in local production, but the volume of local production by U.S. companies of these commodities, and especially of automobiles, is far greater than U.S. exports to this area. In the Canadian market, exports of these manufactures changed little over the period, while local production of chemicals, automobiles, and nonelectrical machinery showed moderate improvement.

Table 6.—Sales of Manufactures by Direct-Investment Enterprises Abroad, Principal Commodities, by Areas, 1957, 1959, and 1960

[Millions of dollars]

Area and years	Manufacturing, total	Food products	Paper and allied products	Chemicals	Rubber products	Primary and fabricated metals	Machinery, except electrical	Electrical machinery	Transportation equipment	Other products
All areas, total										
1957	18,331	2,457	881	2,411	908	1,548	1,903	2,047	4,228	1,889
1959	21,100	2,810	1,170	2,950	1,040	1,590	2,280	2,100	5,140	2,100
1960	23,570	2,920	1,260	3,290	1,170	1,680	2,490	2,280	6,170	2,310
Canada										
1957	7,897	928	769	897	272	927	695	1,080	1,488	842
1959	8,670	1,060	1,030	1,070	290	950	760	1,030	1,600	880
1960	8,920	1,020	1,100	1,150	310	920	780	1,040	1,650	950
Latin America [1]										
1957	2,435	606	55	499	239	111	66	190	375	292
1959	2,830	740	60	590	260	100	80	190	470	340
1960	3,180	750	70	620	280	100	100	240	710	310
Europe										
1957	6,313	734	34	822	262	435	1,009	678	1,700	639
1959	7,690	760	50	1,050	290	470	1,210	770	2,350	740
1960	9,310	900	60	1,240	380	590	1,420	890	2,970	880
Other										
1957	1,685	188	23	193	195	75	133	99	665	116
1959	1,910	250	30	240	200	70	150	110	720	140
1960	2,160	250	30	280	220	70	190	110	840	170

1. Includes Western Hemisphere dependencies.

Table 7.—Production Abroad by Direct-Investment Manufacturing Enterprises, by Selected Countries, 1957, 1959 and 1960

[Millions of dollars]

	1957	1959	1960
All areas, total	18,331	21,100	23,570
Canada	7,897	8,670	8,920
Latin America, total [1]	2,435	2,830	3,180
Argentina	385	426	696
Brazil	659	764	879
Mexico	643	751	770
Venezuela	263	364	360
Other countries [2]	480	525	475
Europe, total	6,313	7,690	9,310
Belgium, Netherlands, and Luxembourg	416	461	602
France	763	789	965
Germany	1,116	1,572	1,835
Italy	230	244	350
United Kingdom	3,303	4,050	4,715
Other countries	485	574	843
Other areas, total	1,685	1,910	2,160
Australia	787	933	1,085
Japan	217	240	290
Philippine Republic	118	141	140
Union of South Africa	300	292	305
Other countries	263	304	340

1. Includes Western Hemisphere dependencies.
2. Includes production in Cuba amounting to $149 million in 1957, and $181 million in 1959, but excludes Cuba in 1960.

Exports of major manufactures to Latin America declined in most categories from 1957 to 1960, as production within the area by U.S. companies continued to expand. For some items, principally machinery and others requiring comparatively advanced technology, exports remain larger than local production, but for such important categories as chemicals, automobiles, and some type of machinery, sales of the local plants are larger.

For each of the commodities included in table 8, production in U.S.-owned plants abroad has been expanding faster than exports. The divergence is striking for transportation equipment (excluding aircraft), exports of which declined from 1957 to 1960 while foreign production rose 50 percent; exports of electrical machinery also declined slightly as production abroad increased.

These data suggest that the growth of production in U.S.-owned plants abroad is a considerable influence on the commodity makeup and direction of U.S. export trade.

Table 8.—Exports From the United States and Production by Direct Investments Abroad of Selected Manufactures, by Area, 1957 and 1960

[Millions of dollars]

Commodities	All areas, total		Canada		Latin America [1]		Europe		Other areas	
	1957	1960	1957	1960	1957	1960	1957	1960	1957	1960
Selected manufactures:										
Foreign production	11,557	15,400	4,432	4,930	1,369	1,960	4,471	6,870	1,285	1,640
U.S. exports	7,212	7,522	1,804	1,799	2,536	2,097	1,235	1,845	1,638	1,781
Chemicals:										
Foreign production	2,411	3,290	897	1,150	499	620	822	1,240	193	280
U.S. exports	1,376	1,661	246	277	457	420	353	561	320	403
Rubber products:										
Foreign production	968	1,170	272	310	239	290	262	360	195	220
U.S. exports	300	372	43	62	62	74	97	153	98	83
Machinery, except electrical:										
Foreign production	1,903	2,490	695	780	66	100	1,009	1,420	133	190
U.S. exports	3,160	3,295	876	824	1,007	833	567	806	710	832
Electrical machinery:										
Foreign production	2,047	2,280	1,080	1,040	190	240	678	930	99	110
U.S. exports	810	793	246	230	291	235	114	171	160	157
Transportation equipment:										
Foreign production	4,228	6,170	1,488	1,650	375	710	1,700	2,970	665	840
U.S. exports [2]	1,566	1,401	393	406	719	535	104	154	350	306

1. Includes Western Hemisphere dependencies.
2. Excludes civilian aircraft.

Comparatively little of the goods manufactured abroad is exported to the United States, except for traditional items such as Canadian paper and pulp or aluminum. Only about $200 million of the items manufactured in Europe by U.S. companies was exported to the United States in 1957, and a recent survey of a representative group of companies showed that the amount in 1960 may have been smaller.

Chairman BOGGS. I would also like to insert a letter addressed to the subcommittee from Mr. Bert Seidman, enclosing a copy of the resolution adopted by the AFL-CIO, entitled "International Trade."

(The material referred to is as follows:)

AMERICAN FEDERATION OF LABOR AND
CONGRESS OF INDUSTRIAL ORGANIZATIONS,
Washington, D.C., December 12, 1961.

Hon. HALE BOGGS,
Chairman, Subcommittee on Foreign Economic Policy,
Joint Economic Committee, Washington, D.C.

DEAR CONGRESSMAN BOGGS: When I appeared before your subcommittee yesterday, I prefaced my statement by saying that I could not at that time state the official views of the AFL-CIO on tariff and trade policy because they were under consideration by the AFL-CIO convention which is now meeting.

You will recall that Senator Sparkman followed up on this statement by asking me whether President George Meany of the AFL-CIO had not endorsed President Kennedy's policy in this field and I replied that Mr. Meany's statement following the President's speech to the AFL-CIO convention was in the nature of a general pledge of support to the President rather than to any specific policy. Yesterday, the AFL-CIO convention adopted a resolution on international trade which I am enclosing. Since the question of official AFL-CIO policy on tariff and trade matters did come up in the hearing, I would like to request, if you think it is appropriate, that the resolution on international trade adopted by the convention be included in the record of the hearing following my statement.

I would also like to call to the subcommittee's attention a recent study made by the AFL-CIO, titled "AFL-CIO Looks at Foreign Trade."

Let me thank you again for your courtesy in rescheduling my appearance yesterday. I certainly appreciated the opportunity to participate in the very stimulating discussion.

Sincerely yours,

BERT SEIDMAN,
Economist, Department of Research.

RESOLUTION ADOPTED BY THE AFL-CIO CONVENTION, DECEMBER 11, 1961, ON INTERNATIONAL TRADE

With the expiration of the present Reciprocal Trade Agreements Act in mid-1962, the United States must make some fundamental decisions on the future role of our country in the economic life of the free world. Since the launching in 1934 of the reciprocal trade program under Cordell Hull and Franklin D. Roosevelt, our country has led in worldwide efforts to reduce barriers to trade. The American labor movement has traditionally supported steps leading to gradual liberalization of world trade.

Since 1934 the Reciprocal Trade Agreements Act has been extended a number of times, most recently in 1958 for a 4-year period. Although amended from time to time, the basic law has remained largely unchanged. In the main, therefore, it is attuned to the needs of our country and the world of nearly 30 years ago.

However serviceable the present trade legislation may have been in the past, America now needs an international trade policy geared to the vastly changed world of the sixties. For this, amending or extending existing legislation is not enough. We need a new law and a new approach to the opportunities, problems, and challenges of international trade.

In developing new trade legislation, the Congress should take a hard look at the world as it is today. Most of the other industrial nations of the free world have had a much better record of economic growth in the postwar period than our own country. With their rapid expansion they have also been able to achieve and maintain full employment, a goal which has thus far eluded the United States. In the exhilarating atmosphere of economic dynamism and jobs for all, our free world partners in Western Europe have not hesitated to undertake cooperatively to dismantle the barriers against each other's trade. They have joined together in regional economic groups. The European Common Market and the European Free Trade Association inevitably will move closer together now that Great Britain, a member of EFTA, has applied for membership in the Common Market.

The countries of each group have already gone far toward eliminating trade barriers among themselves. They have also indicated a willingness to reduce their tariffs against exports from the United States provided we are willing to make reciprocating cuts in our tariff levels. Unless the United States is prepared to make some such cooperative arrangements with the other free world nations, we may be confronted with a significant decline in our export opportunities as the result of being closed off from Western Europe, whose economies are the most rapidly expanding in the world. But the loss in our foreign trade, as serious as it would be, would not be the worst consequence we would face. Economic isolation of the United States from the rest of the industrialized free world would greatly diminish our influence in important free world economic decisions. Such a lesser economic role could also weaken our political leadership of the free world.

We must think not only of the industrialized countries, even though our trade is very important to both their welfare and ours. The United States and the other industrialized countries have a special obligation to the newly developing countries. Part of that obligation can be met through economic and technical assistance. The AFL–CIO has been among the stanchest supporters of such programs of aid to the less developed countries. But we must also help these countries obtain markets for the products of their new industries. Certainly it would be the height of folly for us to seek to build up the economies of the developing countries by extending economic and technical aid while at the same time stunting their opportunities for economic progress by closing our markets to their products.

Thus there is a greater economic and political need than ever before for the United States as a nation to vigorously pursue a course of trade liberalization. But the course we take must be one we are prepared to follow to the end. It must not only be the right course, it must also be just—just to our own people and just to the people of our trading partners.

Neither "free trade" nor "protection" can provide the right trade policy for the America of today. These are outworn slogans which in today's world have lost whatever relevance they may have ever had in the past. Instead, our policy must be one which looks toward gradual reduction of barriers to trade while at the same time assuring that no undue burden resulting from such trade liberalization will be placed on any individual or group. Thus, we must seek maximum benefits in expanded trade while doing everything possible to mitigate the inevitable stresses and strains involved in gradual trade liberalization: Now, therefore, be it

Resolved, That AFL–CIO calls upon the Congress to enact a new tariff and trade law in 1962 providing maximum opportunity for expansion of trade, combined with effective measures for easing the impact of increased imports, actual or anticipated, resulting from tariff reductions. To achieve these objectives, we recommend:

(1) The President should be given authority to negotiate across-the-board tariff reductions of 50 percent over a period of 5 years. The full 50-percent reduction should be negotiated soon after enactment of the new law but it should take effect gradually at the rate of 10 percent a year over at 5-year period. In addition, the President should reserve certain sentitive items in advance from inclusion in such reductions. The President should also be given discretion to eliminate tariffs on low-duty items and to make nonreciprocal cuts when he deems such action is desirable and in the national interest.

(2) To replace the so-called peril point which has unreasonably hamstrung recent tariff negotiations, the President should be required, when determining the composition of commodities to be included in tariff negotiations, to take account of injury that might be anticipated as a result of tariff reductions for such items. In addition, where a negotiated tariff cut has a sudden serious effect, the President should have authority, without requirement of any time-consuming administrative processes, to seek to remedy the situation by immediately raising tariffs, imposing quotas, and/or invoking adjustment assistance.

(3) The Congress should incorporate in the new legislation a trade adjustment program to provide effective assistance to workers, firms, and communities adversely affected by import competition. Such assistance should be available not only when such injury has already occurred, but also when it can reasonably be anticipated during the ensuing 5 years.

(4) The escape clause in the existing legislation should be retained, but in modified form. Tariff relief in situations involving injury to American industires resulting from increased imports should be available for cases involving an entire industry whose production has been reduced as a result of increased import competition. The extent and duration of such relief should be geared to the seriousness and duration of the adverse effects of increased imports.

(5) The United States should vigorously pursue in every way possible the promotion of fair labor standards in international trade. Improved wage and living standards should accompany productivity advances and expanded markets of exporting industries. This is necessary not only to protect American workers against substandard competition from low-wage countries, but also to assure workers in other countries a fair share of the increased returns resulting from expanded trade. The new legislation should specifically include international fair labor standards as an important objective of U.S. trade policy. The United States should also seek to obtain annual reports by member countries of the General Agreement on Tariffs and Trade (GATT) on labor standards in exporting industries.

(6) The new legislation should direct the President to take whatever action is necessary to mitigate problems of market disruption, i.e., situations in which large influxes of imports result in significant displacement of domestic production and employment. The recent International Textile and Apparel Agreement indicates the way in which such problems can be effectively met through multilateral action.

(7) No American industry should be subject to unfair competition resulting from the sale of raw materials, such as cotton, to users abroad at prices below the domestic U.S. price.

(8) In all phases of tariff and trade policy, the U.S. Government should seek to safeguard the absolute historic levels of production of significant domestic industries. This would help to assure that competitive imports in and of themselves would not depress U.S. production or employment below historical levels. This policy should be administered in a flexible manner permitting modifications as soon as feasible. In particular, an effective trade adjustment program might make it feasible to gradually reduce the safeguarded levels and thereby permit a greater volume of imports without injury to U.S. firms or workers.

Chairman BOGGS. This concludes our hearings. We shall keep the record open for documents and other statements until 1 week from today.

Thank you, gentlemen.

We shall conclude the hearings now.

(Whereupon, at 11:20 a.m., the hearings were concluded.)

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APPENDIX

SECRETARY BALL'S ANSWERS TO WRITTEN QUESTIONS SUBMITTED TO HIM BY SENATOR BUSH

(1) Question. What is the timetable for the Common Market arrangement, and the negotiations for the association with it of the United Kingdom and possibly other members of the EFTA?

Answer. The Rome Treaty sets forth a schedule which would bring a Common Market fully into effect in 12 years, that is by January 1, 1970. The treaty also provides that each of the three transitional stages into which the 12-year period is divided may be extended by 1 year, so that the Common Market might be fully achieved as late as January 1, 1973. In fact, however, the member states have accelerated the application of some aspects of the treaty, notably the removal of tariffs in trade among themselves and the alinement of their national tariffs toward the common external tariff, so that the Common Market may be fully achieved even prior to 1965.

The negotiations between the members of the European Economic Community and the United Kingdom concerning the membership of the United Kingdom were begun on October 10, 1961. There is no schedule for their completion, but both parties hope to conclude the negotiations as soon as possible. It is quite possible that agreement in principle on the major questions involved in the negotiations might be achieved as early as the middle of 1962. In the event of a successful negotiation, it is unlikely that any agreement would become effective before the beginning of 1963, but the United Kingdom may choose to accelerate its own tariff changes to adjust to those which the other members will already have made.

Denmark, another member of EFTA, opened negotiations for membership with the EEC countries on November 30. Ireland has also applied for membership and preliminary negotiations will take place in January 1962. On December 15, 1960, three members of EFTA, Austria, Sweden, and Switzerland, submitted requests to the EEC for the opening of negotiations for agreements that would permit them to collaborate with the EEC without undertaking the obligations of full membership. The EEC Commission has acknowledged these requests, but has not as yet replied to them. Norway and Portugal, the other members of EFTA, have not made any request for negotiations with the EEC although both are actively considering the question.

Thus, there is no fixed timetable for the various possible negotiations between the EFTA states and the Common Market. The urgency of the question in the view of most EFTA states is, however, unmistakable. The EFTA countries, moreover, have taken the position that whatever arrangements may be worked out for EFTA members should come into effect on the same date.

(2) Question. At what point in time do you anticipate that the Common Market will have reached agreement on a common external tariff? And on a common agricultural policy?

Answer. The Common Market members have agreed on the level of the common external tariff for all products with the exception of petroleum products and tobacco manufactures. Most of the tariff rates were fixed at the level of the arithmetic average of the member state tariffs, although some were decided by mutual agreement. The rates originally set for most industrial products will probably be reduced by 20 percent as a result of the current GATT negotiations in Geneva which are on the verge of conclusion.

Although tariff rates for agricultural commodities were fixed at the same time agreement was reached on the common external tariff for other products, a number of these tariff rates will never come into force because the member states decided a year ago to substitute variable levies for fixed tariffs in conjunction with the establishment of common marketing arrangements for various agricultural commodities produced in the Common Market. These variable levies would replace the many different forms of protection (quotas, state handling, mixing regulations, etc.) now extended by the various member countries. The variable levies would facilitate the maintenance of the desired internal market prices and would vary according to the relationship between the internal price and the international price for a particular commodity. We shall not know, therefore, the definitive levels of protection for a number of agricultural commodities until agreement is reached among the Common Market members on internal market prices and procedures to be adopted.

The Rome Treaty sets a precise time schedule for the removal of tariffs on trade among member states and the alinement of national tariffs with the common external tariff. With respect to the development of a common agricultural policy it is much less precise. It provides only that such a policy shall be gradually developed during the transition period and established by the end of that period.

In practice, the Common Market is attempting to move forward on all aspects of the treaty at a somewhat parallel pace. The member states are, therefore, negotiating intensively at the present time in an attempt to conclude an agreement on several basic principles of a common agricultural policy and on marketing arrangements for a number of important agricultural commodities. When agreement on these is achieved, the general outline of the common agricultural policy should be much clearer. Further negotiations will, however, be necessary perhaps throughout the transition period, before agreement can be reached on all facets of a common agricultural policy.

(3) Question. Why is it necessary for the President to have additional authority to negotiate with the Common Market before its members have agreed on the above matters? (United Kingdom association, the common external tariff, and the common agricultural policy.)

Answer. There are a number of reasons why it is essential that the President be given adequate authority by the present Congress to negotiate with the European Economic Community.

(1) Favorable congressional action on the President's trade proposals could have a significant effect on the current negotiations for the expansion of the EEC. If Congress makes it clear by its action on this legislation that the United States is prepared to follow a policy of fostering the expansion of international trade and to work with the EEC in the reduction or elimination of obstacles to trade, it will make it much more likely that the difficult problems presented by these negotiations will be solved in a manner that will minimize any disadvantage to our own producers. On the other hand, if by a failure of Congress to act at this session or by an adverse action on the trade proposals, we were to leave in doubt the liberal direction of American trade policy, American producers might well find themselves faced with preferential or discriminatory arrangements that would be much less favorable to their interests.

(2) Nor can we afford to leave our own producers uncertain as to the future course of American policy. Experience within the Common Market itself has shown that producers must make investment and marketing decisions well in advance. If they know that the President is empowered and determined to seek reductions in tariffs, and other trade obstacles of the EEC through reciprocal bargaining, they will have a secure basis for deciding to channel their investment capital into facilities in the United States rather than feeling compelled to devote that capital to the development of new European sources of production within the walls of the common external tariff.

(3) Even if the present Congress grants the President adequate authority to negotiate for the reduction of tariffs, he will not be able to undertake such negotiations before 1963. Experience has shown that the administrative arrangements necessary in order to mount trade negotiations take a substantial period of time. If negotiations are begun in 1963, it is likely to be 1964 before they can be completed. Meanwhile, the Common Market will have moved a significant distance further toward the elimination of internal trade barriers and the situation of American producers will have grown progressively less advantageous.

(4) Question. Will you identify for the record existing discriminations against U.S. exports by Western European countries which you regard as violations of the GATT?

Answer. We know of no instances of tariff discriminations by Western European countries against U.S. exports that might be regarded as violations of the GATT.

As to quantitative restrictions, the major European countries have eliminated such import restrictions almost completely with respect to industrial goods.

The situation with regard to agricultural imports is not so favorable. Several Western European countries maintain quantitative restrictions. In several instances, while moving toward the general relaxation of trade barriers, they have accorded some suppliers preferential import treatment for agricultural products with resulting discrimination against non-European nations, including the United States.

The principal instances of such discrimination are as follows:

(*a*) France applies discriminatory import restrictions to 12 agricultural items when imported from non-European countries, including the United States. These include potato starch and certain other starches, some canned vegetables, and fruit and vegetable juices.

(*b*) Italy continues to require import licenses for 24 items when imported from the dollar area, but permits free import of those items from former OEEC countries and certain other nations. These products include poultry, feed grains, various other agricultural products, certain chemicals and explosives, and certain net and lace fabrics.

(*c*) The United Kingdom applies discriminatory restrictions to dollar area imports of milk products, bananas, fresh grapefruit, processed orange and grapefruit products, pork products, cigars, and certain pharmaceutical preparations packaged for retail sale.

(*d*) Sweden applies certain restrictions on imports of meat, poultry, and dairy products which may be inconsistent with its GATT commitments.

We do not believe that these discriminatory restrictions are any longer justified, and we shall continue to press in GATT and through bilateral channels for their removal. At the same time, it should be recognized that since 1958 the nations of Western Europe have made very great progress in dismantling their elaborate postwar structure of trade barriers. For example, during the past 2 years, Italy alone has eliminated restrictions on almost 3,000 items.

It should be recognized also that the United States is criticized by its trading partners for the continued maintenance of quantitative restrictions on such items as petroleum and petroleum products, lead, zinc, tung nuts, and tung oil, wheat and certain wheat products, manufactured dairy products including butter and several types of cheese, cotton and certain cotton products, and peanuts.

(5) Question. The United States has embraced the most-favored-nation doctrine in international trade. If we negotiate with the Common Market, and reductions in our tariffs result, does this not mean that we will automatically extend the benefit of such reductions to Japan, Hong Kong, and other so-called low-wage countries?

Answer. In its trade negotiations with the Common Market, the United States will continue to apply the most-favored-nation principle, as it has done for many years. As a consequence, it is correct to say that the benefits of tariff concessions granted to the EEC will be available to Japan, Hong Kong, and other so-called low-wage countries.

This does not, of course, mean that the U.S. market will be flooded by disruptive imports. There are several reasons why this is true:

(1) A large part of U.S. trade is presently conducted in industrial and agricultural articles and commodities that cannot be competitively produced in the so-called low-wage countries. In selecting the products on which tariff reductions may be negotiated with the EEC, the competitive position of American producers will be given considerable weight.

(2) A major category of imports from these countries, which has given rise to complaints of market disruption, consists of cotton textiles and apparel. On the initiative of the U.S. Government, an international agreement was negotiated last summer at Geneva as a result of which nations importing cotton textiles were empowered to limit disruptive imports. While this agreement was for 1 year only, a long-term agreement is presently being negotiated.

(3) In addition to the international cotton textile agreement, Japan maintains voluntary restraints on exports to the United States covering a broad range of items such as plywood, tuna fish, transistor radios, chinaware, stain-

less steel tableware, wood screws, and sewing machines, comprising a total of about one-third of the value of Japanese exports to the United States.

We should notice that trade with the so-called low-wage countries is of great importance to the United States. During 1961, the United States had a favorable trade balance with Japan to the extent of about $600 million. This obviously contributed greatly to our balance of payments. Similarly, we have a substantially favorable trade balance with Hong Kong. We should remember that Japan and other countries whose exports are sometimes considered to create special problems are very large buyers of American raw materials, industrial machinery, etc.

For example, Japan in 1960 purchased raw cotton from the United States for a value of $145 million more than the value of Japan's exports of cotton textiles to the United States.

(6) Question. This subcommittee is informed that 13 of the 17 Western European nations impose quotas or other quantitative restrictions against Japanese products. Do you think it would be prudent for the United States to persuade these countries to remove such restrictions before extending tariff reductions to the Common Market which would have the additional effect of reducing U.S. tariffs on Japanese goods?

Answer. The United States has for some time been urging the countries of Western Europe to eliminate their discriminatory treatment of imports from Japan. These import restrictions are gradually being removed. In fact, Japanese exports to Western Europe increased during 1960 by about 30 percent. We have reason to believe that this movement toward the reduction of discriminatory restrictions on Japanese goods will continue during 1962.

It is hard to see how the United States would benefit by refusing to negotiate reciprocal tariff arrangements with the Common Market until Western European countries have removed their restrictions of Japanese products. Our purpose in negotiating trade arrangements with the Common Market is to provide favorable export opportunities for American producers. While we should certainly continue to press our European trading partners to remove trade restrictions on imports from Japan, it would not appear to be in the interests of the United States to try to make such removal a condition to new trade negotiations with the EEC. Quite probably the only effect of such action of the United States would be to block negotiations that would otherwise permit our own producers to improve their trading opportunities in the Common Market.

(7) Question. A witness before this subcommittee testified as follows:

"The United States should participate in a general movement to low tariffs by all advanced countries. However, most other developed nations have more numerous and discriminatory quotas and other trade restrictions than has the United States, and the new regional arrangements in Europe are introducing further discriminations against the United States."

Do you agree with the latter part of that statement, and, if you do, would you think it appropriate for the United States to press vigorously for removal of present restrictions, and to protest vigorously against the creation of new restrictions before we enter new negotiations for the reduction of our tariffs?

Answer. Several comments should be made in answer to this question:

(*a*) The Treaty of Rome, which created the EEC, provides that the common external tariff is, for most industrial items, to be fixed at a level not above the arithmetic average of the individual tariffs of the member countries. This common tariff is not an added restriction; it is to supersede the existing national tariffs of member countries.

When the Common Market comes fully into effect, it is true that a manufacturer in New York will be at a disadvantage in selling to a consumer in France as against a manufacturer in Germany. This disadvantage will be measured by the height of the common external tariff on the product in question. But it must be remembered that, by the same token, the producer in Germany is presently at a disadvantage in selling to a consumer in Texas as compared with the producer in New York. This disadvantage of the German producer is, of course, measured by the level of the United States tariff on that particular product.

The markets of the EEC and that of the United States will resemble one another in size.[1] Under these circumstances, if the tariffs of these two

[1] If the United Kingdom joins the EEC, the total population of the Common Market will be about 222 million as against 181 million for the United States, but the total gross national products of the Common Market countries will still be only $246.5 billion as against $504.4 billion for the United States. The compound growth rate of the EEC over the past several years has been 5.5 percent as against our own of 2.2 percent, which demonstrates how rapidly the market is evolving.

great trading areas average out at close to the same level, U.S. producers would not seem to be at an unfair disadvantage as compared with European producers.

(*b*) So far as industrial goods are concerned, it is probable that after the present round of negotiations is completed at Geneva—which should be within the next few weeks—the common external tariff of the Common Market should, in fact, average out at a level not far different from the level of the U.S. tariff.

(*c*) As has been noted previously, industrial goods are almost completely free from quantitative import restrictions in the major European countries.

(*d*) The European Common Market countries are presently engaged in reaching agreement on a common agricultural policy. It is not yet clear what level of protection this common agricultural policy will provide. It may be assumed, however, that in adopting a system of variable levies for a number of farm commodities, the EEC countries will at the same time eliminate a whole series of national restrictive measures that have in the past impeded agricultural imports. It is significant that, in spite of the fact that the EEC countries have maintained various types of quantitative restrictions on agricultural imports, the U.S. exports of agricultural commodities to the EEC in 1960 amounted to $1,130.8 million as compared with our imports of agricultural goods from the EEC amounting to only $222.8 million.

In view of the above circumstances, there would seem to be little basis for the United States insisting upon further concessions from the European Common Market as a condition to entering upon reciprocal negotiations.

Statement of the National Council of Farmer Cooperatives, by Homer L. Brinkley, Executive Vice President

The National Council of Farmer Cooperatives has a deep and permanent interest in the problems of international trade, not only as they relate to agricultural commodities, but to industrial and consumer goods as well. We know at firsthand of the relationship between the two. Not only as evidence of this concern, but to convey to this committee certain basic attitudes with respect to it, there follows a letter which was delivered to President Kennedy on December 12, 1961:

"Dear Mr. President: I am becoming increasingly disturbed over certain ideas and proposals which are being advanced with respect to current Common Market tariff negotiations, GATT negotiations, and the proposed renewal of of the Reciprocal Trade Agreements Act.

"In 1956 and again in 1961 I served as adviser to the U.S. delegation in GATT negotiations in Geneva. To further qualify myself, I am executive head of the National Council of Farmer Cooperatives with which 5,000 farmer cooperatives are affiliated, serving about 2,750,000 farmer memberships.

"These organizations market for their members varying percentages of nearly every commercial crop produced in this country, both in domestic and in foreign trade. These are knowledgeable groups, and despite all the confused discussion and trial balloons, they are cutting through to the heart of what they regard as a definite trend in certain official proposals, and their distress and concern are rising daily.

"Briefly they regard the apparent policy of moving in the direction of bargaining in 'broad trade categories' as part of an effort to nominate all agriculture as one of these categories, to be bargained against other agricultural products. This does not add to the bargaining power; it defeats it, not only for agriculture but for the other 'broad categories.' It sets one group against another not only here but abroad.

"Nowhere have I seen any evidence of assurance on our part or that of the Common Market that our future bargaining will be on a solid basis of quid pro quo. Our many soft agreements of the past, the shadow concessions, the ineffectively challenged nullification of tariff concessions by certain countries through use of other devices will all tend to swing the position of many of our groups against renewal of the act. Only a firm position now in the current negotiations will convince them that national policy will not go further in the same direction, and that further legislation will make it easier to do so.

"Much is being made of 'across the board' negotiations in 'broad trade categories.' I submit that there is no evidence that this offers any substantial advantages. It has been practical operating procedure in GATT negotiations to negotiate 'package' deals with individual countries, and in doing so many ways of developing strength with that country have been developed, whereas the same degree of strength might not in any sense apply to groups of countries.

"Still another of the many concerns which our groups express to me is that related to elimination of 'escape clause' provisions. This has been a perennial target of our State Department for many years. As a matter of fact, the only real difference between our own 'escape clause' provisions and those of many other countries, is that ours is openly arrived at, honestly defined, and judiciously operated. Its application has generally been constructive and can be made more so. It is all very well to say that disadvantaged industries should become the responsibility of the Nation as a whole, and that measures will be taken to diffuse the burden and to reestablish industries and workers in other types of operation. This disturbs me deeply and for good practical reasons. I am privileged to serve as a member of the Area Rehabilitation Advisory Committee and the USDA Rural Rehabilitation Committee. If these efforts yield real results over a broad spectrum in less than 5 years I am going to be deeply impressed with our ability to overcome what appear to be increasingly complex operational problems. To add to this burden the problems created by the disadvantaged industries and employees referred to will be to openly invite disaster, since 5 months rather than 5 years will be too long to wait for real results in such situations. I also point to the absurdity of additional problems of shrinking foreign markets to the many other problems of agriculture.

"There are few countries without some form of aid to agriculture. This admittedly makes tariff negotiation in the field of agriculture extremely difficult, but not impossible. The protectionist features of the Common Market are being aimed directly at American agriculture. They fail to take into account the growing cost and burden on their consumers of keeping out or restricting the products of the world's most efficient industry—that of U.S. agriculture. Since they will not do so, we must. Primarily in our own enlightened self-interest, but also in theirs.

"Finally, agriculture has everything to gain from strong measures which will open up markets for their products. They will support legislation and administrative action which will insure this result either with common markets, GATT, or both. There is no time to be lost in giving this assurance and in its firm implementation.

"I am taking the liberty of sending a copy of this letter to Secretary Freeman."

It is my intention to try to make it abundantly clear that our organization cannot be labeled as either protectionists or freetraders. Either approach creates far more problems than they can possibly solve.

Following my service in 1956 as public adviser to the U.S. delegation to the GATT Conference in Geneva, I became so concerned with what I believed to be the rapidly diminishing effectiveness of this particular type of negotiation, that I warned as many officials of our Government and private organizations as I could reach that we in the United States must concern ourselves immediately with developing an effective approach to international trade negotiations—one which would be so dramatic and compelling in its appeal to all prospective partners in negotiations, and in its prospects for mutual benefit, that it would generate wide support here and abroad. Instead, we extended the Trade Agreements Act. We were then presented with the problem of using the same worn tools in dealing with a dramatic and powerful new trading bloc in Europe, which carries the prospect of a degree of external protectionism far more extensive than we ever encountered while negotiating with individual countries.

Now that we seem to be hurriedly and even feverishly trying to develop a new and more effective bargaining method it seems to us that resort is being had to some of the same ideas and fetishes which have been advanced for years as having magic properties, while misdirecting attention from other problems of more importance. I mention samples of these in my letter to President Kennedy. There are others such as undue extremes in our protection of certain of our industrial sacred cows; blaming many of the difficulties of negotiations upon the particular problems of agriculture which must be taken into account; pointing to industries with inherently low-cost factors, or lower labor inputs, or with established plants or markets inside the Common Market area, as being typical of our ability to compete under any conditions anywhere.

Many proponents of this, that, or another approach, seem to be unaware of at least two basic requirements of international trade which are: first, entry to the market; and, second, competitive factors such as price, tariff, etc. A level of the tariff at zero means nothing if the factor of market entry is denied by other methods. Thus I am distressed at the almost total emphasis in many quarters on tariff negotiations as the all-important factor in international trade bargaining.

A the risk of being repetitive, I must again emphasize the sound value, and indeed the necessity, for establishing and maintaining a truly two-way, reciprocal position with respect to both Common Market and GATT countries in order to be certain that we will always get value received, and firmly implementing this principle not only in legislation but in administration. This requires bargaining power and bargaining ability of a high order. Hardening of our determnation to expand our markets in world trade generally, coupled with firm implementation, will quickly yield results in more and better trade relations. A weak position on our part in either of these areas will command progressively less respect in the future, not only here but abroad.

Admittedly, we must bring new bargaining forces into effect. These need not be in the category of either free trade or protectionist. Those who proceed to the task ahead with bias in either direction will render a disservice to the cause of expanding markets for U.S. products and expanding world trade on the solid foundation of sound economics in both production and marketing.

[From the Wall Street Journal, Dec. 6, 1961]

U.S. Trade Trouble

COMMON MARKET CHALLENGE CAN'T BE MET BY TARIFF JUGGLING ALONE

(By Henry Gemmill)

> The course that should be set for the American economy amidst a rapidly changing world environment is and will continue to be wrapped in controversy. Here is an analysis of the problem by a Wall Street Journal correspondent who spent months examining Europe's Common Market on the scene and has watched the tentative gestures of the American response. Other articles will follow.

WASHINGTON.—The great debate over future American trade policy is now well under way—with much of its logic coming through as sharp and simple as a singing commercial.

Listening, one might suppose that if Congress next year will just make the right choice between two alternatives—lower tariffs or higher fences against imports—then disaster will be avoided and prosperity assured. The birth and growth of Europe's Common Market, which looms as an enormous event of this century, is treated as a neat punchline for each rival sales pitch.

Freetraders sing that high-tariff isolationism could be the death of us—but there's a golden opportunity to sell oodles of wares to a booming Europe if the Common Market will make its trade wall low, in exchange for dismantlement of U.S. duties.

Protectionists chant that breaching U.S. tariff dikes while the Common Market's output is rising would bring fatal flooding of the market here at home—but the American economy can be kept snug and safe if import barriers are built higher.

POTENTIAL IMPACT

Either doctrine may be splendid for ramming legislation through Congress. But both cannot be true. And the suspicion arises that neither one adequately describes the potential impact of the Common Market; that neither prepares this Nation for major alterations—far beyond tariff tinkering—which may ultimately be forced upon nearly every sector of the economy.

To some who have been pondering more than preaching—and especially among those who have gone over and had a look at what is actually happening in Common Market factories—a dour thought occurs. It is this: The United States could turn either toward freer trade or stiffer protectionism (or, as may well happen, toward a hodgepodge of both) with equally dismal results—a gradual, pervasive, chronic stagnation of the economy.

Talk along this line is hardly heard amidst the din, perhaps because it can offer no attractively simple gospel of salvation. It is not defeatist, but it can fairly be called pessimistic. For it is inclined to believe that if trade policy alone is altered—if other agonizing adjustments are neglected—then America's pockets of unemployment can multiply, its business booms can fizzle, and governmental dreams of economic growth can vanish in a struggle with this stagnation.

Why is this?

Because, whichever direction the United States turns in trade policy, it encounters an entirely unprecedented economic prospect. For the first time since it became an industrial society, this Nation will find its factories at war along an enormous front against an oversea industry which before long should have an essential capability for fabricating any product, almost without exception, at lower cost. That is the meaning of the Common Market—low costs, written in giant letters not merely over the map of West Europe, but the map of world markets.

Lower foreign wages we have long confronted, certainly, but industrialized America has never before faced a general pattern of lower foreign costs.

It has been a commonplace of economics, and the lingering U.S. export surplus still reflects it, that our successful manufacturers have more than overcome the wage disadvantage by mass production—with the huge Yankee assembly line achieving lower unit cost than the Belgian craftsman, with the intricate plumbing of an American continuous-flow chemical works producing more cheaply than the Italian stirring his batch-pot.

This mass-making of things, which hitherto enabled U.S. industry to survive and thrive and sell abroad, stemmed not from genetic superiority but from a gigantic domestic market, unique in the world. Soon, if the plain promise of the European Common Market is fulfilled, this American phenomenon will no longer be unique; on the contrary it can be shoved into a poor second place.

Western Europe, disposing of its internal trade hurdles, will by population arithmetic constitute a greater mass market than the United States and thereby gain superior potentiality for mass production. If that potential is realized in practice, America's one great saving advantage seems destined to be reduced to inferiority.

And at that turning point of history, any continuing wage differential will bite with full force, as never before. And remember that low wages abroad can trim not just payroll costs but the cost of transport, the cost of research for improved processes and products, the cost of building or reequipping factories.

Many of these factories are brand new, others are abuilding, most are yet to rise, embodying the most modern efficiencies, competing against aging U.S. facilities. How will a comparable host of new factories be hatched here where industry after industry complains of excess capacity?

Gloomy line

Since it deals with the future, this gloomy line of reasoning cannot pretend to be "facts," but at best informed foreboding which should be probed and challenged. If it does have substantial validity, this conclusion is hard to avoid:

An America which alters no more than the rulebooks handed to its customs collectors will before long discover the Common Market is able to offer to the world prices decisively lower than U.S. price tags—and not just for such specialties as bicycles, watches, and midget autos, but for whole massive catalogs of consumer goods and of wares bought by industry, item by item, through thousands of items.

In the end, U.S. producers could be left with a lingering pricing advantage only in their own specialities; it is entirely possible Europe will never develop a mass-market appetite for peanut butter.

The planned and unplanned responses America will make as it first senses and then suffers so smashing an economic impact elude full comprehension. They are every bit as difficult to assess as were the long-term military and diplomatic consequences when the Soviet tested its first atomic bomb and rocketed its first sputnik. Think back to those days; it seemed that something terribly significant had happened; yet no one knew precisely what the significance was, and years later we still do not know whether to dig fallout shelters, or whether to build B–70 bombers; nor how to manage nuclear rocket diplomacy for a satisfactory settlement in Berlin.

It may turn out, of course, that this parallel is overdrawn. It could happen that Europe will never achieve a real Common Market; the schedule of its phased creation could bog down, the Germans could swing out of it for an accommodation with the Russians, the French could have another revolution, the British could decide not to join. In which case, America's whole debate over trade policy might prove pointless.

OUTPACED BY BUSINESSMEN

But there is every indication that the Common Market will indeed become a reality, perhaps far faster than the American market can gird to meet it.

West Europe's statesmen huddle to plan merger of more nations into their Common Market, they chide each other for every delay in scheduling new steps of economic unity. Yet they are outpaced by European businessmen, whose industrial integration leapfrogs national boundaries ahead of the political schedule. And they in turn are crowded by the crush of Yankee businessmen; nearly every sizable U.S. corporation is staking out a Common Market beachhead, and blueprints of growth are in the top drawer.

An American company can of course flee the American economy; a growing number already do the bulk of their business abroad. This merely illustrates the Nation's problem, but cannot solve it.

As factories standing on U.S. soil yield to those in Western Europe the primacy of high production and low pricing, the American economy may find no easy escape.

After the United States lost its atomic monopoly, neither disarmament talks nor rearmament dispelled the unprecedented military peril from the Soviet; it seems unlikely that either lower tariffs or higher protectionism will serve as a sufficient response to the unprecedented economic challenge of Western Europe.

The rival debating teams, each intent on pushing a particular tariff program through Congress, can scarcely be expected to puncture their own arguments with talk of this sort—though traces of it appear in private conversations of some participants. Yet perhaps pessimism can be sensed by peculiar indirection even in the lively public exhortations; each side sounds a good deal more convincing when attacking its opponents' proposals than when counting the blessings its own charted course would bring.

TOUGH DECISIONS

If a protectionist cries that slashing tariffs—or even leaving them unchanged—would be followed by a damaging flow of imports, one has the queasy sensation that his prediction is difficult to disprove. If a freetrader declaims that raising barriers—or even leaving them unchanged—would be followed by loss of our traditional sales in Europe, it is not at all easy to think of a crushing reply.

The hopeful citizen is tempted to dismiss with all his heart one or the other of these gloomy forecasts. But it is remarkably awkward to do, with the brain.

This is not to say that all is lost, or that the trade policy decision facing the Nation is meaningless or minor. On the contrary, it is essential to make that decision—but essential to do so with harsh realism, and with the understanding that still tougher decisions lie ahead.

[From the Wall Street Journal, Dec. 7, 1961]

Protectionism Versus Free Trade

Europe's Economic Threat Demands Answer Beyond Old Slogans

(By Henry Gemmill)

Washington.—Let's take a trial run at calculating in some detail what the consequences might be if the United States responds to the "threat" of Europe's rising Common Market simply by turning wholeheartedly toward protectionism.

And then let's perform a similar exercise on the opposite assumption: That America answers the "opportunity" of the Common Market simply by heading straight toward free trade.

As a prelude to the attempt, however, one is obliged to account for the fact that peculiarly few of the warriors struggling to reshape the rules which govern this Nation's commerce are at this moment fully committed to either clear course. The battlefield is widly confused by inconsistency.

The banner of freer trade has been grasped by the Kennedy administration. Cabinet officers are traveling the country talking it up. Experts are at work drafting a request to the next session of Congress for a historic new grant of Presidential authority to slash tariffs.

Yet at the same moment, Mr. Kennedy asks the Tariff Commission to consider hiking textile duties. His men weigh reductions in oil import quotas, and pressure oversea military families traveling home for Christmas to ride on U.S. airlines. Even the President's most fervid internationalists, the foreign aid folk, enforce "Buy American" rules.

As for protectionism, it has eloquently consistent advocates among lobbyists and legislators. But most of its muscle comes from men who profess no desire to drive this Nation out of the import business.

"UNFAIR COMPETITION"

Corporate executives swarm in to tell commissions, committees, and home-State Congressmen not that they oppose trade but that "unfair competition" is damaging sales of their particular products. Protrade labor leaders are so furious at particular imports undercutting their own members' jobs that they threaten private protectionism by boycott. Farm organizations back trade promotion, but are not about to permit the consumer to feast on foreign food.

Collectively, this is a powerful push for higher tariff peril points, more protective escape clauses, more and tighter import quotas, and ungentlemanly arm twisting of foreign governments to obtain more gentlemen's agreements limiting shipments to the States.

Not all the inconsistency represents muddleheadedness, exactly; some of it is smart enough. Mr. Kennedy knows how southerners can swing Congress; greater protection of their oil and textiles may buy votes for reduced protection of other industries.

Beyond political cynicism, though, lies an implicit intellectual concept—obsolescent but honestly shared in some degree by most contestants on both sides of each specific trade dispute. This is the idea that only a fraction of the U.S. industrial economy is in bad shape, severely underpriced by foreign producers; that most of it is in fairly good shape, able to match prices and stand its ground against oversea competition.

This once was emphatically true; it is less true today than supposed by folk preoccupied with particular imports; within a few years there may be scarcely any truth to it.

European production is barely emerging from the constrictions of tight national boundaries; as it takes its new measures from the giant Common Market it can gradually get in position to undercut the whole spectrum of American industry—using to double advantage its newborn mass production and its traditional lower wage rates.

If this unprecedented potential is realized in practice, the United States will not find it easy to indulge in just little extra touches of protectionism for this item and that. As the list of Yankee manufacturers underpriced by foreign competition grows longer, each significant addition can lay equal claim to the logic of import restriction—to save jobs, to sustain profits, to keep America strong.

QUICKENING DELUGE

So it is perhaps not academic assumption but realism to suggest that protectionism could indeed become consistent, and dominant in U.S. trade policy—not so much by dramatic philosophic decision in 1961 or 1962 as by drift during this whole decade. And in the end that drift could turn into a quickening deluge.

For protectionism, like atomic fission, cannot proceeed far without jumping into a chain reaction, if petroleum imports are curbed sufficiently to give U.S. oil producers a price far above the world oil price, then other Yankee industries suffer a growing disadvantage in fuel costs—and some of their own product prices can be edged up into a need for protection against cheaper foreign wares. Or if U.S. textile prices are buoyed by a tariff hike, the cost-of-living impact can joggle diverse wage rates, inch up manufacturing costs, nudge prices of myriad products toward a need for protection.

Each such pressure upon American industry will seem minor, yet interaction can excite the entire mass, and not just in one wave soon subsiding, but in accelerating cycles. No feat of imagination is required to picture American steel prices rising with just a small extra cost push, and then needing protection against low-cost metal from foreign mills.

Nor would it be difficult thereafter to foresee protected high prices for steel pipe and steel clothmaking machinery bouncing back upon the oil and textile industries, helping impel them toward a still higher spiral of protection.

Of course wholehearted protectionism could, by definition, always succeed in reserving the entire U.S. market for U.S. producers. Well launched, however, it would almost inevitably assure a contraction of total sales.

Exports to Europe could be wiped out, and not primarily because the Common Market would be able to erect its own protectionist wall in retaliation. This retaliatory peril, of which we are so loudly warned by free trade advocates, is real enough and could certainly hit hard at our vast shipments of farm commodities.

But the Europeans, if they see American industrial production becoming helplessly overpriced, might soon decide they need no wall against most manufactures.

With perfect safety the Common Market could scorn America's protectionist course and tear down most of its own external tariffs. As the best friend of free commerce, and selling cheaply to boot, it could bid successfully for the trade of Latin America, Africa, and Asia; American factories would face loss of their total world export market.

The domestic implications for the United States, of course, would appear profound. Production pushed down. Unemployment headed up. Standard of living stagnant. Capital moving out of the country for better rewards. And, everything headed along a dead-end road.

Advocates of freer trade have been making what they consider a horrifying prediction: That protectionism could split the Western World into two great rival trading blocs, with many non-Communist lands tied to Europe's Common Market and the United States signing up the remainder. But conceivably this is too kind a forecast.

During the years since the idea got around the world that American military supremacy is in doubt, how many new military allies have we gained, what luck have we had in stemming the drift to diplomatic neutralism? Is it really likely that many nations would tie themselves in prolonged economic alliance with an America slipping in economic power?

CONTRARY POSSIBILITY

A contrary possibility suggests itself: That the impact of a successful West European challenge to U.S. economic supremacy could intermingle with East Europe's challenge to our military dominance. That their combined assault upon American prestige and power would leave this Nation in increasing isolation—deserted in commerce, in military collaboration, in diplomacy. In the final act of the 20th century drama, the United States could be denied a speaking role.

Such a description of the protectionist course starts from somber premises and proceeds with pessimistic logic; its dark conclusions may be dead wrong. If this analysis is to pretend to any usefulness, it must examine with similar skepticism the doctrine that the United States can resolve its difficulties simply by moving toward freer trade.

Today's free trade doctrine takes varied forms. Some proponents say the United States should actually join the Common Market. The official view is that this would be too radical, that instead America and the Common Market should engage in mutual tariff slashing. In one respect the latter choice could in fact prove more radical, it may be noted, since any cuts in our tariffs would automatically be extended also to imports from Hong Kong, Japan and other points beyond Europe.

But, straining for simplicity, it is perhaps fair to say that the essence of either free trade scheme would be minimal trade barriers between the Common Market and the United States, pretty well blending their hundreds of millions of consumers into a single gargantuan market, and throwing most of West Europe's and North America's producers into fairly unfettered competition.

It may never happen; either the United States or the Common Market may boggle at agreeing to it—but that is the bold proposition.

Its cheerful assumption is that since the new trade rulebook would apply equally to each, Yanks and Europeans would start out even Stephen, and thereafter achieve mutual gain. Yankee salesmen would pour our products into a booming Europe. Almost parenthetically it is remarked that European wares would also flow to the States, and some of these imports could cause discomfort to our domestic producers.

To ease such pain without turning back to protectionism (and of course some free-trade fans would indeed reverse course at this crucial point), it is suggested that "small" Government loans to business might be sufficient, and perhaps there might be some Federal retraining of displaced workers.

Yet it might be discovered that any competent European manufacturing enterprise, starting out with wage rates at a fraction of the American pay scale, could murder its competitors on U.S. soil within just the time it takes to tool up for cost-cutting mass production and to set up sales outlets. Product by product, American producers could find their prices too high to meet competition.

Indeed, it is conceivable the transatlantic pricing gap could grow even faster under free trade than through protectionism, since it would permit a European factory to tackle products for which there is as yet no mass demand within the Common Market; it could first wipe up established American demand and take its time cultivating customers on its own continent. And such a European factory might well belong to a U.S. company, of course; any corporation would be less than alert if it failed to join the stampede.

FAINT COMPARISON

Searching for an image of what this could mean for America, one is reminded of New England losing business to the South. But this may be too faint by far, for the southern cost-price advantages which idled many an old mill in New England were of lower magnitude than those the Common Market could apply to all America. If every damaged U.S. business and every displaced worker is to be granted Government relief, how many will be left to finance the subsidies?

When confronted with such prophecies of calamity, the proponents of free trade can—and do—raise honest objections. At least three are worth consideration:

1. A Europe already boasting full employment cannot possible flood America with its output; it would simply run out of manpower.

This argument has merit; certainly labor may ultimately set some ceiling on Common Market production. But the essential characteristic of any shift from shopcraft to mass production is that more goods can be turned out with less labor—and such a shift is the chief meaning of the Common Market.

2. You can count on the ingenuity of American business to counter the tide of imports by selling more U.S. goods in Euprope; they've done it over tariffs walls, so they can surely find a way of going it in a Common Market with lower duties.

Never underestimate the power of the U.S. businessman. But one gets the impression his ingenuity is perforce now more occupied in choosing additional plant sites within the Common Market than in promoting exports to it.

And let a word be spoken in respect for European businessmen. The best have not lacked vigor; their limitation has been they could not make every industry strong in every little national market; it is the scattered gaps and weaknesses which afforded the widest openings to U.S. exports.

As the Common Market congeals, an American exporter of any item will encounter in the marketplace of every member nation the strongest production offensive that can be mounted in any one of them. That strength can be mobilized with astonishing speed. Europe is not lacking in huge industrial organizations, under one corporate roof or linked by cartel.

SPECIALIZED PRODUCTION

A giant such as Unilever or Philips Lamp, which has long embraced all Europe yet has hitherto been cramped by the necessity for small-scale output of nearly all of its products in nearly every nation, can now reassign each plant to specialized production on a ponderous scale.

3. American scientists and engineers will keep the United States ahead in technology; foreign producers can capture the markets for old products, but our labs and drawing boards will keep U.S. factories in business by popping up with new products.

A dismal outlook, if true. So we are to abandon settled bread-and-butter manufacturing, and must perform in a constant, costly palsy of retooling, test marketing, and introductory sales campaigns.

The inefficiency is too obvious to be long endured.

Any business in possession of its wits would snatch up the American innovation and launch its production in Europe, at lower initial cost and with prospect of sustained output.

And in the long run, would most advances originate in American minds This Nation's technological lead has stemmed not from a clause in the Constitution but from events of this century (we scarcely probed chemistry until World War I cut off German chemical supplies). By now research and gadgetry design is largely a function of mass production; any big producer supports a big talent stable, and can do so here or abroad.

So the theoretical model of a Common Market and United States simply linked in free-trade tandem at the worst could hand over to European factories not only the Common Market and the world market but the American market as well.

A case can be made that this need not happen, but it must rest on the proposition that far more will be changed than the trade rules. One hears hopeful talk that the Common Market will grossly inflate its wages, and by that route or another experience a wild price inflation.

It is not likely the Europeans will be so stupid, but at least this thought points vaguely toward the heart of the matter. America can indeed thrive in competition with the Common Market, and the way it can do so is to equalize production costs.

In all realism, the United States can only expect to achieve that essential parity through its own wisdom and effort. The wisdom will be hard to come by, and the effort will be agony.

The true case for freeing trade is not that it offers easy inoculation against the pending paralysis of the American economy, but merely that it could make possible—and perhaps even force—a painful cure.

[From the Wall Street Journal, Dec. 8, 1961]

U.S. Trade Solution

WE CAN COMPETE ABROAD ONLY BY CUTTING PRODUCTION COSTS

(By Henry Gemmill)

Washington.—A sharp question calls for a straight answer. It's about time now for those arguing about future American trade policy to pause and really listen to the question.

That question is raised by that muscular adolescent, the European Common Market, and it sounds like this: "We foreigners are soon going to throw out into world markets the greatest flood of low-cost manufactures ever seen in history; what are you Yankees going to do about it?"

The straight answer, and it does seem pretty obvious, would be this: "All right; America is going to whip its costs into line with the best you can do. Then see if you can lick us." But oddly enough, any remarks along this line have scarcely risen above a murmur.

The loud talk is about tariff tinkering; some plump for protection and the rest for freer trade. Presumably roughly half this advice is correct—yet it's a bit like choosing the moment when the kitchen is on fire to argue with your wife about whether the front lawn needs sprinkling. You might be right, but are you pertinent?

SUGGESTED CURES

When the plainly visible elements of the foreign cost-cutting challenge do intrude on the eye, the trade disputants' suggested cures run to symptom treating and faith healing. It is soberly suggested that U.S. companies be banned from building more factories abroad, as if that would halt the oversea surge to mass production. Or a touching optimism is expressed that workers in Europe (despite their long tradition of genuine discipline) will soon be grabbing as high pay as those in America (where it's considered acceptably "noninflationary" to award autoworkers their biggest boost ever).

This is to reduce economics to escapism. It could lead to eventual devaluation of the dollar. Any enduringly successful answer, it would seem, must come from

Featherbedding is a national joke, but what national policy attacks its most flagrant follies? As for "wage restraint," Government men congratulate themselves on a doctrine which even if followed encourages pay hikes and fringes to absorb all industrial productivity gains; how does this leave room for American price cutting, or for reinvestment in new cost-cutting plants and machines?

If the fat should be cut out of U.S. labor costs, how? Should it be accomplished by labor "statesmanship," by laws breaking the monopoly power of the unions, or by Government dictation of wages and working conditions?

Clearly, every question will be open to debate, and some decisions cannot be made on economic grounds alone. If, for example, a true military necessity for shipping subsidies, oil quotas, or textile tariffs exists, it should be heeded—but only after the same sort of harsh strategic review that has killed off the cavalry, the battleship and the Snark missile. Requirements of the economic contest with non-Communist lands will not always jibe neatly with requirements of the anti-Communist struggle. Yet there will be an affinity.

The prospect of trade wars between Europe and the United States, no less than the cold war itself, imperatively poses its question. The foreign threat of low costs demands that America respond by cutting its own costs. This can be done only by making hard decisions that will not wait.

The Old World has come to life to challenge American primacy. And the Communists are in the wings.

[From the Wall Street Journal, Dec. 11, 1961]

Review and Outlook

THE PLACE TO BEGIN

It seems to us there is no denying President Kennedy's observation that this country faces some painful adjustments in the process of meeting the new worldwide competition in trade.

It is always true that when harsh realities intrude upon a sheltered life the result is painful. And for a good many years this country has enjoyed the happiness of being able to sell to the world just about anything we make, without having to pay too much attention to the cost of making, delivering, and selling. And now all of a sudden—from Japan in the East and Europe in the West—we find competition everywhere.

The awakening, as Mr. Gemmill suggested in his series of articles on this page, is going to be harsh. We can't have free trade in the world without having it here at home. We can't have free trade at home without the competition of cheap foreign goods, from autos to razor blades. We can't meet this competition unless we cut down costs. We can't cut costs unless we can cut capital costs, material costs, and wage costs. And this will be painful for everybody—farmers, laborers, and businessmen.

But most of all, the people cannot do any of these things unless they are free to do them. That means that the Government is going to have to change its policies on just about everything too—agriculture, taxes, labor, business mergers, and its fiscal treatment of the U.S. dollar. If it doesn't, all Mr. Kennedy's bright words will go for nought.

Take one example. If the U.S. dollar had not been steadily depreciated over the past years, an American automobile would cost less. It is not the fault of Detroit but of the Government that the dollar has been depreciated. And no matter what Detroit does, it cannot meet a competition priced in stable deutschmarks or francs if the U.S. Government keeps policies that keep depreciating the dollar.

The President makes much of the danger in our balance of payments, caused by an outpouring of too many dollars abroad. Yet those dollars have not been poured out by our buying of foreign goods; even now our exports exceed our imports. The tightest import controls and the most optimistic burst in exports can't offset the dollars the Government can pour out in direct expenditures and foreign aid.

So here is one patent place for the painful readjustment to begin. Government spending, even for projects most delightful in themselves, must be tailored to fit the cloth; and especially so when the money is spent abroad where it increases yearly the already dangerous pressure on the U.S. dollar.

Fiscal policy is not the only area where the Government must change its own ideas. The reason this country cannot compete in world agriculture markets without subsidies—the reason why farmers are going to have to face a lot of painful readjustments—is precisely that the Government has raised the costs of our farm commodities so high.

It will do no good either for the Government to exhort industry to "get more efficient" if it continues to block the merger of smaller units into bigger ones better able to meet worldwide competition. It is equally pointless for it to exhort management and labor to be "statesmanlike" in their wage contracts so long as the whole weight of the Government is thrown on the side of raising wages, or more accurately, wage costs.

Now it is true that the Government's policies cannot be blamed wholly on the men in Government. There's political pressure from farmers for the farm program, from oilmen for oil import curbs, from businessmen for subsidies, and from just about everybody for costly spending projects. It's also true that the people are going to have to make many adjustments, and bear all the pains of the transition.

But almost everywhere you look there is a Government policy at the root of the trouble—a subsidy here to push costs higher, a restriction there to thwart a change long overdue, a punitive tax to stunt investment in more efficient facilities, an intervention in the marketplace to distort the Nation's economy, a hostile attitude toward the process of change itself when automation, plant relocation, or shifting markets disturb the Government's own conceptions of what ought to be.

Most of all, the Government has everywhere welcomed and nourished the illusion that the country could go happily along piling up its labor costs, depreciating the dollar, spending cheerily at home and abroad—and do all this without ever having to face the realities of a competitive world.

It's good to have Government officials awakening to what has happened to America's economic position in the world. It's also good to have them talk about what must be done. But while they are exhorting the people to change their ways, they might also speak for themselves.

THE AMERICAN COTTON MANUFACTURERS INSTITUTE, INC., WASHINGTON, D.C.

RESOLUTION ON FOREIGN TRADE POLICY

(Adopted December 12, 1961)

The American textile industry believes that international trade is essential to maximum industrial and economic growth and a rising standard of living among the nations of the free world, and recognizes that the indusry must bear its share of the imports' burden even though it be in products already in surplus supply in this country.

The swift spread of modern mass production technology throughout the postwar world, coupled with wide disparities in standards of living and resultant lower costs of manufacturing, has profoundly altered the patterns of world trade and the scope, nature, and intensity of foreign competition for world and American markets.

The American textile industry, an experienced participant in international trade matters, is increasingly concerned over the problems, both international and domestic, created by these changes in world trade patterns.

The textile industry has felt the damaging impact of excessive imports during recent years on its markets, the jobs and job opportunities of its people, its margins of profit, and its growth potential. This impact has been felt also by many other basic American industries and by the American economy as a whole.

At the same time, the industry is fully cognizant of the need for the industrial development of other nations as a bulwark against the spread of world communism. Of equal importance to the cause of world peace is the industrial, economic, and military strength of our own Nation.

The industry concurs in the belief expressed by others that present U.S. trade policies and practices are inadequate to cope with changing world trade conditions.

In view of projected changes in U.S. trade policies, the textile industry, while reserving judgment until the specifics of these changes are known, is led by its concern for a strong national economy, and for our national security, to state the principles it believes basic to the formulation of an American trade policy. The American textile industry holds that these eight basic principles constitute pillars of a flexible, imaginative American trade policy capable of responding to dynamically changing world trade situations:

1. Maintain a growing American economy and expanding job opportunities for Americans.
2. Safeguard American industrial and military strength as keystones to the defense security of this Nation and of the free world.
3. Encourage the orderly expansion of world trade to achieve rational economic growth and rising standards of living in emerging nations, and to foster continued growth in the economies of advanced nations without growth impairment or distortions from excessive concentrations of imports in specific sectors of their economies.
4. Seek a realistic balance between concern for the industrial development of other nations and the continued economic growth of this Nation, avoiding the extremes of free trade and economic isolationism. World trade objectives are self-defeating when pursued at the expense of the U.S. economy or of specific American industries.
5. Require that trade concessions granted by the United States be reciprocated directly by other nations. Because this principle has not been adhered to in the past, many overseas markets are today closed to American textiles although our own textile tariffs have been drastically lowered.
6. Establish and administer American trade policy in such a way as to prevent the depletion of U.S. gold reserves, and preserve the prestige of the U.S. dollar throughout the world.
7. Distribute the burden of imports as equitably as possible throughout the American economy, avoiding concentrations of imports on segments of the economy in such quantity as to curtail domestic industrial expansion and force U.S. capital abroad with the resultant loss of American job opportunities and revenue.
8. Provide, within the framework of an orderly trade program, efficient machinery for the control of excessive imports as such controls become necessary to achieve the above-stated objectives.

DEPARTMENT OF AGRICULTURE,
Washington, D.C., December 22, 1961.

Hon. HALE BOGGS,
Chairman of the Subcommittee on Foreign Economic Policy of the Joint Economic Committee of the Congress of the United States, House of Representatives.

DEAR CONGRESSMAN BOGGS: I regret that due to my absence from the city, I was unable to appear before your subcommittee on Thursday, December 14, 1961, as you requested.

However, I am submitting the enclosed statement which I would have made had I appeared for use by your subcommittee.

Sincerely yours,

CHARLES S. MURPHY, *Under Secretary.*

STATEMENT SUBMITTED BY CHARLES MURPHY, UNDER SECRETARY OF AGRICULTURE, TO THE SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY OF THE JOINT ECONOMIC COMMITTEE OF THE CONGRESS OF THE UNITED STATES

American farmers stand out in the world for their success in applying modern technology to the production of food and fiber. As a result, American consumers are being supplied with a great variety and abundance of agricultural products at bargain prices. I purposefully use the term "bargain prices" because nowhere else in the world will 1 hour of labor buy as much at the grocery store as it does here in the United States.

We take great pride in our efficient agriculture, but also we recognize that our agriculture will advance not alone but as an integral part of our advancing Nation. In considering proposals for a new foreign trade policy, we cannot dissociate agriculture from the other important segments of our Nation, including industry and labor.

The first consideration must be a foreign trade policy that benefits as a group the 185 million people who make up our Nation.

Then, as a second consideration, there must be room within that policy to accommodate the special problems and requirements of agriculture, of industry, of labor.

Our trade program as it has existed since 1934 has supported the highest levels of exports, both agricultural and industrial, in our Nation's history. But now there is need for a change. This should not come as a shock to anyone associated with agriculture. The history of American agriculture has been one of constant change, in our production and in our marketing. There are few American farmers who are doing things now the same way they did them 10 years ago. The same is true of those who process and distribute farm products. We live in a world of change, and I believe that our agricultural economy, by and large, is prepared to support and participate in change, provided that valid reasons exist for such change.

Today, not only valid but urgent reasons exist for making major changes in our foreign trade policy. When our existing trade agreements legislation was established in 1934, it gave us a useful new implement for gaining better access to foreign markets. But implements become outmoded. What we urgently need now is a new implement, designed to be as effective as the old has been, but fashioned to meet new conditions.

The most immediate reason for recasting our trade policy is the emergence of the powerful new European Economic Community—the Common Market. The six EEC countries comprise the fastest-growing economic area in the world. Some of the seven countries comprising the European Free Trade Association are asking either to join or to affiliate—and this eventually could lead to development of the wealthiest trading area in the world. In its internal trade relations, Western Europe is well on the way to becoming a United States of Europe, one that presents a solid economic front to the rest of the world, one that must be dealt with as a single bloc.

As a nation, we must be able to live with and to trade with this new Europe. If we fail to do so, we will not only hurt ourselves economically, but also we will lend strength to the divisive forces that exist in the world today. With well over half of our national budget going for defense of our way of life, it is of paramount necessity that the United States and the new Europe stand strongly together, not only militarily but economically.

The United States, with our existing trade program, is not set up to work effectively with the European Common Market. This is serious. As the President has said of the Common Market, "It could be—it should be—our biggest, our most reliable, our most profitable customer."

The item-by-item approach that we currently employ in negotiating tariffs under the Reciprocal Trade Agreements Act is outmoded insofar as we deal with the European Common Market. The Common Market is so constituted that its administrators are able to negotiate effectively only on the basis of across-the-board tariff cuts. We must be able to deal with the Common Market. Our administration must have the kind of implement that enables it to negotiate flexibility and effectively. It does not have such authority in the existing act. A new act has become a necessity.

We in agriculture are particularly aware of the need to deal effectively with the Common Market. We have much at stake. In 1960, American agricultural exports to the Common Market had a value of $1.1 billion. The Common Market eventually could include countries which now are aggregate customers for well over $2 billion of our farm products.

We are also aware of the Common Market because we have some particular problems in dealing with it. In giving support to a new trade program, I do not want to leave any impression that a new program will immediately solve all such problems. But I do believe that a new approach will permit us to bargain more effectively now and give us a stronger bargaining position in the future.

As indicated, about one-third of our agriculture dollar exports go to the Common Market. Another third goes to countries that could join or associate with the Common Market. Our stake is thus exceedingly high.

Our prospects for maintaining and even increasing exports of some commodities are good, but for others, they are more doubtful. The reason why prospects for grain and certain livestock products, for example, are doubtful is that there are strong tendencies within the EEC toward restrictive external trade in these commodities. Another factor that makes our prospects somewhat uncertain at the present time is that the EEC countries themselves have not yet agreed on their common agricultural policy, particularly, price levels for these products.

Some of the Common Market countries wish to protect their grain and livestock economies by such devices as variable import levies, import licenses, and quantitative restrictions which would have the effect of insulating their producers from the effects of outside competition. There are others within the community who recognize fully the need for the Six to take account of the trade interests of third countries in establishing their agriculture and trade programs. The path they choose will have a strong bearing on our trade prospects.

This is the essence of our present concern with the agricultural policy of the EEC. We can hope to influence this direction on the basis of our existing agreements and compacts. We may also influence it as a great trading nation particularly if we equip ourselves with broad and effective negotiating powers that will make our vast market more attractive to our partners in trade. It is for this reason that American agriculture's stake in the President's trade proposals is very great.

The current negotiations with the EEC are not closed. We have a strong case, for the issue is potentially serious for the EEC as well. The EEC needs to sell to us. It has a rapidly expanding industry which must find outlets. Under the proposed new trade authority, we would be in much better position to bargain for access to EEC agricultural markets.

A reasonable but firm policy of using our total influence as a great trading nation will make liberal policies on the part of our partners appear more profitable to them. And a U.S. policy to this effect will be much more influential if it can be applied from the strength of the broad authorities of the President's proposals.

American agriculture stands to gain over the years from a strong, flexible, liberal foreign trade policy. Large amounts of many of our farm products are exported—half or more of our production of wheat and rice; two-fifths of our cotton, soybeans, and tallow; one-third of our tobacco, hops, and flaxseed; and large amounts of vegetable oils, feed grains, lard, poultry, variety meats, hides and skins, and fruits and vegetables. Our exports of farm products are at record levels—$5 billion annually, one-fourth of the Nation's total exports. Seventy percent of this moves as dollar sales. As Europe and our other dollar trading partners continue to increase their wealth, as the newly emerging parts of the world continue to develop their economies, as world populations continue to gain and purchasing power to mount, we need a foreign trade program that will enable us to achieve and to maintain maximum access to this expanding world market.

Along with gains, it is true that the proposed new program could lead to some readjustments in American agriculture. In seeking to export, we also must import. However, these readjustments would not be of great magnitude. Certainly they would not affect the major parts of our agriculture which are strong and efficient. And we believe the gains would far outweigh the adjustments. We view these adjustments as a two-way proposition. We would not support, and we know the President does not have in mind, opening our gates to more foreign trade on a unilateral basis. We would expect bars to trade to come down in other countries.

Some of our agricultural commodities are produced under price support and other special programs. We would expect that under a new foreign trade policy, there would be continuation of the legislative protections against imports doing material damage to these agricultural programs. It is important that there be a clear understanding of the extent that these legislative safeguards have been used to protect our farm programs. At the present time, import controls are in effect under section 22 on a relatively short list of farm commodities. These include cotton, wheat, peanuts, tung oil, and certain dairy products. Most of our farm products are protected against the effects of international competition only by fixed tariffs.

Because of our domestic price supports, some of our agricultural commodities have an export payment in order to make them competitive in the world market. We would expect under a new foreign trade policy that these payments, where required, would be continued. However, we would have to exercise the most careful restraints to insure that we do not use such payments to infringe on the legitimate shares of other friendly countries in world trade. As world demand grows, our exports can share in that growth. But in using export payments, we must be also sensitive to demand changes in the opposite direction.

American agriculture is today the world's largest exporter of food and fiber. Our farmers help to feed and clothe more of the world's people than any other exporting nation. This exporting operation is important to our farmers and it is a great service to humanity. I believe that the great majority of American farmers, as the President's proposals are further developed, will agree with me that these proposals offer new opportunities both to strengthen our agriculture and to share our products even more effectively with the consumers in other countries.

It is true that we can hardly be liberal in our trading policies if other nations are increasingly restrictive. But there is also the hard fact that today we are a world leader. In a position of leadership, we have no alternative but to lead. The President's proposals give us opportunity not merely to inspire, but to insist that the entire free world gain in strength through liberal, dynamic sharing of its products. In this sharing, American agriculture has little to lose and much to gain.

THE OECD, THE COMMON MARKET, AND AMERICAN FOREIGN POLICY

(By George Feldman, Member of the New York Bar, formerly executive director and chief counsel, House Select Committee on Astronautics and Space Exploration

I. ECONOMIC PROGRESS OF THE EUROPEAN COMMUNITY

The European Economic Community has really been in the process of gestation ever since the Marshall plan was first enunciated in 1947. The Marshall plan was responsible for Europe's recovery, but its spectacular leap forward has coincided with the establishment of the Common Market. In the last few years the European Economic Community, composed of France, Italy, West Germany, the Netherlands, Belgium, and Luxembourg has made economic strides which bid fair to carry it beyond the United States, eventually, both as a producer and a trading power.

The gross national product growth rate for the countries of the Community, from 1951 through 1960, was 5.3 percent while the industrial production growth rate for the same period rose 7.4 percent.[1] But in 1960 the Community's gross national product rose 7 percent over that of 1959, in terms of constant prices.[2] This can be compared with a growth rate in the United States of about 2.9 percent, perhaps edging over to 3 or 3¼ percent.[3] Industrial production within the Community went up by 12 percent in 1960 over the previous year. For the first 3 years of the Common Market's existence industrial production expanded by 25 percent. The general index of industrial production for the Common Market countries rose from 80 in 1950 to 171 in 1960. In the United States it went from 82 to 119 for the same period, although a different base year was used.[4] The imports of the Common Market countries went from a dollar volume of 11, 232 million in 1950 to 29,616 million in 1960. For the United States they went from $8,748 million to $14,652 million for the same period.[5] But the figure in exports is even more remarkable, going from $9,300 million in 1950 to $29,724 million in 1960, while for the United States the totals went from $10,140 million to $20,304 million for the same decade.[6] For the first half of 1961 export totals remained in roughly the same ratio.

During 1960 monetary reserves of the Community increased by $3 billion, and the volume of fixed capital investment went up 11 percent over that of 1959. In addition, there was a boom in steel production within the Community, with steel output rising faster there than in the world as a whole. Production was up in 1960 from 63 to 73 million tons over the previous year, and this meant a percentage increase of the world's total output of from 20.7 percent to 21.3 percent. This upward trend continued in 1961, but at a slower pace. Expansion in the steel trade purely within the Community outstripped the increase in exports to the outside world.

Recently wages in Europe have been rising at a faster rate than in the United States. There is a shortage of skilled labor, which is putting heavy pressure on wages. While the European worker is paid far less than the American, this gap

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[1] The Chase Manhattan Bank, "The New European Market—A Guide for American Businessmen," New York. no year given, p. 39

[2] European Community Information Service, Bulletin from the European Community, No. 44, February 1961. p. 1.

[3] Christian Science Monitor. Nov. 18. 1961. p. 1.

[4] Organization for European Economic Cooperation, OEEC Statistical Bulletins, general statistics, 1961, No. 5, September 1961, p. 2.

[5] Ibid., p. 40.

[6] Ibid.

is out of proportion in terms of productivity. But the European worker has been oriented toward craftmanship and less toward maximum output. However, European labor productivity is rising too, in some cases in sufficient proportion to support rising wages and still give European manufacturers an edge in international trade. Purchasing power per capita in Europe is far below U.S. standards, but again, it is rising rapidly. Rising incomes are creating new demands.

In short, the picture of the European Econimic Community that emerges is one of glowing health. Since it is axiomatic that economic power goes with political power, the influence of the Common Market is rising accordingly. For the United States this poses important problems of foreign policy, both political and economic. For it has become necessary for this country to make a careful assessment of its future relations with Western Europe, with a view of elaborating a coordinated cold war strategy that can take advantage of Europe's new-found economic strength.

In formulating such a strategy, it is most essential that the United States not permit itself to be placed in the position of an economic rival of the growing European Community. To permit such a situation to develop would be to court disaster. In this connection it is important to remember that the movement for European integration has steadily gone forward within the framework of the Western alliance. The leaders of that movement have never dallied with neutralism. Yet certainly with the growth of the Common Market, and with Great Britain seeking entry, the potentialities for its development into a real "third force"—a major center of power between the Soviet Union and ourselves, free to go its own way—are unquestionably present. But the odds that such a development will occur are low. From the outset, American policy has supported the Common Market and other moves toward European integration on the grounds that they would build up the economic strength and political solidarity of Europe, thereby providing a strong and stable ally against communism. Generally speaking, it would be wise for this country to continue to seek that objective, and avoid actions which would lend encouragement to whatever elements within the European community might wish to pursue a policy of nonalinement.

II. SOVIET ECONOMIC WARFARE AND THE NEED FOR WESTERN COUNTERMEASURES

A basic reason for overall Western economic collaboration lies in the Soviet use of economic policy as a weapon in the cold war. The trade and aid policies of the Soviet bloc are coordinated closely with Communist political objectives. Several examples will suffice to illustrate this coordination.

In Asia, Africa, and Latin America the Soviet Union has pursued trade policies clearly designed for political ends. A typical Soviet bloc tactic is to couple trade agreements with technical assistance. Credits are extended on relatively easy terms (although this is not true of all Soviet credits by any means) for the purchase of goods, replacements, etc., needed in connection with some development project. Thus a pattern of trade takes shape between the Soviet Union and the emerging nation which ties the latter to the former. Sometimes the Soviet Union will negotiate a trade agreement with some underdeveloped nation, setting as a condition the acceptance of a certain amount of Soviet technical assistance. That assistance often takes the form of Soviet technicians, sent to show the recipient nation's workers how to operate Soviet machinery.

In this connection, the Soviet Union frequently possesses an advantage over the Western countries, since the machines it supplies to underdeveloped nations are often simpler than those supplied by the West. The result is that they can be more readily operated by the indigenous workmen. The number of Soviet technicians who give instruction can be limited, and their stay need not be as prolonged as might be the case when the Western machinery is purchased. In short, the Soviet presence is not always as obvious.

It is also a well-known Soviet tactic to accept raw materials, which may not be readily marketable at a given time, in payment for Soviet goods or credits. The Soviet Union made such an arrangement for Egyptian cotton, in return for credit for arms purchases, and the same general pattern was followed in Mr. Mikoyan's agreement, in February 1960, to buy five million tons of Cuban sugar. Whereas a state trading system can absorb the economic loss such raw materials purchases may represent if the political gains are deemed worth it, a private trading system cannot. This same principle, acceptance of economic loss for political gain, is manifest in the interest rate charged for a typical Communist credit, 2.5 percent, a rate which free market economies generally cannot meet. The impression is thus fostered that the Communists will not take advantage of the capital-shy new nations, in contrast with the greedy Western nations which will.

Yet one reason the Soviet Union can afford to take the economic losses that may arise from its trade offensive is that foreign trade actually forms such a negligible part of the Soviet economy. In 1958 the Soviet Union, the world's second industrial power, accounted for only 4.5 percent of the world's exports, and 4.3 percent of its imports, and 70 percent of this trade was carried on within the Communist bloc. By Western definitions, Soviet exports total only 2½ percent of the Soviet gross national product.[7] In other words the total impact of such foreign trade losses on the Soviet economy may be minimal, whereas Western countries such as Britain which depend so heavily on trade, would find them difficult to absorb.

One key commodity which the Soviets have chosen to exploit as part of their economic offensive is oil, whose impact on international relations is obvious. The Soviet Union has now become the second ranking producer of oil in the world. While Soviet sources supplied only a negligible share of Europe's oil imports in 1960, Soviet penetration of the oil market of Western Europe and the underdeveloped areas is growing. For one thing, the Soviet does not hesitate to offer its oil at prices well below the going world price, and for another the Soviet Union is both willing and able to barter its oil for other commodities, or accept payment in local "soft" currencies. Soviet petroleum products may be furnished in connection with Soviet economic aid programs. "All of these operations have been beyond the possible range of operation of Western oil companies which have had to obtain profits in terms of convertible currencies in order to stay in business." [8]

One disheartening aspect of Soviet oil trading is the extent to which it has cracked the Western economic front. For example, Italy and the Soviet Union are parties to a trade agreement concluded in November 1960 whereby the Soviet Union is to deliver to Italy some 100,000 barrels of oil per day for a period of 5 years. In exchange Italy is to provide specific amounts of 40-inch oil pipe, pumps, and other materials to be used to complete a Soviet trunk pipeline into Eastern Europe, which in turn will put the Soviet Union in a better position to compete in the world oil market. This oil is being supplied at prices far below what can be offered by Western oil companies operating in the Middle East.

This in itself is worrisome, but what gives more serious cause for concern is the fact that once this oil is processed in Italian refineries it is deemed to be Italian oil, and thus presumably can be sold within the Common Market. In this way Soviet oil is entering into the economic life of the Common Market and can affect the security of NATO countries if they become dependent on it to any extent. In the case of Italy this dependence is no longer negligible.

But it is not only with respect to oil that the Soviet Union has driven a chink into the West's economic armor. In France the Soviets purchased an automatic production line for the making of truck parts. Complete chemical plants and a pulp and paper plant have been bought in West Germany. Complete plastics plants have been ordered in Britain. When the United States rejected a Soviet offer to purchase tubing for some of her pipeline projects 2 years ago the Soviet Union went to West Germany and obtained the tubing there. Nor is it only the Soviet union among Communist nations that has made an advantageous trade with a nation of the Western alliance. For example, under a barter agreement with Cuba, a Norwegian firm recently agreed to deliver 1,000 tons of salted and dried cod to Cuba in return for 20,000 tons of sugar.[9]

The implications of the foregoing paragraphs are clear. While it would be going too far for the United States to insist that its allies sever their trade relations with the Eastern bloc—indeed we would not want to do so ourselves—it is not too much to assert that the West needs a common approach to foreign trade policy. There is need for coherence, both with respect to aid to underdeveloped areas, and with respect to trade with nations of the Soviet bloc.

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[7] British Survey. Main series. N.S. No. 132. March 1960, p. 22.

[8] U.S. Congress. Senate. Committee on the Judiciary. Soviet Oil in the Cold War. A study prepared by the Library of Congress at the request of the Subcommittee to Investigate the Administration of the Internal Security Act and other Internal Security Laws. Committee Print. 87th Cong., 1st sess. U.S. Government Printing Office, 1961. p. 6.

[9] Norwegian Information Service. News of Norway, vol. 18, No. 40. Washington, D.C., Nov. 23, 1961, p. 160.

The point is that if the Western allies permit considerations of domestic advantage to overbear those of Western interests as a whole, a dangerous situation can readily develop. A running score can be opened with NATO. Economic disunity means political disunity, and this in turn means military weakness, or at the very least, an unwillingness to fulfill NATO obligations wholeheartedly. For months the alliance was split by the bitter feelings between France and Britain over the latter's coolness toward the Common Market, a split which is now mending but not fully healed. In the light of growing Soviet economic strength, and the centralized, politically conscious direction of Soviet trade policy, the West can ill afford the recurrance of such divisions. As one Frenchman has put it, "It would be odd if the free countries, having understood the need for a full alliance in the military sphere of classical warfare (perhaps already outdated) were not aware of the still more pressing and immediate necessity for total solidarity in the face of the most insidious aspect of the cold war in the form of East-West trade." [10]

The West must now search for the institutional means to effect greater coordination between Western political objectives and Western economic policies. A great deal of machinery for Western cooperation already exists. The question is whether it is adequate to the current task or whether new methods must be devised.

III. ORGANIZATION FOR WESTERN COOPERATION

A. The machinery outlined

Over the years the nations of the Western alliance have developed elaborate machinery for consultation and collaboration in both military and economic spheres. Broad direction of NATO policy is supposed to come from the North Atlantic Council, which is normally composed of permanent representatives from the member countries, but which meets from time to time at the foreign ministers' level. The Council has set up a number of committees and working groups which examine problems submitted to them and make recommendations for their solution. The day-to-day work of NATO is carried on by an international secretariat headed by the Secretary-General, Dr. Dirk U. Stikker, of the Netherlands. The divisions of the Secretariat embrace, among other things, political affairs, economics and finance, and production and logistics. While the Secretariat is not a policymaking body, it offers some opportunity for coordination of effort, particularly those with political implications likely to affect defense. In addition, it maintains constant scrutiny of the economic position of the member countries with regard to the defense effort. Other civilian agencies of NATO have been established, but they are charged with specific logistic tasks.

A coordinated approach to NATO's military problems is provided by the Military Committee, composed of the Chiefs of Staff of every member country except Iceland, which is represented by a civilian. However, at this level the Military Committee meets only twice a year, and sets broad policy guidelines which subordinates will carry out. Between sessions of the Chiefs of Staff, permanent military representaitves constitute the Military Committee. They deal with all military matters except those which are so important as to require the attention of the Chiefs of Staff. But a confusing element enters the picture, in that the so-called Standing Group, consisting of the permanent military representatives of France, Britain, and the United States, acts as executive agent for the entire Military Committee. The existence of the Standing Group emphasizes the predominant role played in the strategic direction of NATO by these three powers. This role is further emphasized by the assignment of a liaison representative from the Standing Group to the North Atlantic Council. This officer is assisted by an allied staff drawn in rotation from all member nations of NATO. His office is the channel of communication between the member governments and the military planners, as the advice, recommendations and decisions of the military authorities flow through it to the Council, while the latter in turn uses it to pass down information on its work and decisions.

Finally, the NATO Parliamentarians Conference, while not an actual component of the NATO administrative establishment, serves informally as yet another agency of coordination. When the selected parliamentarians gather annually they have an opportunity to consult and exchange views on the political, economic, and even cultural problems facing NATO. Inasmuch as

[10] D'Estaing, Edmond Giscard. "Realities of the Common Market Show Fear To Be an Illusion." European-Atlantic Review, November–December 1961, p. 15.

these conferences have been characterized by frank exchanges of view, and inasmuch as many of the parliamentarians who attend are important political figures in their own countries, it is not too much to say that decisions taken at these meetings have a better than average chance of being translated into NATO policy.

Seven members of NATO, Britain, France, West Germany, Italy, Belgium, the Netherlands, and Luxembourg are also members of the Western European Union, a grouping formed in 1954 on the rejection of the European Defense Community. While the military functions of the WEU are largely nominal, it does furnish an organizational link between Britain and the six members of the European Community. Furthermore in debating the issues of special concern to those seven countries, its Assembly furnishes a valuable sounding board for the reflection of WEU parliamentary opinion which is valuable to NATO as a whole.

Whatever successes have been achieved with respect to military coordination, in an institutional sense the postwar economic cooperation of the Western allies has been even closer. First there was the Organization for European Economic Cooperation (OEEC), established by the recipients of Marshall aid to allocate that assistance. With the passage of time there have come the European Coal and Steel Community, the European Atomic Energy Community (Euratom), and the European Economic Community (Common Market). All of these were composed of the same six nations, France, Italy, West Germany, the Netherlands, Belgium, and Luxembourg. Unable to accept the supranational principles and the common external tariff of the Common Market, the so-called Outer Seven, Britain, Sweden, Denmark, Norway, Austria, Switzerland, and Portugal formed the European Free Trade Association (EFTA). But the success of the Common Market has been so great, and the pressures so strong, that Britain has not applied for membership in it, as have Denmark and Eire. The European neutrals are exploring ways to join without assuming political obligations. A larger trading organization, perhaps one embracing all of Europe, seems in the offing. Whether it will constitute one gigantic Common Market remains to be seen. In any event, the members of both the Common Market and EFTA are also members of the new Organization for Economic Cooperation and Development, which is aimed at harmonizing Western trade and development policies. There is no question but what the trend of Western policy is in the direction of greater collaboration. The problem is one of the best instrumentalities to achieve it.

The Common Market, Euratom, and the Coal and Steel Community are known collectively as the European Community, and they have several collective institutions. One of these is the European Assembly, composed of 142 delegates chosen from and by the national parliaments. Another of these is the Court of Justice, composed of seven judges appointed by agreement among the member governments, which may accept cases brought by private individuals and firms as well as governments or agencies of the Community. What might be called the executive agencies of the three communities are separate, however. The Common Market has a Council, composed of one representative of each government, and a Commission of nine members, chosen by agreement among the governments. The High Authority of the Coal and Steel Community consists of eight members appointed by the governments, with a ninth selected by these eight. The administration of Euratom resembles that of the Common Market.

But the institutions of the European Community are notable in that they break away from the old formulas of international organization. The supranational principle, whereby states surrender full jurisdiction over some areas of national activity to an international organization, is present both in the treaty establishing the Coal and Steel Community and in the Treaty of Rome. It is reinforced by the power of majority rule, rather than the rule of unanimity, over a considerable range of the Community's activity. Thus the Treaty of Rome states that "except as otherwise provided," the decisions of the Council are to be taken by majority vote. This majority is weighted in some matters in favor of France, Germany, and Italy, but the fact remains that no single Council member can veto any action requiring this prescribed majority. The principle of majority rule also applies to many of the actions of the Commission. As far as the Assembly is concerned, it too, is largely to act on the basis of majority vote. Once again, the larger countries receive greater representation but the single country veto is ruled out. In a principle carried forward from the Coal and Steel Community, the Assembly can force the resignation of the Commission by a vote of censure passed by a two-thirds majority. Thus the principle of ministerial responsibility has been introduced into an international organization.

According to article 138 of the Common Market Treaty, the Assembly is to draw up procedures for direct election by identical procedures in all member states. On May 17, 1960, the Assembly called for the implementation of this provision. When that takes place and the Assembly is directly responsible to the people of the member countries, it may well exercise greater independence than is now the case, and take on much more of the character of a true supranational European parliament.

One more vehicle of European collaboration is the Council of Europe. It goes back to 1949, and places its emphasis on realizing the ideals of the European heritage. At one time there was considerable hope that the Council would actively promote European cooperation in a number of fields, but aside from occasional lively debates in its Consultative Assembly, it has fallen into desuetude.

B. The machinery evaluated

Any evaluation of the West's machinery for military cooperation usually gets enmeshed in a discussion of NATO's strategy and goals. But politico-military considerations aside, the operation of the North Atlantic Council tends to be obscured, while the NATO commander in Europe often seems thrust into the role of political coordinator. Furthermore, there is some dissatisfaction among the smaller NATO powers, led by Canada, with the predominant part played by Britain, France, and the United States in the formulation of NATO strategy. This combination of factors has led to the suggestion that NATO needs a new civil-military staff, composed of able and experienced people, to work under the direction of a revitalized North Atlantic Council.[11] SHAPE could thus concentrate on its operational responsibilities, and broader consultation could take place on matters of interest to NATO but lying outside the NATO geographic area.

There have been other suggestions designed to strengthen NATO's administrative structure, i.e., that General Norstad be given larger authority, so as to have direct command over forces of any member of the alliance in time of peace, or that the members of NATO Council be men of the highest political standing in their own countries, etc. But apart from general suggestions for improved consultation, these other remedies tend to look strictly to improving NATO's operational efficiency, not to the wider goal of Atlantic unity. Attainment of that goal requires considerable adaptation of NATO machinery, or the actual creation of something new.

It is here that the supranational institutions of the European Community have something to offer. For the binding supranational aspects of the Rome treaties and the Schuman plan can convey a sense of unity and purpose to the Atlantic Community as a whole. This is not to say that the supranational institution of the new Europe can be superimposed on NATO and OECD, linking the two in a new Western federation. Rather, some of the precedents found in the Europe of the Six might be modified to suit the purposes of broader collaboration, or where useful, preserved intact for the same purpose.

For example, the principle of majority vote might be adopted for many of the decisions of the North Atlantic Council, or for any new Council making joint decisions for NATO and OECD. It has been suggested that a NATO Advisory Commission be set up, similar to the commissions of the Common Market or Euratom, but without their executive powers, and directed to serve the interests of the alliance as a whole.[12] Such a commission might be authorized to advise on matters covering the entire political-economic-military spectrum of Western interests. A strong political stature for such a commission might make it difficult for any single government to block its recommendations. The NATO parliamentarians group might be expanded to take in representatives from Ireland, Spain, Sweden, and Switzerland and Austria, countries that are in the OECD, but not in NATO. Or, the provisions for the direct election of the European Assembly might be a real Western parliament, voicing the fears and aspirations of all Western peoples, which might have a considerable influence toward the formu-

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[11] Buchan, Alastair, "NATO Awaits the Word From Washington." The Reporter, June 8, 1961, p. 21.

[12] "Possible Approaches to Greater Political Unity Within NATO by Adoption of European Methods," memorandum for Citizens Commission on NATO, by Livingston Hartley. Sept. 29, 1961.

lation of common Western policies. Last but by no means least is the suggestion that a real "Atlantic authority" be set up. This would be the most far-reaching solution, for whether such an authority was a small executive body, or some sort of a parliamentary body, or a combination of the two, to be effective it would have to possess supranational power not only over broad areas of economic policy, but also over matters of basic political interest to the member nations, precisely the area in which states have traditionally offered the sternest resistance to any invasion of their national prerogatives.

Prior to the adoption of new institutions or the adaptation of old ones, however, there has to be a substantive decision that further Western integration is required. Our Government appears to have made such a decision. Perhaps the basic reason for this is the consequences that could follow if the United States were not prepared to proceed.

IV. THE CONSEQUENCES OF A STANDSTILL

Should the West falter at this stage in its progress toward an Atlantic Community, the consequences could be most serious in the contest with communism, and they could be equally serious insofar as the United States is concerned in terms of its status and influence within the Western bloc. The overriding Western interest, of course, is to maintain the closest possible unity with which to confront the Soviet Union and the Warsaw powers. NATO is predicated on the assumption that the most effective way to meet the Soviet military threat is through the formulation and execution of a common Western strategy. But the Soviet threat, as is well realized, is many faceted and centrally directed. It maintains a facade of monolithic unity (which shows signs of cracking) which in the nature of the case the West cannot do. Within the Western alliance there are bound to be conflicts, both of national interests, and over concepts for dealing with specific crises as they arise. These have to be expected. But if the progress toward the institutionalization of coordinated Western strategy is arrested at this point, the impression will spread that the West is fundamentally at odds within itself, that it is unsure of its purposes, that it cannot cope with the march of communism. The Communists will be sure to claim that such an inability to construct an overall Western policy validates the Leninist thesis of irreconcilable conflicts within the capitalist camp.

Furthermore, a halt at this juncture may well have cumulative results. Present and future attempts to broaden NATO consultations to include problems of Asia and Africa will come up against a residue of suspicion. The weapon of a coordinated Western trade policy will be shunted aside, and in its place there might arise a situation in which it is the United States versus the Common Market, or an American common market versus a European common market. Such a condition would be undesirable for both political and economic reasons.

For it would mean tossing away a golden opportunity to tie the underdeveloped areas somewhat more tightly to the West. This is particularly true in the case of Africa, where the Common Market gives preferential treatment to its associated territories, principally the former French African colonies. The Soviet Union is extremely active in this area, and is making every effort to influence the African pattern of trade in a more easterly direction. But with the United States in some form of closer relationship with the Common Market, the pull of the West should be too strong. At the same time, it should be easier to work out arrangements which will mitigate the effect of this preferential African position on Latin-American trade.

In addition, any halt now will hamper the development of a coordinated Western policy on foreign aid, and might even doom the chances for such a program. The result could be a greater aid expenditure by this country than might otherwise be necessary.

In any event, the United States faces formidable competition from the Common Market. This competition has led many people to argue that the United States must work with the Common Market, lest we split the West and unwittingly strengthen the Soviet bloc. William L. Clayton, in recent testimony before a subcommittee of the Joint Economic Committee, stated that if we did not join the Common Market now, in 2 years we would be compelled to join or face the loss of our export markets. President Kennedy, in his speech to the AFL–CIO, noted that the United States earns $5 billion a year on trading account, but that $3 billion of these funds go to support our armed forces abroad. Any loss in export markets might force the United States to reduce its military commitments abroad, with a resulting unfavorable effect on our own security and that of the whole free world. That the possibility of a serious decline in our export markets is indeed serious can be seen from the fact that in a few years the Common Market will have a mass production and distribution area larger than the United States and bound together by a common tariff. This will be the case if the rest of the EFTA countries follow Britain and are taken into the Common Market.

President Kennedy also pointed out that American farmers have a great stake in Western Europe. Two billion dollars of our foreign exchange comes from our sale of agricultural products in that area. Yet the agricultural resources of Western Europe are growing, and the Common Market is mindful of the agricultural interests of its associates. If Britain gets into the Common Market, and if Common Market preferences are extended to cover Commonwealth agricultural products, the United States would find itself in a most difficult position. The point is that we can negotiate from strength now. As the President pointed out, this will be increasingly difficult in the future.

Finally, there is one more political point to be considered. The United States has been the leader in the Western alliance because it has been the most powerful state in that alliance, politically, economically, and militarily. As was pointed out earlier, political power and economic power go hand in hand. It is important for the United States to avoid creating a situation where an economically powerful Western Europe is tempted to pursue an independent foreign policy. Such a Western European "third force" might mitigate the rigor of the cold war, but it would not weaken Soviet determination to impose its system on the world. Indeed it might hamper this country's efforts to defeat communism by obscuring the nature of the challenge. These eventualities cannot be dismissed when one speaks of the need for greater Western unity.

Fortunately, the people of Western Europe, and indeed the majority of the people of the free world, share the same ideals, and the same abhorrence of totalitarianism. In these ideals there is the basis for a broad Western community. Insofar as the Atlantic powers are concerned, there is an interdependence of their economies and their defense, in addition to the common heritage of freedom and respect for the rule of law. It is in the economic field that the greatest degree of Atlantic integration has gone forward. But this integration has taken place as much for political as economic reasons. The United States encouraged the creation of the Common Market, assuming that from European economic strength would flow political stability, thus blunting, hopefully for the foreseeable future, the challenge of communism in Western Europe.

This victory at present seems won. But the Soviet challenge is now more subtle, and concentrates in more vulnerable areas, the emerging states of Asia, Africa, and Latin America. Yet the West has the economic strength to meet this challenge. As Dean Acheson has said, "Together, Western Europe and North America can forge a free-world economic system which nothing can equal and the power of which nothing can threaten. But they must perform this task together. Separately they cannot." [13]

As matters stand, the United States is clearly faced with the problem of whether to link itself closely to the Common Market or not. That problem is immediate, and should be translated into a legislative struggle in the near future.

Beyond that, however, stands the broader question of the future form of Western association. That some new techniques will be adopted seems likely. The question is whether currently existing machinery will be overhauled, to provide for closer consultation and collaboration over a wide range of policy issues, or whether some form of supranational direction will be created to coordinate a Western counterstrategy to the aggressive thrust of communism. Both sides have their advocates. In the months and years to come this issue is likely to become more prominent, and the line dividing public opinion more sharply drawn.

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[13] New York Times, Dec. 6, 1961, p. 1.