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THE FUTURE OF U.S. FOREIGN
TRADE POLICY

REPORT

OF THE
SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY
OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

WITH
SUPPLEMENTARY STATEMENT AND
INDIVIDUAL VIEWS



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LETTERS OF TRANSMITTAL

SEPTEMBER 29, 1967.

To the Members of the Joint Economic Committee:

Transmitted herewith for the use of the members of the Joint Economic Committee and other Members of Congress is a report of the Subcommittee on Foreign Economic Policy on the Future of U.S. Foreign Trade Policy.

The views expressed in this subcommittee report do not necessarily represent the views of other members of the committee who have not participated in hearings of the subcommittee and the drafting of its report.

WILLIAM PROXMIRE,
Chairman, Joint Economic Committee.

SEPTEMBER 28, 1967.

HON. WILLIAM PROXMIRE,
*Chairman, Joint Economic Committee,
U.S. Congress, Washington, D.C.*

DEAR MR. CHAIRMAN: Transmitted herewith is the report of the Subcommittee on Foreign Economic Policy on the Future of U.S. Foreign Trade Policy which we consider appropriate to make to the full committee, together with statements of supplementary views by Representative Reuss and Senator Javits. The printed record of testimony has previously been made available to members of the committee and to the public. A compendium of papers, entitled "Issues and Objectives of U.S. Foreign Trade Policy," which the subcommittee used as background material for the July 1967 hearings, is in process of publication.

We wish to thank the witnesses and the writers who contributed to the compendium for their excellent and expert assistance to the subcommittee.

HALE BOGGS,
Chairman, Subcommittee on Foreign Economic Policy.

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I

INTRODUCTION: A TIME FOR STOCKTAKING

The sixth round of trade negotiations under the General Agreement on Tariffs and Trade—the official name for what is generally known as the “Kennedy Round” in the GATT—has been concluded. The events of the year 1967 thus mark three milestones in American trade policy.

First, the United States and other major trading nations of the world have conducted the most far-reaching trade negotiations of the modern era. The procedures developed, the atmosphere of the negotiations and the results have important consequences for the future.

Second, the Kennedy Round comes as a culmination of three decades of a general U.S. policy of trade liberalization. Following the great depression, an era of high tariffs and other restrictions and controls strangled international trade and investment and damaged the economies of many nations. American determination to grow away from these conditions is manifested in the series of Trade Agreements Acts passed by the Congress and implemented by the executive branch since the early 1930's.

Third, the most recent of this series, the Trade Expansion Act of 1962, constituted a further advance in trade policy, both as to the authority granted and the organizational arrangements. The adjustment assistance provisions of the act were a notable innovation. This committee had a substantial part in the congressional consideration of the legislation, and it is thus in order to review and evaluate its performance.

The reductions in trade barriers that were negotiated at Geneva offer the prospect of new trading opportunities for many U.S. exporters. Tariff concessions by our trading partners affected almost \$8 billion of U.S. export trade. Reductions of tariff rates, by 50 percent for the most part, were applied to about \$7 billion, and a further \$1 billion was bound in a duty-free status. In return, the United States reduced its tariffs by an average of about 35 percent on \$8 billion of imports.

Anyone who kept in touch on a day-to-day or a month-to-month basis with the 5 long years of negotiation and remembers the shadow of almost complete failure that hung over the last 5 months of the bargaining can appreciate the large areas of achieved agreement and at the same time understand why so many difficult problems remain to be considered.

The vast range of these problems and the urgency of some of them underline the need for prompt study. The lessons learned, the obstacles overcome, and the pervasive change of the trade situation in the light of the Kennedy Round present a challenge to devise new policy approaches and new negotiating proposals. We cannot assume that old methods and approaches will continue to work.

The Joint Economic Committee's hearings of July 1967 were designed by the Subcommittee on Foreign Economic Policy as a first step in the examination of the future of U.S. trade policy. The hearings were supplemented by a compendium of invited study papers on topics regarded as significant for future decisions. A description of the hearings and a list of witnesses, together with a list of the authors and titles of papers submitted for the compendium, are included with this report as appendix materials.

The report founded upon these materials is necessarily tentative. It follows too closely upon the conclusion of the trade negotiations to evaluate their effect in detail. It makes no pretense at such an evaluation, nor was it the subcommittee's intention to balance concessions given against concessions received. Its purpose is, rather, to change the focus of public attention from the Geneva negotiations themselves, and to stimulate public awareness of the national interest of the United States in its trade policies, which marked time during the long period when the conduct of affairs was solely in the hands of the negotiators

II

CHANGES IN THE CLIMATE AFFECTING TRADE POLICY

Many observers, and our negotiators more acutely than any others, have been aware that the ground of negotiation has been shifting.

1. As tariffs are removed or reduced, the bargaining opportunities that could arise from the offers to remove what is left become fewer. But other barriers, whose diversity is concealed in the shorthand word "nontariff," gain in importance, and the negotiating issues they raise are more complex than those associated with tariffs. That it will be in the interest of the United States to negotiate on these matters is much clearer than are the methods that can be brought to bear in any hoped-for "trading down" of this type of barrier.

2. The formation of new trading blocs or groups—notably the European Economic Community (Common Market) and the European Free Trade Area—is altering the character of nondiscriminatory concessions, and the manner of negotiating them.

Since 1923, the United States has negotiated tariffs on an unconditional most-favored-nation (MFN) basis. For many years, this has served the world well in preventing the proliferation of discriminatory arrangements between nations. One of the cardinal principles of GATT is the adherence to unconditional MFN treatment. GATT, however, permits the waiver of MFN adherence for countries which organize a common market or free trade area (article XXIV). The principle of unconditional MFN treatment as a means of making multilateralism work has had its significance altered by the discriminatory preferences created within such customs unions and free trade areas.

Many of our major trading partners have availed themselves of the GATT waiver and are now a part of a trade bloc. Practically all of Western Europe is divided into two trade blocs—EEC (European Economic Community) and EFTA (European Free Trade Area); British Commonwealth countries are in a preferential bloc; Australia and New Zealand have a bloc of their own which Japan is interested

in joining; Latin America plans to amalgamate the LAFTA (Latin America Free Trade Area) and CACM (Central American Common Market) into one common market. In all these cases the unconditional MFN principle is, in effect, violated. As more countries are absorbed into these blocs, U.S. trade could become seriously disadvantaged.

Admittedly, limited trade arrangements or bilateral deals with close associates seem easier and tempting compared with multilateral commercial negotiation which by contrast seems complex and difficult. U.S. policymakers will have to consider whether the potential results of the multilateral approach to trade liberalization may be greater than more limited and selective approaches.

3. The structural changes that have been taking place in the balance of payments of the United States have created problems that were not present when our basic trade posture was being formulated several decades ago. The large scale of Federal Government expenditures and corporate investment abroad has been the principal feature of a persistent basic deficit in the U.S. balance of payments over the past decade. Unless Government expenditures abroad and private capital outflows are reduced, the need for a large U.S. commodity export surplus is a necessary aim of our trade policy.

Furthermore, the longer run maintenance of growth in world trade is dependent on the smoother working of the mechanism of international settlements. The advanced countries in particular need to recognize that much depends on the effective implementation of the recent agreement to augment international monetary reserves with a new supplementary drawing right through the International Monetary Fund.

4. Finally, the inseparability of trade negotiation from other aspects of international economic policy, as distinct from political aspects, is increasingly apparent. The progressive reduction of tariff barriers generally and the enormous growth of world trade make this inevitable. The more than doubling of exports from the industrial, "developed" countries between 1958 and 1966, the growth of developing countries' exports by less than two-thirds over the same interval, and the faster growth of trade in manufactures than in raw materials have been increasing the disparity between the "have" and "have not" nations. It is easier for the advanced countries to bargain among themselves on industrial products than to consider the ways in which the negotiations can take account of the needs of poorer countries with fewer attractive concessions to offer in bargaining.

In an environment in which the most advanced countries are no longer increasing the amount of their direct aid, the food aid proposal which came out of the Kennedy Round negotiations is to be regarded as a token of good intent rather than an adequate contribution to the relief of the vast needs of developing countries. The slogan popular in the developed countries, "trade not aid," is understandably receiving a response in the developing countries: "If so little aid, how much trade?" There is thus an increasing recognition of the interaction between trade policies and foreign aid programs.

III

RESPONSIBILITY FOR POLICY AND FOR NEGOTIATIONS

Constitutionally and historically the regulation of U.S. foreign trade has resided in the U.S. Congress

Since 1934 the Congress has authorized the President to enter into reciprocal trade agreements with other countries in specific acts of legislation, subject to the limitations of enabling legislation. Congressional intent has been both written into the legislation and stated in resolutions passed by the legislative branches. It is to be hoped that the legislative and executive branches will work more closely together in future trade policy formulation and in the negotiating process than has been the case in the past.

The subcommittee suggests that, pending reviews of U.S. trade policy by the legislative and executive branches, there should be an extension of negotiating authority in the interests of continuity, especially in arranging compensatory tariff reductions.

This recommendation is based on the obligation of the United States, as a contracting party to the General Agreement on Tariffs and Trade (GATT), to negotiate within its framework. The lapse of the negotiating authority of the Trade Expansion Act of 1962 deprives the United States of flexibility in conducting its day-to-day trade relations. For example, it is preferable that action by the President to increase a duty or impose a quota under the "escape clause" should be accompanied by a compensatory tariff reduction—which this extension would make possible. The alternative—retaliatory tariff increases by other countries against U.S. exports—is clearly undesirable.

IV

SOME BEARINGS FOR THE DIRECTION OF LONGRUN POLICY

1. THE DIRECT COSTS OF TARIFF REDUCTION MUST BE SHARED

The adjustment assistance provisions of the Trade Expansion Act should be liberalized so that the assistance can be more readily available to workers and firms required to make adjustments as a result of negotiated tariff reductions.

The legislation of 1962 introduced a new provision for assisting adjustment by individuals or firms injured by an increase in imports resulting from trade negotiations. The language of the legislation, however, made it exceedingly difficult for compensation to be awarded since it demanded impossible demonstrations of the major cause of injury. If it can be shown that growing imports contributed to or aggravated the injury, that should be a basis for awarding equitable compensation.

The removal of a tariff barrier places an obligation on the Government to grant fair adjustment assistance to injured parties. The use of compensation as spelled out in the act of 1962 is more appropriately geared to the national interest than outright protection or resort to "escape clauses" and quotas. The national interest, in general, lies in the direction of reducing restrictions on international trade rather

than applying restrictions on the ground that some particular domestic group might be injured when compensation is a possibility.¹

This implies that the scale of injury is relatively narrow and is within the reach of limited Government action. Domestic prosperity has reduced the hazards of injury through change of occupation, although assuredly it has not eliminated injuries. By and large, the high mobility of people and resources in our economy in many cases provides a ready answer to the problem. But where there are no alternatives, and geographical and occupational immobility prevents the improvement of the lot of the individual or firm, some form of limited, temporary protection may be warranted. In any case our provisions for easing the adjustment process should be as generous as equity demands.

2. NONTARIFF BARRIERS ARE A MAJOR AREA FOR NEGOTIATION

The United States should be prepared to become a leader in the review and mitigation of nontariff obstructions to international trade. The accomplishments of the Kennedy Round negotiations in reducing tariffs as such permits, indeed, calls upon all of the trading nations of the world to take a new and fresh look at the mass of nontariff barriers which have grown up over the years in most countries.

Not infrequently, these nontariff barriers deny to the individual countries and the world the gains and efficiencies of free trade more effectively and more insidiously than the visible tariff obstructions themselves. Nontariff barriers are numerous and varied, sometimes having come into existence for good and understandable reasons or unfortunately, in some cases, in response to special pleading of transient conditions in conflict with the longrun interests of the nations involved. Embargoes, quotas, border taxes, variable import levies, and nationalistic tax policies as a way of life seem to lead to an inevitable retaliatory system of discrimination.

The European Common Market practice of rebating their own indirect taxes on their exports and levying these same taxes on imports—a practice sanctioned, incidentally, by the rules of the GATT—constitutes a conspicuous form of discrimination against U.S. exports. Moreover, similar border adjustments by the United States would be an ineffective weapon, neither mitigating nor offsetting the discriminatory process, because the tax structure of the United States places relatively small emphasis on indirect taxes. This issue is one that the United States will have to resolve.

Road use taxes in several of the Western European countries have obviously been directed against automobiles and trucks of American manufacture. These countries have, as a part of the package supplementary to the Kennedy Round, offered to initiate changes in their practices. It remains to be seen, however, how far they are willing to go in removing this discrimination.

A longstanding provision of United States tariff policy which has proved particularly irritating to our trading partners has been the "American selling price." The elimination of this provision will de-

¹ Senator Miller emphasizes that this does not mean that inequities of foreign import competition, or intransigence of foreign trading partners, can or should be ignored in determining whether or not to make use of restrictions and that "free" trade is not a one-way street.

pend, quite obviously, on the relevance of the method to our present needs and conditions and, secondly, on a congressional assessment of the reciprocal concessions granted to the United States.

There is no easy formula for future negotiations on these nontariff barriers. The length and difficulties of the Kennedy Round have demonstrated how difficult it is to balance the costs and benefits of tariff concessions. Unfortunately, Congress and the executive branch presently do not have dependable statistical information on the significance and weights to be assigned to various nontariff obstructions which experts of the various countries have devised. All those who profess faith in the advantages of free world trade on a multilateral basis must face up to the issues that are certain to be raised on the political as well as the economic front in structuring future negotiations. Successful bargaining in this area will require not only a better understanding of the significance of the barriers, but a willingness to bargain on a reciprocal basis.²

The subcommittee believes that future negotiations on nontariff barriers will be of great difficulty. The Executive should assign high priority to these negotiations.

The variety of nontariff barriers, coupled with the fact that some are applied covertly and not all are intended as deliberate restraints on imports but have other supporting rationale, will make negotiation complex and slow.

There exists a great need to examine the degree of discrimination imposed by these barriers and to establish the means of negotiating changes which will include not only elimination of barriers, but harmonization of all national practices in such a way that discrimination is reduced or eliminated.

The first steps in this direction should be taken soon. Where necessary, Congress should provide the means to have the United States participate in agreements for the reduction of nontariff barriers subject to the necessary qualification for congressional review and approval. Most important, the President should promptly develop plans and proposals for dealing with these matters.

3. NATIONAL AGRICULTURAL POLICIES POSE AN OBSTACLE TO EXPANDING INTERNATIONAL TRADE

Although agricultural products were included in the Kennedy Round bargaining, the results, especially insofar as the European Common Market countries were concerned, were relatively small in comparison to industrial products. There has to be greater recognition that the United States has a valid interest, as a low-cost producer of grains especially, in promoting its export trade and in opposing

² Congressman Widnall would emphasize that any move to eliminate the American selling price (ASP) must remain at the discretion of the Congress; that the authority to negotiate ASP has not been granted the President or his Special Trade Representative; and that before such authority is granted by the Congress the administration should make a full disclosure to the Congress of the finding of both the Tariff Commission which investigated the impact of the elimination of ASP on the chemical industry and the current study underway by the U.S. Department of Labor entitled "A Special Study of the Probable Impact Resulting from Tariff Changes on Benzenoid Chemicals."

policies of fostering inefficient production abroad. This recognition should underlie future bargaining on industrial products.

Our first Special Representative for Trade Negotiations, the late Governor Christian Herter, made this guiding principle for the American negotiators at Geneva abundantly clear in a speech delivered on March 30, 1964, when he said: "We cannot expect to move toward freer trade in industrial products if we at the same time leave agriculture stagnating in a morass of protectionism. That is why I have said, often and emphatically, that the United States will enter into no ultimate agreement unless significant progress is registered toward liberalization in agricultural as well as in industrial products."

It is only fair to say that some preferential treatment by foreign governments for their farmers has not been directed exclusively at erecting barriers against imports, but has had as a primary objective the maintenance of relative income for the agricultural sectors of their countries. To this end, many developed countries use import restrictions or export assistance as part of their domestic farm policies and are unwilling or reluctant to make changes by foregoing less efficient domestic production in favor of the certain but less immediate economic gains inherent in international specialization. However modest the results of the Geneva negotiations may seem, the inclusion of agricultural products in the negotiating package represents a breakthrough—a small but difficult step—toward improved world trade conditions.

The achievement of orderly world trade in farm products is not going to be by negotiation on tariffs alone. The subcommittee notes with concern the difficulty that may be encountered in the future in negotiating changes in agricultural policies. For example, the variable levy system of the European Common Market constitutes a deliberate distortion of allocation of resources. The scale of domestic protection thereby provided is such as to create an uneconomically large supply of high-cost substitutes for imports. We must make sure that this protectionist system does not affect access of efficient low-cost agricultural products to the European markets.

The proposed grains agreement arising from the Kennedy Round negotiations, which requires the assent of the Senate, offers some guarantee against low farm prices, and it involves other developed countries in sharing the burden of food aid. These are gains for the United States, but we must still take account of the effect on U.S. agricultural exports.

The negotiation of a higher price floor for wheat is not, in itself, likely to bring about any immediate increase in prices for U.S. producers, but it offers insurance against possible lower prices in the future. European countries made no major change in their restrictions on agricultural products. This is of serious concern. Their commitment to supply a small quantity of grains as food aid will not leave a substantial gap in their requirements and therefore will not contribute much to improving the commercial export sales of the food and feed grain producers of the United States, especially if higher support prices increase the volume of production of European agriculture.

4. MULTILATERAL NONDISCRIMINATORY FREER TRADE AND ITS SERVANT, THE GATT, HAVE PROVEN THEMSELVES

The interest of the United States in increasing world trade is strong. The setting of our course for the past third of a century toward multilateralism and the general expansion of world trade has been rewarding. If the regional trade blocs and other major trading countries show a willingness to move in the same direction on a genuinely reciprocal basis, it is right that we should hold this course since the potentials for multilateral trade are far from being exhausted.

The United States has maintained, since 1934 and particularly over the post-World War II era, a remarkable determination and consistency in its adherence to the principles of multilateralism and liberalization of trade. This firm opposition to bilateral deals and to quantitative and therefore administratively ordered restrictions has served to create a united Western trading world, of which the GATT is the institutional expression. To be sure, the preponderant strength of the United States in the aftermath of World War II made its declaration of policy almost irresistible. But that trade policy was farsighted, and it played its part, along with other U.S. policies of rehabilitation and aid, in fostering the great growth of world trade that has taken place in the 1950's and 1960's. It is not too much to say that the United States has, by its trade, both transmitted some of its dynamism to its partners and induced them to achieve economic advancement on the lines of its own domestic growth.

By these tests, our past trade policies have been successful. In the main, the case for change as presented by our witnesses was along two lines. The first is that the departures from nondiscriminatory trading arrangements—the emergence of trading blocs, the proliferation of special preferential arrangements of other nations with those blocs and the comparative simplicity of bilateral specific pacts—have so altered the pattern of trade negotiations that adherence to the general principle has become an unrealistic aim. Practical wisdom, it is said, dictates the choice of a second-best alternative, resort to some form of preferential arrangement with clear and explicit reciprocity as a ruling feature. The second line of argument for change is that the process of negotiation has all but exhausted the opportunities for further multilateral bargaining. Exceptions have frustrated the operation of the across-the-board rule in tariff cutting. Consequently, with negotiation concentrated on individual items of trade, the range of bargaining opportunities is limited and reciprocity less and less easily achievable.

The subcommittee stresses that the fundamental aims of our policy have been clearly in the national interest and should be retained. Preferential arrangements, once they are accepted, are difficult to unwind. They are all restrictive and result in diversion of economic resources from their most productive use. Above all, they serve to break up, perhaps only in a small degree but still significantly, the unity of the free world that the United States has devoted so much effort to establish.

It is not clear that the potentials of multilateral negotiation are becoming exhausted. There will, no doubt, be great difficulties in future negotiations, but similar difficulties (from which bilateral bargaining is not entirely exempt) have been overcome in the past.

Successful negotiations are best assured by the participation of all major trading nations and the general acceptance of rules of bargaining. There is all the more reason to exert effort in this direction since the interest of the United States remains in continued removal of artificial barriers to trade.

As a net exporter of goods, the United States obviously has much to gain from a policy of removing barriers to world trade. Conversely, protectionism in the case of an industry or a group of industries means additional cost to the domestic buyer and, at the same time, a potential reduction of export opportunities by reason of retaliatory policies overseas. Fortunately, our large, prosperous, and flexible economy makes it possible in the great majority of cases to absorb shocks deriving from trade liberalization. And for the most part, our infant industries are in the vanguard of technical progress and, therefore, are more desirous of policies that open foreign markets than they are in need of domestic protection.

5. THE UNITED STATES HAS A SUBSTANTIAL INTEREST IN THE MAINTENANCE OF INSTITUTIONS OF MULTILATERAL TRADE NEGOTIATIONS, PARTICULARLY THE GATT

It is a truism of economics that an increase in the efficient allocation of resources requires, among other things, a reduction in the level of general barriers to trade—the exceptions are related to war, dumping and unemployment. GATT has rendered valuable service in moving the world trade community in this direction—in virtually eliminating quotas and other quantitative restrictions from many kinds of traded goods, in reducing tariffs on many items, and now, finally, in moving toward negotiations on the most important question of nontariff barriers. An institution of this kind, operating effectively, promotes the interest of the United States and those of its other members; there is no available alternative method in the world of today by which our impending problems can be as effectively adjudicated. Moreover, the principle of worldwide nondiscrimination in trade should be supported by members of GATT. The United States has an acute concern about the manner in which GATT rules permit radical departures from the principles of worldwide nondiscrimination in customs unions and free trade areas, and its treatment of indirect taxes in export subsidies and border adjustments.

It must be stressed that the GATT agreement commits the members, as a permanent part of their policy, to general adherence to the unconditional most-favored-nation principle with respect to the GATT countries. It is this that preserves the negotiating process from disrupting the trading world. It is inconsistent and inexpedient to allow more and more exceptions to this principle.

The experience of the U.S. negotiators in dealing with representatives of the European Common Market has indicated some of the dire potentials, but fortunately little of the actuality, of damaging rivalries that could arise among trading blocs. There is a continual risk that closed systems, operating perhaps with a nationalistic spur to acquire markets, could precipitate a trade war and could reverse the movement toward negotiated liberalization that is often the declared aspiration of this form of trade organization. Liberalization of trade can best be attained by a direct method, namely, the generalized negotiation under unconditional most-favored-nation treatment.

The United States should pursue a positive and active course in GATT toward the achievement of these aims and should stand ready to implement such a course, including the delegation of sufficient but clearly defined bargaining powers to the President, adequate provision of funds, and any other measures deemed necessary to serve this end.

The executive branch should work closely with Congress in charting a new course in trade policy and Congress should secure its involvement in future negotiations by the appointment of congressional delegates, a most useful innovation of the 1962 act.

The GATT came into being in 1947 as a principal instrument for international trade cooperation. Its durability and adaptability have created for it a role far different from and greater than its original "contracting parties," of which the United States was one, could possibly have imagined.

It has long since established its value as a negotiating agency. Its methods of consultation and conciliation have been unifying influences in a trading world whose negotiations were subject very readily to impasse or breakdown. The interest of the United States is in the vitality and continuity of this institution. The GATT can play an increasingly important role in the future, notably in negotiations on nontariff barriers and through the influence that it can exert on the activities of the United Nations Conference on Trade and Development (UNCTAD).

The subcommittee has no intention of proposing congressional concession of its prerogatives. Nontariff barriers, however, are frequently measures that have other principal purposes, and responsibility for them frequently is shared between executive departments and legislative bodies. This points to the desirability of allowing our future negotiations, especially those on nontariff barriers, to be conducted with a flexibility that is achievable only under a wide but clearly defined delegation of powers to the President. By the same token, closer oversight by the Congress is essential for a full evaluation of where we are and where we should be going in trade policy.

In conducting future negotiations on nontariff barriers, the United States should exert leadership by avoiding imposing new nontariff barriers of its own and by expressing a desire and willingness to reduce or eliminate its own barriers in return for like concessions from others.

There are many strands to the international economic policy of any country, and the United States, by reason of its position as the supplier of the world's principal reserve currency, and its very large capital outflows and ownership of foreign investments, has a most complex problem to resolve. It is not conceivable that we shall totally avoid conflicts within our policies, but it is possible to minimize their adverse effects.

For example, the recent agreement on international monetary reform will hopefully allow a large enough scale of expansion of reserves to avoid a most damaging impact on international payments. And it is to be hoped that our temporary program of voluntary restraint on direct investment abroad—a program of diversion of financial sources rather than of reduction of real investment—is not pursued to the degree that it introduces distortions of trade and investment flows.

In all of these matters, it is a question not of the United States renouncing its giant strength, but of using it wisely. In the trading world of the later 20th century, interdependence is a reality and trading policies that are unilateral, or assertions of national autonomy, are less and less likely to be successful. What is needed is a means to consult on policies and to harmonize them, rather than resort to countervailing action either directly on trade, or indirectly in such a way as inevitably to affect trade.

6. THE MULTINATIONAL CORPORATION REPRESENTS A NEW FACTOR IN NATIONAL TRADE POLICIES

There is no more striking demonstration of the changing meaning of national sovereignties in international economic affairs than the recent emergence, most often though not always, through the initiative of U.S. private investment, of multinational corporations. As yet there scarcely exists a basis for examining their impact on national trade policies. Yet it is certain that their development is a response to economic opportunities.

Public discussion of the role of multinational corporations has been frequently accompanied by catch phrases, perhaps symptomatic of concern about national identity or the preservation of special interests. It would be unwise for the United States to ignore the situation merely because it presents no immediate worry to the companies themselves. The ownership by an American parent company of a foreign affiliate creates an extension both of American influence and of responsibility toward another national unit. The possibilities of giving offense are obvious.

In a high employment, rapid-growth American economy, the displacement of labor should be susceptible to effective adjustment policies and procedures. The case for calling production transferred to an overseas plant "fugitive" is not valid in most instances. The opening of overseas subsidiaries by American parent corporations has been most often motivated by the prospect of serving growing markets abroad rather than by the opportunity of using cheap labor for products brought back to the United States. There is a possibility, however, that an international consultation process on fair labor practices would help to avoid labor-management disputes.

There exists widespread concern, in Canada as is well known, and in several European countries, that increasing U.S. ownership and control of industrial firms results in loss of ability to determine their own national policies. While this sentiment is sometimes fostered by nationalism, it would be wise for private U.S. corporations to recognize the valid concerns of the host countries and act accordingly in regard to employment practices, sharing of technological benefits, and the like.

For the most part, it should be stressed, multilateral corporations have played a major role in increasing the interdependence of the world community, in fostering the growth of world trade and production, and in serving as a transmission belt for technology and economic progress throughout the world. This should be encouraged.

The general view is that the motives governing the actions of multinational corporations will tend to be stabilizing to the extent that world markets are stable, and in good communication with each other, both as to transfer of goods and as to smoothing of differential

movements of price. To this end, it would be helpful to develop negotiating methods for the harmonization of national policies, possibly through existing organizations such as the OECD.

7. IF THE CONTINUED EXPANSION OF WORLD TRADE WERE TO BE ENDANGERED BY DISCRIMINATION, THE UNITED STATES WOULD HAVE TO REAPPRAISE ITS POLICIES

While the United States should pursue the multilateral approach to reducing trade barriers, we recognize that conditions may arise in the future that would favor U.S. participation in a regional trading bloc.

The relatively low levels to which tariffs on industrial goods are to be reduced under the Kennedy Round agreement bring the evolution of trade policies to the point where the complete elimination of duties on a reciprocal basis over a broad area of industrial goods should be adopted as a goal. This principle found expression in the 1962 act, and it should, as well, be articulated as a policy objective in long-term legislation. It would serve the purpose of free trade areas without inviting their adverse political implications.

The preponderant economic strength of the United States is, inevitably, going to influence the attitudes of other countries toward participating in a free trade area in which the United States would be a member. This is a concern that might be imaginary rather than real, for the value of access to the great market of the United States has to be balanced against free entry of U.S. exports. But the concern is not to be ignored.

For similar reasons, U.S. encouragement of the Latin American free trade area is a very different matter from an invitation to Latin American republics to join a free trade area in which the United States would be a member. If, however, the European Common Market were to frustrate further liberalization of trade or if the association of ex-colonies with European countries were to increase the significance of preferences, the United States might find it advisable to deal with the discrimination against unassociated countries by preferential arrangements of its own, such as an association with Latin American countries.

Finally, the possibility that the United Kingdom will not be accepted as a new member of the European Common Market raises questions that are not going to be answered satisfactorily by economic measures alone. Should it not be accepted, it is possible that the United Kingdom would consider joining an Atlantic free trade area in which the United States would be the leading member. However, the main issue for trade policy would continue to be to prevent a retreat into regional protectionism.

8. LESS DEVELOPED COUNTRIES PRESENT A SPECIAL CASE

Ways must be found—other than by new preferences—to improve the trading position of these countries. The negotiations at Geneva did not adequately treat the problems of the less developed countries, still less, offer a program that would promise a growth of trade sufficient to act as a stimulus to their growth. Evidence presented before the subcommittee amply shows that the customary pattern of duties—

zero or low duties applied to raw materials, higher duties on partly manufactured goods, higher duties still on finished manufactures—results often in high effective rates on the manufactured exports of less developed countries. These countries are deterred from promoting exports of manufactured goods both by the tariff barriers and the readiness with which advanced countries' governments move to check this new competition for their own domestic industries.

The implication has been drawn that the United States and other developed nations should grant special or temporary preferences for these exports from named countries. But there is reason to question whether the efficiency of new industries in less-developed countries would gain appreciably from preferential treatment. As general barriers are reduced, preferences lose their value. In particular, it would be only a small concession to grant the exports of the less-developed countries at once, the entire tariff cuts already agreed upon for application in stages. A preference diminishing to zero in 5 years provides little stimulus to growth of export industries.

The subcommittee recommends no basic departure at this time from the unconditional most-favored-nation policy through the establishment of preferential arrangements. The United States should, on the other hand, be exerting efforts, in concert with other GATT countries, to have the present discriminatory preferences eliminated.

Preferential arrangements create discrimination and tend to divide the trading world. Even if preferences are less significant in a world of lower tariffs, there is no assurance that the difficulties they involve would be less. Certainly it is less likely that they would achieve results in stimulating the exports of countries enjoying them.

There are two principal implications of this view. The United States should give greater weight to other means of improving the position of the less developed countries. These policies might include increases in traditional economic aid, and a new program of subsidized Export-Import Bank loans. Increases in U.S. assistance are likely in the future to be contingent on commensurate contributions by other developed countries and safeguards for our balance of payments position.

Secondly, as we have repeatedly stressed, the United States should promote generalized free trade by multilateral negotiations. If this does not prove feasible or productive, the United States should consider its own participation in a broad trading bloc of like-minded countries.

The formation of trading blocs is not in itself undesirable provided that they are prepared to look toward the lowering of their external barriers, as well as the elimination of their internal barriers. The interest of the United States, however, is to maintain the momentum of policies for the lowering of trade barriers.

For the near term, it would be desirable to have all industrialized countries take joint action to extend present preferential low-duty or duty-free access to all less-developed countries and thus remove the geographic discriminations which now exist on the part of certain developed countries in favor of certain LDC's. Such preferences will gradually diminish as broad and generalized liberalization of trade takes place so that they would not mark a permanent departure from the goal of a completely nondiscriminatory trading system.

The subcommittee is inclined to regard international commodity agreements as a dubious means of increasing the flow of resources to less developed countries. The improvement of marketing methods would be likely to yield at least as good results in short-term stabilization, and to avoid the hazards of glut and breakdown.

It is clear that one familiar accompaniment of low income is a country's dependence on export earnings from one or a few primary materials, agricultural or mineral. The instability of prices and earnings from these sources makes some organization of markets obligatory. Moreover, international arrangements for stabilization have been recognized as instruments of attempted aid.

The selling arrangements have been variants of quota agreements, accumulation of buffer stocks, and arrangements of long-term contracts sometimes on a preferential basis. But generally they have been on terms determined by the supplying countries, with a setting of world price at a level that would be, in prospect, higher than that of a free market. Inevitably, the agreements break down from time to time, but in any event, there are difficulties of equitable arrangement of production, efficiency of allocation of resources and, in the purchasing countries, substitution of synthetic materials for natural.

Thus long-term stabilization is seldom achieved. Moreover, even in the short run, it is possible that an improvement in the organization of marketing, by the development of futures trading, for example, might prevent destabilizing swings in stocks. The natural accompaniment to this development would, of course, be the diversification of production in the countries overdependent on few sources of external income.

The United States must, therefore, encourage the less-developed countries to promote diversification of their production and be prepared to add investment and technical advice to self-help measures initiated within these countries and assistance from other industrialized countries. We must help those willing to help themselves.

In recognizing that the needs of these countries are already becoming critical, the United States and the other advanced countries should join together in reducing barriers to imports of processed materials and light manufactures from the less-developed countries. In a world of growing trade, the problems of adaptation of import-competing industries in the advanced countries are small in comparison with the difficulties experienced by less-developed countries in increasing their export earnings.

The subcommittee, recognizing the immense importance of the issue of economic development, notes that its treatment calls for action far beyond the scope of its inquiry. Trade policy can be regarded as

only one part of a program of assistance to accelerate the rate of income growth in the less-developed countries so that it more nearly reaches, or equals, the per capita growth rate in advanced countries.

9. POLICY ON EAST-WEST TRADE IS ESSENTIALLY POLITICAL
RATHER THAN ECONOMIC

The issue of East-West trade presents problems of great complexity which involve both economic and political considerations that are hard to separate. It is unclear that our policies of restraint on strictly civilian goods trade have had any measurable impact. Nor is it apparent that liberalization of East-West trade on such goods would yield quantitatively significant results. The major implications of East-West trade policy must, therefore, be found in the political arena, and here our policy on East-West trade is greatly influenced by the Soviet Union's support of the military action against the allies in South Vietnam.

Political considerations dominate the U.S. policy toward East-West trade in that the prevailing nature of East-West political relations influences the conditions and prospects for detente, and also because argument for a policy of liberalized trade in nonstrategic goods is directed at such detente. In purely economic terms, it would appear that the quantitative trade effects of East-West trade policy, whether liberal or restrictive, will be limited in the foreseeable future. It is questionable whether the United States can have much influence on the total movement of trade and technology between East and West given two basic considerations: That Communist-bloc countries have a growing technological and industrial capacity; and that they have ready access to the products and know-how of other advanced Western industrialized countries.

It has been argued that, in view of these economic considerations, and aside from political considerations, a restrictive East-West trade policy serves only to deny to American producers access to Eastern markets to which the industries of other Western countries now have free access. Furthermore, because of the multinational character of many American enterprises, foreign companies in free world countries have access to American technology by means of licensing, and these foreign companies are not subject to as detailed controls as are applied to American companies. (The Department of Commerce exercises control over the foreign products of U.S.-origin technology only on a selective basis.)³

³ Senator Miller recognizes that it has been so argued, but points out that this is an oversimplification of a most complex problem.

V

CONCLUSION: FURTHER EVALUATION NEEDED

The subcommittee expresses the hope that its recommendations will gain in precision and persuasiveness after the discussions of the present set of hearings have been more fully evaluated.

The subcommittee takes note of the fact that the President will soon report to the Congress on the recent negotiations. This will provide a basis for further and more detailed congressional and public analysis of their results. It endorses the idea that the President should, preferably through the Office of the Special Representative, provide for continuing evaluation and study of U.S. foreign trade policy. And it supports the view that its own function should include a regular evaluation of the course of these policies.

The yield from such a program would be high. It would provide members of the executive branch and of Congress with the means to clarify their views on this most complex area of national interest. Moreover, it would give the general public an understanding of the vital role played by international trade.

Trade and trade policy are not matters of occasional significance. They exert a continuous influence and can be major peaceful contributors to the wealth of our Nation and of other nations. They offer to the world some of the benefits of the material advances in which the United States, with its own abundance, has been an enterprising and generous pioneer. The United States should see to it that its trade policies contribute to the peaceful progress of our increasingly interdependent world.

SUPPLEMENTARY STATEMENT BY REPRESENTATIVE REUSS

The American selling price issue is inadequately treated in the report. It is not a subject that should be hedged around with reservations. Rather, the second part of the two-step chemicals package—in which the abandonment of American selling price is linked with European concessions—should be examined on its merits, declared a reasonable bargain and recommended for congressional approval. There should moreover be a clear declaration that American selling price valuation is a small but potent nuisance whose removal is necessary in our own interest, in order to make our future negotiations on trade effective.

There are several aspects to the opposition to change in American selling price which call for comment. The first is the involvement of Congress in the negotiations themselves. The prerogatives of Congress have not been infringed in this case. The second part of the chemicals package is required to be submitted to congressional vote.

The second aspect of the case is the totally disproportionate emphasis of the opposition to the removal of the ASP. There is, indeed, no economic argument at all for its retention. Equivalent rates of duty for normal invoice valuation of benzenoid imports have been worked out, and can be used as a starting point for the determination of future tariff rates. That being so, there is no denying that the special valuation process can be dispensed with. The chemical industry is not an invalid industry meriting special favors, but a powerful interest group seeking the retention of barriers that have long since ceased to be justified at their existing high levels. Furthermore, there have been exaggerated and alarming forecasts of the displacement of labor that would result from a reduction of import barriers, and no mention of the fact that most of the few companies involved are large, diversified, and growing. Indeed, there is good reason to believe that removal of ASP would be not only in the national interest of the United States but also in the long-run interest of the very firms that are presently campaigning against it. The package agreement contains concessions that would contribute substantially to American export opportunities in chemicals.

The most serious aspect, however, is that the ASP issue is being treated as if it had no implications for any other part of our trade policy. This is not so. Partly as a result of the agitation associated with it, the ASP question is being regarded as a test case of the willingness of Congress to continue its movement toward trade liberalization by taking action on the most tariff-like of our nontariff barriers. If Congress does not use this opportunity to agree to a bargain in which we also stand to benefit, there must be no doubt in anyone's mind about the consequences.

The nontariff barriers of other countries, and of European countries especially, are numerous, sophisticated, and often concealed. Those of

the United States are fewer and visible, for the most part. The retaliatory potentials inherent in the policies of the European Common Market alone are sufficient to warn us of the need to keep negotiations open. Yet an American refusal of that chemicals bargain might close the door on effective bargaining for years.

HENRY S. REUSS

INDIVIDUAL VIEWS OF SENATOR JAVITS

I have joined in this report with considerable reluctance as the positions it takes in several instances fall far short of what are needed under the present circumstances, but the value of agreement on at least some major questions and narrowing the field of disagreement has influenced me to join in. While there are many aspects of the report which I endorse, on the whole it fails to meet the great current need. I especially regret that the report fails to give adequate recognition to the brilliant success of the Kennedy Round of trade negotiations; to the importance of congressional approval for the American selling price (ASP) package agreed to in Geneva; and to the international anti-dumping code agreed to during these negotiations.

With the Trade Expansion Act of 1962 recently expiring and with growing pressures on Congress to enact protectionist trade legislation it is essential that the fundamental national interest in further trade liberalization be stated forthrightly and without equivocation. It is also essential that at this juncture the newly emerging issues of trade policy, mainly that of the problems of the less developed countries and that arising from regional trade arrangements, be faced squarely.

Congress and the American people must recognize that there is a close connection between foreign trade policy and the unity and economic health of the industrialized world; that protectionism is divisive and is blind to our vital economic interests and that of our closest allies whose support and well-being are essential to the security of the United States. The success of the Kennedy Round is therefore of far greater importance to the United States than the actual trade benefits alone. This fact should be kept in mind as Congress considers such proposals as further restrictions on imports of textiles, oil, shoes, and the arguments of those who would reject the agreement of an international anti-dumping code.

The American selling price system should be repealed, if the Kennedy Round package on chemicals proves on close examination as beneficial to the United States as present information indicates. The elimination of ASP on the part of the United States and its conversion into equivalent ad valorem duty rates would bring with it substantial reduction of European tariffs on chemicals we export to them and also reduction of certain nontariff barriers discriminating against American cars, tobacco and canned fruit. In this connection, I call attention to the fine statement made on the ASP issue during this subcommittee's hearings by the President's Special Representative for Trade Negotiations, Ambassador William M. Roth. I also take this opportunity to commend the supplementary statement on this point of Representative Henry Reuss.

Regrettably, the report is much more concerned with the prerogative of Congress in the field of trade policy than about the preparation of the ground for effective trade policies for the future. While I agree with the proposition that Congress should determine our trade policies, one of the principal lessons of the recent negotiations was that the

carrying out of our trade policies is best handled by delegating it to the President and his negotiators.

Therefore, in any major new trade legislation, the power to negotiate further trade agreements should again be delegated to the President based on stated criteria and should not revert to Congress.

Congress is not equipped to handle tariff negotiations as history and experience have shown. During consideration of the Trade Expansion Act of 1962 I proposed specific legislation which would give the President power, subject to congressional veto of the agreement reached, to reduce reciprocally tariffs and other trade barriers up to 100 percent in negotiation with trading partners essentially occupying the whole of a given field. I believe that any future trade legislation should incorporate this basic principle.

One of the basic short-comings of the report is that it deals inadequately with the trade problems of the developing countries. While it gives recognition to the growing disparity between their share of world trade and that obtained by industrialized nations and calls attention to limits reached on foreign aid supplied by industrialized nations, the solutions offered are completely inadequate. It states erroneously that giving the entire tariff cuts agreed upon in Geneva to developing countries at once, rather than over a 5-year period would mean little to them. It also downgrades, I think disproportionately, international commodity agreements as allegedly a dubious means of increasing the flow of resources to underdeveloped countries and arbitrarily holds that ways other than preferences must be found to help these nations. On the other hand its exhortation to the developing countries to look toward more external financial assistance as a means to solve development problems appears barren in view of the steady decline of capital provided by richer nations to less developed countries over the past 6 years.

In view of these statements, the report's grudging and professed support for generalized preferences for all the developing nations by all the industrialized nations will be difficult to accept by these nations.

The President should be authorized by the Congress to put forward a significant trade proposal for the developing countries particularly one calling for generalized trade preferences even if this would mean a modification of the most-favored-nation (MFN) principle; and even if the present economic value of such preferences to developing nations appears minimal to us, it does not to them. These preferences should be conditioned on similar action by other industrialized nations and should be extended for manufactured and semimanufactured articles as well. The United States should be ready with positive offers by the time the United Nations Conference on Trade and Development (UNCTAD) meets next February rather than to be put into the position of having to react to and to reject plans offered by the frustrated developing countries themselves.

The Kennedy Round resulted in little of major significance for developing nations. As members of UNCTAD convene they will consider the reluctance of the industrialized nations to help them within the GATT framework after 4 years of negotiations and they will most likely demand, with some justification, exactly the kind of solutions which are most repugnant to those who wish to see GATT principles continue to govern trade policy, such as area preferences, commodity agreements, and Government financed stabilization programs. While

at any other time we may oppose assisting developing nations through such means, we may have no choice today. Traditional approaches are simply not working and there may be no other way out of the dilemma.

There is still time to consider ways to provide significant trade help to developing countries and I urge that this subcommittee hold hearings on this early next year prior to the UNCTAD conference.

Inasmuch as the outlook for substantially larger transfers of capital by the governments of industrialized countries is not very bright at the moment, it is essential that new methods be found to induce private capital in industrialized nations to invest in productive enterprises in developing countries. One already successful method is the multinational private investment company formed in 1964 based on a project I chaired, by over 130 banks and other enterprises of Canada, Western Europe, the United States, and Japan—the ADELA Investment Co. There is no reason why this approach could not be repeated in Asia, in Africa, or ultimately in the Middle East.

I am pleased that the subcommittee's majority feels that conditions may arise in the future that would induce U.S. participation in regional trading arrangements. This is especially significant in view of the possibility that the United Kingdom may not be able to enter into the European Economic Community in a reasonable time which may necessitate her consideration of alternatives. I have urged that such an alternative—an Atlantic Free Trade Area—be carefully explored now.

There is growing interest in the United Kingdom, in Canada, and in the United States to consider the formation of an Atlantic Free Trade Area as an alternative for Britain. As the paper submitted to the subcommittee by Theodore Geiger and Sperry Lea concludes, the free trade area concept promises to be relevant for the United States in any eventuality. If the next attempt at negotiations by the traditional multilateral approach fails—or, even possibly, is insufficiently promising to be attempted—then we would shift to the only other approach that is sanctioned by the GATT, establishing a free trade area among willing countries as the first move toward a generalized agreement. On the other hand, if another round of multilateral negotiations succeeds, then we would find ourselves so close to free trade that the countries would be expected to commit themselves to full free trade at a fixed date and undertake other commitments contained in a formal free trade area. A prestigious committee, of which I am a member, is currently studying the feasibility of this alternative for the three principal countries concerned.

Regarding the report's recommendations on East-West trade, I wish to reiterate my position that trade in nonstrategic goods between Western nations and the European Soviet bloc as proposed by the President is extremely useful, despite the war in Vietnam, as increased commercial and cultural contact between Eastern Europe and the United States will in the long run be important elements in reducing cold war tensions and in encouraging greater economic independence among East European Communist countries.

I am, of course, strongly opposed to aiding the Communists in their effort in Vietnam. It is precisely because of the tensions of the Vietnam conflict that it would be useful for the United States to improve its relations with the more reasonable Communist nations—indeed, countries that can exert influence on Hanoi for peace and negotiations.

The expansion of East-West trade in nonstrategic goods on a most-favored-nation basis and other steps such as the consular treaty between the United States and the U.S.S.R. recently approved by the Senate, and arms control treaties, tend to provide the free world with greater standing and influence in the Communist world and help strengthen existing trends toward easing East-West tensions. Completely cutting off our relatively modest trade with European Communist countries would only aggravate our relations with them without lessening their involvement in Vietnam and they could still get anything they wanted from Western European countries. Furthermore, it must be emphasized that the United States does not and would not supply Communist nations with any material which would aid the North Vietnamese or the Vietcong guerrillas in their war effort.

JACOB K. JAVITS.

APPENDIX

SCHEDULE OF HEARINGS ON THE FUTURE OF U.S. FOREIGN TRADE POLICY, JULY 11, 12, 13 AND 18, 19, 20, 1967

Tuesday, July 11

WILLIAM M. ROTH: President's Special Representative for Trade Negotiations.

Wednesday, July 12

*ANTHONY SOLOMON: Assistant Secretary of State for Economic Affairs.

LAWRENCE McQUADE: Acting Assistant Secretary for Domestic and International Business, Department of Commerce.

THOMAS B. CURTIS: U.S. House of Representatives, congressional delegate to the Kennedy Round.

Thursday, July 13

KENNETH YOUNGER: Director, Royal Institute for International Affairs, London.

AURELIO PECCEI: Vice chairman, Olivetti, member of the steering committee of Fiat-Turin, and President of ITALCONSULT, Rome.

Tuesday, July 18

S. M. McASHAN, Jr.: President, Anderson Clayton & Co., Houston, Tex.

CARL GILBERT: Chairman of the executive committee, Gillette Co., Boston, Mass.

HENRY BALGOOYEN: Executive vice president, American & Foreign Power Co., New York, N.Y.

N. R. DANIELIAN: President, International Economic Policy Association.

Wednesday, July 19

WILLIAM DIEBOLD, Jr.: Council on Foreign Relations.

ROBERT E. BALDWIN: University of Wisconsin.

RICHARD N. COOPER: Yale University.

JOHN PINCUS: The RAND Corp.

LAWRENCE W. WITT: Michigan State University.

Thursday, July 20

DAVID ROCKEFELLER: President, Chase Manhattan Bank, New York, N.Y.

GEORGE W. BALL: Former Under Secretary of State.

*Mr. Solomon was unable to appear because of illness. Joseph A. Greenwald, Deputy Assistant Secretary of State for International Trade Policy, presented Mr. Solomon's statement to the subcommittee.

COMPENDIUM OF INVITED STATEMENTS¹

LIST OF AUTHORS AND TITLES

I. The Basis of Negotiation:

1. William Diebold, Jr., "Future Negotiating Issues and Policies in Foreign Trade."
2. Robert E. Baldwin, "Toward the Seventh Round of GATT Trade Negotiations."
3. Helen B. Junz, "The Border Tax Issue Defined."

II. Institutional Aspects:

4. Theodore Geiger and Sperry Lea, "The Free Trade Area Concept as Applied to the United States."
5. Robert B. Schwenger, "The Restructuring of Foreign Trade Negotiations."

III. Trade and the Adjustment Process:

6. Howard S. Piquet, "Foreign Trade Policy in the Framework of the Balance of International Payments."
7. Judd Polk, "U.S. Exports in Relation to U.S. Production Abroad."
8. Lewis E. Lloyd, "The Economics of International Trade."

IV. Specific Issues:

9. Lawrence Witt and Vernon Sorenson, "Problems of Agricultural Products in World Trade."
10. John Pincus, "United States Trade with Less Developed Countries."
11. Hal B. Lary, "Imports of Labor-Intensive Manufactures from Less Developed Countries."
12. Kenneth R. Hansen, "U.S. Trade with Communist Bloc Countries."

¹ COMMITTEE PRINT.—"Issues and Objectives of U.S. Foreign Trade Policy—A Compendium of Statements on the Future of Foreign Trade Policy," Subcommittee on Foreign Economic Policy of the Joint Economic Committee; September 1967.