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FOREIGN ECONOMIC POLICY FOR THE 1960's

REPORT

OF THE

JOINT ECONOMIC COMMITTEE

TO THE

CONGRESS OF THE UNITED STATES

WITH

MINORITY AND OTHER VIEWS

Printed for the use of the Joint Economic Committee

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(Created pursuant to sec. 5(a) of Public Law 304, 79th Cong.)

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LETTER OF TRANSMITTAL

JANUARY 17, 1962.

To the Members of the Joint Economic Committee:

Transmitted herewith for the use of the members of the committee, and other Members of Congress, is a report of the Subcommittee on Foreign Economic Policy titled "Foreign Economic Policy for the 1960's."

Appended also are minority and supplemental views of the members of the subcommittee.

Sincerely,

WRIGHT PATMAN,
Chairman, Joint Economic Committee.

LETTER OF SUBMITTAL

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
January 17, 1962.

Hon. WRIGHT PATMAN,
House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: Submitted herewith is a report of the subcommittee titled "Foreign Economic Policy for the 1960's," which was adopted by the subcommittee on January 16.

Minority and other views are also appended, as is an introductory statement by me.

Sincerely,

HALE BOGGS,
Chairman, Subcommittee on Foreign Economic Policy.

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Union Calendar No. ___

87TH CONGRESS 2d Session } HOUSE OF REPRESENTATIVES { REPORT No. ——

FOREIGN ECONOMIC POLICY FOR THE 1960'S

JANUARY —, 1962.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. PATMAN, from the Joint Economic Committee, submitted the following

REPORT

[Pursuant to sec. 5(a) of Public Law 304 (79th Cong.)]

INTRODUCTORY STATEMENT BY REPRESENTATIVE HALE BOGGS

Events of recent years have brought the American people a new awareness of our interdependence with the rest of the free world, causing them to give increasing attention to our foreign economic policy, and to question both the direction and effectiveness of this policy. Thus, our balance-of-payments problem which reached a "crisis" in the fall of 1960, after it had been mounting, largely unnoticed, through 1958 and 1959, has brought about a much wider appreciation of the interdependence between the economy of the United States and the economies of Western Europe. Indeed, because of this problem, U.S. monetary and fiscal policies having a profound effect on jobs and production at home have been modified, not necessarily to best meet the needs of the domestic economy, but to adjust to interest-rate and other policies prevailing in Europe.

The Berlin crisis raised quite serious questions in the minds of the American people concerning the ability of the Western allies to coordinate economic policies to meet a new aggression from Russia.

Finally, the dramatic progress which the Common Market nations of Europe have made toward achieving economic integration—promising, possibly, an ultimate United States of Europe—has brought about a realization that the U.S. position in world affairs is being radically altered by events outside our borders.

It has become clear that the United States is no longer the predominant industrial producer and trader in the free world as was the case in the early postwar years. An awareness has grown, in some circles at least, that economic integration of Western Europe promises to bring about a Common Market with more consumers than our own and a productive strength at least approaching our own.

While the tremendous upsurge of economic activity and technological progress in the Common Market has been a most heartening victory for the free world, this victory has carried with it an awareness that new economic relationships are taking shape which threaten U.S. interests and threaten to divide the free world. Most particularly, the Common Market countries have embarked upon a program to eliminate tariff and other trade barriers among themselves, while adopting a common external tariff. This threatens to exclude the United States from many of its largest foreign markets. Such a development, if it is allowed to occur, can only bring a serious worsening of our balance-of-payments position, perhaps forcing the United States to repudiate its military and other commitments abroad and assume a posture of isolation.

Serious questions have also been raised concerning the effectiveness of our foreign aid program.

Against this background of changing tides and increasing interest in foreign economic policy, the Joint Economic Committee established, at the beginning of the present Congress, a Subcommittee on Foreign Economic Policy "* * * to conduct studies and hold hearings on such subjects as trade, trade agreements, international investments, U.S. imports and exports and U.S. foreign aid."

In the process of formulating a precise program, the subcommittee met (on May 9, 1961) with a group of distinguished experts on various aspects of foreign economic policy, invited from private research, university and business organizations, to discuss with the subcommittee the problems which it could most usefully explore. At the conclusion of this meeting the subcommittee decided that its inquiry must, to be most useful, cover the whole scope of foreign economic policy as an integrated whole, rather than particular aspects of the topic. In addition, it was agreed that the subcommittee would commission experts to prepare study papers covering all aspects of our foreign economic policy problems, and that these study papers would be published for consideration by Members of Congress and the public at large before subcommittee hearings were held. Tentative dates were set which called for the study papers to be completed by the middle of August, for the subcommittee to hold hearings in the latter part of August and to make a report by Labor Day.

At its next meeting, on June 16, the subcommittee reviewed and approved the assignment of study papers to a number of experts who had expressed a willingness to volunteer their services. Among these (agreeing to submit a joint paper) were Hon. Christian A. Herter, Secretary of State in the Eisenhower administration, and Hon. William L. Clayton, Under Secretary of State for Economic Affairs in the Truman administration.

Few of the prospective authors of the study papers had felt that authoritative studies could be completed by mid-August, however, and the subcommittee agreed that the date would be moved to October 1, after which the subcommittee would schedule hearings for some time in October.

By early September it had become evident that several of the subcommittee members had commitments, including commitments to attend foreign policy meetings abroad, which would interfere with hearings in October. Accordingly, after consultations with several of the Members, the subcommittee chairman wrote each of the Members, on September 12, announcing a meeting with the authors of the study papers for October 6, and setting the dates for hearings during the 2-week period to begin December 4.

At the October 6 meeting an understanding was reached with the authors of the study papers that their papers would be published at intervals during November, and that they would be invited before the subcommittee to testify during the 2-week period beginning December 4.

During November the subcommittee published a series of 10 study papers which, on the whole, comprise both an authoritative and distinguished analysis of the foreign economic policy problems of the free world. Similarly, during its 2 weeks of hearings which began December 4, the subcommittee was privileged to have a most distinguished group of witnesses.

Manifestly, the issues which the subcommittee has had under consideration are vital to the destiny of the United States and the free world. Accordingly, in calling for assistance, both in the preparation of the study papers and for disinterested testimony, calls were issued for the best brains and experience our country has to offer on the subject under review. These individuals responded most generously, and have contributed countless hours of their personal time and, in many instances, considerable personal expense.

Similarly, in seeking the views of business, labor, and farm organizations the call was not just for a group point of view but for spokesmen fully qualified to offer authoritative judgments and notably capable of the highest statesmanship.

The Committee's witnesses, grouped under the topics on which they testified, were as follows:

FOREIGN ECONOMIC POLICY

OBJECTIVES AND WORLD PROBLEMS

Christian A. Herter, cochairman, U.S. Citizens Commission on NATO; Secretary of State, 1959–61.

Alfred C. Neal, president, Committee on Economic Development (CED).

Jacob Viner, Walker professor of economics and international finance, emeritus, Princeton.

William L. Clayton, cochairman, U.S. Citizens Commission on NATO; Assistant Secretary of State for Economic Affairs, 1944–46; Undersecretary of State for Economic Affairs, 1946–47.

Dean Acheson, attorney at law, former Secretary of State.

Henry C. Wallich, professor of economics, Yale; member, President's Council of Economic Advisers, 1959–61.

PROBLEMS OF EUROPEAN INTEGRATION

Robert R. Bowie, director, Center for International Affairs, Harvard, and Dillion professor of international relations; Director of Policy

Planning Staff, Department of State, 1953–55, and Assistant Secretary of State for Policy Planning, 1955–57.

Theodore Geiger, chief of international studies, National Planning Association.

S. Clark Beise, president, Bank of America National Trust & Savings Association.

J. Frederic Dewhurst, economist, 20th Century Fund (recent publication: "Europe's Needs and Resources," 20th Century Fund study, 1961).

INTERRELATION OF JAPAN AND WESTERN TRADE POLICIES

Warren S. Hunsberger, professor of economic programing, Institute for International Development, School of Advanced International Studies, the Johns Hopkins University.

Jerome B. Cohen, dean, graduate studies, the Bernard Baruch School of Business and Public Administration, University of the City of New York. Author of "Japan's Economy in War and Reconstruction," 1949, and "Economic Problems of Free Japan," 1952.

UNDERDEVELOPED COUNTRIES

Raymond F. Mikesell, director, Institute of International Studies, and Overseas Administration, W. E. Miner, professor of economics, University of Oregon.

Louis H. Bean, economic consultant; economic adviser to the Secretary of Agriculture, 1933–53.

Warren Lee Pierson, director, Trans World Airlines; President and General Counsel, Ex-Im Bank of Washington, 1936–44.

Paul R. Porter, president, Porter International Co., formerly Regional Administrator of Marshall Plan Organization in Europe; U.S. Representative in the Organization for European Economic Cooperation (O.E.E.C.); and U.S. Representative in the U.N. Economic Commission for Europe.

ASSISTANCE FOR READJUSTMENT OF DOMESTIC RESOURCES

Otto R. Reischer, economic consultant, Washington, D.C.

Charles H. Percy, president, Bell & Howell Co.

Roy Blough, professor of economics, Graduate School, Columbia University; member, President's Council of Economic Advisers, 1950–52.

TRADE WITH THE SINO-SOVIET BLOC

Samuel Pisar, member, law firm of Kaplan, Livingston, Goodwin & Berkowitz, Los Angeles, Calif.; previously consultant to State Department; President's Task Force on Foreign Economic Policy; legal staff of the United Nations; fellow, Russian Research Center, Harvard University.

Robert L. Allen, professor of economics, University of Oregon, coauthor of subcommittee's study "Economic Policies Toward Less-Developed Countries"; author: "Soviet Economic Warfare, 1960"; contributor to Joint Economic Committee's studies "Comparisons of the United States and Soviet Economies."

Emilio G. Collado, director, Standard Oil Co. (N.J.).

COMMERCIAL POLICY

Peter Kenen, associate professor, economics, Columbia University.
Morris C. Dobrow, executive secretary, Printing Papers Manufacturers Association, and public adviser to U.S. GATT delegation.
Julius Stulman, president, Stulman-Emrick Lumber Co.; publisher, "Main Currents in Modern Thought."
Peter R. Nehemkis, Jr., counsel, Whirlpool Corp.
T. V. Houser, vice chairman, CED Research and Policy Committee; retired chairman, Sears Roebuck & Co.
A. B. Sparboe, vice president, Pillsbury Co., member, National Chamber of Commerce, foreign commerce committee, foreign policy committee, National Chamber of U.S. Chamber of Commerce.
Clay Shaw, director, International Trade Mart, New Orleans.
Raymond Vernon, professor of international trade and investment, Harvard Business School.
O. R. Strackbein, president, Nationwide Committee of Agriculture, Industry and Labor, Washington, D.C.
Herbert E. Harris, second assistant legislative director, American Farm Bureau Federation.
Irving Kravis, professor of economics, Wharton School of Finance and Commerce, University of Pennsylvania.
Bert Seidman, economist, department of research, AFL–CIO, public consultant to U.S. delegation to GATT.
Hon. George W. Ball, Under Secretary of State.
Hon. W. Willard Wirtz, Under Secretary of Labor.
Hon. Edward Gudeman, Under Secretary of Commerce, with a panel of Commerce Department officials.

It is most gratifying to acknowledge the public service which the study paper authors and the witnesses have contributed in bringing about a better understanding of the United States economic role in the free world and the issues which confront us all.

(Signed) HALE BOGGS,
Chairman, Subcommittee on Foreign Economic Policy.

PART I: TIME FOR DECISION

In 1962 Congress faces its most important decisions on foreign economic policy since the Trade Agreements Act of 1934. The practical achievements of the European Economic Community (popularly known as the Common Market) present the United States with an entirely new set of economic problems, affecting the whole range of our foreign policy.

The Common Market today is a fact, not a theory. As the second part of this report attempts to illustrate, the Common Market has set in motion forces which can, if we do nothing, isolate us from our major allies. Communist imperialism will do everything in its power to exploit these divisive forces, for communist imperialism has a vested interest in every issue which tends to divide the free world. At the same time the Common Market presents us with a unique opportunity to take a giant step in the direction of a new Atlantic economic partnership out of which can grow new and decisive strength in our economic battle with communism.

Gov. Christian A. Herter, Secretary of State in President Eisenhower's second administration, put the matter simply in his opening statement before the subcommittee:

> I can think of nothing that the Russians would like better than to see a first-rate trade war 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 of increasing trade on both sides, helping our balance-of-payments picture, and bringing a closer 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.[1]

Governor Herter's theme was echoed by the other distinguished leaders of business, labor, agriculture, the professions, and Government who testified before the committee. The fact that the United States in the 1960's will no longer be the leader among many in the Atlantic community, but instead one of two economic giants which together hold the bulk of the free world's productive power was regarded by the witnesses as a great opportunity to consolidate the strength and purpose of free nations.

There was virtually unanimous opinion that an immediate revision of our trade legislation was necessary as a start toward exploiting this opportunity. In his state of the Union message, President Kennedy asked for—

> * * * a new law—a wholly new approach—a bold instrument of American trade policy. Our decision could well affect the unity of the West, the course of the cold war and the growth of our Nation for a generation or more to come.

[1] Hearings before the Subcommittee on Foreign Economic Policy of the Joint Economic Committee, Congress of the United States, December 4–14, 1961, p. 12.

Trade is seen by the President, as well as by the witnesses before this subcommittee as the key to foreign economic policy in the 1960's. We must examine why this is so.

While there is no question of joining the Common Market the decisions Congress and the American people face affect far more than our traditional concern with tariffs and trade barriers, far more even than our newer concerns with foreign aid and export controls. The opportunity to form a trade partnership with the Common Market involves bringing together the foreign and domestic policies of this country at dozens of different points. Such a partnership means accepting a degree of economic interdependence between ourselves and our major allies which is something entirely new in the American experience.

A commitment to freer trade is not just a commitment to lower tariffs. It is also an implied commitment to a rate of growth which approximates that of our partners; an implied commitment to a farm policy which encourages competitive trade and discourages burdensome surpluses; an implied commitment to a monetary policy which encourages growth while preserving the purchasing power of the dollar; and an implied commitment to a fiscal policy which stimulates high levels of employment and economic productivity.

These are not formal commitments for which treaties would be negotiated or legislation asked. They are simply the requirements for doing business in an Atlantic partnership. We cannot take advantage of the tremendous new trading opportunities which the rapid growth of the Common Market affords us, if our economy is loping along at only half their rate of growth; it is, after all, the rate of growth even more than the level of tariffs which determines whether world trade expands or not. We cannot maintain and expand our farm exports simply by lowering tariffs if we and our trading partners continue to fence off our farm economies with ever higher subsidies and ever smaller import quotas. It does little good to lower trade barriers if our trading partners lose confidence in our money or we in theirs.

If this kind of economic interdependence is new to most Americans, it is a very familiar state of affairs in Europe. The people of Western Europe know that they are dependent for their livelihood on foreign trade. When deciding their own domestic policies, they have become used to paying attention to what their neighbors do and think because they have all experienced the unpleasant fact that bad policies at home can bring swift retaliation in the form of payments difficulties with their neighbors. Their decision to form a Common Market represents, in economic terms, a decision to make a virtue out of the fact of economic interdependence. The people of Europe have decided to try to solve their domestic problems—to better earn a high standard of living and better develop national economic strength—through cooperation in the Common Market and, in the words of Prime Minister Macmillan, through taking in "a brisk shower of competition."

Europe, through the Common Market, is rediscovering the benefits of a very old economic principle, namely, that rising productivity and increasing economic opportunities stem from an increasing specialization or division of labor—and from a wide area of competition to stimulate the energies and inventories of free enterprise. The very rapid rates of growth on the European Continent in recent years illustrate how quickly the benefits can be realized once the principle is accepted. The Europeans have learned the lesson of America's broad, competitive markets.

The United States is not in the same position as the individual nations of Europe before the Common Market was formed. We are not nearly so dependent on imports and exports for our livelihood. But few Americans any longer seriously question the fact that we have irreducible commitments around the world, military commitments and commitments to new nations which are trying to engineer in freedom an escape from the worst ravages of poverty. To fulfill these commitments the United States must pursue an open economic policy toward other nations. We must look principally to our exports to pay not only for the imported raw materials we need, but also to maintain our political and military position in the world. We either earn these things principally with our exports, or we will be forced to abandon positions we can ill afford to lose.

At the same time our currency, in addition to gold, is the major means of maintaining financial order in the world; nations the world over hold their savings in dollars, and they finance a good part of their trade in dollars. Quite naturally the governments and financial leaders of these nations have the keenest sort of interest in the domestic economic policies of the United States for it is those policies which determine the purchasing power of the dollar.

Considering how long it has been since the American economy faced serious competition from within the free world, it is perhaps natural that some Americans feel or hope that decisions can be postponed.

In recent months voices have been raised here at home to question seriously the ability of our economic system to stand up to the new, competitive demands on it. There have been claims that our exports are being "priced out" of world markets and that we cannot compete with nations having wage levels lower than our own. We have heard doubts raised about our ability to meet the foreign commitments we have undertaken. The fact that in recent years there has been a steady and stubborn deficit in our balance of payments which has resulted in a considerable transfer of gold abroad has tended to stimulate the doubters and give substance to their fears.

It is undeniable that the rise of strong economic competitors within the free world is going to make adjustments in the American economy necessary. It should be obvious, however, that if we are not to jeopardize seriously our political and military position in the world, to say nothing of our standard of living and our rate of economic growth, we must welcome these adjustments, not deplore them.

The subcommittee agrees with the witnesses who have stressed the great benefits to be had from accepting the challenge of the Common Market. The first and most direct benefit will be to our export industries. As Under Secretary of State George Ball said in his statement before the subcommittee:

> 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 American producers have the opportunity

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> 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.[2]

For the first time in our history our exporters have the opportunity to penetrate a modern mass market which is very similar to our own. The greater this opportunity, the stronger our whole economy will be, and the better assurance we will have that our living standards will continue to rise. Our export industries are our most efficient producers; they pay the highest wages. We know they are efficient for the simple reason that we are able to sell in open competition abroad so much more than foreign producers sell to us. Over broad categories of machinery, chemicals, electrical and electronic equipment, farm products, and even textiles, our exports are much greater than our imports. In competition with the Common Market nations, there is every reason to believe these industries will expand and multiply. Furthermore, the richer the average European gets, the more kinds of American products we can expect to sell in Europe, and the more incentive there will be to develop new products here.

Some striking examples of the market potential in Europe for American exports were presented to the subcommittee by Peter R. Nehemkis, Jr., counsel of the Whirlpool Corp. In his testimony, Mr. Nehemkis said:

> 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" it is 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.[3]

To deny our export industries the best opportunity we can negotiate to compete in the Common Market would make as little sense as it would to deny a star runner the right to compete in a track meet because he runs too fast.

[2] Hearings, op. cit., p. 348.
[3] Hearings, op. cit., p. 240.

The economics of freer trade with the Common Market means for the American economy relatively more employment and investment in our high-wage, high-efficiency industries. Over time it may mean relatively less employment and relatively less investment in low-wage, less-efficient industry than would be the case without an increase in exports. These marginal shifts go on in our economy all the time under the stimulus of domestic competition. Workers are dislocated, some businessmen go out of business, when others invent a new product or a new production process. So long as our economy is expanding at a rapid rate, we take these dislocations in our stride for change is the order of the day under the free enterprise system.

When dislocations occur because of increased imports, the results are exactly the same. American consumers and producers are accepting a product produced more efficiently abroad in return for a greater opportunity to sell abroad more of that which we produce most efficiently. Again the displacement of workers and industrial plant caused by this kind of change rarely involves hardship when our economy is expanding at a healthy rate.

There can, however, be cases of real hardship arising from import competition. Congress recognized that even as a result of domestic competition when it passed the Area Redevelopment Act last year. In part 3 of this report we recommend a policy, called trade adjustment assistance, for cases of genuine hardship stemming from import competition. We believe that there are a number of aids which the Federal Government should be empowered to use in cases where workers and individual factories face prolonged periods of idleness because of increased imports. These aids would be used not to protect uncompetitive business practices; they would be used to cushion the change needed for more efficient production or for retooling and retraining for a new kind of production. A decision to provide trade adjustment assistance is a necessary part of any program of freer trade. By aiming at adjustment rather than protection it is quite in keeping with an open economic policy toward other nations.

The subcommittee believes that the general economic disciplines inherent in an Atlantic partnership should also be welcomed. The overall efficiency of the American economy has been a matter of congressional and public concern for many years now, particularly since the adoption of the Employment Act of 1946. Both Congress and the Executive are pledged to promote policies which encourage growth, high employment levels, and stable prices. The fact that closer economic relations with the Common Market will add another powerful incentive toward the adoption of such policies should be welcomed.

Just as the individual states of Europe have made a virtue out of their economic interdependence, so the United States can and must make an economic virtue out of our interdependence with Europe. The stage is admirably set for the growth of a close economic partnership. The time is ripe for action. The economic principles which are being rediscovered in Europe are, after all, the guiding principles of the American enterprise system. At the same time our economy now needs the "brisk shower of competition" which Europe has taken.

Just as economic forces have been the prime forces working for European integration, so these same forces give us a unique opportunity to start the growth of an Atlantic partnership. In pursuing this course we must assure the rest of the free world that our aim is not to form an exclusive club but to form an association better designed to serve the needs of free nations everywhere. We will need to be on guard against policies and pronouncements which seem to ignore the legitimate aspirations of the free nations of Asia, Africa, and Latin America. We must make it clear that a prime purpose of Atlantic cooperation is to give us more strength to aid the development of these countries.

Indeed, the major aim of economic cooperation in the Atlantic Community should be to pool our resources and skills in order to assure the advance of freedom everywhere. Ours must be an open partnership, designed to preserve diversity, not to enforce uniformity. It is only as we courageously accept the increasing interdependence of our freedom with others the world over that we can preserve our own freedom and national independence. Such is the price of technical and economic progress in our time. The alternative is simply to deny the very idea of progress.

PART II: THE CONSEQUENCES OF INACTION

January 1, 1958, will go down as one of the pivotal dates in history. On that day the Treaty of Rome, signed by six European nations, France, Germany, Italy, Belgium, Holland, and Luxembourg, went into effect. The signatories, among other things pledged to:

1. Remove tariffs, quotas, and other trade barriers among themselves;
2. Create a uniform external tariff system to regulate trade between themselves and the rest of the world;
3. Abolish restrictions on the movement of labor, capital, business enterprises and services within the new community;
4. Coordinate monetary and fiscal policies in order to promote high employment and stable prices in each country;
5. Establish a common agricultural policy.

The original timetable for bringing about a full economic community called for a 12- to 15-year period of adjustment, but this timetable is already being shortened in some important respects. While there are a great many obstacles still to be overcome, the vitality of the Common Market idea has already in 4 years begun to transform the face of Europe. The best indication of how far the theories behind the Treaty of Rome have already been put into practice was the decision last year of the United Kingdom Government to break with centuries of tradition and apply for membership on the basis of full acceptance of the treaty's provisions.

For U.S. foreign economic policy, the Treaty of Rome marked the closing of one chapter and the opening of a new one. With the beginning of the Marshall plan the United States undertook to promote the full integration of Western Europe. We consistently and persistently encouraged the nations of Europe to compete in a single unified market. Our aim was twofold; to curb the kind of European nationalism which led to two world wars, and to help create an environment wherein Western Europe could grow strong enough to participate with us as an equal partner in the many enterprises which free nations must undertake to guard their security and prosperity in this century. The course of this policy has not been without its disappointments; for example, the European Defense Community and its companion Political Union proved in 1954 to be premature. But the progress of European economic integration from reconstruction, through financial independence to the Coal and Steel Community, the European Atomic Energy Commission and, finally, the Common Market has been spectacular. The chapter in American diplomacy which ended with the Treaty of Rome must be counted among the most successful in American history.

The new chapter opens with an entirely new situation. The United States, instead of being the leader of a score or more of industrialized nations bound together with loose ties of common interest and common heritage, faces the prospect of becoming one of two economic giants, dominating the affairs of the free world. The Common Market, enlarged by the United Kingdom and by other smaller European states, will embrace a population of about 250 million, or 25 percent more than the combined populations of the United States and Canada. It will have a gross national product of about $282 billion, or somewhat more than half of the combined gross national product of the United States and Canada.

The fact is, however, that if the United States does nothing, the Common Market will very likely grow apart from us, with possibly disastrous consequences. If we try to get by with policies which apply only in an Atlantic Community in which we were the only leader, we may find that the new giant on the other side of the Atlantic is either unable or unwilling to join in partnership with us.

As a first order of business, the consequences of inaction on our part should be examined coldly and honestly.

A. TRADE POLICY

There is a clear and present danger that if we do nothing about our trade policies, trade will become a new, divisive issue within the Atlantic Community. This is true both of trade in manufactured goods and trade in farm products.

The act of creating a Common Market in Europe contains within it a serious threat of discrimination against American exports. European producers (and British producers too, after Britain's accession) will receive an automatic advantage over American exporters in the new market. This automatic advantage stems from the simple fact that tariffs among Common Market members are being abolished, to be replaced by a common external tariff wall against the rest of the world. Where, for example, the American exporter and the German exporter used to compete on even terms in, say, the French or Italian markets, now the German exporter will have free access while the American will have to pay the new external tariff. Even if the new external tariff is lower than the tariffs it replaces the American exporter is still competing at a handicap with European producers who will have removed all tariff barriers among themselves

Just how much of a handicap this will be depends on many factors. The external tariff on a wide range of goods of interest to Americans (cotton, for example) will be low or nonexistent: Europe depends for its livelihood on a great variety of imported products, many of which it doesn't produce at all. Then again tariffs within the Common Market are not being swept away overnight but are being reduced by stages; the American exporter is not faced with the full handicap all at once. Finally, the Common Market has shown itself willing and ready to bargain down its external tariff in exchange for trading concessions with outsiders, particularly with the United States. The Common Market is not starting out as a protectionist organization.

Nonetheless, it is obvious that if we do nothing about our trade policies the seeds of discrimination against American exports, which are inherent in the creation of the Common Market, will take root and grow. Given enough time, this built-in discrimination could lead to a new vested interest in protectionism in Europe. The American export stake in Western Europe in 1960 amounted to more than $6 billion, or about a third of our total exports. If nothing is done to lower the external tariff around the Common Market, American industry may have difficulty maintaining this stake, much less expanding it. Our handicap is likely to be felt sooner rather than later. The Common Market timetable of tariff cuts has already been shortened twice; trade barriers among the original six members will have been reduced by 50 percent at the beginning of 1962 or nearly 2 years ahead of schedule. There is every reason to expect still further shortening of the timetable. While Britain and the other Western European nations have not yet joined the Common Market, they have been reducing tariffs among themselves and will have to match the Common Market reductions when they do join.

The problem of maintaining and expanding our farm exports to Europe (worth $1.7 billion in 1960) poses different and even more difficult problems. The Common Market has the aim of working out a common agricultural policy for all member countries, and to achieve this is perhaps the most difficult task they have set themselves. Like the United States, each member country now has a system, of one kind or another, designed to maintain farm incomes—price supports, subsidies, import restrictions and so on. To bring about policy changes adverse to the agriculture of any country will manifestly be a difficult political task. Yet recent announcements indicate that the Council of Ministers of Common Market countries have been able to reach agreement even on this difficult problem.

The United States faces the choice of offering to mesh its own agricultural policy with that of the enlarged Common Market or accepting almost certain discrimination on its farm exports. North American agriculture is by a wide margin the most productive in the world. Under an ideal system of free trade between North America and Europe, North American farms would quickly become the breadbasket of Europe. Growing most basic foods and fibers is a specialty in which North Americans have few serious competitors. But trade in farm products is anything but ideal, anything but free. Many of our own agricultural policies are in conflict with the ideals of free trade.

Reconciling our policies with those of the Common Market, enlarged as it will be by Britain and her Commonwealth connections, is going to be one of the biggest obstacles in the way of an Atlantic partnership. Clearly, the consequences of inaction on our part will be very serious.

B. RELATIONS WITH THIRD COUNTRIES

Built into the Common Market structure as it stands now are provisions which could result in serious discrimination against the trade of many countries with which the United States has very close relations, particularly Japan and the Latin American nations. These provisions allow certain countries in which members of the Common Market have longstanding interests to become associated states and have free access to the Common Market. In particular, France has demanded such privileges for her former colonies in Africa. Britain, on its accession, can hardly ask for less for her former colonies in Africa and may also ask for the same privileges for certain Commonwealth countries.

If these special privileges are allowed to multiply and to become vested interests, American policy may be seriously affected. First, we may be forced to grant similar concessions to free nations outside the Common Market system with the result that the free world trading system will become fragmented. If, for example, the African coffee bean has a prohibitive headstart over the Latin American coffee bean on its way to the European coffee drinkers' cups, Latin American trade could be seriously injured with inevitable demands on us for help.

The United States has a strong interest in seeing to it that the tropical products of all underdeveloped countries have equal access to the markets of the Atlantic Community, preferably free access. We also have an interest in seeing to it that the manufactured exports of Japan and the underdeveloped countries have a growing access to the markets of the Atlantic Community under conditions which allow the Atlantic nations to adjust to new competition in manufactured goods. The Japanese Government has undertaken a plan to double Japan's national income in the 1960's. If Japan is not accepted as a full trading partner among Western nations, she will be under great pressure to look to China for the markets and supplies necessary to fulfill her development plans. Many underdeveloped countries to which we are extending sizable amounts of foreign aid (India and Pakistan, for example) are just beginning to offer significant quantities of manufactured goods in world trade. Without the prospect of growing trade opportunities with the West, opportunities which must eventually allow these countries to pay for their own development needs with their own exports, much of the economic justification behind foreign aid will be undermined and these countries, too, would be forced to turn east for their markets.

Japan's needs for trading outlets are already keenly felt. While the trade in manufactured goods from underdeveloped countries is still very small, this trade will grow; in fact, the United States is encouraging such a growth under its foreign aid program. Trade in tropical products from the underdeveloped countries is at this time by far the largest source of development finance available to them; the problem of providing outlets for this trade at fair and reasonably stable prices is already a major difficulty bedeviling our relations with the underdeveloped countries. Each of these matters promises to become more of a concern to the United States if the Common Market develops too many special relationships with third countries.

Again there is reason to think that the Common Market members are ready to discuss these matters on an Atlantic-wide basis, providing the United States is willing to bargain. It is obvious that it will be easier to accommodate the trade of Japan and of the underdeveloped countries on an Atlantic-wide basis than it will be if Europe and North America each go their separate ways. It will be easier to cushion the effects of increased manufactured imports from Japan and the others through cooperating with the Common Market than it will be if they discriminate against some countries and we against others.

Not only is it clearly in our interest to see that these countries have fair and equal access to the Common Market; our hopes of sharing out the burden of foreign aid with our European allies depend on some trade settlement. There is reason to hope that the coming of the Common Market will raise both the capacity and the willingness of its members to increase their aid to underdeveloped countries. But this will not come about if the United States is not willing to bargain for it.

C. EAST-WEST TRADE

Finally, the consequences of inaction on our part may be serious in the matter of East-West trade.

For some time now the United States has been virtually "going it alone" in its policy toward East-West trade. Our trade with the Communist bloc has dwindled to insignificant proportions and we have followed a strict policy of export controls. Meanwhile the Communist bloc has been expanding its trade with the rest of the world. The Communists have clearly had two different objectives. On the one hand they have been anxious to speed up their own development plans by importing advanced industrial technology from the West. On the other hand they have been developing trade as a political weapon in their dealings with the underdeveloped countries.

While the bloc has shown itself capable of the most advanced technology in military science, its eagerness to import industrial technology from the West suggests at the very least that the Communist system does not generate industrial innovations at as rapid a rate as in the free economies of the West. The bloc's use of trade and aid as a political weapon in the underdeveloped countries is now a familiar story. Since trade is centered in state monopolies throughout the Communist bloc, the bloc has considerable flexibility in its purchases of internationally traded commodities, flexibility which can be used to disrupt markets, to relieve underdeveloped countries of embarrassing commodity surpluses, and to accomplish a variety of political objectives.

The evidence suggests that the Communists have gained considerable advantage on both these fronts. The list of their industrial exports from Western Europe in recent years, as given in evidence before this subcommittee, adds up to a significant advancement in the industrial development particularly of Russia. More than 200 bilateral trade agreements in force between the Communist bloc and free countries add up to a significant threat to free international trading patterns. The ability of the bloc's state traders to undersell private traders in any given transaction represents a serious potential for political and economic disruption in the future.

The evidence further suggests that Western Europe, anyway, gets far less in the way of long-term benefits from East-West trade than it gives. While in the short run, individual traders in Western Europe may realize useful profits from given transactions with the bloc, the things Western Europe imports in return are largely marginal. They can easily be replaced from sources of supply in the free world.

Western Europe, nonetheless, maintains a much easier attitude toward East-West trade than we do. Whether or not the Common Market tends to bring Europe and American policy closer together in this area is very problematical. It is unlikely to happen if the United States does not press the point. It is also unlikely to happen if the United States cannot demonstrate conclusively that the possible trading opportunities with the Communist bloc in the future are as nothing compared with the possible trading opportunities under an open Atlantic partnership.

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D. SUMMARY

Add together these potentially divisive economic issues and the sum is clearly enough to undermine the whole foreign policy of the United States.

The primary task of American diplomacy today is to weld together a large coalition of free nations on the basis of a common appreciation of the Communist threat and on the basis of a series of common undertakings to blunt that threat and assert the values of our own civilization. As military and paramilitary strategy becomes more and more confined by the mass destructive power of nuclear weapons, the economic undertakings of the free world become correspondingly more important. If America's first duty is to maintain our deterrent power and the nerve to use it if necessary, America's second duty is to use its wealth and ingenuity to maintain the balance of hope among free men and women the world over.

It has been a cardinal belief of our policy in the past that the integration of Western Europe will serve both these ends. We have believed that as Western Europe became a strong and coherent economic entity the nations of Western Europe would become more able to respond to the challenge of communism and more willing to participate as an equal with us in enterprises designed to meet that challenge and to extend the area of the world where free governments hold sway. It is possible that out of the Common Market there can grow such a partnership. But it will not come about automatically. Action on our part is required and required now.

PART III: OBJECTIVES OF FOREIGN ECONOMIC POLICY IN THE 1960's

A. TRADE POLICY: THE NEED FOR NEW AUTHORITY

1. The U.S. Government needs new authority to negotiate tariff cuts now because the existing authority has been virtually exhausted. The extension of the Trade Agreements Act in 1958 which expires this June authorized reductions in tariffs up to 20 percent over a 5-year period. For all intents and purposes this authority has been used up. During the period since the enactment of the 1958 legislation U.S. merchandise exports expanded by about $3.5 billion with most of the increase taking place in trade with members and prospective members of the Common Market. In the same period our merchandise imports increased only about $1 billion. This indicates the possibilities of freer trade with the Common Market. New authority is needed now to take a much bigger step in that direction.

2. New authority is needed now to negotiate a broad trade agreement with the members and prospective members of the Common Market. The major objective of this agreement should be to secure as liberal access as possible for American farm and factory exports. Any delay in providing this authority will greatly increase the risk that our exports to the Common Market will stagnate as the area of free trade within Europe widens and the new external tariff begins to take effect.

3. New authority to negotiate tariff cuts with the Common Market is needed now to help insure the successful completion of the negotiations forming that market. In the year ahead Britain and other European countries will be applying for membership in the Common Market and working out the many agreements necessary to reconcile their policies with the present members. These new applicants are certain to be influenced by the attitude of the United States. Hesitation on our part may complicate these negotiations. A clear intent on the part of the Congress to welcome the enlarged Common Market and to work for as wide a flow of trade as possible between Western Europe and North America will help speed the completion of economic integration in Western Europe.

4. New authority to liberalize trade is needed now to strengthen our balance of payments. Nothing would undermine confidence in the dollar more than a retreat or hesitation on our part now about the future course of our trade policy. Whatever the actions that may be needed to safeguard our balance of payments in the short run, in the long run it is our ability to maintain and expand our exports that gives others confidence in the strength of our currency and of our economy. The fact that the United States has maintained consistently a surplus of exports over imports—that we continue to export in manufactured goods about twice what we import in these goods—certainly does not suggest any deterioration in our competitive position in the world market. To assume such a deterioration by refusing now to further

liberalize our trade and open up new export opportunities for our farms and factories would be interpreted widely as a capricious act of weakness.

The need for a new kind of bargaining authority

5. A simple renewal of the Trade Agreements Act on the lines of the 1958 extension will not suit the needs of our foreign economic policy in the 1960's. The development of the Common Market will change radically the whole structure of the free world's trading system. A new economic unit, embracing perhaps a dozen advanced industrial nations, is forming whose trade will be greater than our own. Instead of conducting negotiations with each individual nation as in the past, we will have to negotiate with the new group as a whole. The traditional procedure of item-by-item bargaining over the thousands of products listed in our tariff schedule is clearly impracticable in these circumstances. The Common Market has discarded this procedure in liberalizing trade among themselves. We must fasion new bargaining instruments to meet the Common Market on its own ground.

6. Much greater authority is needed now than was needed in 1958. We must be able to offer negotiations consistent with the speed with which members of the Common Market are eliminating tariffs among themselves in order to maintain the recent expansion of trade between Western Europe and North America. Authority to reduce tariffs 20 percent over 5 years will not be enough.

7. The United States should be in a position to match the Common Market in the complete elimination of tariffs and other trade barriers over a wide range of products where we and they together have demonstrated our overwhelming technical superiority. Where the exports of advanced nations have virtually no competition except from each other, the tariff and other trade restrictions have become as obsolete as the buggy whip. If free competition is not allowed at this stage of development, it is legitimate to ask when is free competition in world trade ever possible? With the formation of the Common Market a significant part of our trade will fall under this definition. On this portion of our trade we should be ready to offer the Common Market free access to our market in return for free access to theirs.

8. Tariff negotiations should no longer be confined to individual products. The complexities of modern economies have rendered our traditional item-by-item methods of trade bargaining obsolete in many cases. To assure reciprocal benefits for the concessions we make, we need a much more flexible bargaining instrument, one which will allow negotiations to take place over a wide range of products. Across-the-board bargaining over logical categories of products is necessary both to deal with a large economic unit like the Common Market and to obtain mutually beneficial concessions for new farm and factory products which are produced as part of a complex, integrated production process.

9. Special flexibility is needed to provide maximum opportunities for our farm exports. The present authority to trade tariff concessions for the removal of other kinds of concessions should be preserved and strengthened. Our farm exports account for almost a third of our trade with the members and prospective members of the Common Market, while our agricultural imports from these nations account for

only a tiny fraction of our total imports from them. In the interest of efficient division of labor, the greatest attention should be paid to bargaining down Common Market tariffs against our agricultural products. Conversely, as we move toward freer trade, we must make certain that U.S. manufacturers are not discriminated against when it comes to purchasing their agricultural raw materials, such as cotton and wool.

10. The principle of most-favored-nation treatment should be preserved in future trade negotiations. This principle, by which all concessions in our tariff are generalized to all nations, has contributed importantly to the orderly expansion of world trade over the past 25 years. We should reaffirm this principle in any future negotiations with the Common Market to make sure that the imports of all free nations have nondiscriminatory access to both Atlantic markets.

11. Free access should be granted, unilaterally, to the tropical exports of the less developed countries which do not compete with any production here or in Western Europe. It is in our interests to have as large a free market as possible for these products. Typically, they are the staple exports of countries which are trying to bring about both an industrial revolution and reformation in their social and political life in the face of grave poverty and the threat of Communist imperialism. At this stage in their development the earnings from their exports of tropical foods and raw materials provide the bulk of the finance available to them for diversifying and strengthening their economies. If it is in our interests to provide development assistance to these countries, it is certainly in our interests to provide free access, without compensating trade concessions, to as broad a market among the industrialized countries as possible.

Safeguards and trade policy

12. The present safeguards in trade legislation are clearly not working well. Both opponents and proponents of liberal trade policy agree that the present peril point and escape clause provisions do not provide prompt and effective help to those firms and workers who face genuine hardship trying to adjust to increased import competition which has resulted from tariff reductions. These provisions do act to deny exporters many opportunities to expand their markets abroad by limiting the authority of our tariff negotiators. Thus, what was originally designed as a safeguard for some domestic producers has turned out to be very largely an obstacle in the way of other domestic producers.

13. The major failing of existing safeguards in trade legislation is that they offer no alternative to the crude weapon of tariff protection. In particular, there is no means of helping firms and workers to adjust to the new competitive position of the United States in the world economy. Either blanket protection is afforded at the expense of consumers and producers who would otherwise get the benefits of freer trade, or we run the risk of making a few individuals and businesses victims of a national policy.

14. The idea of incorporating into trade legislation provisions to permit the President to offer, as an alternative to tariff protection, assistance to individual firms and workers who face hardship as a result of accelerated import competition deserves a try. Such assistance might take the form of loans, tax credits, and technical assist-

ance for firms and readjustment, relocation and retraining allowances for workers—many of which can be made available through the area redevelopment program. The aim of trade adjustment assistance should be to help firms modernize to become competitive, or to help firms and workers move into more competitive lines of work. Investment of public funds to this end would only be justified if the economy as a whole benefited through a more efficient use of labor and resources. It should be left to the discretion of the President whether to employ tariff relief or trade adjustment assistance or some combination of both.

Senator Pell adds:

> I am in full agreement with the objectives of paragraph 14 to the effect that there must be a meaningful trade adjustment program. However, I do not believe that this paragraph sufficiently brings out the necessity for depth, vigor, and imagination in developing a really significant trade adjustment program.

15. The Tariff Commission should continue to advise the President about the potential impact of any tariff reductions on domestic producers. In the case of import-sensitive industries, the Commission should conduct a continuing review, not limited to times when a specific complaint is before it. To carry out its mission more effectively, the Commission should have clearer and more logical legislative criteria of what constitutes injury or threat of injury. The governing criteria should be the prospect of substantial and prolonged unemployment or of substantial and prolonged idling of machinery and equipment.

16. Efforts to determine "peril points" in advance of negotiations should be abandoned. Experience has proven conclusively that there is no objective way of making such determinations. Attempts to do so almost invariably result in freezing individual tariffs at their present level and tying the hands of our tariff negotiators without any good cause. In this past year's negotiations in Geneva, nearly 40 percent of the items on which others sought concessions in our tariffs were reserved as a result of "peril point" findings. This amounted to a very serious erosion of the President's authority to negotiate for better access for our exports without any compensating benefits. Any future negotiations with the Common Market along the lines recommended in this report would be impossible under the present peril point procedures.

17. The national security provisions of the expiring legislation should be strengthened by giving the President greater authority to counter the disruptive tactics of Communist state traders. The present provisions relate solely to our own productive plant, but this is too parochial a definition of national security in the thermonuclear age.

B. OUR ECONOMIC POLICIES

18. Trade policy in the year 1962 should be considered in close connection with the many objectives of our foreign policy. In particular, the opportunity to negotiate a historic trade agreement with the Common Market involves much more than just an opportunity to expand the flow of trade between us and thereby strengthen

our respective economies. Such an opportunity can signal our desire to form a partnership with the nations of the Common Market over the whole range of policies vital to our collective security.

19. The superstructure of such a partnership already exists in the North Atlantic Treaty Organization and the Organization for Economic Cooperation and Development. But both of these organizations still function as though the Atlantic Community were still made up of one very large economic and unit a number of smaller ones. This is no longer true. With the rise of the Common Market the Atlantic alliance is becoming a partnership of equals in the economic as well as the political sense.

20. The very rapid rate of growth among Common Market members should enable these nations to come much closer in the years immediately ahead to matching our contribution to free world defense and economic development. As more liberal trade policies allow each Atlantic market to help strengthen the other, so our military and foreign aid policies should strengthen each other. A more equal sharing of the burdens of military and economic aid should be a prime objective of the U.S. missions at both NATO and OECD.

21. The expanding Atlantic markets together will be able to absorb much more easily than would each by itself the growing trade in manufactures from free nations outside of the Atlantic Community. Japan, particularly, must have growing trade outlets in the free world to sustain her very rapid rate of economic progress if she is not to turn to Communist China for trade. Western Europe today imposes many more restrictions on Japanese trade than does the United States. In any future trade partnership we should see that Japan has equal and growing access to the markets on both sides of the Atlantic, and thereby that the problems of adjustments are spread more evenly.

22. An important byproduct of a trade partnership between the United States and the Common Market should be closer alinement of policies regarding trade with the Communist bloc. The United States cannot hope to counter the disruptive effects of Communist trade by going it alone. What is needed is a common approach on the part of all the major industrial powers in the free world, particularly in the matter of trade in strategic materials. Such an approach will be much easier if expanding trade opportunities within the free world are assured.

23. Expanded free world trade requires better institutional arrangements than now exist for preventing deficits in international payments from causing international monetary crises. The Subcommittee on International Exchange and Payments of the Joint Economic Committee in its August 23, 1961, report, recommended that an agreement be entered into by the leading industrial nations of the free world to provide standby credits to ease payment difficulties during the period in which more permanent adjustments are being made. Such an agreement was worked out in principle at the meeting of the International Monetary Fund in Vienna, Austria, in September 1961, and has since been negotiated under the aegis of the IMF among 10 leading industrial nations, including the United States, Canada, and Japan as well as 7 European countries. Although the draft agreement provides credits in smaller amounts than would be desirable, and is subject to more cumbersome procedures for making them

available than would be desired, it is nevertheless a forward step. Prompt ratification of the agreement by the Congress will help to protect the dollar and other leading currencies.

24. The OECD should be strengthened to become the forum in which these and other economic policies affecting the Atlantic Community as a whole are reconciled. Through OECD's Development Advisory Committee, member nations are already beginning to coordinate their programs of aid to the less developed countries. We need to press our partners further in the direction of matching our effort. OECD also has set for itself the target of a 50-percent increase in the combined national product of its membership by 1970. Progress toward this target should be reviewed in OECD each year.

25. All our foreign economic policy objectives in 1962 come back to the need to start with trade. It was the prospective benefits of a free trade area that caused the nations of Western Europe to break through centuries of inhibition to form the Common Market. It is the prospective benefits of a wide area of virtually free trade between the Common Market and North America which can bring about the partnership of equals which the United States has been working for steadily since the Marshall plan. The resources of such a partnership are more than equal to the task of defending the free world against Communist imperialism and of assuring the economic advance of those countries of the world which are trying to break with a past of poverty into a future of opportunity. The task in 1962 is to knit those resources together so that each side of the Atlantic reinforces the economic strength of the other. Nothing knits free people together quite like a large and expanding volume of trade.

(Signed) HALE BOGGS, *Chairman.*
HENRY S. REUSS.
JOHN SPARKMAN.
CLAIBORNE PELL.
JACOB K. JAVITS.

NOTE.—Senator Fulbright, because of the extraordinary press of other congressional duties, was unable to participate in the hearings or committee meetings on this report. For that reason, the findings and conclusions herein set forth are neither approved nor disapproved by him.

SUPPLEMENTARY STATEMENT OF SENATOR SPARKMAN

During the course of the subcommittee hearings I was tremendously impressed with the almost complete agreement, if not complete agreement, with which expert witnesses and statesmen expressed the view that the United States must pursue with renewed vigor its policy of gaining reciprocal reductions in tariffs and bringing about the elimination of other barriers to trade among the nations of the free world. There was almost complete agreement, if not complete agreement, that it is of the utmost national urgency that Congress give the President new and broad authority to accomplish these purposes, before the present reciprocal trade authority expires on June 30, 1962.

I have been equally impressed that the major business, labor, and farm organizations likewise expressed the view that the United States must vigorously pursue a policy of freer trade and that the President must be given adequate authority to achieve this policy.

U.S. CHAMBER OF COMMERCE

Speaking for the U.S. Chamber of Commerce, Mr. A. B. Sparboe, vice president of the Pillsbury Co., said, in part:

> 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.
>
> * * * * *
>
> 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 adquate authority to meet the new challenges in world markets.[4]
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[4] Hearings, op. cit. p. 265.

COMMITTEE FOR ECONOMIC DEVELOPMENT

Another distinguished business organization, the Committee for Economic Development (CED), was represented by Mr. T. V. Houser, retired chairman of the board of Sears, Roebuck & Co.

Mr. Houser said, in part:

> 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.
>
> * * * * *
>
> 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.
>
> * * * * *
>
> 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—undertaken, as I have suggested, with proper safeguards, will assist in the achievement and maintenance of high employment in the United States.[5]
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AMERICAN FARM BUREAU FEDERATION

The spokesman for the American Farm Bureau Federation, Mr. Herbert Harris, said:

> 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 stength 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.
>
> * * * * *

[5] Hearings, op. cit., p. 252.

> Expanding world trade will benefit the total U.S. economy but it has a special significance to American agriculture.
>
> 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.[6]

AFL–CIO

The witness representing the AFL–CIO, Mr. Bert Seidman, who is also a public consultant to the General Agreements on Tariffs and Trade (GATT), had this to say:

> 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.[7]

On the date of his testimony, Mr. Seidman told the subcommittee he was unable to present the current policy of the AFL–CIO. On the next day, however, Mr. Seidman wrote the subcommittee, transmitting a resolution which had been adopted by the AFL–CIO convention at Miami on the previous day, December 11, requesting that the resolution be incorporated in the subcommittee's record. This resolution reads, in part, as follows:

> *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

[6] Hearings, op. cit., pp. 312–313.
[7] Hearings, op. cit., pp. 312–313.

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 a 5-year period. In addition, the President should reserve certain sensitive 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.[8]

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[8] Hearings, op. cit., p. 493-494.

ADDITIONAL VIEWS OF SENATOR PELL

The expanding Common Market is a fact of life. Moreover, the Common Market will prove an asset to the welfare of the United States as a whole, since on balance we export a great deal more than we import. Furthermore, within the Common Market countries there is a tremendous potential market for American manufactured consumer goods. But from the viewpoint of the welfare of certain areas of the United States, and here I am thinking of my own area of New England and particularly my own State of Rhode Island, the implementation of all the recommendations of this report can produce immediate and sharp harm unless they are applied with care and consideration.

A trade adjustment program must be offered, hand in hand with any trade expansion legislation, that is deeper and more vigorous in concept than the program referred to in this report. Such a trade adjustment program would provide for substantial help and grants to the workers, areas, and industries that are affected.

In addition, if the manufacturing industries are going to lose some of the Government help they have received, then efforts must be taken to see that they can buy their raw materials at fairer prices nearer those of the world market and not, as the present case is in connection with cotton, at high artificially supported prices.

Finally, I believe that the seven-point program the President submitted in connection with the textile industry on May 2 must be fully and quickly implemented. Furthermore, because of the special importance of the textile industry to our national defense, extra efforts should be made to insure that the wool industry as well as the cotton industry is not permitted to be obliterated by any wholesale reduction in tariffs. In this connection, I was most pleased to hear the President say in his state of the Union message, when referring to his forthcoming trade legislation, "We are not neglecting the safeguards provided by peril points, an escape clause, or the national security amendment."

ADDITIONAL VIEWS ON FOREIGN ECONOMIC POLICY—REPORT BY SENATOR JACOB K. JAVITS

The findings and recommendations of this report, based on the 10 studies prepared for the subcommittee and on the hearings which were held during the first 2 weeks of December 1961, recognize the fundamental and sweeping changes which are taking place in the economic and political relationships of the world. They point clearly to the choices which the United States must make in meeting the challenges of this decade. Based on the following additional views I can join in the subcommittee's report—in order to emphasize the overriding necessity to develop our trade policy on a bipartisan basis, in the national interest, and as an element of the bipartisan foreign policy.

The Presidential authority required, in order for the United States to participate to its fullest capacity in world trade, must be spelled out carefully, and congressional responsibility and direction over trade policy must be maintained. I believe that this principle should be kept clearly in mind while considering the recommendations contained in this report. It is for this reason that I believe provisions for authority in Congress to veto specific trade agreements made by the President under its authority need to be carefully considered, and I propose similar consideration for the 5-year time duration of the authority requested by the President.

With respect to point No. 24 of "Objectives of Foreign Economic Policy in the 1960's," calling for a strengthening of efforts through the OECD—especially, in the coordination of foreign aid programs through the OECD's Development Advisory Committee—it is essential to emphasize the need for enlisting the private sector of the economies of the Atlantic community governments. Some 75 percent of the economic strength of the Atlantic community, approaching an annual gross product of $1 trillion, resides in the private sector, including the resources of management, labor, investors, foundations, educational institutions, and voluntary organizations. This 75 percent of our total economic strength represents economic progress achieved in freedom and serves as the greatest single factor refuting the ideology of Communist statism. We must effectively draw this force into the efforts for economic cooperation and the economic development of the newly developing areas, if we are to realize the maximum of the free world's potential in the struggle for freedom.

With respect to the points made regarding a trade policy toward the European Economic Community, toward the low-wage cost industrialized nations, and toward the newly developing nations of the free world, I emphasize the need for selectivity. Our goals in meeting the varying situations of trade with areas in different stages of economic development are best achieved if we recognize also the responsibilities in these matters of our trading partners—as well as the requirements of our domestic businesses, workers, and communities and of our national security. It includes recognition of the special requirements of low-cost industrialized nations and the newly developing nations to maintain and raise their standards of living through a general increase in productivity which, in turn, will raise wages and spread the returns widely among their populations.

Therefore, I qualify the phrases of the main report, describing the benefits of free trade, with the statement that free trade cannot be made in itself a virtue, or an objective, but our aim in policy must be to bring about the greatest relative advance in increased living standards, especially in the newly developing areas.

The reduction of trade barriers between the United States and Western Europe will be of long-range benefit to us and to our European trading partners, but its impact on the whole free world and on peace is the paramount issue. It is for this reason that our trade policy must encompass the free world, and it cannot be our objective to create an exclusive trading community among the Western industrialized nations. In our own negotiations with the European nations the interest of South and Central American countries in coffee, copper, tin and other products, and of Japan and India in certain exports like electronic equipment, jute products and textiles is vital to us, too, as it concerns our trade and aid policies. So, also, is a unified policy on East-West trade, in terms of our national security and the victory of freedom in the "cold war."

With respect to points Nos. 13 and 14 of "Objectives of Foreign Economic Policy in the 1960's," I should like to include in the alternatives recommended to be placed at the President's disposition, specific authority to phase out over a period of years such additional or continuing tariff protection, as may be temporarily necessary, to cushion the impact of an accelerated inflow of imports in a particular item. This authority will be a useful addition to the other authorities, including adjustment assistance, provided in such situations.

The economic integration of the free world represents the way to economic and social advancement in freedom and is the basis for the effective strength required by the free world to secure the victory for freedom. I believe that this report and its supporting studies present to the American people the perspective and the considerations required for decisive action on trade policy and law.

STATEMENT BY SENATOR (BUSH REPUBLICAN, CONNECTICUT) AND REPRESENTATIVE CURTIS (REPUBLICAN, MISSOURI)

We find much in the subcommittee's report with which we agree and which we can commend. However, we are unwilling to sign it for reasons more fully set forth in a statement of individual views which we made public on January 7, 1962, and which is appended hereto.

Basically we question, first, whether a new round of trade negotiations with the Common Market offers the United States its best opportunity at this time to achieve greater unity among the industrialized free nations, and second, whether the United States is now ready for such negotiations.

As to the first point, we believe the administration should begin to work for a new alliance of free nations, and should press at once for broadly based discussions of major barriers to free world unity under the provisions of article 2 of the NATO treaty. Major questions for such a conference "to eliminate conflict in * * * international economic policies" of the United States and her NATO allies would include (1) policy toward trade with the Sino-Soviet bloc; (2) a more equitable sharing of the burdens of the common defense; and (3) the role of Japan and other non-Atlantic nations in the struggle against Communist imperialism. Trade barriers appear to present a less serious problem than these other matters.

As to the second point, we believe the administration must make much greater efforts toward putting American industry in a better competitive position in world markets. This requires greater public understanding of the need for a more equitable sharing of productivity gains—in lower prices and better quality goods for consumers, in wage raises attributable to increased labor productivity, and in profits which industry can use to modernize plant and equipment. It requires a bolder approach than the administration has yet taken to the question of tax reform, including more liberal depreciation allowances for all industry and, possibly, special tax advantages for manufactured exports.

The United States has just concluded tariff negotiations with the Common Market which were conducted under provisions of existing law. We recognize that a need for new negotiations will arise in the future, but we are not convinced that this future need requires the Congress to rush hastily into a radical revision of an existing trade policy which has, on the whole, served the Nation well. The principle of tariff revisions on a gradual, selective, and reciprocal basis, with avoidance of serious injury to domestic industries and employment, should be retained.

THE PRESIDENT'S REQUEST FOR BROADER EXECUTIVE POWER OVER TARIFFS: ISSUES AND VIEWS

JANUARY 7, 1962.

By U.S. Senator Prescott Bush (Republican, Connecticut), ranking minority member of the Joint Economic Committee, and Representative Thomas B. Curtis (Republican, Missouri), ranking minority member of the Subcommittee on Foreign Economic Policy

The President's announced determination to forge closer links between the United States and the nations of Western Europe merits the approval of all Americans. Certainly, we of the Republican Party are fully aware of the importance of a greater degree of unity and agreement upon common purposes in the free world. We are pleased therefore that the present administration is continuing the efforts made by the previous administration to achieve these ends.

Indeed, we believe the present administration may have set its sights too low. Has not the time now come to work vigorously to form a "Concert of Free Nations" within which all other freedom-loving friendly countries and the United States may work in harmony to counter the challenge of the Soviet Union, Communist China, and the Communist-bloc satellites? Now is the time, we believe, to press for the formation of such an alliance. Freed of the frustrations which beset the free world in the United Nations, it could accomplish much toward winning the cold war.

We do not recommend abandonment of the United Nations, but it is painfully evident that it is an ineffective instrument for achieving the objectives America shares with Western Europe. As a forum in which tensions between the East and West may be relieved, or in which the newly developing nations may voice their aspirations, the U.N. may continue to serve a useful purpose. We share, however, the views expressed by John J. McCloy (the President's disarmament adviser), Senator Fulbright, and others that a new alliance of free nations is needed to meet the challenge of world communism which the U.N. Assembly majority has evaded.

As a start toward formation of such an alliance, we urge the administration to seek to expand the framework of the Organization for Economic Cooperation and Development and the North Atlantic Treaty Organization so as to provide for closer ties between them and free nations outside the Atlantic community.

The NATO Treaty provides, in article 2, that members "will seek to eliminate conflict in their international economic policies and will encourage economic collaboration between any and all of them." Here, without further ado or legislation, we already have the authority and foundation for wide economic negotiation and collaboration. The administration should press for full implementation of this provision.

The issues involved in the administration's vaguely outlined proposals that Congress give to the President new broad and sweeping power to negotiate tariff reductions are of such gravity that partisanship centered on domestic political considerations must be rigidly excluded. These issues must be fully explored. It would be extremely unfortunate if the debate on extension or revision of the Trade Agreements Act were to be conducted in the black-and-white terms of "free trade" versus "protectionism." We deplore the tendency, already evident in some quarters, to picture those who refuse to accept blindly proposals which the administration itself has yet to specify as advocates of retreating to a "Fortress America," allegedly cowering behind exclusionary tariff walls.

Major questions raised by the subcommittee's hearings include:

1. Is it necessary at this time to give the President broad new powers to negotiate tariff reductions with the European Economic Community (Common Market)?
2. Can increased exports solve the U.S. balance-of-payments problem?
3. Will American industry's ability to compete really be increased by mutual across-the-board tariff reductions by the United States and the Common Market?
4. Will Western Europe accept increased imports from Japan and other low-wage countries?
5. Can the United States and Western Europe agree on a mutual program to provide adequate markets for the products of the developing tropical countries—in Latin America and Africa?
6. Are the United States and Western Europe presently prepared to press for free trade in agriculture and in energy resources?
7. Can and will Western Europe and the United States agree on a joint policy respecting trade with Communist bloc nations?
8. Will a "trade and life adjustment" program, as hinted in vague terms by the administration, be effective in relieving the admitted hardships forced by tariff cuts?

These questions need to be fully answered. Certainly they cannot be swept under the rug in the "great debate" which will inevitably result from the Administration's request.

ONE-SIDED HEARINGS PROTESTED

The procedures followed by the majority of the Joint Economic Committee in conducting the recent study are scarcely suited to a great debate or great issues. We have no criticism of the papers which were commissioned by the subcommittee's chairman and published as Joint Committee prints. On the contrary, they contain much valuable material and constitute for the most part scholarly contributions to the discussion of the matters under consideration.

Of great and fundamental concern, however, was the one-sided nature of the hearings which were conducted by the subcommittee over a period of 9 days, December 4–14. There is substantial circumstantial evidence that the hearings were deliberately and hastily staged as a propaganda springboard for the administration's program. With one exception, all of the witnesses who testified represented a single point of view in support of the administration's request for broadened Executive power under the Trade Agreements Act.

We object moreover to the failure of Under Secretary of State George W. Ball and a parade of other administration spokesmen to disclose to the subcommittee details of the legislative proposals under consideration, and to have ready the type of information which the subcommittee and the public must have before sound judgments can be made. A colloquy between Senator Pell, a member of the majority of this subcommittee, and the Under Secretary of Labor, W. Willard Wirtz, on the vitally important subjects of potential unemployment effects of lowering tariffs and so-called trade adjustment proposals illustrates the present lack of information. A brief quotation from the record suffices to reveal the inability of Mr. Wirtz to produce basic information to which the subcommittee is clearly entitled:

> 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 thought, some idea as to your views as to what 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. * * * The President has not spelled out his position in any detail * * *.
>
> 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. That is correct.

The ranking minority member of the full committee, Senator Bush, recognized this problem at the outset of the hearings, and requested that the subcommittee delay the writing of a report until the complete details of the administration's proposals were known and were considered by the subcommittee. This request was ignored, and the chairman announced to the press at the close of the hearings that he intended to submit a report early in January. This announced decision to proceed with a report and, presumably, recommendations, before the evidence is all in, is the basic reason for this statement of views and issues.

We now proceed to discuss questions which must be answered before the Congress can legislate intelligently in response to the administration's request.

Is it necessary at this time to give the President broad powers to negotiate tariff reductions with the European Economic Community?

Much of the testimony centered upon the alleged "necessity" of giving to the President broad new powers (although not specifically defined) to negotiate tariff reductions on or before the expiration of the present legislation next June. It was argued that this new authority is urgently needed because of the emerging of the European Economic Community (Common Market) and of its possible expansion at some later date to include the United Kingdom and perhaps other members of the European Free Trade Association (Outer Seven).

No clear or convincing case was made for urgency.

There is first of all considerable uncertainty about the timetable by which the Common Market countries will progress toward an agreement on a common external tariff for manufactured goods, and even greater uncertainty about their progress in arriving at a common agricultural policy. This uncertainty is compounded by the United Kingdom's recent application to join, which raises a whole set of new, difficult, and complicated problems.

As was observed in one of the study papers submitted to the subcommittee ("The European Economic Community and the United States," by Robert R. Bowie and Theodore Geiger):

> Just how far and how fast the integration of the Six would proceed without the addition of the United Kingdom and other members of EFTA is today extremely difficult to predict, and their addition makes prediction the more hazardous.

It should be noted further, as was disclosed in the hearings, that *under existing authority*, representatives of the President *already have been negotiating* with the Common Market. The last day of scheduled hearings by this subcommittee was indeed suddenly canceled because the President had dispatched to Brussels the Under Secretary of Agriculture, Charles S. Murphy, in an effort to resolve difficulties flowing from a reported Common Market decision to exclude trade in agricultural commodities from the U.S.-Common Market negotiations which have been underway for many months.

Moreover, the President's existing power for bargaining with the nations of Western Europe is *not* limited to bargaining on tariffs. Rather than be confined to the narrow scope of tariff discussions, the President can invoke, as we have recommended, article 2 of the NATO Treaty and call upon our fellow members of NATO (which includes all the Common Market countries and the United Kingdom) to join the United States in discussions aimed at elimination of conflict in their international economic policies. In such a forum, tariff matters could be placed in proper focus alongside the enormous contributions America has made and is making to the peace and security of the world, and to Western Europe in particular.

Would it not be appropriate for the United States to call attention to the great progress already made in lowering our tariffs, and that these reductions have in many cases been made without our receiving an adequate quid pro quo?

In this connection, consider the testimony of Theodore V. Houser, Chairman of the Research and Policy Committee of the Committee for Economic Development:

> * * * 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.

Would it not be reasonable to say to the nations of Western Europe, 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?

Tariffs and other trade restrictions could be considered in such a forum as one of the many interrelated problems which must be solved before closer unity in the Atlantic community can be achieved.

The Bowie-Geiger study paper to which we have previously referred suggests the complexity and urgency of these issues by listing five basic tasks which face the Atlantic nations as follows:

> First, they must assure the security of the non-Communist world through military strength and deterrence.
> Second, they must foster economic growth, independence, and viable societies in the less-developed regions.
> Third, they must work out a common approach for their political and economic relations with the Communist bloc.
> Fourth, they must enhance the vitality of their own societies and economies in order to provide the resources for carrying on these tasks.
> Above all, in order to perform them, the Atlantic nations must develop political ties and institutions adequate to insure unity of purpose and effort.

To these should be added the task of finding a satisfactory relationship between the Atlantic nations and industrialized Japan which will insure the achievement of a maximum common contribution in the struggle against Communist imperialism in the Orient as well as in other world regions.

Considering the wide range of problems to be solved in the successful accomplishment of these tasks, and in reaching agreement on a fair distribution among free nations of the burdens which necessarily will be involved, the tariff problem does not appear to have the overriding importance which the administration places upon it. The tariff question might well yield first priority and be deferred until substantially greater progress has been made toward solutions of these related basic problems.

Will increased U.S. exports solve the balance-of-payments problems?

An underlying assumption of the administration's determination to request new tariff-cutting authority for the President appears to be a belief that an expansion of U.S. exports will solve this country's balance-of-payments difficulties.

The validity of such an assumption is open to serious question.

The United States has for many years enjoyed a favorable balance of trade on *merchandise* exports and imports. In the latest year for which full figures are available, 1960, merchandise exports totaled $19.4 billion and merchandise imports $14.7 billion, resulting in a favorable balance of $4.7 billion. We also enjoyed a favorable balance on nonmilitary services, receipts from these items totaling $7.6 billion against payments for similar items of $5.6 billion (including U.S. tourism, $1.7 billion), a gain of $2 billion.

These plus items, totaling $6.7 billion in the aggregate, were more than offset, however, by deficit items of which those of major importance were U.S. military expenditures abroad, $3 billion; U.S. Government grants and credits (foreign aid), $3.4 billion; U.S. (private) direct and portfolio investment abroad, $2.5 billion; and an increase of $1.3 billion in U.S. private short-term assets abroad.

The net result in 1960 was a deficit in our balance of payments of $3.8 billion. In 1958–59, the United States incurred deficits of $3.5 billion and $3.9 billion, respectively, and the December 1961, issue of Economic Indicators reports that the deficit is running at a seasonally adjusted annual rate of $3.4 billion.

Is there any reasonable prospect that any reductions that could be expected or hoped for in the external tariffs of the Common Market will result in an expansion of U.S. exports sufficiently large to close a deficit gap which in recent years has ranged between $3.5 and $4 billion?

Consider in this connection the testimony of Dr. Henry C. Wallich, former member of the President's Council of Economic Advisers and a member of the economics faculty of Yale University, who has specialized in balance-of-payments problems.

Dr. Wallich advised the subcommittee that as the U.S. gross national product expands, imports increase at a faster rate than exports.

He testified as follows:

> 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 billion gross national product, maybe $620 billion. That means $100 billion gross national product above now. For each billion gross national product typically in a cyclical advance, we add some $40 million of imports. That means for $100 billion, we will add something like $4 billion of imports. Now, this will be offset by some rise in exports—if we buy more, others will buy more from us—and typically our exports have gone up by something like $1 billion a year. So, over 2 years, to 1963, maybe we would gain $2 billion in exports. That still would leave an increase in the (balance of payments) deficit, if nothing were done about it, of $2 billion * * *.

We share the administration's desire that the economy achieve its full potential as quickly as possible, although we may disagree over methods to achieve that goal. We question, however, whether the President's advisers have fully comprehended the balance-of-payments effects of an increase in the gross national product, as outlined by Dr. Wallich, in advocating a sweeping reduction in tariffs by this country. For tariff reductions, obviously, would increase imports even more rapidly than the normal expansion of imports to be anticipated from a rise in gross national product.

Accordingly, we believe there are ample grounds for skepticism concerning the administration's apparent assumption that a mutual reduction of tariffs with the Common Market will result in a sufficient expansion of U.S. exports to make a significant contribution to closing the deficit gap in our balance of payments. We believe that more fundamental solutions are needed, including a more equitable sharing of the costs of the common defense among the United States, the nations of Western Europe, Japan, and other free nations.

We suggest that prudence dictates that the administration make more strenuous efforts along such lines to close the balance of payments gap before it embarks upon a tariff-cutting course which would widen it.

Will mutual tariff reductions by the United States and the Common Market increase American industry's ability to compete in Western Europe?

Another assumption evident during the hearings was that tariff reductions by the United States, in exchange for comparable reductions by the Common Market, would increase American industry's ability to compete in Western Europe. This requires searching examination.

There are grounds for believing that American industries have established branch plants in Western Europe for other reasons than to get behind the Common Market external tariff wall before it is erected. These include a desire to get close to a booming market, to achieve greater efficiency in sales and service, to eliminate some costs such as ocean freight and to reduce other costs, notably labor.

In connection with the latter point, a comparison between average wage rates in manufacturing industries in the United States and those paid by competitive industrialized nations provides food for reflection. In 1960, our manufacturing industries paid on the average, $2.29 an hour, in comparison with $1.02 in Sweden, $0.90 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).

We are familiar with the argument of economists that wage differentials are in themselves unimportant and that what counts is the difference between unit labor costs. We agree that in the United States there are some industries that turn out goods which can compete in any and all markets to which they are permitted access and that among these are industries which pay wages above the U.S. average.

We question, however, whether economic theory has kept pace with the reality of the rapid modernization of plant and equipment in Western Europe and Japan which enables certain industries in these nations, paying far lower wages than are prevalent here, to mass produce goods as efficiently as can their American competitors.

Additionally, we question the fond hope expressed by some of the witnesses that wage rates in the nations of our industrial competitors will rise sufficiently rapidly and sufficiently high to eliminate the disparity before it can seriously harm American industries and the workers they employ. U.S. wage rates will be rising also.

The validity of the academic theory is made suspect by the fact that the nations of Western Europe do not accept it for themselves. Faced with competition from lower-wage Japan, they impose outright quantitative restrictions—"quotas," to use a blunt, unpopular word—against Japanese goods.

This was brought out in a colloquy between Senator Bush and Jerome B. Cohen, dean of graduate studies, the Bernard Baruch School of Public Administration, New York City, which appears in the record as follows:

> Senator BUSH. Mr. Chairman, I want to go back to * * * the question of * * * 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 U.S. economic relations * * * 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 towards Japanese goods * * *

It should be noted that the disparity between Japanese industrial wages and those prevailing in the countries of Western Europe is in many cases less than that between U.S. wage rates and the wage rates of the Common Market countries and the United Kingdom.

This fact raises the unpleasant and difficult question: If restrictive measures are necessary to protect labor in Western Europe against the lower wage rates in Japan, may they not also be necessary to protect American labor against the lower wage rates of Western Europe as well as of Japan?

We conclude that tariff reductions by the United States, in exchange for comparable reductions in the external tariff of the Common Market, will have little significant effect in increasing the ability of American industry to compete in Western European markets. We believe, for reasons more fully discussed in the next section of this report, that such reductions, if not carefully controlled, may have a seriously damaging effect upon American industry's ability to compete in domestic markets.

More fundamental solutions to the competitive problem must be sought.

In this connection, we have noted President Kennedy's admonitions to management and labor to hold prices and costs in restraint, in his speeches before the National Association of Manufacturers and the AFL–CIO convention. We wish the President had laid even greater stress upon the necessity of achieving a more equitable distribution of productivity gains—in lower prices to consumers, in wage increases attributable to increased labor productivity, and in profits for industry which may be used to improve the competitive position of plant and equipment.

In view of the AFL–CIO's curt rejection of the President's appeal for voluntary restraint in collective bargaining, and its adoption of a resolution calling for still higher wages and shorter hours, we believe the administration faces a major task in creating here at home better public understanding of America's competitive position in the world and of the necessity of improving it.

We believe further that the administration must advance beyond the limited tax incentives to new investment in plant and equipment which it has proposed, and move boldly toward a major reform in tax policy to enable American manufacturing industry, with its higher wage scales, to compete more effectively in world markets. The evidence seems clear that the rapid economic growth of Western Germany and other Common Market countries is attributable in large measure to liberal depreciation and other tax policies which encourage free enterprise to invest heavily in plant modernization.

Will Western Europe accept a greater share of exports from Japan and other low-wage countries?

In the preceding section, we have recorded the wage differentials which exist between Japan, the nations of Western Europe and the United States, and have referred to the discriminatory restrictions against Japanese products which have been imposed by the Common Market countries and other Western European nations.

These facts raise a fundamental problem.

The United States follows the most-favored-nation doctrine in its international trade relations. This means that the lowest tariff we grant to any one country is automatically extended to all countries with which we have trade relations.

Thus, if the United States reduces tariffs to the Common Market by as much as 50 percent, as the administration reportedly intends to propose, then we will automatically reduce our tariffs by 50 percent to Japan, Hong Kong, India, Pakistan and other low-wage countries which are intent upon increasing industrial production.

During the hearings, testimony was received that Japan hopes to almost treble her exports to the United States in the present decade, increasing shipments from their 1960 total of $1.1 billion to $2.8 billion a year by 1970.

Whether the United States can absorb such an increased volume of Japanese imports without serious dislocations in the domestic economy is open to question, but more fundamentally important is whether Western Europe can and will agree to open its markets to Japan and the other low-wage countries.

In this connection we call attention to one of the recommendations of Prof. Warren S. Hunsberger, of the Johns Hopkins University, an expert on United States-Japanese relations, who testified before the subcommittee as follows:

> 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.

While the industrial output of other low-wage countries has not yet reached the volume of Japan's, it is growing. The nations of the West should begin to consider how markets can be found for the goods produced by these countries, and how their output can be used to strengthen rather than weaken the free world.

We believe the United States should vigorously exercise leadership in this area, and that a solution to the problem of markets for the products of low-wage countries might well take precedence over negotiations for mutual tariff reductions by the United States and the Common Market.

Unless a sound solution is found before such negotiations are concluded, the United States most-favored-nations policy of extending tariff reductions to all countries with whom we have trade relations, including the low-wage nations of the Orient, might create serious dislocations in domestic markets.

Can the United States and Western Europe agree on a program to provide adequate markets for the products of developing tropical countries—in Latin America and Africa?

Comparable to the problem facing the Atlantic Community in dealing with the expanding industrial output of Japan and other low-wage countries is that of providing adequate markets for the expanding output of the developing countries of Latin America and Africa.

In the development of the Common Market, special and substantial preferences were made for tropical products exported from the former French and Belgian possessions in Africa and a few other former colonies of member nations.

The application to join the Common Market by Great Britain raises many complications in this connection. New Zealand, Australia, and Canada now enjoy free entry into the British market for their important agricultural products—butter, lamb, and cheese in the case of New Zealand; wheat, meat, and butter in the case of Australia; and wheat in the case of Canada.

The difficulties arising were succinctly summarized in the Bowie-Geiger study paper to which we have previously referred:

> If the British were simply to join the Community, leaving the Commonwealth and the remaining oversea possessions outside, a serious problem would be created for the countries which are heavily dependent upon exporting tropical products to the British market. For the British would have not only to deny these imports of tropical products the preferences they now enjoy in the British market; they would also have to subject the tropical exports of the colonies and Commonwealth members to the common external tariff, which gives a substantial preference to competing products from French Africa. (For example, the common external tariff for coffee is now 16 percent, for cocoa 9 percent, and for bananas 20 percent.) This is recognized on all sides as an unreasonable and unacceptable result.

After discussing ways in which the United Kingdom and the Common Market might seek a solution, the Bowie-Geiger paper goes on to underscore the interest of Latin America and other areas in this problem in these words:

> Countries outside the Commonwealth and the Community are vitally interested in the way this problem is worked out. The Latin American countries, and with them the United States, have an obvious concern about the extension of preferences in the continental European market to their competitors in Africa and the Caribbean for such products as coffee, sugar, and bananas. Southeast Asia is also concerned. The dependence of these countries on exports of tropical products is no less than that of the British colonies and the Commonwealth members. Thus we see again the interest of the rest of the free world in a "liberal" solution.

Here again, we believe the administration should press vigorously for a sound solution of this problem before it proceeds to enter discussions with the Common Market which are narrowly confined to tariff reductions on industrial goods.

Are the United States and Western Europe prepared to press for freer trade in agriculture and in energy resources?

It is a curious anomaly that the most ardent advocates of free or freer trade in industrial goods turn a blind eye toward the rigid protectionism that the United States and virtually all other nations practice in the field of agriculture. If pressed, they concede that it is discriminatory against industry and industrial workers to move toward freer trade in this field without moving in the same direction in agriculture. But, it is argued, the agricultural problem is so difficult, so complicated—and so political—that it must be brushed aside.

We refuse to accept such a defeatist argument, and insist that simple justice to American manufacturing industry and to its working men and women demands that progress toward solving the agricultural problem go hand in hand with any further steps toward tariff reductions on industrial goods.

The U.S. Government heavily subsidizes agricultural production. 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 to protect artificially high domestic farm prices, we impose rigid prohibitions against the importation of agricultural products from abroad.

How heavily American agriculture is dependent upon export subsidies is revealed in figures supplied by the Department of Agriculture. For the period July 1954 through June 1961, Government-financed programs supported $9.5 billion out of a total of $28.5 billion in agricultural exports. In that period the total agricultural exports outside specified Government-financed programs of $19 billion include many products subsidized domestically. Additionally, many transactions not directly financed by Government receive governmental assistance in the form of (1) extension of credit for relatively short periods, (2) sales of Government-owned commodities at less than domestic prices, or (3) export payments in cash or kind.

It is clear that American industry and American industrial workers contribute a substantial portion of the taxes they pay to subsidize agricultural exports, in addition to subsidizing domestic farm prices at artificially high levels.

A striking example of how American agricultural policy increases the competitive disadvantage of American industry lies in our treatment of cotton exports. Because of high domestic price supports, the United States sells cotton to foreign textile manufacturers for 8½ cents a pound less than domestic manufacturers must pay.

We note that a tentative step by the administration toward elimination of this inequity by imposing an import tax sufficient to wipe out the competitive advantage thus gained by foreign manufacturers has encountered strong protests in Japan.

Like the United States, the nations of Western Europe practice a high degree of protectionism in agriculture. The Common Market is encountering difficulties in working out a common agricultural policy, and these difficulties will be increased as negotiations for the entry of the United Kingdom are undertaken.

But, if this were a perfect world in which free trade were permitted to have full rein, it would appear that the mutual agricultural problems of the United States and Western Europe could be rationally solved.

U.S. agriculture is highly efficient, the most efficient in the world. In contrast, the main problem of European agriculture is not so much chronic overproduction as in the United States, but poverty and inefficiency.

If free trade theory were followed to its logical conclusion, the United States should cease to provide subsidies to its highly efficient agricultural economy, and let American farm products compete in world markets without Government support. Our rigid prohibitions against imports of such products as Argentine beef or Australian mutton which can be produced more efficiently and at lower prices elsewhere should be removed, with resultant benefit to the American consumer. Europe should open her markets to the farm surpluses of the United States and other efficient agricultural producers.

We recognize that such a shift to free trade in agriculture by the United States and Europe would require radical readjustments and a drastic alteration of past Government policies. We are fully aware that it would take many years to accomplish.

We believe, however, that at least a modest start in that direction must be made if a move toward "freer trade" in industrial goods is to be made palatable to American industry and the workers it employs.

At a minimum, we believe the administration must reverse its policy of higher and higher domestic farm price supports, which have already added $1.2 billion to the agricultural subsidy program, now over $6 billion annually.

Additionally, an attempt to work out a rational free world agricultural policy should be placed high on the list of priorities for discussion at a conference of Atlantic Community nations, such as we have suggested take place under article 2 of the NATO Treaty.

Similarly, we believe the United States and Western Europe must reexamine the rigid protectionism which is practiced in the field of energy resources.

The United States is the world's most efficient, highly automated producer of coal. American coal can be landed on the shores of Europe at prices lower than it can be produced by European mines. Yet European countries impose quantitative restrictions and other discriminations against American coal.

This country has imposed quotas on imports of petroleum products, especially residual fuel oils. These have adversely affected our relations with other nations, particularly in Latin America, and have had an adverse effect upon competitive costs of industry on the eastern seaboard.

Should not the United States and Western Europe move toward freer trade in such areas before rushing into a program of tariff reductions confined largely to industrial goods?

Can and will the United States and Western Europe agree on a joint policy respecting trade with Communist bloc nations?

A major source of friction between the United States and our Western European allies arises from the lack of a joint policy respecting trade with the Soviet Union, Communist China, and the Communist satellite nations.

The Soviet Union has undertaken—and with considerable success—an aggressive economic offensive which is designed to divide the industrial countries and to win the developing countries.

A major objective is to strengthen and accelerate the Soviet economy. From the West, the Russians import strategic equipment, entire plants, and technological competence which they find difficult to provide from their domestic resources.

In payment, the Communists supply mostly raw materials and commodities, frequently at prices well below world markets. In so doing, they achieve a second objective—the disruption of the normal flow of raw materials within the free world and the creation of maladjustments in price structures.

Additionally, much of Soviet trade has a political rather than an economic motive, and this is especially noticeable in its dealings with the developing nations whom they hope to convert to the Communist system. Communist goods and equipment shipped to the newly emerging nations are accompanied by "technicians" whose function, we suspect, is as much political as it is technical.

Drift and indecision have characterized the Western response to this Soviet offensive. The nations of Western Europe in some cases have looked upon trade with the Communist bloc as an extension of the normal commercial trading relations they enjoy among themselves, whereas in reality they are dealing with monopolistic state trading organizations which are ready at any time to subordinate economic to political considerations.

There has been a progressive erosion of allied controls over the shipment of strategic materials to the Communist bloc nations. The United States has a much stricter definition of what materials are "strategic" than have our allies, a fact which gives rise to divisive disputes.

We believe there is urgent need for the United States to make a determined effort to obtain a coordinated economic policy toward the Communist bloc nations. Such a joint policy should include: (1) Effective multilateral controls on the shipment of strategic goods and on the extension of export credits which tend to strengthen the bloc's military and industrial power base; (2) agreement on the method by which the West should control the flow of technological advances and knowledge to the bloc, and the amount of such information which should be passed on; (3) provisions to control the disruptions and dislocations caused by the "dumping" of Russian commodity and raw material supplies upon world markets; and (4) protection of the economies of the developing nations from the danger of Communist bloc trade and aid penetration designed to create politically motivated dependence on bloc markets and supplies.

Again, we believe that broadly based discussions under the aegis of article 2 of the NATO Treaty which encourages member nations to "seek to eliminate conflict in their international economic policies" and to "encourage economic collaboration" among them provide a better method of approaching this problem than do discussions between the United States and the Common Market which are limited to the narrow field of tariff reductions on commercial goods.

If coordinated, the economic power of the United States and her allies of the West and Japan is so great as to play a decisive part in the cold war. We urge the administration to spare no effort in achieving the required coordination.

Will a "trade and life adjustment" program be effective in relieving the admitted hardships forced by tariff cuts?

Advocates of across-the-board tariff reductions by the United States in order to persuade the Common Market to make comparable reductions, concede that hardships would inevitably result. Industries vulnerable to import competition would suffer financially; for some, bankruptcy would be the consequence. Thousands upon thousands of men and women employed in such industries would lose their jobs. Entire communities which are dependent upon a single industry which cannot meet import competition would face the prospect of becoming ghost towns. All these disasters would result, the freer trade advocates concede, and accordingly they recommend Government intervention with a "trade and life adjustment" program of which the details have yet to be specified.

Internal domestic competition within the United States, the exhaustion of resources, changing consumer tastes, technological advances—all these and other factors have resulted in hardships, both corporate and individual. For example, New England experienced an extremely difficult transition period following the migration of its textile industry to the South because of lower cost factors, notably the lower wage rates prevailing in Southern States. Over a 20–30 year period, New England replaced the vanished textile industry with electronics and other new technologies, but in the meantime the cost in human suffering was great and there was little Government could do to relieve the hardships.

Other examples which come readily to mind are the demise of the buggy whip industry with the advent of the automobile; the ghost mining towns of the Western States, West Virginia and Pennsylvania; the displacement of the steam locomotive by the diesel engine, and of harvested natural ice by mechanical refrigeration, etc.

There is a key difference, however, between these adjustment problems and those proposed to be created by a new program of tariff reductions on commercial goods. In the latter case, the hardships will be inflicted by direct and deliberate discriminatory action of the Government. This indeed seems cruel and callous.

It should be noted that what is proposed is the reversal of a traditional governmental policy. As the author of one of the papers submitted to the subcommittee ("U.S. Commercial Policy: A Program for the 1960's" by Peter B. Kenen, associate professor of economics, Columbia University) has written:

> From the birth of the present program, the State Department and White House have been obliged to promise that the United States would never knowingly cause injury to any American enterprise by granting tariff concessions to other countries, and that, in the event of inadvertent injury, would take remedial action. This pledge was prominent even in President Roosevelt's 1934 message to Congress proposing the trade agreements program; it was repeated again and again * * *.

Now it is proposed that tariff reductions be made regardless of the injury to industries and the workers for whom they provide jobs. It is said, as Kenen puts it, that the United States must recognize "the need to do injury."

To salve the wounds caused by reckless tariff cutting, it is proposed to enact a new Federal aid program of "trade and life adjustment." While details of such a program are thus far shrouded in obscurity, the broad outlines appear to encompass Federal loans or tax advantages to enable factories to convert to lines of production not immediately affected by imports, a Federal dole to the workers made jobless by import competition, plus allowances for retraining them for some other form of economic activity and, possibly, moving expenses to enable jobless workers to move their families to other, more favorable economic areas.

A similar program was proposed by David J. McDonald, president of the United Steel Workers, in 1953–54, when President Eisenhower's Commission on Foreign Economic Policy (the Randall Commission) and the Congress had a prior revision of the Trade Agreements Act under consideration. It was rejected, both by the Commission and by the Congress. The policy then adopted, and followed since, was one of *gradual, selective,* and *reciprocal* tariff reductions, within limits set by the Congress, and retention of the "peril point" and "escape" clauses as safeguards. The "peril point" was intended to provide a method by which the Tariff Commission could set floors beneath which tariff concessions could not safely be made, and the "escape clause" a way in which the Commission and the President could rectify serious injury.

Whether these safeguards have worked as effectively as intended has been questioned by some. Others have contended they are too restrictive upon State Department negotiators when tariff discussions are undertaken under the General Agreement on Tariffs and Trade (GATT).

While this is a matter of controversy, what seems indisputable is that our present policy, embodying both safeguards, has permitted a substantial expansion in both U.S. exports and imports.

In 1953, our merchandise exports (excluding mutual security program shipments) totaled $12.4 billion; by 1960 they had grown to $19.6 billion, and in 1961 are expected to exceed $20 billion. Merchandise imports in 1953 were $11 billion, by 1960 they had risen to $14.6 billion, and in 1961 are expected to reach approximately the same level.

Surely, a trade policy which has permitted such a significant expansion of both exports and imports and has resulted in such a favorable balance on the merchandise account should not be lightly discarded. The burden of proof rests heavily on those who advocate an untested, unproven "trade and life adjustment" program as a substitute.

During the hearings, several witnesses testified that the problem of adjustments to tariff reductions might not be as great as might be supposed. In support of this view, they pointed to the experience of the Common Market countries. Although dislocations had been anticipated, it was said, little use had been made of special funds created to deal with unemployment, to retrain laid-off workers, and to help finance industry conversion programs.

This may be true, but it should be noted that internal tariff reductions in the Common Market were made at a time of booming prosperity in which conditions of full employment generally prevailed. Indeed, in some of the member nations there was overemployment, evidenced by large-scale importations of laborers. Can the Common Market experience, therefore, be accepted as a guide for policy in the United States where serious unemployment exists at a level exceeding 6 percent of the labor force?

An additional ground for skepticism is the statement in one of the study papers submitted to the subcommittee ("Trade Adjustment in Theory and Practice," by Otto R. Reischer) that—

> * * * application of readaptation measures in some instances have been less than effective because some of the national governments as well as industrial interests involved in the European Coal and Steel Community, for example, have, in effect, sabotaged directives of the High Authority. The European experience, at least up to now, would not seem to be a good basis for judging the efficacy of a trade adjustment program in the United States.

There have been suggestions that a trade and life adjustment program could be undertaken through expansion of the Area Redevelopment Act which was enacted in 1961 to aid the so-called depressed areas of chronic and persistent unemployment in this country.

We observe that the Area Redevelopment Administration has scarcely had time to do more than designate a total of 826 labor market areas and 1,035 counties in the United States as areas eligible for assistance under sections 5(a) (industrial areas) and 5(b) (rural counties) of the act. We have been informed that the ARA has encountered serious administrative problems which are yet unsolved.

We note that the first widely publicized undertaking of the ARA was a $160,000 Federal water system donated to Gassville, Ark., to help induce a nonunion shirt factory to locate in the community.

As stated in the Washington Post of December 8 and 9, 1961, this project raises "disturbing questions of public policy and economic development."

Should Federal aid be given to projects which, in the words of the Post article, "are built on shaky foundations of low wages, antiunion commitments on the part of a community, and heavy public subsidies to unstable industries seeking out low wage and even subservient areas"?

We believe the Congress will want to examine carefully the operations of the ARA, and determine whether it is fulfilling expectations, before entrusting to this agency the rehabilitation of additional "depressed areas" which would be created if the administration's tariff-cutting powers were enlarged and injudiciously used on an across-the-board basis.

CONCLUSION

The administration's trade program thus far has been outlined only in general terms in recent addresses by President Kennedy and Under Secretary of State George W. Ball, coupled with statements before the subcommittee by Mr. Ball and other administration witnesses in the recent hearings.

Our final judgments must await specification of the program in more comprehensive detail and its examination in such detail by the legislative committees with jurisdiction. Nevertheless, we have felt compelled to raise the questions we have considered and to express some preliminary views in order to broaden the area of public discussion.

Our major objection to the program as discussed to date is that it tends to focus public attention on only one problem among the many related problems which confront the United States in the task of forging closer unity among the industrialized nations of the free world.

The questions we have raised outline some of these problems, among which we would underscore the following for which solutions deserve higher and more urgent priorities:

1. The need for vigorous action by the United States toward formation of a new alliance of free nations outside the framework of the United Nations.
2. The need for a more equitable sharing of the burdens of the common defense against Communist imperialism.
3. The present lack of a unified free nations policy respecting trade with the Soviet Union, Communist China, and the Communist satellite nations.
4. The persistent and dangerous deficit in the U.S. balance of payments.
5. Rigid protectionism by the United States and Western Europe in agriculture and energy resources.
6. The need for Western Europe to accept a greater share of the increasing industrial output of Japan and other lowest wage countries.
7. The need for the United States and Western Europe to agree on the provision of adequate markets for the products of the developing nations of Latin America and Africa.
8. The need for improvement in the competitive position of American industry in world markets.

There are other problems, notably that of preserving industries and industrial skills which are essential to the national defense and whether, and to what extent, subsidies are necessary for this purpose, as in the case of the merchant marine. This vital question received little attention in the subcommittee's hearings.

We believe that instead of myopic concentration on the limited field of tariffs on industrial goods, the administration should broaden its vision to encompass the whole wide range of problems which must be resolved before the industrialized free nations can more effectively pool their resources to insure victory in the cold war.

Again, we urge the administration to take dynamic and vigorous action toward the formation of a new alliance of free nations in which these problems can be considered in proper perspective and steps taken toward a more equitable and widespread sharing of the burdens of the common defense against Communist imperialism. In such action, we believe lies the ultimate triumph of freedom in the cold war.

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