THE FUTURE OF U.S. FOREIGN TRADE POLICY

HEARINGS

BEFORE THE

SUBCOMMITTEE ON
FOREIGN ECONOMIC POLICY

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

NINETIETH CONGRESS

FIRST SESSION

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THE FUTURE OF U.S. FOREIGN TRADE POLICY

SUBMITTED STATEMENTS

Letter of Invitation

The following letter was addressed to a few inquirers and subsequently inserted in the Congressional Record as a general invitation. The materials included in this appendix are in response to the invitation.

Congress of the United States,
Joint Economic Committee,
June 27, 1967.

Dear Mr. ——— ———: Congressman Hale Boggs, Chairman of the Subcommittee on Foreign Economic Policy, has asked that I respond to your inquiry concerning the Subcommittee. As you know, the Subcommittee has scheduled an initial set of hearings, in mid-July, which is the first stage in a Congressional appraisal of future U.S. policy.

The intention of the Subcommittee is to canvass a wide range of opinion on the subject, and the limited number of hearings may work against this purpose in the short run. It has been decided therefore to invite interested parties, including yourself, both by letter and through the Congressional Record, to present in writing their views on U.S. Trade Policy.

You will understand that the Joint Economic Committee is not a legislative committee and that the subject of the study is the long view of our trade policy. Our questions are about what is to be negotiated and how it is to be done, what issues are becoming less important, and what more important. It is intended that we should broadly assess the national interest. It is not that we should ignore or minimize the special or sectoral interests, but that our attention should be focused on issues of policy for the next five or ten years.

Within the broad limits described in the preceding paragraph, the Subcommittee proposes to publish the statements. Since the invitation is extended generally to interested parties, the Subcommittee reserves the option to refrain from publishing statements or part of statements that are either too long or not germane to the issue of The Future of U.S. Trade Policy. If you wish to submit a statement, please send it, before July 31, 1967, to Congressman Hale Boggs, Subcommittee on Foreign Economic Policy, Joint Economic Committee, Room G–133, New Senate Office Building, Washington, D.C. 20510.

Sincerely yours,

——— ———.

AMERICAN FARM BUREAU FEDERATION

THE FUTURE OF U.S. FOREIGN TRADE POLICY

The American Farm Bureau Federation, representing 1,703,908 member families in 49 states and Puerto Rico, appreciates the opportunity of presenting its views in regard to the future foreign trade policy of the United States. We have long recognized the importance of foreign trade to U.S. agriculture and the need for a sound U.S. foreign trade policy in order to obtain the maximum opportunity for American farmers.

With abundant, high-quality, and attractively priced supplies of most of the important commodities entering world trade, the United States is the world's largest exporter of farm products.

U.S. agricultural exports reached a record-breaking $6.7 billion in the fiscal year 1965–66, exceeding the previous fiscal year record by $600 million. These exports represented over one-fifth of the world's agricultural trade.

U.S. agricultural exports in 1965–66 required financing, inland transportation, storage, and ocean transportation for 69 million long tons of cargo—enough to fill over 1.6 million freight cars or 5,500 cargo ships. To move these exports, an average of 15 ships departed each day.

Of the $6.7 billion U.S. agricultural exports in 1965–66, a record $5.1 billion were commercial sales for dollars in comparison with $4.4 billion a year earlier; and $1.6 billion moved under Public Law 480 (foreign currency sales, donations, barter, and long-term supply and dollar credit sales) and AID programs.

The $700 million increase in commercial sales for dollars not only accounted for all of the gain in total U.S. agricultural exports but also made up for a $100-million decline in exports under government-financed programs.

Three major commodities accounted for most of the $600-million net gain in 1965–66 exports; Feed grains, wheat and flour, and soybeans. *Feed grains* alone provided approximately $400 million of the increase. *Wheat* and *flour* and *soybeans*, with increases of $163 million and $136 million respectively also contributed substantially to the new export record. Signficant, although smaller gains were registered for *fruits, hides* and *skins, oilcake* and *meal, rice* and *vegetables*.

Declines totaling about $200 million occurred in exports of cotton as well as cottonseed, soybean oil, dairy products, and animal fats. Tobacco exports were approximately the same in value but lower in quantity.

For several commodities, such as dairy products and lard, exports were somewhat limited by smaller exportable supplies.

Economic growth in such major markets as the Western European countries and Japan continued to stimulate U.S. agricultural exports in 1966–67.

Preliminary figures indicate that U.S. farm exports for fiscal year 1966–67 exceeded $7 billion.

Crops from one of every four harvested acres are exported

The output of 78 million acres of U.S. cropland moved abroad in fiscal year 1965–66. The export market accounted for about two-thirds of the U.S. production of dried edible peas, almost two-thirds of the wheat (including flour equivalent); over three-fifths of the hides and skins; over half of the milled rice; over 40 percent of the soybeans and hops; more than one-third of the tallow; grain sorghums, nonfat dry milk, and dried prunes; one-fourth of the tobacco and raisins; and about one-fifth of the dried whole milk, cotton, lemons and limes, and cottonseed. U.S. exports of corn were about one-third of the quantity sold.

U.S. AGRICULTURAL EXPORTS: VALUE OF COMMERCIAL SALES FOR DOLLARS AND GOVERNMENT PROGRAMS, YEARS ENDED JUNE 30, 1951-66

[In millions of dollars]

Year ended June 30	Total exports	Commercial sales for dollars [1]	Under Government programs [2]
1951	3,411	2,215	1,196
1952	4,053	3,430	623
1953	2,819	2,369	450
1954	2,936	2,331	605
1955	3,144	2,278	866
1956	3,496	2,129	1,367
1957	4,728	2,771	1,957
1958	4,003	2,752	1,251
1959	3,719	2,465	1,254
1960	4,517	3,025	1,312
1961	4,946	3,374	1,572
1962	5,142	3,482	1,660
1963	5,078	3,532	1,546
1964	6,067	4,481	1,586
1965	6,096	4,404	1,693
1966	6,681	5,066	1,615

[1] Commercial sales for dollars include, in addition to unassisted commercial transactions, shipments of some commodities with governmental assistance in the form of (1) credits for relatively short periods; (2) sales of Government-owned commodities at less-than-domestic market prices; and (3) export payments in-cash or in-kind.

[2] Sales for foreign currency, barter, and donations.

U.S. AGRICULTURAL EXPORTS: VALUE BY COUNTRY OF DESTINATION, FISCAL YEAR 1965-66

[In millions of dollars]

Country	Rank	Value
Japan	1	$913.6
Canada	2	629.9
India	3	540.9
Netherlands	4	514.5
West Germany	5	476.5
United Kingdom	6	435.0
Italy	7	277.2
Spain	8	200.6
Belgium-Luxembourg	9	182.8
France	10	142.4
United Arab Republic	11	125.0
Yugoslavia	12	124.4
Vietnam	13	102.6
Korea, Republic of	14	90.0
Denmark	15	84.7
Other		1,840.8
Total		6,680.9

TRADE NEGOTIATIONS

In June 1967, the United States concluded protracted trade negotiations with the principal trading nations of the world. These negotiations were authorized by the Trade Expansion Act of 1962 and were designed to obtain reductions on restrictions applied to U.S. exports in return for reciprocal reductions by the United States on its imports. While one of the major purposes of the negotiations was to reduce restrictions on U.S. agricultural trade, the results in this area can be evaluated as no better than "moderate."

The formation of the European Economic Community (Common Market) gave special significance to these trade negotiations. The six countries which make up the Common Market—France, West Germany, Italy, Belgium, The Netherlands, and Luxembourg—are important customers of the United States—and especially of the American farmer. In 1966 they bought approximately $1.6 billion worth of American farm products—for dollars.

1. The United States was not successful in obtaining meaningful concessions on those agricultural products—including wheat, feed grains, rice, red meats, dairy products, and some fruits—to which the European Economic Community currently applies variable fees.

2. Meaningful tariff concessions (averaging 25 percent) were obtained for certain U.S. agricultural exports—including tallow, tobacco, soybeans, turkeys, certain fruits and vegetables, peas, and beans.

3. Proposals to organize the grains market politically through international commodity agreements were not adopted. Likewise, efforts by the advocates of international "government supply-management" to promote commodity agreements for red meats and dairy products were successfully avoided.

4. An International Wheat and Food Aid Agreement was entered into subject to ratification by the United States Senate. This agreement (which does not cover feed grains) takes the place of the International Wheat Agreement and would:

(a) Establish so-called minimum-maximum price indicators on wheat at approximately 23 cents above the current price range in the IWA. Proponents contend that this agreement will not restrict the ability of U.S. producers to compete for world wheat markets. There appears to be little basis for believing that it would have any more effect on international wheat trade than the current IWA, the effect of which has been negligible.

(b) Establish commitments for food aid by both exporting and importing countries in the total amount of 4.5 million tons of grain. The United States commitment would be approximately 1.9 million tons. Importing countries' commitments (including the EEC, United Kingdom, etc.) would be approximately 2 million tons. Other grain exporting countries would share the remainder. (The scope of this proposal can be visualized by noting that in calendar year 1966 the United States supplied 12.5 million tons of wheat to less developed countries under P.L. 480.)

International Commodity Agreements

The ultimate objective of international commodity agreements is usually the political allocation of international markets on the basis of "history" or "fair shares." Government allocation of international markets and determination of prices would seriously restrict American farmers' markets and substantially reduce net farm income. Market sharing or international supply-management penalizes efficient producers and encourages uneconomic production. The United States is currently a signatory party to several international commodity agreements, including agreements on cotton textiles and coffee. The International Wheat Agreement expired July 31, 1967 and, as indicated in the foregoing, the International Wheat and Food Aid Agreement, which is designed to take its place, is subject to ratification by the United States Senate. Experience with international commodity agreements has indicated that they are either ineffective or restrictive to trade.

U.S. Agricultural Imports

United States agricultural imports for consumption in fiscal year 1966 were $4,454 million; imports of supplementary (partially competitive) products totaled $2,473 million; imports of complementary (non-competitive) products were $1,982 million.

Increased imports of beef and veal and dairy products were a matter of concern during the past year.

Meat Imports

The Meat Import Act, which was passed in 1964, authorizes import quotas when the Secretary of Agriculture estimates imports at 110 percent of a historical base plus a built-in growth factor which is geared to U.S. production. Quotas have never been imposed under this Act. Estimated imports must equal or exceed 995 million pounds before quotas can be proclaimed for 1967; however, quotas can be suspended or increased at any time if the President determines that:

1. Overriding economic or national security interest of the United States requires such action.

2. The supply of meat subject to the Act will be inadequate to meet domestic demand at reasonable prices.

3. Trade agreements entered into after the date of the enactment of the Act insure a pattern of world trade in beef, veal and mutton that will result in imports consistent with the purposes of this Act.

U.S. IMPORTS OF MEAT COVERED BY THE MEAT IMPORT LAW

	Million pounds	Percent change
1966 January-April	224.5	
1967 January-April	256.6	+14

Beef and veal: U.S. imports, fresh or frozen, product weight, 1960–67

Year:	Million pounds	Year:	Million pounds
1960	413.8	1964	705.5
1961	569.2	1965	584.1
1962	860.1	1966	823.4
1963	986.2	1967 estimate	900.0

DAIRY IMPORTS

On February 16, 1967 Farm Bureau requested that the Secretary of Agriculture initiate a Section 22 (of the Agricultural Adjustment Act) action to control effectively the imports of dairy products. Section 22 authorizes the President to take such action when imports disrupt government farm programs. On March 30, the Secretary initiated such action, and the Tariff Commission held hearings on May 15–16, 1967. On June 22, Farm Bureau recommended that the President take prompt action to restrict dairy imports. On June 30, the President took such action, placing restrictions on dairy imports which had been entering the country outside of existing quotas. Under the Presidential proclamation, dairy imports will be reduced to 1 billion pounds—less than 1 percent of U.S. production, and only slightly above the 1965 level.

The following table presents the current information on imports and exports of milk equivalent.

IMPORTS AND EXPORTS, MILK EQUIVALENT, 1958–66

[In millions of pounds]

Year	Imports			Exports		
	Quota	Nonquota	Total	Total	Commercial	Noncommercial
1958	189	318	507	2,804	757	2,047
1959	203	375	578	1,154	651	503
1960	234	370	604	776	755	21
1961	212	548	[1] 760	655	645	10
1962	232	563	[1] 795	1,287	434	853
1963	249	666	[1] 915	5,038	554	4,484
1964	228	602	830	6,874	370	6,504
1965	220	698	[1] 918	1,839	417	1,422
1966 [2]	280	2,495	2,775	780	780	0

[1] Includes butterfat/sugar products.
[2] Preliminary.

RECOMMENDATIONS

1. The United States should continue to pursue trade negotiations designed to reduce restrictions on world trade *with nations which are prepared to offer reciprocal benefits to U.S. exports.* Future negotiations must not only include—they must emphasize trade in agricultural products.

2. The United States should have a firm policy of opposition to international commodity agreements which are designed to allocate world markets and politically determine prices. The U.S. objective should be to reduce restrictions on agricultural trade, not to legitimize them by international agreements.

3. U.S. domestic farm programs must be brought into accord with foreign trade objectives. U.S. farmers must achieve competitive pricing in the world market on an equitable basis. The objectives should be to sell commodities for export at prices not less than the price at which the production of the commodities was induced—including payments made through government payments.

4. We recommend a study of a North American free trade area. There is strong evidence that establishment of such an arrangement could broaden markets for American agriculture, stimulate foreign trade, and strengthen the economies of all nations involved. We believe discussions with regard to this should be initiated with Canada at an early date.

5. Better procedures are needed in order to provide an avenue of relief for those industries which are injured or threatened with injury by expanded imports. This is essential if we are to avoid legislated quotas and tariffs which can be destructive of an expanded trade program. We believe that temporary increases in U.S. import restrictions is the proper manner to grant such relief rather than the use of direct federal aid.

AMERICAN IMPORTERS ASSOCIATION, INC.*

FUTURE OF U.S. TRADE POLICY**

The American Importers Association (formerly the National Council of American Importers) was organized in 1921 to act as the spokesman for American importers. We commend the Committee for its study of Future United States Trade Policy and will cooperate in every possible way as the study progresses. Right now, our organization would like to contribute some suggestions.

During the 46 years of its existence, the American Importers Association has supported elimination of trade barriers and the expansion of international trade. We are proud to say that many of the ideas and practices we have advocated and supported are incorporated in the trade policy which the Congress has approved and the United States Government has carried out since 1934, when the reciprocal trade agreement program was initiated.

Under that program, which culminated in the recent Kennedy Round of trade negotiations under the GATT, rates of duty in the United States and other countries have been brought to common-sense levels from the exorbitant heights to which they were raised in the 1930's.

Customs procedures in many cases are more of a barrier to trade than rates of duty! In 1950, the Treasury Department initiated a program of simplification which was later approved by the Congress when it enacted the Customs Simplification Acts of 1953, 1954, and 1956. The Congress also approved the President's reorganization plan for the Bureau of Customs which has resulted in significant rationalization in the operations of the Customs Service to the benefit of all American importers and to the Customs Service itself.

As a result of these developments we are in a situation today where *rates of duty* cannot be said to be the formidable barrier to international trade they have been in the past. However, it is too early to completely forget tariff rates. At one end of the scale, some rates are still unnecessarily high; at the other end, those below 5%, are simply a nuisance. Accordingly, all those concerned with future U.S. trade policy must bear in mind the need for lowering the high rates and erasing the nuisance rates from our tariff schedules.

Unfortunately, we still have other barriers which can hobble international trade more effectively than rates of duty. These are the so-called non tariff barriers. All the trading nations of the world, including the United States, raise non tariff barriers. The American Importers Association believe that in its future trade policy, the United States should insist on the elimination of barriers of this type.

Of course the United States cannot ask other countries to eliminate their NTB's unless it takes all the necessary steps to eliminate its own. In this statement, the American Importers Association wants to identify the more important NTB's imposed by the United States.

Valuation Procedures—Although some progress was made in this field when the Congress enacted the Customs Simplification Act of 1956, more simplification may be effected without injury to domestic industry and with great benefit to the U.S. Customs Service and to American importers. The purpose of that Act was to eliminate "foreign market value" as a basis for valuation. By the time it was enacted into law, however, that Act established two sets of bases for appraising imported merchandise: one set for all articles on what is known as the Final List issued under the Act: and another set for all other articles not on the Final List. The irony is that now the United States has a variety of methods for determining value: (1) "foreign market value," (2) two types of "export value;" (3) two types of "United States value;" (4) "cost of production;" (5) "constructed value;" and (6) two types of American Selling Price, one for articles on the Final List, and another for those not on that List. The

*Formerly National Council of American Importers.
**By Gerald O'Brien, executive vice president.

Congress can rectify this by eliminating the Final List and Section 402a of the Tariff Act from the statutes. Then we will get the simplification the 1956 Act sought to achieve.

American Selling Price—Much has been said and written as to whether or not American Selling Price should be used as a basis of valuation. Our organization grew out of a group of importers who got together in 1921 to oppose a proposal before the Congress at that time to assess duty on *all imports* on the basis of their American Selling Price. Fortunately, this unwise proposal was defeated. Instead, ASP was confined to the appraisement of what are now called benzenoid chemicals. Ever since that time, we have advocated elimination of ASP from the Tariff Act. Once more, we urge the Congress to delete this discriminatory and unfair provision.

Import Quotas—We have stated on many occasions that an import quota is one of the most objectionable NTB's. The most accurate characterization of import quotas, and the trouble they cause in international trade was made by your Subcommittee on Foreign Economic Policy in the Report it issued on January 5, 1956. Because it is still valid, we quote it here:

"In time of war, quotas on imports are the counterpart of necessary domestic controlled allocation. But, carried over to normal times, quotas are designed for a purpose similar to tariffs. They are worse because they may be insensitive to changes in the volume of demand, and to changes in costs of production and prices, and are almost always discriminatory in assigning shares of the market. A quota has the purpose of boosting the market price just as does the tariff. If consumer demand grows, except by specific administrative action there can be no increase in imports as even a tariff allows, and the only alternative is for the price to rise even more. Quotas imply the assignment of shares, and this inevitably means that choices must be made among countries of supply and individual traders. The opportunities for favoritism, for economic strangulation, for international hard feelings and reprisal, and for personal corruption are unlimited."

A barrier of this type has no place in our trade policy.

Antidumping Act—This has been an effective NTB in recent years. By filing a complaint of dumping, domestic industries are able to stop imports and harass importers until the Treasury Department decides whether or not there has been dumping—and this may take from several months to over a year—or until the Tariff Commission decides whether or not there has been injury to the industry involved. If we incorporate into U.S. trade policy both the spirit and the letter of the international code on dumping recently negotiated in Geneva, we will go a long way in preventing resort to the Antidumping Act, and thus eliminate it as an NTB.

Buy American Act—This remnant of the depression days of the 1930s should not be a factor in the trade policy of the richest and most powerful trading nation on earth. As we stated on a number of previous occasions, continuation of the "Buy American" Act on our statute books invites other countries to adopt similar measures, and inspires and encourages states, countries, and municipalities in the United States to emulate the Federal Government in their procurement policies. The Federal Buy American Act should be repealed. Then all other political entities in the United States will not be able to point to the existence of the Federal Statutes as an excuse or justificaion for the trade restrictive measures they are adopting with increasing frequency. Drastic measures are necessary to eliminate this drastic NTB.

State Legislation Contrary to U.S. Trade Policy—In recent years, certain states and cities have passed laws contrary to the trade policy established by the Federal Government. Examples of this are ordinances requiring retailers selling goods imported from certain countries to post signs in specified places in their stores proclaming, for example, "Japanese Goods Sold Here" or "Communist (or Soviet) Goods Sold Here." In certain cases, retailers are required to obtain a special license to sell goods imported from the Soviet Union. Other examples are state laws requiring labels naming the country of origin of imported materials in products, especially food products, made in the United States. These laws also require firms handling such products, to obtain a special license from the state for which fees ranging from $500 to $15,000 are charged. In addition, these laws require licensed retailers to post near the point of sale signs written in letters of specified size proclaiming the country of origin of the imported component in the product offered for sale.

Through the efforts of the Department of State and of Justice, laws of this type have been challenged in the state courts and in the Federal Courts. Up to the present time, all courts have declared these laws unconstitutional on the ground that under the United States Constitution only the Congress has authority to legislate on matters affecting international trade.

In addition to the two types of laws mentioned above, a number of states have enacted or propose to enact legislation requiring the procurement officers of the states and of its smaller political subdivisions to buy only American products. Up to the present time, it has not yet been clearly determined whether or not state "Buy American" laws are constitutional.

These nuisance ordinances, labeling laws, licensing fees and state "Buy American" requirements are a new and a very effective NTB which, if not stemmed, may become very formidable in the future. Since these laws clearly impinge on the perogative of the Congress to legislate on all matters affecting international trade, we believe that Congress should assert its primacy in this field, and thus prevent and forestall any further state incursions into it.

The trade policy adopted for the future must include consideration of the NTB's to which we have referred. In its general terms, U.S. trade policy must accept imports as an asset to its economy, and continue the practice of multinational negotiations under the General Agreement on Tariffs and Trade for the elimination of these NTB's and for any additional tariff cuts that may be advisable. This would require granting to the President the negotiating authority for the purposes mentioned by Mr. William M. Roth, the Special Representative for Trade Negotiations, in the statement which he submitted to your Subcommittee on July 11, 1967. It would also require amending the adjustment assistance provisions in the Trade Expansion Act along the lines suggested by Mr. Roth in the same statement.

COMMITTEE FOR A NATIONAL TRADE POLICY*

Editorial[1]

THE TIME HAS COME

At the end of January, in his Economic Report to the Congress, President Johnson said:

"This Administration is committed to reducing barriers to international trade. . . . But the Kennedy Round is not the end of the road. We must look beyond the negotiations in Geneva to further progress in the years ahead. We must begin to shape a trade policy for the next decade that is responsible to the needs of both the less developed and the advanced countries."

In October 1966 the President told the National Conference of Editorial Writers: "Our goal is to free the trade of the world—to free it from arbitrary and artificial restraints."

Whether or not the Kennedy Round is a success, forward movement is essential. The need is not only to maintain our momentum on the route of freer international trade according to rules of navigation established by the General Agreement on Tariffs and Trade, but to prepare our economy for new initiatives, in cooperation with industrialized countries everywhere, to achieve the trade policy goal to which the President referred—free trade.

The timetable for such initiative is highly uncertain. The time has come, however, for governments and entrepreneurs to set their sights on free trade as a definitive goal, making it a premise for decision-making both by government and the private sector of the economy. We are a long way from that kind of preparedness. Yet, accepting free trade as inevitable in the not too distant future, and recognizing resolute preparation for it as indispensable, would go a long way toward helping our economy combat such foes of economic progress as damaging inflation at home, lack of confidence in the dollar abroad, and such obstacles to international cooperation and development as inward-looking regionalism in Western Europe and abysmally low levels of economic growth in the southern hemisphere.

The timing of the next stop in U.S. trade legislation to provide the basis for a U.S. initiative of this kind is a highly controversial question requiring judgments on political timing and the need to avoid anything that might impair the present GATT negotiations. But uncertainty about decisions regarding new legislation should not delay decisions to step up the pace at which the American economy prepares itself for the trade policy initiative that must lie just ahead.

To achieve this trade objective will test the resourcefulness of our free enterprise system and the persuasiveness (both at home and abroad) of those who understand the need. Of first importance is a clear understanding of what needs to be done and of the ability of the United States in cooperation with other advanced nations and regional instrumentalities, to reach the ultimate goal of free trade. Then comes the determination to move in this direction.

Editorial[2]

NEEDED: A POLICY

It has been well over a year since a citizens committee on trade—chaired by Stacy May, a widely respected economist, and including a political and economic spectrum ranging from General Lucius Clay to Walter Reuther—articulated the following priorities in its report to the White House Conference on International Cooperation in December 1965:

"Impressive as our record and that of other industrialized nations have been in achieving a substantial lowering of trade barriers in such a relatively short period of time, what these countries have accomplished has not measured up to the degree of trade liberalization of which they are capable and from which they

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*Three editorials from *Trade Talk,* Vol. XIV, Nos. 1, 2, 3.
[1] Vol. XIV, No. 1, January–February, 1967.
[2] Vol. XIV, No. 2, March–April, 1967.

would benefit greatly. In view of the economic and political dynamics of economic regionalism and the aspirations of the developing nations, the need more closely to intertwine the economies of the free world is not a matter of theory or doctrine, but of considerable practical urgency. . . .

"Of highest priority in the pursuit of these goals is a successful Kennedy Round of trade negotiations that would move significantly toward its original objectives. The United States should mobilize all the leverage at its command to this end and be prepared with new initiatives based on a highly successful Kennedy Round and aimed at the earliest possible achievement of the goal toward which we have been moving for more than 30 years."

The clear implication of this statement is that, even with impressive success in the Kennedy Round, no time should be lost by the economically advanced countries in preparing new initiatives pointing to free trade. Also clearly implied is the even greater urgency of such initiatives if the current negotiations should fall substantially short of such results. There was in fact strong sentiment in the committee for outlining some of the specifics of such initiatives. Concerned with the effect such detailed proposals might possibly have on the negotiations—a stance of responsible, perhaps excessive caution—the committee omitted such specifics from its final report. The need for momentum, however, and for resolute U.S. determination to spark a negotiated timetable for complete free trade, survived the final editing and became one of the major contributions of this historic document.

The Administration, rightly or wrongly, persisted in remaining silent about its long-range trade policy plans, other than to reaffirm its dedication to freer trade—an abstraction to which the modern, sophisticated breed of protectionist has no difficulty in subscribing. What was for so long a professedly necessary ploy in the gamesmanship of trade negotiations now appears increasingly to be something more basic: a lack of preparation for what the more responsible trade-policy rhetoric and research have long identified as urgent goals, the importance of which has been underscored by more recent world developments.

This apparent lack of preparation—hopefully more apparent than real—came to public notice on March 24 when the President announced that preparations would begin (presumably after the Kennedy Round) for a "long-range study" of U.S. trade policy. This is to date the only precise indication the Administration has given of future steps in this important policy area. A few weeks later, faced with a golden opportunity, and what should have been regarded as a pressing necessity, to articulate overall U.S. trade policy objectives of great importance to Latin American aspirations and to the planning of a Latin American common market in particular, the United States could only say, with respect to trade policy:

"We are ready to explore with other industrialized countries, and with our people, the possibilities of temporary preferential tariff advantages for all developing countries in the markets of all the industrialized countries. We are also prepared to make our contribution to additional shared efforts in connection with the International Coffee Agreement."

CNTP has for some time been formulating proposals for future trade policy, regardless of the outcome of the Kennedy Round. We have submitted these proposals to the Administration. We are continuing to do so and, at an appropriate time, shall make these ideas public. Our efforts are in tune with the exhortations of a 19th century New England poet, cited in the recent Congressional testimony of a modern New England economist (reported elsewhere in this issue): "We must sail, and not drift, nor lie at anchor."

Editorial[3]

FUTURE TRADE POLICY

Thirty-three years of avowed dedication to freer international trade, with many legislative and negotiating successes marking the rocky road, still leaves U.S. foreign-trade policy in a condition of substantial underdevelopment. The prospects for correcting this condition in the very near future do not seem promising, particularly since it will take another year or two before the Administration's announced foreign-trade-policy study is completed and at least that long before the future course of U.S. policy is definitely clear.

[3] Vol. XIV, No. 3, May–June–July, 1967.

Agreement in the Kennedy Round has saved U.S. trade policy, indeed U.S. foreign policy, from a formidable impasse. Fortunately agreement of some significance was reached, but the United States has not yet shown that it is ready for the momentum that must be maintained toward clearly defined goals. With completion of the Kennedy Round has come a feeling of relief, but no sense of urgency about the need to formulate quickly a trade policy that meets the current and long-term needs of both foreign economic and domestic economic policy. A policy issue in which momentum is essential and where protectionists adore a vacuum requires much more than "breathing spells" and "time for study and reflection." American businessmen need more clearly defined trade-policy premises, and the rest of the world needs clearer and earlier expressions of U.S. purpose in this major policy area.

The Government should be articulating the need for all sectors of the economy to gear their future planning to the premise of rapidly approaching free trade. The Government should also demonstrate that its own future planning is similarly based on this clear premise. Such exhortations and example require a careful, continuing effort. This includes assuring the American people and their elected representatives that the Federal Government fully understands the implications of freer international trade for all sectors of the nation's economy and is prepared to work with them in search of ways to facilitate the most rapid adjustment to rising foreign competition and expanding export opportunities. If a major deterrent to such a seemingly ambitious policy stance is fear of congressional reaction, it is not an insuperable obstacle—only a problem that demands imaginative and unceasing attention. A clear statement as to our long range policy commitments to free trade is needed now.

In their speeches before business and other groups throughout the country, government officials should elucidate all the dimensions of effective and forward-looking trade policy, including the need to adjust to imports, not restrict them—to eliminate trade barriers, not maintain or raise them. Instead of a tendency to yield to a supposed consensus, there should be determination to build the kind of consensus needed to ensure policies that adequately advance the national interest. A strong Presidential statement in this direction would go a long way toward raising the level of the dialogue.

A determined effort should also be made toward guaranteeing that the national policy of freer trade is nationwide in its implementation—that is, unimpaired by state and local government laws and regulations discriminating against imports. Rigid Buy American proposals at state and local levels continue unabated, with the steel industry one of the strongest pressure groups behind such efforts. The channels of communication between the Federal Government and state and local leaders are available and being improved. A nationwide trade policy in the national interest should be on the agenda.

In a variety of ways, many of them not publicized, CNTP is making every effort to keep the nation's trade policy moving in the right direction at the right pace. The road was never rockier, or the trip more necessary.

COPPER & BRASS FABRICATORS COUNCIL, INC.*

It is the intent of this statement to be of service to the Subcommittee, by presenting comments on behalf of the domestic brass mill industry, based on its experience under the U.S. Foreign Trade Policy. The industry has been directly involved in important aspects of this policy since the enactment of the Reciprocal Trade Agreements Act of 1934. It has clearly set forth in statements to the appropriate government agencies the adverse effects of certain features of this policy, beginning with the British-American Trade Agreement in 1938. Subsequently, as the multilateral trade agreements under the General Agreement on Tariffs and Trade (GATT) were made, it continued to amplify and update these statements.

The brass mill industry uses copper in its unwrought form, together with quantities of zinc, tin, nickel and other metals, to roll, draw, extrude and otherwise form plates, sheets, rod, wire, tube and pipe of copper and its various alloys. It is distinct in its operations and markets from the copper mining and refining segments of the overall copper industry, as well as from the electrical wire and cable, foundry and other particular components of the overall industry. Its problems with respect to foreign trade may be quite different. Its products are essential, constituting the raw materials in such important industries as building, automotive, electrical, and mechanical parts, as well as being vital in the national defense. From 5% to 30% of its productive capacity for various of its products have been set-aside for defense orders during the first three quarters of 1967. Its productive capacity is ample for both commercial and defense requirements. Its total shipments in 1966 were 3.33 billion pounds. The value of its production was given in the Census of Manufacturers in 1963 as $1.54 billion; the number of its employees as 39,000. The industry has steadily increased its efficiency with substantial investment in new plant and equipment. Its workers are highly trained and well paid. The industry's products are in direct competition with similar products of aluminum, stainless steel and plastics, and the industry is under constant challenge in its production and marketing procedures to meet this competition. Brass mills are located in about 20 states.

Besides its severe domestic competition, the industry has had to meet aggressive competition from abroad. Because brass mill products, to be marketable, must conform with widely accepted standards of physical and chemical characteristics and performance, they have to be essentially identical. There are, of course, no variations of style or appearance, on which a competitive choice may be made. Price is a dominant factor. Under these circumstances, the much lower labor and related costs abroad give imports a substantial price advantage. This advantage is enhanced by the availability in this country of large markets for certain common brass mill products, established as a result of comprehensive research and promotion by the domestic industry.

On the other hand, because of this disparity between foreign labor and related costs and ours, which will be discussed further later on, our exports are now inconsequential and largely dependent on American manufacturers abroad and others who require certain of our products for their particular uses. Thus our exports have declined from 50 million pounds annually in the period immediately preceding the agreements under GATT, to between 15 and 20 million pounds now. Imports, however, have increased from negligible quantities to well over 200 million pounds. Imports, overall, now amount to seven or eight percent of the domestic production. They represent far higher percentages for particular products for which extensive markets have been created here by the domestic industry.

U.S. foreign trade policy, therefore, is playing a vital role in this industry.

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*By T. E. Velfort, managing director.

Validity of Government Statistics Pertaining to U.S. Trade Policy

Comment is in order, first of all, on the validity of certain government statistics on foreign trade, which have been widely used publicly to support the U.S. foreign trade policy. Thus the purported substantial surpluses in our international merchandise trade during the years in which the international trade agreements have been in effect, have been offered as an important reason for promoting the further development of our trade agreements program by further reduction of our tariffs. Our export surplus, it has been claimed, contributes favorably and substantially to our international balance of payments.

The way in which the international trade statistics are used within the context of our international balance of payments statement is not important here. The international balance of payments is the end result of a double entry accounting of our foreign financial transactions; the specific content of the various items included may or may not have direct commercial significance as such and the net deficit or surplus derived from the statement depends on the particular items used for the purpose.

The actual economic results of our commercial foreign trade is something quite different. What is really important in this frame of reference, is how the statistics are used to determine whether our foreign trade has been favorable on balance and whether it shows a tenable competitive position for us. Here we should know to what extent the landed cost of our imports has balanced the payments for exports which our industries received from their foreign customers. But the cost of imports as given in the commonly published government statistics, probably because of the simplicity of determination, is not the landed cost on our shores but the value in the principal markets abroad. Thus they do not include the cost of freight and insurance and whatever additional cost may be involved in bringing them from the markets in which the prices have been derived, to the ports of entry. The Bureau of the Census, late in 1966, estimated the overall cost of insurance and freight to be of the order of nine percent of the reported import values. This does not include whatever additional cost may be incurred in bringing the products from their F.O.B. points to the ports of shipment.

Further overstatement of our merchandise trade surplus results from the fact that our export figures, as given in the ordinary public press releases, include exports resulting from government grants. These, of course, are financed by the taxpayers. They are, therefore, not correctly included in our commercial transactions. The significance of this should be clear if we realize that under our present system of publicizing our export volume, we could readily increase our ostensible merchandise trade surplus by raising another billion dollars or two in taxes and using the proceeds to buy goods to be exported to our friends abroad as a gift.

Below are the reported foreign merchandise trade data for 1965 and 1966, as they have been released to the press by the Department of Commerce, and have been issued with general gratification as demonstrating how profitable our foreign trade is:

[In millions of dollars]

	1965	1966
Merchandise exports (excluding military)	26,244	29,168
Merchandise imports	21,472	25,510
Surplus of exports	4,772	3,658

But adjusted by properly reflecting available information (which is probably not complete), we have:

[In millions of dollars]

	1965	1966
Merchandise exports, as reported	26,244	29,168
Less Government grants, as reported	2,758	3,102
Commercial exports	23,486	26,156
Merchandise imports, as reported	21,472	25,510
Plus ocean freight, insurance, and other costs, 10 percent	2,147	2,551
Landed cost of imports	23,619	28,061
Surplus of imports (or deficit)	(133)	(1,905)

So, even on the basis of the probably incomplete data available, the actual commercial picture is quite different from the presentation regularly publicized and presumably to be understood as reflecting the favorable position which we have reached as a result of our foreign trade policy.

Parenthetically, it has been suggested by some that the omission of ocean freight costs from our imports is not serious, as some of this freight is paid to U.S. interests. This, waiving the fact that it suggests bad accounting, provides small comfort, however, because our international transportation balance also shows a deficit.

The common assumption that our foreign trade policy has been fundamentally sound, is subject to further question. Thus, even if we use our foreign trade statistics as commonly publicized, we find that the percentage of our foreign trade to our gross national product from 1948, the start of the multilateral agreements, to 1966, has varied from year to year between 6.6 percent and 7.8 percent, with no particular trend. But the proportion of imports included has steadily increased from about 33 percent of the total to 46 percent of the total. Even during the last ten years or so this situation has remained essentially the same. Our total foreign merchandise trade still varies between 6.7 percent and 7.5 percent of our gross national product and imports rose from 43 percent to 46 percent of the total. It is evident that imports have been an increasingly large part of our foreign trade.

The consistency of the relation between our foreign merchandise trade and our gross national product, raises the question whether the course of economic progress here and abroad has not controlled this situation more than the tariff adjustments which have been made under the trade agreements. At the same time, the relative increase in imports, where these have merely displaced production in this country, has not been constructive and has seriously hurt certain of our industries and their employees.

One is also induced to question, how controlling are the motives of so-called retaliation and reciprocity in determining what other nations buy from us and what we buy from them? It has never been demonstrated, except perhaps under special circumstances, that foreign nations will not buy from us what they absolutely need, such as food and machinery, even if they might object to certain steps we may take to protect one or more of our industries against low price competition which for reasons beyond their control they cannot meet. Similarly, it is questionable whether we would stop importing commodities we really need or find desirable, because of action taken abroad to mitigate some economic trouble. For instance, when Germany limited the quantity of coal which she would buy from us, even though it was considerably cheaper than her domestic coal, in order to keep her miners employed, we are not aware that we retaliated by eliminating an equivalent amount of imports from that country. Moreover, if German policy in this respect changes, it probably will be primarily on the basis of the economic situation she faces and not particularly to induce us to increase our imports from her.

We readily admit the general necessity of importing from countries abroad to provide them with the dollars which they need to buy from us, and that the easiest way to do this is to open our markets in a wide expanse on favorable terms to them. On the other hand, it is possible for foreign countries to obtain dollars or the equivalent by trading with other countries, even if that might prove a little more difficult.

It is often proclaimed by those who stress the benefits of increasing our foreign trade in toto, that more imports are desirable because they make available to the domestic consumer a greater variety of products in larger volume at lower prices. While this claim may be true in part, it is typical of the unreliability of such broad statements. The benefits cited are certainly not applicable to any such highly standardized products as those of the brass mills.

As to the assertion that greater variety is provided by imports, the contrary is here the case. Our imports of brass mill products consist almost exclusively of common items readily available from the domestic mills. To the extent, then, that these products are imported at prices lower than the domestic mills have to charge, to that extent foreign cheaper labor has been used to reduce the income of the domestic worker, with a corresponding reduction in his purchasing power. There is thus an economic loss that offsets, at least, any gain to the buyer in lower prices. The reduction in the business of the domestic mill compounds the economic loss.

This all leads to the key question whether a truly realistic appraisal has been made of the overall economic effects of our foreign trade policy and what the impact has been and will be on the industries adversely affected. If the final criterion governing this policy is political expediency, and this must be so for the good of this country, then this, too, should be demonstrated more convincingly than it has been.

Disparity in Labor and Related Costs

Little serious consideration apparently has been given to the substantial disparity in labor and related costs among the various countries, particularly between the United States and other countries. Generally these have been dismissed with the implicit or explicit assumption that our superior productivity offsets the difference between our high labor rates and the typically much lower rates abroad. Here a number of important considerations have been overlooked. First, these differences quite generally apply not only to the direct labor rates, but also to the indirect labor costs. Moreover, they often quite extensively influence other costs, such as plant, equipment and supplies. Further, while the assumption that productivity is roughly proportional to these labor rates may be valid with respect to certain products, it most certainly is not true for others, for instance, brass mill products.

While foreign brass mills may not be quite up to the efficiency of domestic mills, they do have up-to-date plant and equipment, and use modern production methods. Frequently most of the plants are new and the management is generally well informed on the latest production procedures used by our mills. Therefore, their costs, except for copper and other metal components, may be assumed to be substantially less than ours. Insofar as copper and the other metals used are involved, these are in international trade and prices usually do not differ materially. Such variations as do occur from time to time, generally do not subject mills abroad to increases in cost not comfortably within the margin provided by their lower labor and related costs.

In recent years much has been made publicly of the fact that wage rates abroad quite generally have increased in percentage more than labor rates in the United States. A completely different picture, however, is presented when the changes in the rates themselves are compared. This is made clear in Exhibit A, which shows comparative wages in the manufacturing industries in the United States and principal foreign countries shipping brass mill products to the United States. Thus, while the United States shows the least percentage increase in wage rates between 1955 and 1966, except for Canada, its increase in cents per hour, which is the true determinant of labor costs, is higher than that of any other country. How invalid dependence on percentage increase alone can be, is graphically indicated in the case of Yugoslavia. That country has had the highest percentage increase, 200 percent, and yet its rate in 1966 was only 27 cents per hour. or 10 percent of the average rate in the United States.

This wide disparity in manufacturing labor and related costs has had a most profound effect on the foreign trade situation of the brass mills. Exhibit B shows that between 1949 and 1966 annual imports of brass mill products have increased from 21 million pounds to 248 million pounds, whereas exports have varied between about 10 and 20 million pounds (they averaged about 50 million pounds in the period before the trade agreements). Even this relatively small quantity of exports undoubtedly is influenced by the need in American owned or managed manufacturing plants abroad for our mill products to meet their particular requirements.

Reduction of Brass Mill Product Tariffs Inequitable

If the situation which has been discussed above is specifically related to the brass mill industry, a simple statistical summary will indicate how inequitable. and unrealistic the reduction of the brass mill tariffs has been. Exhibit C indicates that labor rates in cents per hour in the countries accounting for two-thirds of our imports of brass mill products have increased from 1960 to 1966 less than those in the United States, and their imports to us, except for the United Kingdom, in the same period have increased substantially. Nevertheless, their tariffs, again except those of the United Kingdom, have been reduced only 20 to 25 percent, whereas ours have been reduced 50 percent. For some reason the tariffs of the United Kingdom, whose exports to us do show some decline, were reduced up to 50 percent. It is particularly difficult to understand why tariffs in Japan were reduced only 20 to 25 percent and those in the Common Market only 20 percent, when they continue to increase their exports of brass mill products to us, their wages being far lower than ours, and at the same time our exports to them remain relatively negligible. Their tariffs, after the reductions, will still remain higher than ours. As a matter of fact, it is doubtful whether our exports to these countries could increase even if their tariffs were eliminated entirely. It may well be that the limited reductions in the brass mill tariffs of these countries were predicated on factors which are not applicable to our domestic industry, but involved competition among the affected countries outside of the United States.

If this is so, then the full reduction of 50 percent in the United States tariffs would indicate that a serious sacrifice has been imposed on the domestic brass mill industry for some unknown reason. It is hard to believe that if consultation had been had with experienced men in our industry, familiar with the practical economic factors involved, such an inequitable treatment of our industry would even have been considered.

Dumping

Unfortunately, in the course of the recent negotiations under the Trade Expansion Act, dumping apparently was viewed as essentially a non-tariff barrier. Possibly from time to time it may have been used for that purpose, particularly by certain foreign countries. Fundamentally, however, dumping is an unfair trade practice, in effect an invasion of a market by below-cost selling, often predatory in motive. It is in this sense that the Antidumping Act of 1921 was enacted. Even GATT (Article VI) combines dumping with bounties and subsidies granted to exporters, against which countervailing duties are considered a proper offset. There is a vital difference in the attitude toward dumping when considered in its true aspect of an unfair trade practice and when it is assumed to be a non-tariff barrier. Rules against dumping as an unfair trade practice would normally be strictly and effectively enforced because of its general rejection as a violation of good business practice. Considered as a non-tariff barrier, however, its essence as a bad business practice would tend to be disregarded and resentment against it as a form of disguised "protectionism" would make the enforcement of the rules against it largely ineffective.

The enforcement of the Antidumping Act of 1921 has been so indifferent that the suspicion naturally arises that priority has been given to preventing its use as a non-tariff barrier. To propose, then, as the international antidumping code does, to apply the same treatment on a world-wide basis, would indicate that this has been inspired by the hope of removing antidumping procedures as a non-tariff barrier by foreign countries, in order to facilitate our exports.

It is quite as important, however, to prevent the inroads into our markets, through unfair and often predatory pricing, difficult to prove under the procedures of our present Antidumping Act. This legislation is badly in need of amendment, so that the criteria for injury are more definitely established and judicial review made possible. If we continue with our ineffective antidumping procedure, either under the Antidumping Act of 1921 or under the international antidumping code, domestic industries adversely affected by dumping can expect but little relief. On the other hand, foreign countries which seem to be more sensitive to actual or potential injuries to their industries, could so interpret the provisions of the international antidumping code as to prevent dumping nearly, if not quite as effectively as in the past.

Conclusions and Recommendations

Whatever steps may have been taken in the Kennedy Round negotiations to keep in touch with various industries, in order to establish that the proposed tariff modifications might not unduly injure them, it is apparent that the procedure has not been as effective as it should have been. There was little justification in appointing industrial representatives or "technical specialists" in certain industries for consultation during the negotiations, if they were not to be kept apprised of proposals applying to their respective industries. If an industrial representative can not be trusted with supposedly confidential information, his usefulness is largely negated. It is certainly desirable that instead of serving as a standby for special information, in many cases not consulted at all, he be at least an observer in the negotiations affecting his industry. Without direct knowledge of the balancing of proposals in the course of the negotiations, he can hardly be of real service in pointing out the practical business facts involved. There should be very much closer coordination between our negotiators and our business representatives. Actually, some degree of actual participation by such representatives should receive serious consideration.

As indicated in the discusison of statistics applicable to our foreign trade, the conclusions that might be drawn from statistics which have not been appropriately chosen could be seriously in error. It is certainly to be hoped that the government statistics applicable to foreign trade will be arranged to present the situation more realistically. Furthermore, in order that international statistical comparisons may be more accurately drawn, including tariff comparisons, a real effort should be made toward the adoption of an international uniform tariff classification.

Antidumping procedures in this country have received undue emphasis as preventative of an unwarranted import restriction. Consequently the stricter enforcement of antidumping abroad has apparently been opposed as primarily a non-tariff barrier and its easing considered desirable to aid our exporters. Antidumping procedures, however, should more generally be considered a means of combatting an unfair trade practice in international trade. A new approach is required, so that we may stop the dumping of imports in the attempt of certain exporters abroad to gain a foothold in our markets by unfair and demoralizing pricing practices.

Finally, in view of the almost obvious fact that a number of our industries have been, and will be unnecessarily injured by the reduction in our tariffs under the trade agreements, the remedial procedure under the Trade Expansion Act should be substantially strengthened. When an established, essential industry in this country is injured by unneeded imports, it is of little benefit to train and relocate its disemployed workers and to offer loans for purposes which could not possibly save the industry. It is also shortsighted to encourage foreign industries to displace domestic industries to a material extent when they cannot be counted on to serve our requirements in times of national emergencies. Sections 301(a) and (b) (industry petitions for relief), 351 (Tariff Adjustment), and 352 (Orderly Marketing Agreements) should be made more effective in stopping actual and potential injury to industry by providing reasonably definite criteria which would serve as presumptive evidence of injury.

EXHIBIT A

COMPARATIVE WAGES IN MANUFACTURING INDUSTRIES IN THE UNITED STATES, AND IN PRINCIPAL FOREIGN COUNTRIES SHIPPING BRASS MILL PRODUCTS TO THE UNITED STATES

Country	Sex [1]	Dollars per hour												Percent increase, 1955–66	Percent (United States)		Increase (cents per hour) 1955–66
		1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966		1955	1966	
United States	MF	1.86	1.95	2.05	2.11	2.19	2.26	2.32	2.39	2.46	2.53	2.61	2.71	46	100	100	85
Canada	MF	1.45	1.58	1.63	1.72	1.80	1.79	1.75	1.74	1.81	1.88	1.97	2.08	43	78	77	63
United Kingdom	M [2]	.66	.71	.76	.78	.82	.90	.95	.99	1.03	1.11	1.23	1.29	95	36	48	63
European Common Market:																	
West Germany	MF	.41	.45	.50	.53	.57	.63	.73	.81	.87	.94	1.03	1.10	168	22	41	69
France	MF [2]	.41	.43	.39	.38	.40	.43	.46	.50	.54	.58	.61	.65	59	22	24	24
Netherlands	MF [2]	.32	.35	.39	.39	.40	.44	.48	.53	.58	.66	.73	.81	153	17	30	49
Belgium	M	.51	.54	.57	.59	.61	.63	.65	.69	.74	.83	.91	(3)	[4] 78	27	[5] 35	[4] 40
Italy	MF	.30	.32	.33	.35	.36	.37	.40	.46	.54	.59	.62	(3)	[4] 107	16	[5] 24	[4] 32
Sweden	MF	.82	.89	.95	1.01	1.05	1.11	1.20	1.31	1.40	1.54	1.69	[6] 1.64	100	44	61	82
Switzerland	M [2]	.65	.67	.72	.75	.77	.81	.85	.91	.98	1.06	1.14	(3)	[4] 75	35	[5] 44	[4] 49
Yugoslavia	MF [7]	(3)	.09	.10	.11	.12	.15	.15	.15	.19	.24	[8] .20	[8] .27	[9] 200	[10] 5	10	[9] 18
Japan	MF [7]	.23	.24	.26	.27	.27	.31	.34	.38	.42	.46	.50	.56	143	12	21	33

[1] M—Male only; MF—Male and female.
[2] Adults only.
[3] Not available.
[4] 1955–65.
[5] 1965.
[6] Excluding payments in kind and holdiay and sick leave payments; this apparently amounted to 17 cents in 1965.
[7] Based on 200 hours worked per month.
[8] The dinars per U.S. dollar were changed July 26, 1965, from 750 to 1,250; based on the old rate of 750 dinars per U.S. dollar the 1965 and 1966 figure would be 33 cents and 46 cents respectively.
[9] 1956–65.
[10] 1956.

Source: International Labour Office—From United Nations Monthly Bulletin of Statistics, June 1967.

EXHIBIT B

IMPORTS OF COPPER AND BRASS MILL PRODUCTS

[In thousands of pounds—metal weight]

Period	Copper				Copper alloys							Grand total, copper plus copper alloys	Monthly average
	Plate, sheet, roll, and strip	Foil	Seamless tube	Total copper	Plate, sheet and strip	Foil	Rod	Angles, shapes, and sections	Seamless tube	Wire	Total copper alloys		
1949	(1)	(2)	20	20,640	(3)	(2)	(3)	(4)	310	20	445	21,085	1,757
1950	(1)	(2)	350	18,329	(3)	(2)	(3)	(4)	1,650	492	12,356	30,685	2,557
1951	(1)	(2)	948	14,973	(3)	(2)	(3)	(4)	1,882	447	14,026	28,999	2,417
1952	(1)	(2)	5,146	22,180	(3)	(2)	(3)	(4)	882	368	33,936	56,116	4,676
1953	(1)	(2)	1,166	12,342	(3)	(2)	(3)	(4)	7,277	326	33,773	46,115	3,843
1954	(1)	(2)	5,268	17,924	5,103	(2)	12,219	(4)	15,154	505	32,981	50,905	4,242
1955	18,289	(1)	11,595	29,884	6,251	(2)	11,644	(4)	20,708	382	38,985	68,869	5,739
1956	16,592	(1)	23,198	39,790	7,454	(2)	15,111	(4)	23,881	802	47,248	87,038	7,253
1957	22,337	(1)	31,396	53,733	6,770	(2)	16,819	(4)	28,431	2,895	54,915	108,648	9,054
1958	37,924	(1)	46,430	84,354	13,708	(2)	19,095	(4)	33,510	2,991	69,304	153,658	12,805
1959	42,490	(1)	51,857	94,347	26,119	(2)	23,985	(4)	38,500	5,992	94,596	188,943	15,745
1960	25,919	(1)	45,121	71,040	26,214	(2)	22,327	(4)	28,148	5,352	82,041	153,081	12,757
1961	14,532	(1)	20,343	34,875	25,335	(2)	17,244	(4)	24,319	3,602	70,500	105,375	8,781
1962	17,509	(1)	13,585	31,094	28,712	(2)	17,887	(4)	29,355	2,713	78,667	109,761	9,147
1963	16,787	5,661	12,169	34,617	30,094	(2)	18,976	262	32,706	3,407	85,445	120,062	10,005
1964	18,685	21,983	13,743	54,411	29,612	(2)	15,782	1,228	40,383	3,831	90,836	145,247	12,104
1965	21,988	25,227	19,550	66,765	29,988	(2)	9,943	790	41,113	1,943	83,777	150,542	12,545
1966	20,788	18,915	51,116	90,819	50,509	13,133	42,953	1,034	46,753	2,321	156,703	247,522	20,627
January	2,441	165	2,177	4,783	2,859	765	1,611	62	3,911	249	9,457	14,240	----------
February	1,772	1,610	2,165	5,547	2,467	1,237	1,845	46	3,213	139	8,947	14,494	----------
March	2,021	886	3,547	6,454	4,165	2,106	3,094	91	4,194	285	13,935	20,389	----------
April	1,943	1,739	4,396	8,078	2,995	1,337	2,033	107	3,732	100	10,304	18,382	----------
May	1,947	1,704	4,982	8,633	3,318	1,489	3,009	56	4,209	157	12,238	20,871	----------
June	1,525	1,780	6,038	9,343	3,804	1,295	3,562	106	4,201	248	13,216	22,559	----------
July	1,373	2,367	6,136	9,876	4,148	703	4,598	88	4,261	192	13,990	23,866	----------
August	1,179	1,099	5,591	7,869	4,690	524	5,899	162	4,623	166	16,064	23,933	----------
September	1,357	1,900	4,914	8,171	4,938	848	5,109	68	4,054	172	15,189	23,360	----------
October	1,142	1,080	4,016	6,238	5,629	1,271	3,805	88	3,241	224	14,258	20,496	----------
November	2,581	2,121	3,259	7,961	5,616	904	4,584	103	3,495	245	14,947	22,908	----------
December	1,507	2,464	3,895	7,866	5,880	654	3,804	57	3,619	144	14,158	22,024	----------

1 Prior to 1955 census data included copper rod. Subsequently rod was separately reported, but is excluded from this tabulation because predominantly used for electrical wire.

2 Foil not segregated prior to September 1963; 1963 includes 4 months only; alloy foil is included through December 1965; segregated beginning January 1966.

3 Not segregated prior to 1954.

4 Not segregated prior to September 1963; 1963 covers 4 months only; includes copper angles, shapes, and sections which are infrequently reported in relatively small quantities.

IMPORTS OF COPPER AND BRASS MILL PRODUCTS

[In thousands of pounds—metal weight]

Country	Copper				Copper alloys							Grand total
	Plate, sheet, roll, and strip	Foil	Seamless tube	Total copper	Plate, sheet, and strip	Foil	Rod	Angles, shapes and sections	Seamless tube	Wire	Total, copper alloys	
December 1966:												
Canada	532	307	1,155	1,994	1,651	139	461	13	296	1	2,561	4,555
United Kingdom	258	842	251	1,351	851	9	247	24	218	-----	1,349	2,700
European Common Market:												
West Germany	199	25	418	642	880	-----	1,453	-----	2,528	21	4,882	5,524
France	46	27	18	91	528	178	250	10	31	39	1,036	1,127
Netherlands	-----	49	1	50	239	99	206	-----	5	-----	549	599
Belgium and Luxembourg	294	-----	-----	294	294	-----	380	-----	2	-----	676	970
Italy	12	1	81	94	183	-----	-----	-----	8	-----	191	285
Total EEC	551	102	518	1,171	2,124	277	2,289	10	2,574	60	7,334	8,505
Sweden	21	1,211	40	1,272	132	221	27	-----	14	17	411	1,683
Switzerland	-----	-----	-----	-----	195	-----	248	-----	1	51	495	495
Yugoslavia	30	-----	156	186	55	-----	55	-----	126	-----	236	422
Japan	53	2	1,570	1,625	831	8	246	-----	364	15	1,464	3,089
All others	62	-----	205	267	41	-----	231	10	26	-----	308	575
Grand total	1,507	2,464	3,895	7,866	5,880	654	3,804	57	3,619	144	14,158	22,024

IMPORTS OF COPPER AND BRASS MILL PRODUCTS FOR 12 MONTHS ENDED DEC. 31, 1966

[In thousands of pounds, metal weight]

Country	Copper				Copper alloys							Grand total
	Plate, sheet, roll, and strip	Foil	Seamless tube	Total copper	Plate, sheet, and strip	Foil	Rod	Angles, shapes and sections	Seamless tube	Wire	Total, copper alloys	
Canada	7,186	3,325	22,237	32,748	7,007	1,225	2,663	167	2,121	282	13,465	46,213
United Kingdom	3,891	3,557	664	8,112	10,041	3,790	2,233	281	1,084	114	17,543	25,655
European Common Market:												
West Germany	849	57	8,343	9,249	10,394	35	16,949	47	34,569	432	62,426	71,675
France	2,939	681	120	3,740	5,180	1,285	3,705	422	90	348	11,030	14,770
Netherlands	----------	690	1	691	2,353	3,351	1,265	----------	116	2	7,087	7,778
Belgium and Luxembourg	3,249	1	405	3,655	3,664	----------	4,096	----------	126	30	7,916	11,571
Italy	37	15	1,245	1,297	1,378	2	----------	11	301	1	1,693	2,990
Total, EEC	7,074	1,444	10,114	18,632	22,969	4,673	26,015	480	35,202	813	90,152	108,784
Sweden	570	10,536	761	11,867	671	3,368	838	----------	117	209	5,203	17,070
Switzerland	8	----------	6	14	1,943	----------	4,624	68	349	550	7,534	7,548
Yugoslavia	1,017	----------	1,076	2,093	784	----------	2,690	4	599	----------	4,077	6,170
Japan	704	44	14,139	14,887	6,549	77	2,041	----------	6,638	205	15,510	30,397
All others	338	9	2,119	2,466	545	----------	1,849	34	643	148	3,219	5,685
Grand total	20,788	18,915	51,116	90,819	50,509	13,133	42,953	1,034	46,753	2,321	156,703	247,522

EXPORTS OF COPPER AND BRASS MILL PRODUCTS

[In thousands of pounds, metal weight]

Period	Copper				Copper alloy					Total copper and copper alloy
	Plate, sheet, and strip	Foil	Pipe and tube	Total copper	Bar, rod, and shapes	Plate, sheet, and strip	Wire	Pipe and tube	Total alloy	
1949	2,177	----------	6,689	8,866	3,126	3,859	2,894	3,148	13,027	21,893
1950	1,163	(1)	3,976	5,139	1,731	1,874	2,306	2,058	7,969	13,108
1951	1,145	----------	4,319	5,464	1,827	1,657	2,892	2,915	9,291	14,755
1952	1,106	----------	5,182	6,288	4,423	1,851	1,339	2,801	10,414	16,702
1953	743	----------	3,244	3,978	2,517	1,283	559	5,716	10,075	14,053
1954	600	----------	2,397	2,997	910	872	753	1,731	4,266	7,263
1955	1,083	----------	2,583	3,666	1,296	1,434	724	2,314	5,768	9,434
1956	674	----------	3,101	3,775	1,468	1,674	813	2,839	6,794	10,569
1957	529	----------	2,708	3,237	1,170	1,578	906	2,923	6,577	9,814
1958	334	----------	3,216	3,550	1,130	1,109	655	2,395	5,289	8,839
1959	627	----------	1,598	2,225	1,030	1,146	693	2,547	5,416	7,641
1960	1,001	----------	1,449	2,450	1,143	1,300	647	2,070	5,160	7,610
1961	710	----------	1,897	2,607	1,315	1,155	450	2,687	5,607	8,214
1962	697	----------	1,728	2,425	1,820	2,274	665	3,528	8,287	10,712
1963	675	----------	2,315	2,990	1,573	1,335	1,123	4,238	8,269	11,259
1964	796	----------	2,866	3,662	2,082	2,228	680	2,732	7,722	11,384
1965	1,860	432	1,789	4,081	4,146	6,869	1,632	3,759	16,406	20,487
1966	621	979	1,039	2,639	3,457	2,387	2,233	3,863	11,940	14,579
1966:										
January	47	33	124	204	167	257	47	229	700	904
February	89	48	51	188	346	292	170	487	1,295	1,483
March	41	87	96	224	380	278	139	516	1,313	1,537
April	131	62	114	307	272	156	145	500	1,073	1,380
May	45	128	169	342	550	217	361	251	1,379	1,721
June	40	26	77	143	408	254	461	215	1,338	1,481
July	107	109	47	263	459	130	142	354	1,085	1,348
August	19	158	62	239	118	99	86	221	524	763
September	20	83	62	165	273	157	84	262	776	941
October	40	89	77	206	161	168	178	209	716	922
November	35	55	76	166	109	194	160	221	684	850
December	7	101	84	192	214	185	260	398	1,057	1,249

[1] Not segregated prior to January 1965; alloy foil is included.

Source: Bureau of Census of United States.

EXHIBIT C

SOME SIGNIFICANT COMPARISONS, 1960 AND 1966

	United States			United Kingdom			Japan			European Common Market (EEC)		
	1960	1966	Increase	1960	1966	Increase	1960	1966	Increase	1960	1966	Increase
Average labor rates in manufacturing ($ per hour)	2.26	2.71	0.45	0.90	1.29	0.39	0.31	0.56	0.25	0.50	0.85	0.35
Foreign trade (millions of pounds):												
Brass mill products:												
U.S. exports to	--------	--------	--------	.18	.39	.21	.14	.79	.65	.88	1.62	.74
U.S. imports from	--------	--------	--------	34.00	26.00	−28.00	6.00	30.00	24.00	63.00	109.00	46.00
Tariffs:												
Reduction in Kennedy round (percent)	--------	50.0	--------	(1)	(1)	(1)	(2)	(2)	(2)	--------	20	--------
Present tariffs	--------	[3] 6.1	--------	--------	(4)	(4)	--------	(2)	--------	(5)	(5)	--------

1 20, 47, and 50 percent.
2 20 and 25 percent.
3 Equivalent of average duty applied on dutiable value of brass mill products imported during 1966.
4 10, 15, and 20 percent.
5 8 and 10 percent.

NATIONAL FARMERS UNION

FOOD NEEDS, WORLD TRADE, AND EXPORT PROBLEMS*

The projections of "The World Food Budget"[1] indicate that in the 1960–1970 decade there will be some improvement in per capita consumption of the diet-deficit area and that some of the improvement will result from expansion in trade. Nevertheless, in 1970 the total cost of the food deficit is estimated at $6.8 billion.

It would be possible to narrow the $6.8 billion nutritional gap through increased food imports under certain conditions. But to achieve these conditions, as foreseen in "The World Food Budget," it will be necessary to overcome several roadblocks that are deterrents to the expansion of trade.

These barriers include: 1) the low level of per capita income in the deficit area that limits the purchase of food imports under normal commercial terms, 2) faulty distribution systems that restrict the movement of foods to consumers, and 3) trade policies, including both tariff and nontariff controls.

Diet Deficit Areas

The greatest potential for increasing food and fiber consumption lies in the so-called diet-deficit areas of the world made up of Asia—except Japan and Israel—all but the Southern tip of Africa, Northern South America and almost all of Central America and the Caribbean.

The striking change that has occurred in the pattern of world food trade in recent years is the general shift of the diet-deficit areas away from a net export position, a trend which is expected to continue through the decade of the 1960's. Traditionally, except for a few countries which have had a large export surplus in petroleum and minerals, many countries of the deficit area have depended on net exports of agricultural commodities—non-food as well as food—to pay for nonagricultural imports. In other countries the consumption of some food commodities, such as sugar and bananas, has been at high levels, with a balance still available for export.

This shift has resulted primarily from two basic factors: Increased food consumption, and the failure of food production, particularly grains, to keep up with population growth. Projections for 1970 indicate that food exports of the deficit area will increase 31 percent over the 1959–61 average but that this will more than be offset by an increase of 45 percent in food imports.

Expanding Trade With Developing Nations

The implications to be drawn from this description of the hungry part of the world will affect the destiny of our American democracy and representative democratic government in the developing nations.

Solving the problems of this area would mark an historic moment for our generation. It would make possible a great break-through in the expansion of trade among nations of the free world.

Such a break-through would make it possible to meet perhaps the greatest moral challenge of our time. I refer, of course, to the vast discrepancy between the high living standards and modern development of the people of the "rich nations" compared with the grinding poverty of the people of the "poor nations."

Barbara Ward in her recent book, *The Rich Nations and the Poor Nations*, made this perspective comment when she said, "The talk of spreading freedom is 'irrational' unless we do something to build a congenial environment for it."

We have come to realize that the resources of the United States alone are not sufficient to attack the basic causes of poverty in the less-developed two-thirds of the world. We urgently need the help of Western Europe and the advanced nations of the Pacific.

---

*By Tony T.Dechant, president.

[1] "The World Food Budget" is a publication of the U.S. Department of Agriculture.

Farmers Union has long contended that social and economic development can proceed only on the basis of trade policies which enable the least able member of the economic community to have access to its rightful and fair share of the developing markets.

It seems to us in recent years, two major events have sharpened our thoughts as a nation, and as farm people, to the ultimate need for an economic union or common market operating much as do our fifty states in exchange and trade matters.

First, the less-developed nations will for some time continue to require technical assistance and the other AID programs, in initiating and implementing the social reforms without which the rich grow richer and the poor become poorer. But without the opportunity to sell their products abroad, on a market favorable to their advancement, their efforts at self-help will be negligible.

Many of these nations are presently almost totally dependent upon the foreign sales of one or two commodities. Only broad-based trade relationships among the non-communist nations of the Atlantic Community, the countries of the Western Hemisphere, as well as the Near and Far East, can meet the peculiar trade needs of the developing countries. For example, we should assist in negotiating additional international trade agreements for those commodities produced by these nations that enter importantly into world trade.

The United States Congress ratified the International Coffee Agreement by a wide margin. More of this kind of cooperation is essential if we are to break the poverty cycles in these areas.

Recognizing the difficulties in moving a world-wide program, Farmers Union urges that three regional efforts be made by our government: (1) moving on a transitional basis toward ultimate integration into the Atlantic Economic Community; (2) facing up to our hemispheric responsibilities, particularly in relation to our Latin American neighbors and (3) building responsible and far freer trade relations with the democratic nations of the far Pacific community, including Oceania.

The interest of the American farmer will be best served by expanding trade in agricultural commodities.

Second, the so-called social market in developing countries can, with economic growth and development ultimately become a dollar market for our agricultural commodities. Looking toward this development we should fully utilize our unique opportunity to use food and fiber to promote widespread and rapid economic development in order to raise living standards in less-developed regions and nations.

Trade Potential

International trade, historically, has been important in the supply and distribution of food commodities. It is an avenue without which consumption in some countries would fall below adequate levels, and consumption in other countries would lack variety or quality. It is open most often to those customers that have the means to buy and sell under normal commercial terms, whereas world trade may have limited access to countries with insufficient purchasing power and where consumption is often below adequate levels.

In 1959–61, average world food exports were in the order of $15.8 billion. For 1970, world food exports are projected to increase 37 percent over the 1959–61 level. With this gain, it is anticipated that world food shortages will have been evident in certain areas of the world.

United States food exports for 1970 are projected to increase 50 percent above the 1959–61 level—from $3.2 billion to $4.8 billion. About $1.8 billion of this total is projected to be shipped under government-financed programs, as compared with $1.2 billion in 1959–61, with an increasing proportion going to countries where diets are inadequate.

We could, and I refer to the United States and Canada, sell more food if the problem of distribution within the developing nation could be solved. Unfortunately, there is no immediate prospect for modern harbors, transportation systems, highways and the rest of the economic infrastructure that is taken for granted in our country. But I would like to suggest that as a beginning that we support our government *in an intensified effort to protect the prices and incomes of primary producers, especially in the developing areas.* Too often we find food passing through three of four hands and being sold to consumers at three or four times the price paid to farmers. Supporting the development of cooperatives and government price support programs are essential steps to increasing income to primary producers, to increasing food production and to sound economic growth.

TRADE POLICIES—COOPERATION AND UNDERSTANDING

Turning now to the matter of trade policy and the position of the organization I represent. Trade is a two-way street. It is best carried on where a well-defined set of rules governs the flow. Such a set of rules is necessary in a world where all major agriculture producing nations have domestic price support programs as well as restrictions on imports of agricultural and industrial goods.

It is a matter of common sense to realize (1) that everybody would be better off if we produced and distributed more goods, and services, in the most economical manner possible and (2) that people all over the world have common aspirations, needs and vested interests similar to our own.

In terms of the total economy of the free world, this means that each country should produce what it can produce most efficiently trading the excess for goods produced more efficiently by other countries. This, of course, is the premise underlying the regional market arrangements.

We are cognizant of the fact, however, that in existing ways of conducting trade we have a network of human institutions such as laws, custom, investment in plant, etc. Every nation has attempted to solve its own economic problem in its own way. In agriculture, for example, the aim in every major agricultural producing nation has been to raise the relatively low income of farm families. In this connection, the justification for assisting farmers in the United States needs no amplification. Congress on many occasions has passed vitally needed and important legislation to give some measure of stability to prices and to income of agricultural producers.

In the United States this has been accomplished in various ways. Two examples of such Congressional action on the trade front are Section 22 of the Agricultural Adjustment Act, as amended, and Section 8(a) of the Trade Agreement Extension Act of 1951.

In spite of record-high exports in fiscal years 1965 and 1966 farm families are not doing so well economically. Compared with other groups in the economy, farm-family incomes are low.

> The average income of persons on farms is less than two-thirds—about 60 percent—of the per capita income of the non-farm population.
>
> Farmers who are 7 percent of the population receive only 2.9 percent of the Nation's income excluding income from services.

I challenge those who call farm prices inflationary and who want to whittle them down to look as farmers do, at the current parity price levels of commodity prices in the market place. (National average figures, June 15, 1967.)

> Beef cattle were at 80 percent of parity—down 7 points from a year ago.
>
> Wheat was selling *in the market* at 57 percent of parity with certificates on domestic consumption bring producer returns to around 70 percent of parity.
>
> Corn prices were at 78 percent of parity.
>
> Soybeans with a near balance between supply and demand, although a large crop is expected in 1967, brought only 82 percent of parity.
>
> Egg prices (seasonally adjusted) were only 63 percent of parity.
>
> Cotton, 46 percent of parity.
>
> Rice with smallest carryover in a decade, 75 percent of parity.
>
> Peanuts with a good workable program of supply control, 80 percent of parity.
>
> Manufacturing milk, 84 percent of parity.
>
> Butterfat, 77 percent of parity.
>
> All milk at wholesale level, 88 percent of parity.

The total net income of farm operators, excluding inventory change is down 10 percent from 1947–49 to 1966—$16.8 to $15.2 billion. Per farm income has increased only because of the declinining number of farms. *The simple fact is that while farmers are worse off, most everybody else is better off.*

In spite of these economic troubles, we hear a great deal these days at home, about how a freer domestic agricultural economy would promote trade and about the need to reduce the difference between domestic agricultural prices and world prices. This talk does not emanate from agricultural interest or the sincere representation of agricultural interests.

The fact is that there is no such thing as an automatically-operating free market system. Any market is free only within a framework of law, property rights, wealth distribution, trade practices, and other rules of the game. In this connection every major agricultural nation in the free world has some kind of price support program.

It is out of the need for orderly trade that the General Agreement on Tariffs and Trade was established and that the United States Congress has enacted the Trade Expansion Act and further simplified customs procedures.

It is due to the need for even greater economic cooperation that we in Farmers Union have supported a well-defined world food policy, additional international commodity agreements on the order of those in effect for sugar, wheat and coffee.

We in Farmers Union want the United States to follow intelligent, enlightened and humanitarian foreign economic policies. But we do not want to see the total cost of such policies loaded upon farmers' already sore backs, or for that matter on the backs of coal miners or any other small group of the labor force.

In the case of both exports and imports, programs and policies should be established as they have been in the case of International Wheat Agreement and the Sugar Act, to spread the costs to all the people instead of putting all of them directly on the small number of producers concerned.

Certainly present is the challenge to North American agriculture from the developing common market or Western Europe which suggests that we proceed with initiative and good will but at the same time mindful of several underlying principles which would guide us.

(1) As a general principle, we in Farmers Union urge that no United States farmer (or other producer), whom we expect to remain in production, to produce for export or to meet the competition of imports, at any price less than full parity.

(2) There are probably some industries in which the entire need and demand can be met continuously and safely through complete dependence on imports. In such cases, we urge that these injured domestic industries be helped to make adjustments by means other than excluding exports, such as through conversion to other lines, extension of unemployment insurance, assistance in retraining workers, and outright purchase, where required. We know of no domestically produced agricultural commodity to which this applies.

(3) Program and policies affecting agricultural imports and exports should be designed to provide full parity returns to domestic producers in ways that will be consistent with minimum hindrance to international trade and economic operation, and preferably by methods that will spread the costs to all people in accordance with ability to pay, rather than through increased retail prices to consumers.

To be more specific: Notwithstanding any other provision of law, whenever a reduction in import duties will result in decreasing income and employment in a domestic industry or result in reducing prices received by farmers so that such prices reflect less than 100 percent of parity, we urge that the President be authorized and directed to instruct the Secretary of Agriculture to initiate and put into operation a domestic farm price support program for the affected agricultural commodities through compensatory payments in combination with other means of price support at a level reflecting 100 percent of parity.

We need to realize that the European Common Market is a reality. It would seem reasonable that the inevitable should be approached with a creative vigor. We should not wait for time and events to drag us in, but move in at the greatest point of advantage.

Therefore, we believe that it is in the interest of the American farm economy to enter with domestic price patterns which enable farmers a fair economic return and, at the same time, enable transitions to proceed on an equitable basis.

Since World War II, we have known that an Economic Union of the Free World Community, whether we like it or not, is inevitable. It is high time that we move toward greater economic cooperation with other nations of the free world in ways that provide fair returns to family farmers.

Differences in agricultural policies, cost of production, inflationary pressures, investment in farming and custom and tradition are all factors that must be considered in trying to arrive at some common trade policy. The European Economic Community, for example, has not fully resolved those differences between member countries and this continues to be a most perplexing problem. It was a major roadblock to present negotiations in the Kennedy Round.

Every major agricultural producing nation in the world which has a democratic government responsible to its primary producers has developed programs and policies designed to increase the bargaining power of such producers in the market place. We find this true in farming, fisheries and lumber. International agreements, therefore, continue to be proposed by the United States as instruments through which to expand trade to the benefit of both importing and exporting nations.

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Agricultural negotiations in the Kennedy Round have prompted resolutions and response from major European and American farm groups who are members of the International Federation of Agricultural Producers. In this connection, IFAP outlined five basic considerations in a statement of the Joint North American-European meeting three years ago in Washington, D.C. The statement is still sound and will serve future negotiations as well as it served to express farmer-interest in the Kennedy Round.

The statement said: "At the forthcoming Gatt negotiations, the agricultural exporting countries will be seeking 'concessions' on agricultural products analogous to those obtained for industrial products. Since tariffs are a comparatively unimportant element in the support policies adopted by governments in the agricultural sector, the same rules (especially the proposed across-the-board tariff cuts) as are applied to industry cannot in general be applied to agriculture. A special approach will be required.

"If the negotiations are to be successful in the agricultural sector they must start from the basis that the governments cannot 'negotiate' their responsibility to ensure that the incomes of their farm populations bear fair relationship and trend with those in other sectors and that the elimination of serious modification of existing agricultural support measures is not feasible. Governments will therefore be seeking to reconcile the need for income support for agricultural producers and their desire to develop international trade in agricultural products.

"Towards the end, the most promising approach will be to examine the position on a commodity-by-commodity basis and to devise—as long as advocated by IFAP—commodity arrangements or agreements, as appropriate, for individual commodiities or groups of commodities.

"In whatever proposals are made, there must be a basis for reciprocity regarding both obligations and benefits. Thus to the extent that exporting countries are ready to ensure that their production is retained at a level broadly in line wih outlets and that countries must be prepared to make their fair contribution to the establishment of a sound balance on world markets.

"Governments must at all times remain conscious of the fact that trade among North American and European countries is only part of world trade and that recent experiences have shown that great opportunities exist for expanding agricultural exports, commercial as well as occasional, to countries outside the North Atlantic areas."

Farmers Union Supports Agreements in Kennedy Round Statement of President Tony T. Dechant

"The agreement on cereals and agricultural products provided substantial guarantees against low farm prices.

"The higher price floor for wheat and the beginning of food aid shared by other developed countries, including Japan, are significant gains for the United States.

"Farmers Union has traditionally supported international commodity agreements as an extension of the domestic farm program and essential to price and income protection for United States farmers.

"The new agreement provides a minimum price of $1.73 a bushel for hard red winter wheat at Gulf ports as contrasted to $1.50 per bu. for hard red winter wheat under the old International Wheat Agreement. This amounts to a 23¢ increase in the old IWA minimum price.

"Since the average price of U.S. wheat for the past three years has been approximately 10¢ to 15¢ above the old IWA minimum, wheat prices at the Gulf ports are expected to be in excess of the $1.73 per bushel minimum set by the new cereals arrangement by approximately the same amount.

"USDA has predicted that world prices of wheat under the new agreement will increase by 10¢ to 25¢ per bushel over the average of the past three years. However, since Gulf port wheat prices today are averaging $1.83 a bushel, no immediate farm-level price increase is expected for U.S. producers. The practical effect of the new cereal grain agreement, however, is to provide a substantial guarantee against low farm prices.

"Farmers Union would have preferred a 40 cent increase in the minimum price of the old IWA. But Farmers Union supports the compromise in the belief that it is a step forward in promoting international trade and in strengthening the domestic wheat market.

"Ambassador Roth did a fine job in bringing about a fair balance between industrial and agricultural trade concessions by the United States and other countries.

"Another major accomplishment is the sharing of food aid by both exporting and importing countries amounting to 4.5 million tons of cereal grains. Importing countries will contribute more than 50 percent either in the form of cereal grains or cash. The United States will contribute 42 percent of the total or approximately 2 million tons of cereal grains to include, in addition to wheat, corn, grain sorghum and other grains where donor and recipient countries agree.

"The multilateral food aid program is especially significant since it is the first time in history that the food aid has been a part of international trade agreement.

"Farmers Union will inform members of Congress of its support of the agreement and will work for Senate ratification."

NATIONAL FEDERATION OF INDEPENDENT BUSINESS

JULY 13, 1967.

Hon. HALE BOGGS,
Chairman, Subcommittee on Foreign Economic Policy,
Joint Economic Committee,
Washington, D.C.

DEAR MR. CHAIRMAN: We wish to thank you for this opportunity to express to the Committee the views of our small business members on United States foreign trade policy. These views, as you know, are expressed by members through our The Mandate polls, of which there have been 16 during the past seven years dealing specifically with foreign trade problems, and in responses to our yearly economic surveys.

Responses to two of our economic surveys indicate the interest that our members, and all small business, have in foreign trade policy. Our current survey, based on 235,000 members, indicates 4% involved in export activity (the range of involvement runs from 1% among retailers to over 20% among manufacturers). Our 1963 survey, based on 186,362 members, indicated 15% of our respondents suffering injury due to import competition. Of this number, 89% ascribed the harm to price competition and 11% to the style or type of foreign products.

In any case, the polls, which experience has shown do reflect generally the views of small business as a whole, indicate the following convictions:

1. That Congress itself should exercise greater interest in and authority over international trade agreements, and that the authority of the Executive in this area be correspondingly curtailed; and
2. That the Congress should develop mechanisms for preventing undue injury to United States firms through import competition, such as in proposals to require clearer marking of foreign goods to identify the country of origin; to require that tariffs be tied to differentials in wage rates, and to require that the Treasury Department complete its investigations into complaints of dumping within a shorter period of time than is now the practice.

It is of interest that our 1962 survey gave strong indications that a large number of small businesses interested in foreign trade either are unaware of assistance programs available through the Commerce and State Departments, as well as the Small Business Administration, or do not understand them fully, or knowing and understanding them do not feel that they meet the needs of small business. This would indicate a need to publicize these programs more than has been done to date. We of the Federation are trying to do our part in the news section of our The Mandate.

In conclusion, we note in passing that in view of our interest in foreign trade, the Senate Commerce Committee under the Chairmanship of the Hon. Warren Magnuson twice commissioned our Vice-President, Mr. George J. Burger, to act as its unofficial special consultant in investigating small business export opportunities during two trips, made at personal expense, through the EFTA and Common Market countries.

With all best wishes,

Sincerely,

C. WILSON HARDER, *President.*

NATIONWIDE COMMITTEE ON IMPORT-EXPORT POLICY*

After 33 years of the trade policy that culminated in the so-called Kennedy Round on June 30, 1967, a stage has been reached in which an assessment of the results achieved should be possible, including any fall-out of an injurious character that may have occurred.

From a review of the results of three decades of tariff reduction certain conclusions may be reached on the possible modification of existing policy to adapt it to the present-day realities of the foreign-trade position of this country.

OBJECTIVE OF THE TRADE PROGRAM

It was the intent of the trade program to reduce tariffs and other trade barriers throughout the world. The purpose, as it evolved, was to free trade of restrictions so that global commerce might expand and thus lead to great economic benefits and to world peace. The benefit to the United States would come in some beneficent round-about way from the assured blessing bespoken of free trade by Adam Smith.

First, however, a little history.

Adam Smith, together with later British economists, notably John Stuart Mill and David Ricardo, no less than the philosopher Herbert Spencer, were staunch laissez-faire (free-market) political economists. They believed that the free market under competition would give the best economic return over all alternatives. Therefore economic forces should be left alone, with the least possible interference from the government. That was the laissez-faire philosophy.

It is not surprising then that there was a long period of time when the tariff was regarded by the laissez-faire economists in general as a black beast that despoiled the fair fields and meadows upon which grazed the gentle herds to which we looked for meat, wool, milk and weal. It was the tariff that stood in the way of the free market in which all interaction of supply, demand and prices would work itself out to the greatest benefit of all.

American economists imbibed freely of this philosophy and it was meted out to students of economics through college textbooks and lectures throughout the land, decade after decade.

Even as this country was moving toward unquestioned world industrial leadership under the tariff system, the tariff was pictured as the unredeemed enemy of all that was economically good and sensible in the eyes of the classical economists. It interfered with the free flow of commerce. Then came the opportunity this school of thought had long been waiting for.

The occasion arose in the 1930 decade when the Great Depression made it possible to give the tariff its due. We had fallen with a crash into the deepest depression of our history and we very badly needed a scapegoat in addition to Herbert Hoover.

When the American public was brought to epidemic hatred by our national economic frustration in the form of the Depression, the majority of the people fell victim to a feeling of vengeance that was far more understandable than rational. They hated with equal fervor all that moved on the landscape that had the misfortune of having any association with the great debacle. As a result a wholly improbable linkage was formed for purposes of venting our implacable fury. Laissez-faire economics, that unrelenting enemy of the tariff, found itself blindly and unaccountably blanketed with the tariff under the smothering folds of a lethal anathema. Miller and Spencer were read out of polite economic society hand-in-hand with the tariff! They were equally tattooed with the spots of smallpox and driven to cover, to cower with their equally condemned arch enemy, the protective tariff. Of such gargantuan illogic and contradiction is public policy sometimes wrought!

We wanted no more laissez faire! Our economy was to be controlled, not left alone. It was to be fettered, not set free: all, that is, but foreign trade. While all

*By O. R. Strackbein, chairman.

else was to come under control and regulation, trade was to be freed! All laissez-faire economics was condemned except as it applied to free trade.

This strangely contradictory phenomenon, born of the hatred and hostility arising from the Depression, has not yet fully run its course. Never in the course of our history have so many aspects of the American economy been brought under governmental control and regulation as during the past three decades. Yet our foreign trade, which was under a variable measure of control in the form of the tariff, a simple instrument compared with those employed by many other countries, was to be stripped of virtually all such controls. While the country was moving almost single-mindedly into a regime of highly regulated economy, we were bent on moving in the opposite direction in the field of trade.

Free Trade in a Nonexistent Free Market

This insistence, illogical as it was, reflected the mixture of high emotion with cerebration, a not uncommon phenomenon in the human species. It created a sequel that continues to bedevil thought on foreign trade and the policies that should guide it.

Somehow the blessings of Adam Smith's free market forces were to be enjoyed even though nearly all the assumptions on which he based his economic philosophy were swept away. In the reaction against laissez-faire economics, this country adopted numerous measures that made the free market of Adam Smith's devotion a relic of the past. We moved massively toward a managed economy, which is to say away from laissez faire. Among measures adopted during the Depression were the legalization and fostering of trade and labor unions, and the guaranty of obligatory collective bargaining; the establishment of minimum wages—a measure that no doubt spun the remains of British economist Ricardo around on its axis; the institution of social security, which, again, represented overt interference with free market forces; limitation of the work week, provision of unemployment compensation, and more recently, medical care. Other controls and regulations. extending to monetary matters, banking, stock market transactions, competition, and taxation as an instrument of national management, filled out the full array of interferences with the free market.

Yet, while Adam Smith's assumption of virtually uninhibited operation of free market forces has been swept away, the latter-day economists of the free-trade persuasion insist on judging the factors affecting and guilding foreign trade as if we were still in Adam Smith's world. While that world is far gone and beyond recall, not only in this country, but in all other parts of the world, it is resurrected and reinstated in all its glory when foreign trade theory is up for consideration and discussion.

We are asked to judge trade policy as if the policy would be applied not in the modern world but in a vanished world. The latter is invoked because on the stage of modern economic reality, the quaint costumes of buckled shoes and knee breeches that went with laissez faire would seem awkward and out of place.

The make-believe maneuver, for example, makes it possible to maintain that low wages do not confer an abiding competitive advantage in a country in which they prevail over other countries in which wages are higher. The modern free-trade crusader will insist that costs will find an international equilibrium after the manner of Adam Smith's prescription. Any competitive advantage taking its cue from lower wages in one country will soon vanish, according to this view, because of the interplay of the international market forces of competition. Therefore a high-wage country, such as the United States, will have no cause to worry about low-wage competition from abroad.

By the same token the law of comparative advantage, which of course is the holy water of free-trade theory, can continue to be treated as the dominant element in the real world.

These mental gymnastics are made possible by recourse, in addition to the maneuver just described, to the universal crutch upon which economic theory leans. This is the phrase that curls the economists' lips into a smile of untouchable triumph: "Other things being equal". By use of this ever-handy crutch they seek to vault themselves onto the solid ground of physical science; but stand on the quicksand of other things being equal even as they utter the magic phrase. Economics is not a science such as we know in the physical world. "Other things being equal" represents an effort to test the behavior of variables, as in the physical sciences, while a controlled element is held constant, i.e., nailed down *physically*, so to speak. By *mentally* holding other things to be equal it is thought that the economic behavior of the variable can be tested.

Unfortunately for the economist, the mental device is no substitute for the physical. Other things are seldom equal; they do not usually stand still or cannot be clamped down securely. When they do stand still they are nevertheless influenced by what comes into the human mind and this may be no one knows what. "Other things being equal", again, does not stay hitched because of external pressures, such as a thousand legislative enactments, administrative decisions and regulatory measures. These are a continuing and unending stream of interferences with the free market. Then there is in private enterprise a multitude of scientific and technological innovations, inventions and discoveries that scatters the seed of obsolescence over industry far and wide, to sprout and take root today and tomorrow as they did yesterday and the day before. Thus economic enterprise is subjected not only to governmental influences through controls and regulation but also to the planning processes of private enterprise. These two may, moreover, be in conflict and thus distort one another. Then no clear reading of any kind is possible.

The beauty of the law of comparative advantage, which holds that a country's productive resources should be devoted to the pursuits for which it is best fitted by soil, climate, mineral resources, etc., is evicted from its ancient haunts and scattered to the breeze. It can no longer find a permanent domicile. A managed and planned technological economy does not pay it much heed. Its value as a measurable influence among the great complexities of costs in a changing melange of products, is lost, even in the computatorial world. Managerial decisions are reached without formal reading of the comparative advantage scale.

Even the frequent and unscheduled outbreak of devaluation of currency in one or another country soon makes a shambles of advantages that have found a temporary roost. Such devaluations are, of course, interferences with the free market; but that is precisely the point.

There is hardly an economic area in which one or another interference with the natural play of economic law does not occur every day to upset and produce a disarray in exactly the attendant circumstances that the economist tries to hold in status quo for his readings.

In view of the proliferation of governmental controls and regulations, to the extent that they have become a way of life, combined with the revolutionary changes wrought by technology and their need for control, it is singular indeed that our foreign trade should alone be stripped of control and regulation. In the ordinary course of events such an opposite course of treatment would be expected to cause disturbances and disruption. The uncontrolled element will be affected variously by the repercussion of the controls imposed on other elements. It will be buffeted this way and that: but if it is to be free of controls, it will be at the mercy of the other forces from many directions. This is not merely a mental aberration. Freeing of foreign trade from restrictions has indeed confronted many industries with the effects produced by controls and rigidities imposed on the economy as a whole, or on certain elements of the economy. Competitive capability has in many instances thus been severely compromised.

A few examples will be reviewed here:

The American Economic Plateau

American wage rates, for example, are by far the highest in the world, only Canada excepted. Canadian wages are not very far below the American.

The classical economic explanation would immediately point to two balancing or corrective factors: (1) the relatively high productivity of our industry and agriculture, and (2) the leveling process of international competition, as grounds for dismissing the likelihood of competitive disadvantage devolving on American industry by reason of the high wage; and there is some truth in the explanation offered if a simple situation is envisioned.

However, other factors than relative productivity have evaded the sentinels of the wary economists, and have infiltrated disruptively into the ranks of theoretical economic behavior. Forces that are not operative or have not been operative in other countries or not in the same degree as in this country have helped shape American wage levels, above and beyond differences in productivity, and have produced fixed costs that defy efforts to make competitive adjustment other than through the drastic one of massive worker displacement. There has been and continues to be adequate insularity of national economies, at least those separated by oceans, to withstand the forces of international equilibration. Beside distance (which is of diminishing importance) time is also at work, no less than the effects of controls. The latter include private (corporate) controls as distinguished from the governmental, such as administered prices. In many instances these controls, both here and abroad, create an insularity that is impervious to the "benign" forces that work toward international equilibrium. The result is that competitive advantages and disadvantages of variable durability may exist among nations for periods of time long enough to weigh heavily on domestic industries competing with the foreign, and to interfere with their plans for possible expansion in the home market by stirring up uncertainty, presenting disturbing options, and producing discouragement.

The competitive elasticity envisioned by the followers of Adam Smith has, of course, been greatly reduced by rigidities that come from controls. In this country prices are no longer changed or held steady solely by free market forces—far from it. Other considerations of serious and even overriding moment may hold off the market influences. Industries, for example, are not free to reduce prices and wages merely to meet the market competition represented by low-priced imports and must take the consequences in loss of market, unless they are in a position to emulate the radical employment surgery of the coal industry, described later. This is because costs are highly rigid, particularly wages, which, as we shall see, represent the heaviest cost factor, just as they embody the major underpinning of consumer buying.

Differences in wage levels among different countries may persist long beyond the season prescribed by economic thought even when productivity differences are either narrowed or widened. This is because wage rate changes respond de facto to different causes in different countries and run their own course. The causes may be political, organizational (such as labor union power) or even traditional, and need not cross national boundaries.

Wages as the predominant element of cost are highly inelastic in this country as determinants of relative costs of goods. In flexing they are like the elbow, moving only in one direction. The only way by which labor costs may be reduced significantly is by labor displacement through labor-saving equipment, as already said; and this avenue also is open to other countries. Moreover, it reduces effective consumer demand.

That competitive advantages or disadvantages may linger despite the incantations of economists is easily demonstrated—even if specific reasons cannot be assigned.

Example of the Merchant Marine

A prime example is found in the American maritime industry, both with respect to shipbuilding and ship operation. The industry found itself totally unable to compete with its foreign counterparts during the post-World War II period.

It is presented here as a prime example of the persistence of a competitive disadvantage because both shipbuilding and ship operation represent clean instances of competitive impact, since neither is insulated against foreign competition by a tariff. This follows from the industry's performance of a service rather than offering a product or commodity that passes through the custom house. Also, the industry enjoys no insulation against foreign competition such as cushions other industries in the form of inland freight. The upshot is that the maritime industry is pitched competitively against its foreign counterparts in naked fashion. It is a clear case of one level of wages against another because productivity, while demonstrably higher here, is not so far above the foreign to distort relative costs unrecognizably.

The vastly predominant factor from which the American maritime industry's competitive disadvantage flows is unquestionably the wage differential. This is regularly measured by the Federal Government both here and abroad, to determine the margin of subsidization necessary to brige the cost differential both in shipbuilding and ship operation. The differential is calculated from actual wage studies conducted under the provisions of the Merchant Marine Act of 1936. It falls into a magnitude of approximately 50% of our total costs. That is to say, our wage costs in both ship construction and ship operation are roughly double those of the foreign counterparts. This differential is made up by the subsidy which by law may run as high as 55% of our costs or a little above the total foreign costs.

That the ship-construction differential has not only persisted but has widened is supported by the Federal findings. It has indeed broadened about 10% in ten years. From an average of about 47% in 1957 it has moved to an average of approximately 52.4% in 1967. Something different should have been expected if the economists' prescription were taken as the guide. The gap should have been closed or at least greatly narrowed in a movement toward equilibrium.

During this period Japan moved to the position of the world's leading shipbuilder. This fact might indeed have been expected to increase the differential because of the low Japanee wages. However, that country's wages increased annually more than twice as fast as the American (about 9% and 4%, respectively). Yet in spite of this rapid upward movement of the Japanese wages the absolute differential in hourly wages between this country and Japan widened from about $2.12 in 1957 to $2.59 in 1964. In this fact lies a lesson that is often overlooked. A 5% wage increase in this country may be equal to one of 15% to 25% or higher in other parts of the world. Thus the gap in absolute pay may widen even when foreign wages rise more rapidly than here.

The result of the wide differential in cost, i.e., slightly over 50% today, or slightly over 100%, depending on which base is used, means that the American shipbuilder is already as heavily laden with cost when he has assembled at the shipyard all his materials, machinery and equipment that go into a ship as is the foreign shipbuilder when the latter has finished his ship. In other words, the American shipbuilder could compete only if he could put his ship together without hiring a single worker, because of the costs of materials. To date such a miraculous consummation has eluded the American industrial genius. On the same score, a ship operator of an American-built ship could not hope to compete becaue of his higher-cost ship unless he could sail it without a single crew member.

That cost differentials should be reflective of wage differentials when these are not compensated by productivity differentials, follows from the share of total cost of production accounted for by employee compensation. In this country in 1965 employee compensation was 80% of total corporate income. (Statistical Abstract of the United States, 1966, Table 459.)

However, that is not the point. This is that a 100% gap between domestic and foreign costs in an industry as similar as shipbuilding and ship operation has persisted without narrowing over a period of ten years.

The economist will point immediately to the U.S. subsidy as the cause, thus, perhaps unwittingly, proving the thesis of this paper, namely, that governmental controls and interferences prevent the natural economic laws from producing the results that otherwise might properly be expected of them.

We have only to observe that other policies, interferences and rigidities, likewise lying beyond the control of shipbuilders and operators, contributed their share to the competitive incapacity that made the subsidy necessary. For example, what was the cause of the high wage level in this country? It was the result of national economic policies, including labor policies, generally supported by heavy majorities of the electorate and therefore enacted by Congress—policies that were quite strictly American and did not go on statute books in foreign countries. Many of these statutes increased the costs of production in the United States and therefore generated competitive disadvantages of our industries *vis-a-vis* foreign producers, much as the disadvantage suffered by the maritime industry.

Perhaps the subsidy should have been refused to the maritime industry. Such would have been the prescription of the free-trade economists. However, that would have led to denudation of the seas of the American flagships. As it was, the subsidy was limited to a tonnage regarded as meeting the minimal national security needs and no more; and this limit marked the total tonnage of our flag fleet construction (ships built in American yards and employing American crews). This limit is very low. Our flag ships carry a little less than 6% of our total trade. To repeat, so great is the cost differential that our fleet would have been driven from the seas but for the subsidy.

Such economic expulsion would have been justified by free-trade policy on the grounds that our wages are too high in relation to our productivity in building and operating ships. The wages, however, are not out of line with those of similar domestic industries, but are kept at their high level by union power, supported by national legislation. They are therefore beyond the reach of the free market forces of Adam Smith.

That the wages are too high to make the American merchant marine competitive goes without saying; but they are a part of the American system, deeply entrenched in public policy. To make the wages competitive it would be necessary to adopt the lower wage standards of other countries or to displace a shockingly high number of workers by technology.

The American public is hardly aware that the bases of foreign competition may be drastically changed by the side effects of domestic legislative enactments on our industries. These enactments may have a justification of their own in the eyes of the electorate; and the side effect is then not only given no consideration but may be overlooked or regarded with a skeptical aloofness if it comes to public attention. The competitive incapacity or handicap imposed on industry may therefore not be recognized and industry may indeed even be blamed for inefficiency and slack management rather than being regarded as entitled to compensatory consideration. The public is so far removed from the forces released by legislative enactments for which it is responsible, and the effects are so indirect, that it is possible to disown the consequences or to be unaware of them.

The unenviable plight of our merchant marine as a victim of national legislative fall-out, illustrates two points worthy of attention. (1) The higher American costs would have destroyed our merchant marine if no compensating support had been granted. The market forces would have operated according to theory had they been given a free hand. As in a thousand other instances within the domestic economy this was not allowed. (2) The subsidy did prevent the competitive market forces from operating as far as the subsidy extended, but that was all. Beyond the limits of the subsidy no ships could be built or operated, showing clearly how far the market forces would have gone had there been no subsidy. Not one ton of American flag shipping could make its way competitively without subsidy. With cost burdens double those of competitors, the reason is clear enough.

The Coal Industry

The experience of the coal industry illustrated a different aspect of competitive forces but the results so dramatically show the only effective means of materially reducing costs that the experience not only bears repeating; it should be trumpeted to all who have occasion to prescribe for our economy.

A few years after the close of World War II the coal industry fell on evil days. It was beset by relentless competitive forces from substitute fuels from both domestic and foreign sources. At the cost level of our coal production the industry was faced with destruction. Oil and gas and imported residual fuel oil were available at prices that were beyond the reach of the coal operators.

The coal industry found a way out without subsidization, an alternative that gives what should be an unforgettable lesson in the economics of cost-reduction. It saw the possibility of using mammoth and costly coal digging machinery and, not counting the cost in the jobs of coal miners, introduced mechanization as far as the technology permitted. American coal became competitive not only with oil and gas on the domestic scene but in foreign countries. It could undersell English and European mines in their home markets. England allowed no imports. West Germany imposed a restrictive import quota. However, that is another question.

The necessary reduction in the cost of coal was effected in the only way possible. The cost was paid in terms of miner-displacement, and it was excruciatingly high indeed. The number of coal miners was cut from 480,000 to 142,000 in about 15 years (1950–1965). This was a shrinkage of 340,000 jobs, or 70%! While the drastic steps thus taken saved the coal industry it gave to the nation the poverty and distress known as Appalachia. Such may be the cost of the efficiency that is constantly urged upon domestic industry by economists who are so blinded by the classical rules that reality fades from their grasp! We are much more productive than foreign miners but their wages may be so much lower than ours that in order to compete with them we must displace a large share of our work force. If we are twice as productive but their wages are only a third or a fourth or a fifth of ours, the remedy is obvious.

Theory holds that reduced costs will lead to greater consumption and that this in turn will lead to greater production and higher employment. It is, however, erroneous to conclude that reduced costs will always lead to a happily expanding consumption that will increase employment. It will not do so when the demand for the product is inelastic, for example. If costs are reduced at the expense of employment the displaced workers must then look elsewhere for employment. It also will not necessarily do so when costs are reduced in order to meet competition that has already invaded the market. As in the coal industry, the previous level of production may be recouped or nearly so; but as it was, the miners were not rehired. They went on the poverty and relief rolls for a long period, and the end is not yet.

Here again ancient theory broke on the rocks of reality. Import competition is often compared with the upset caused by mechanization, and should therefore be met in the same fashion; but the generalization overlooks too much. If the demand for the product is inelastic as in essential goods, of which there are many, the consumer demand will not expand in response to the lower-priced imports. What imports supply will then be subtracted from the sales of domestic producers. If the demand for the goods is elastic, demand will, of course, respond to the lower prices but imports may reap the benefit by capturing a rising share of the domestic market. The market does not wait for the domestic industry to adapt itself as it does when a technological innovation of a domestic company is covered by a patent. Thus the domestic industry often sees imports gain all or most of the effects of demand-elasticity.

Such is the price of economic efficiency! The productivity of the coal industry increased from 1159 tons per man-year in 1950 to 3697 tons in 1965, or more than threefold. This was reflected in the decimation of the work force related above.

The coal industry was in deep trouble because of the high wages of mine workers. Yet their hourly wages (average) were a little less than those paid in steel and rolling mills and in contract construction in 1963 (Survey of Current Business, U.S. Dept. of Commerce, December 1964, p. S-15.)

The Steel Industry

The American steel industry has in recent years become confronted with import competition that has absorbed about 11% of the total market.

Obviously the industry faces a problem not unlike that of coal. In recent years it has spent over $6 billion on new plant and equipment, devoted principally to modernization. Already in 1964 the output per man year had increased to 248 tons compared with 165 tons in 1950; but obviously this record fell far short of that of the coal industry. The latter exceeded steel four-fold in productivity increase and in displacement of workers.

The result in human terms was that while the coal industry sacrificed the jobs of 340,000 workers the steel industry displaced only 75,000 workers in 15 years.

The lesson is very clear. If steel is to make itself competitive with imports it must take much more drastic steps than it has taken hitherto. If it were to come on a par with coal it must separate some 200,000 more steel workers from its payroll. It could then reduce its cost of production about 10% and perhaps stand off imports. Whether the modern technology available to the steel industry will accomplish this feat is a question. Other countries are not backward in this field and are also increasing productivity. The steel workers might find themselves displaced and unemployed without gaining a competitive advantage for the industry.

This or some other order of gargantuan magnitude is the price exacted by the demand that the industry stand on its own competitive feet, to pull out of a situation into which it did not place itself. The steel workers have only to look across the Monongahela into West Virginia to read their own fortune if steel is to become competitive with imports or to get a lesson in laissez-faire economics as it tries to make its way midst the modern planned and controlled forces of the economy.

Competitive Handicaps of Other American Industries

Not all other industries beside the two mentioned suffer the same disadvantage as the maritime industry, but the difference is a matter of degree. Some of them enjoy a material margin of tariff protection as an offset. Many of them enjoy additional insulation or protection from greater proximity to inland markets than imports, as already noted. Also, some enjoy a greater productivity lead than shipbuilding and ship operation over their foreign competitors, as a result of advantages from economies of scale. Mass production is not a characteristic of shipbuilding with the exception of some of the materials that are assembled into a ship.

Yet in spite of these differences all other industries are subject to the same general effects of the many legislative enactments that have increased costs of production. They were also subject to the same increase in costs that came from the War and cold war expenditures. They are therefore competitively disadvantaged compared with foreign producers no less so than the maritime industry, but some of them enjoy certain advantages from other sources (high productivity for example) that partially and in some instance wholly offset the disadvantages—at least temporarily.

However, what is important to this discussion is that competitive disadvantages not reflecting relative productive efficiency or deficiency may persist over the years between this country's producers and their foreign competitors. In terms of policy formulation it is also of the highest consideration that the disadvantages of the type here described originate from sources over which the industry has little or no control. They are imposed disadvantages, possibly for justifiable ulterior reasons. This point will not be argued here. The fact of the presence of imposed disadvantages concerns us as does the persistence of these disadvantages despite economic theories that in any case have had their teeth drawn.

Deterioration of U.S. Competitive Position in World Trade

There is adequate evidence that American industry on the whole is de facto in a weak competitive position, both in foreign markets and in this country under the challenge of imports, the official trade statistics showing an export surplus, notwithstanding. The outlook, further, is that this position is facing specific deterioration not only because of the forthcoming drastic tariff reductions but because of a narrowing of the productivity gap, while the wage differential persists.

The evidence already presented is more than adequate to demonstrate the undoubted influence of the high level of American wages on our import and export capabilities. The clear trends, again, ratify the durability and persistence of disparate competitive levels between this country and other countries.

We can readily conclude that this persistence is the result of the many deeply entrenched rigidities that have been introduced into our economic activities by numerous and most likely ineradicable enactments and developments not only in this country but also abroad. Whatever we have done or whatever the developments, the effects have almost universally replaced and usurped the functions of the free marketplace, on the operation of which our national trade policy is nostalgically based.

To continue to insist on treating international trade as operating under the benign guidance of free market forces, even if all tariffs were stripped down to zero, could only be explained as an intellectual tour de force; or as reflecting a failure to distinguish free competition from fettered or controlled competition. The latter is characteristic of much American international competition. Competition continues but the factors have been so modified that it bears little relation to free market activity. American producers are far from free.

In imports and exports, whatever the competitive variations from industry to industry and from one country to another, the realities come out in the wash, so to speak, theory to the contrary notwithstanding. Even State trading, which is not determined by free market forces, represents competition, and its effects will make themselves felt.

If differentials in cost determine in great part the relative rise or fall in imports and exports in this or that direction, as they do as a result of competition, even if the competition is contrived or artificial, we should look at the unit wage contents of the traded goods if we wish to find an explanation of trade trends—for the simple reason that, as we have seen, the labor going into the making of a product, from raw material, farm or mine through the various stages of production account for some 75–80% of the total cost.

Manufactured products incorporate more steps of labor than do raw products. A manufactured product may go through a number of processes and fabrications in each of which additional labor is applied. A *raw* product goes through a minimum of steps, possibly only one or two exclusive of transportation. Semimanufactures fall into a halfway slot between raw products and finished manufactures.

From this recitation it would follow that a high-wage country would more easily dispose of its raw products in foreign markets than finished products because the raw material is not loaded with so many successive man-hours of high-cost labor. Finished goods would be less likely to enjoy a competitive advantage. Of course, they might still sell abroad if (1) foreign countries experienced shortages, (2) were not yet adequately equipped to produce particular goods competitively, or (3) especially if we should subsidize or give away these products. By that route we could continue to achieve handsome export surpluses without really trying—as indeed we have been doing.

On the other hand, the advantage would lie in the reverse direction with imports.

A high-cost country would find it more advantageous to buy finished products from lower-cost foreign countries precisely because these goods do incoporate successive stages of production. While it is advantageous to import raw materials from low-wage countries the advantage broadens as still more of the cheap labor is incorporated in the product. This is the case with respect to finished goods or finished manufactures, as our Census Bureau classifies these products.

The importation of raw materials and crude foodstuffs would under the same circumstances offer a lesser incentive, simply because they contain the least amount of low-wage labor.

IMPORT TRENDS

If we now examine the import trends of these classes of products from 1961–66, which is the latest 5-year period and coincides with the biggest upsurge in imports since World War II, we will discover a remarkable correlation with the expected trends as just set forth.

From 1961 to 1966 imports of crude foodstuffs increased from $1.60 billion to $2.12 billion, or 32.4%.

Crude material imports rose from $2.87 billion to $3.85 billion, or 34%.

Under our formula imports of semi-manufactures should have increased appreciably more because these products have had more low-cost labor applied to them. Imports increased from $3.38 billion in 1961 to $5.49 billion in 1966. This was an increase of 65.3%, or about twice as much as the increase in imports of raw materials and crude food products.

Our formula calls for the highest increase of all in the form of finished manufactures, since these goods incorporate the greatest amount of labor of all. Here we find imports rising from $6.68 billion in 1961 to $13.99 billion in 1966. This was an increase of 100.5%. This was over three times the increase registered in the importation of raw products, including foodstuffs, and nearly 70% higher than the rise in imports of semi-manufactures.

A small table will present the foregoing facts in handy form:

U.S. IMPORTS

[Dollar amounts in billions]

	1961	1966[1]	Increase
Crude foodstuffs	$1.60	$2.12	32.4
Crude materials	2.87	3.85	33.9
Semimanufactures	3.38	5.59	65.3
Manufactured goods, including food	6.68	13.99	109.5

[1] 1966 imports are preliminary and unrevised and represent general imports.

These facts override whatever theories might be invoked to produce different results.

EXPORT TRENDS

If we turn to trends in exports we will find the same principle exemplified as in imports.

Exports of inedible raw materials, incorporating the least labor, expanded 67% from 1958–65, while exports of manufactured goods other than machinery rose only 45%.

Again carrying out the same principle, *imports* of inedible raw materials increased only 30%, compared with the *export* increase of 67%. There was less advantage in importing raw material because there was less saving. On the other hand, other countries bought more readily our raw materials precisely because these materials had the least amount of our high-cost labor expended on them.

In a different classification of exports and imports, published by the Department of Commerce, we find one grouping that is called "Other Manufactured Goods". This is exclusive of machinery and transport equipment.

Here we find further corroboration of what has already been said. These Other Manufactured Goods include such categories as Metals and Manufactures, Textiles Other Than Clothing and Textile Clothing, and a broad miscellany of other goods.

From 1958–65 exports of "Other Manufactured Goods" rose only 29.7%. Imports rose 125.1%

The breakdown reveals some of the details. Exports of Metals and Manufactures rose only 31.9% compared with an import rise of 146.8%.

Textiles Other Than Clothing (meaning fabrics, cloth, etc.) had an export increase of 22.2% while imports rose 110.7%.

Textile clothing recorded an export increase of 52.1%, which was fairly brisk; but imports climbed 212.1%.

Surely these statistics which strongly corroborate those cited earlier can leave no reasonable doubt about the weak competitive position of this country. This is attributable almost exclusively to the higher labor costs. However, this is not said in derogation of our wage levels. We need high wages to absorb our unmatched volume of output of consumer goods. We cannot reduce labor costs without displacing workers; and total costs cannot be reduced in any meaningful sense without reducing labor costs, for the reasons already given.

Further Corroboration of Competitive Weakness of United States

If we examine our exports and imports of finished products from 1957–65, we will be impressed with the further corroboration of the foregoing statistical findings. Exports of this class of goods increased only 29.6% while imports rose 151%. (U.S. Statistical Abstract, 1962, Table 1215, p. 880; Ibid., 1966, Table 1259, p. 874.) In other words, imports of the labor-saturated goods increased five times as rapidly as exports. This is what would be expected from the preceding analysis.

The Yearbook of the United Nations provides another source of information. It carries a table on trade in *manufactured goods*. U.S. exports of these products rose 21.8% from 1957–64 (latest available date). By contrast West German exports of the same class of goods rose 75%; the French, 92%; Italian, 209%; the Dutch, 113%; the Belgian, 87%; the Japanese, 169%. (U.N. Yearbook, 1965, Table 151–B, p. 418.) Total U.S. exports from 1957–64 rose distinctly less than half as rapidly as exports of the remainder of the world. This record, of course, reveals a substantial shrinkage in our share of world exports. The decline was most pronounced in manufactured goods. The record would be distinctly more sobering yet if exports of machinery and subsidized agricultural products were left out. Machinery exports have responded in lively fashion to our rising foreign investments and the preference of our foreign subsidiaries for U.S. machinery, with which they are familiar.

The foregoing record of our trade has not shredded the free-trade theory as such. What it has shattered beyond repair is the make-believe posture that we can with impunity walk toward free-trade principles in a world (1) in which vital free market forces have been prevented from asserting themselves and will continue to be so prevented; and (2) in which economic movement away from the laissez-faire norm in one country has taken the form of heavy cost burdens imposed on industry not matched by remotely equal burdens in competing countries. This is the situation in which United States industry finds itself.

Conclusion

Our tariff has been taken down under circumstances that make adaptation of American industry to the new low duty levels impossible without extreme pressure to follow the example of the coal industry, which is to say, to decimate the number of workers as a means of withstanding growing import competition. Yet we have become dependent on our high wages as the source of adequate consumer purchasing power to absorb our industrial, mineral and agricultural output. In many cases the technological capability that saved the coal industry will not be available. Then, alternately, or even concurrently, these industries must seek to escape dependence on their domestic business for recoupment of their competitive status by producing abroad at lower costs. Billions of dollars have already taken that flight.

Neither of the alternatives offers an acceptable solution to the pressures precipitated by the contradictory economics represented by our trade policy. In a world of economic controls, interferences and planning, one major element cannot be isolated and treated as if it were still in a laissez-faire world while nearly all else is controlled.

Inexorably if our industries are not to be inhumanly constrained to exile great portions of their work-force to the ash heaps of obsolete and unneeded humanity, a substitute for the tariff must be found and utilized.

Market Sharing

The concept of *market-sharing* with perhaps special concessions to the underdeveloped countries recommends itself as the most suitable and promising instrument as a substitute for the discarded tariff. It would make possible the restoration of a factorial balance that has been badly distorted by opposite treatment of one part of the economy compared with other parts. It would help bring under control a form of competition (imports) that is the result of a basically unfair and burdensome imposition on industry and that in turn falls with macabre effect on labor when industry seeks to do what it has to do in order to defend its position or to ward off extinction.

Percentage market-sharing would permit imports to grow with the domestic market without over-exposing the industry and its labor force to attrition and destruction. Planning into the future would be greatly facilitated—a course that is disrupted by uncontrolled imports. Merely to satisfy a trade policy that imposes harsh and even cruel exactions on industry, agriculture and labor as a tribute to what is essentially a gross doctrinal inconsistency, now that our foreign competitors are coming into a position to press their resulting advantages, would be inexcusable economic self-immolation.

The extension of controls to foreign trade would bring an element of consistency and rationality into our foreign trade policy that is now lacking to the great detriment of many industries and many hundreds of thousands of our workers.

TARIFF PREFERENCES OR NON-DISCRIMINATION?*

A Decade of Development?

Although the 1960's have been proclaimed the Decade of Development by the United Nations, the first seven years of this decade have brought little progress to the underdeveloped world. Instead of reaching the announced and modest goal of ear-marking 1 percent of their gross national product for development assistance, the industrialized nations have been tapering off their foreign aid in relation to their rapidly rising GNP. In 1965 such aid amounted to less than 0.7 percent of their GNP.

Actually, even this unimpressive figure is inflated because it represents the *gross* flow rather than the *net* flow of foreign lending, the latter taking into account the amount for interest and amortization due on old debt. It has been calculated that if the gros flow of foreign aid continues at the present rate, and the present terms of aid are maintained, *net* lending to developing countries will fall to zero by 1975.[1] At this point, in other words, the industrial countries will be taking in as much in the form of interest and amortization on old debt as they are providing in the form of new lending.

The failure of the Decade of Development can be measured in terms of world trade as well as foreign aid. The share of the developing countries in world exports has dropped from 24 percent in 1957 to 19 percent in 1966, while the share of the industrialized countries has risen from about 66 to more than 69 percent.[2] It would seem that the rich nations are growing richer while the poor are getting poorer.

In light of this disappointing showing it is not surprising that the underprivileged "Third World" should have mobilized its political resources to mount a concerted offensive against the "privileged few"—primarily the United States and Europe. This diplomatic campaign came to a head in the first meeting of the United Nations Conference on Trade and Development (UNCTAD) in 1964 at Geneva. The second UNCTAD meeting, scheduled to convene in New Delhi in February 1968, is expected to resume and escalate the offensive.

The UNCTAD Offensive

What does the Third World want, and what measures do their governments propose? Disappointed by the poor showing of foreign aid and depressed by their declining share in world exports, the underdeveloped countries have concentrated their diplomatic efforts more on trade than aid. Under the common heading of increasing their export earnings, they have called for:

(1) Commodity agreements designed to stabilize (if not to raise) the prices of the primary commodities produced by them (especially coffee, cocoa, sugar, etc.);

(2) "compensatory financing", i.e. financial resources to compensate developing countries for fluctuations in foreign exchange receipts from the export of primary commodities;

(3) regional arrangements for economic integration designed to accelerate industrialization and stimulate trade between developing countries in a given part of the world;

(4) reduction of tarff and non-tariff barriers to their exports of manufactured and semi-manufactured goods; and finally

(5) preferential tariff treatment of these exports by the industrialized countries.

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*By Edward G. Posniak, chief economist, United States-Japan Trade Council. The views expressed in this statement are the author's only.

[1] Sidney Dell, Director, New York Office, United National Conference on Trade and Development, April 1967.

[2] The remainder represents the exports of Communist countries, whose share of world trade rose from less than 10 to almost 12 percent. (United Nations statistics, April 14, 1967.)

While all of these UNCTAD proposals have been vigorously discussed *pro* and *con*, none has given rise to so much diplomatic debate and academic dispute as the last—preferential tariffs. The reason is simple. The central conception of the post-war trading world, the keystone of the General Agreement on Tariffs and Trade (GATT), has been non-discrimination in trade, expressed in unconditional most-favored-nation (MFN) treatment. The demand for tariff preferences represents a radical departure from this basic and well-established principle of trade policy.

For this reason, the United States had consistently expressed its opposition to tariff preferences for developing countries. As the concerted UNCTAD offensive grew in mounting pressures, however, the U.S. Government appeared to waver in its firm stand. Finally, at the summit meeting at Punta del Este in April 1967, President Johnson indicated a readiness to *explore* with other industrialized nations the *possibility* of granting *general* preferential treatment to imports of manufactures and semi-manufactures from the developing countries.[3]

Non-Discriminatory Preferences?

The italics are of more than semantic significance. To consider general preferences to all developing countries by all industrialized nations is one thing; to agree on such a system is quite another. For the central fact in today's trading world is that some developing countries (chiefly French ex-colonies in Africa and British Commonwealth nations) are already receiving preferential treatment from some industrial nations (chiefly those of the European Economic Community and the United Kingdom). Since many of these preferential arrangements are reciprocal, neither the countries receiving nor those granting such preferences are anxious to dissolve these special trading arrangements in favor of generalized preferences by all developed to all underdeveloped countries.

The crux of the preferential problem has been ably stated by a distinguished proponent of measures to assist developing countries as follows: "The reason for the difficulties is simple, obvious, and insuperable. Tariffs are inherently discriminatory between domestic and foreign producers, preferences involve discrimination between categories of foreign producers, and a non-discriminatory system of discrimination is a contradiction in terms." [4]

And yet, despite the "simple, obvious, and insuperable" difficulties, the pressure for tariff preferences is still mounting. In fact, it is likely to reach a crescendo in the months to come because the agreement reached in the Kennedy Round, although greeted with satisfaction among the world's chief trading nations, is viewed with disappointment among the developing countries.

One reason for this disappointment lies in what happened in the Kennedy Round to tropical products. The United States had the authority under the Trade Expansion Act of 1962 to reduce tariffs on tropical products to zero and was willing to use this authority in the Geneva negotiations; the United Kingdom was also willing. But the EEC declined to go along because this would have nullified the existing preferences for its African associate members (mainly the former French colonies). As a result, tariffs on tropical products were merely lowered but not eliminated.

As a result of the disappointing outcome of the Kennedy Round from the viewpoint of the Third World, the years of agitation and frustration since the UNCTAD meeting of 1964, and the hopes aroused by the Punta del Este declaration of April, 1967, it is fair to say that the demands of the developing countries for tariff preferences probably represent the most critical issue in trade policy facing the world today.

The Arguments for Tariff Preferences and Their Flaws

The case for tariff preferences to developing countries is usually based on analogy to the "infant industry" argument for tariff protection. This is the argument that protection for an infant industry in its early stage of development enables it to grow in a sheltered market to a point where it becomes sufficiently competitive to survive in world trade after tariff barriers come down. This has

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[3] The exact wording in the "Declaration of the Presidents of America" ("Action Program"), Chapter II, 2, is: "To consider together possible systems of general nonreciprocal preferential treatment for exports of manufactures and semimanufactures of the developing countries, with a view to improving the condition of the Latin American export trade." (The Department of State Bulletin, May 8, 1967, p. 717.)

[4] Harry G. Johnson, *Economic Policies Toward Less Developed Countries*, Brookings 1967, p. 197.

some validity, but the analogy ignores the basic question whether tariff preferences are the best means of achieving access to developed country markets. Moreover, experience shows that supposedly temporary protection has a way of becoming permanent; the same may well happen to "temporary" preferences.[5]

Unquestionably, the chief practical reason why developing countries are pressing for tariff preferences is the belief that they would be politically more acceptable in industrialized countries than foreign aid. This argument assumes that tariff preferences are a form of income transfer from industrial to underdeveloped countries. It implies that preferences are a form of foreign aid—an attempt to use trade policy as a substitute for aid policy. The validity of this argument is questionable because the domestic industries affected by preferences would undoubtedly protest even more vigorously and more effectively than do the general taxpayers against the cost of foreign aid. (See point (6) on page 461).

Another argument often made in favor of preferences is that developing countries have gone as far as they can in import substitution,[6] so that any device to encourage export promotion is desirable. While the former is undoubtedly true, the latter does not necessarily follow. There may well be misplaced or excessive (i.e. uneconomic) export promotion as well as excessive import substitution. To plunge from one to the other may not help matters. Again the argument ignores the question whether preferences are the *best* device to encourage export promotion—which is precisely the point at issue.

Finally, the argument is sometimes made that developing countries *want* preferences and the industrial nations' costs from granting them "would be negligible, whether or not the alleged gains materialize."[7] The latter clause appears to recognize implicitly the dubious nature of the benefits to be derived from preferences by the developing countries. If the impact of preferences on the industrial countries granting them is truly "negligible", it seems likely that the gains to the developing countries would be equally negligible, unless the comparison is in terms of relative GNP. Finally, this argument ignores the costs of tariff preferences to third countries, i.e. the competitors of the developing countries who would be discriminated against by the preferences.

The Case Against Preferences

It will be noted that the great emphasis of the arguments for preferences has been placed on the fact that developing countries *want* them, and very little on their economic importance or justification.[8] The leading study of this question by a proponent of preferences concedes, after searching analysis, that—"unfortunately, it is not possible to estimate how much can be done by this means for the less developed countries", and that "if preferences for less developed countries are to be seriously considered, a great deal of theoretical and empirical research needs to be done . . ."[9]

By contrast, the case against preferences is well-documented and extensive. The arguments against preferences may be briefly summed up as follows:[10]

(1) Tariff preferences to developing countries would tend to promote and perpetuate economic inefficiency—as do protective tariffs—by encouraging uneconomic production behind the shelter of preferences. "Infants" thus favored, in other words, never seem to grow up.

(2) Preferences are inevitably least helpful to some developing countries—those least developed—and most advantageous to those in a relatively higher stage of development (e.g. Taiwan, Mexico, the Philippines, India and Pakistan) able to take effective advantage of them. Thus, preferences would help those least who need help the most.

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[5] As a distinguished scholar in this field has observed, "the landscape in all countries seem to be dotted . . . by 60, 80 or even 150 year old 'infants.'" Stanley D. Metzger, *Law and Policy Making for Trade Among "Have" and "Have-Not" Nations*, April 25, 1967, p. 45. (Working paper for the Hammarskjold Forum of the Association of the Bar of the City of New York).

[6] Import substitution is the attempt of developing countries to produce domestically goods formerly imported, with the double objective of improving their balance of payments and speeding up their industrialization. Quite often, however, import substitution has been pushed too far, resulting in uneconomic production, which tends to increase the production costs of *all* goods, including exportable manufactures, thus reducing export earnings.

[7] This and other arguments for preferences are derived from the study of John A. Pincus, *Trade, Aid, and Development*, McGraw-Hill 1967, pp. 198–199. Pincus is an able advocate of the case for preferences.

[8] Stanley Metzger, *op. cit.*, p. 49.

[9] Harry Johnson, *op. cit.*, pp. 205–206.

[10] Most but not all of the arguments are cited by John Pincus, *op. cit.*, pp. 198–199, and restated by Stanley Metzger, *op. cit.*, pp. 49–50.

(3) This point is related to another—the question of definition of a "less developed" country as compared with a "developed" country. Who would grant preferences to whom? To take a hypothetical case, would Spain as a relatively "developed" country be expected to grant preferences to its underdeveloped African neighbors?

(4) Perhaps most important of all, tariff preferences would create a vested interest against further efforts to liberalize world trade, because the general reduction of tariffs would automatically tend to reduce the margin of preference already granted to developing countries. Considering the organized strength of existing vested interests opposed to trade liberalization, the creation of new ones may well doom the prospect of a further round of tariff reductions.

(5) Preferential systems, as even their proponents readily admit, are strikingly complicated to administer in practice because of a large number of technical questions involved. They would give rise to additional bureaucratic regimentation in a world which is trying (with some degree of success, as the Kennedy Round shows) to free itself from existing barriers to trade.

(6) Much more important, preferences would be likely to result in the reverse of the effects intended, because the introduction of preferences would give domestic producers in developed countries a compelling reason to push through legislative safeguards against "market disruption" by manufactured exports from developing countries. Such restrictive "orderly marketing" safeguards might well leave the intended beneficiaries of preferences with *less access* to the markets of industrial nations than they had before.

(7) The type of preferences envisaged by UNCTAD and in the Punta del Este declaration, i.e. general and uniform preferences by all industrial nations to all developing countries, is extremely unlikely to be accepted by the EEC and its associated African members who now receive *special* preferences from the EEC. The tenacity with which the EEC has been clinging to its special preferences for its African associate members makes it likely that negotiations may well result in compromises prejudicial both to the underdeveloped countries and to the principle of non-discrimination.

(8) Finally, preferences for developing countries would in all likelihood entail an economic and political price which they may not have fully appreciated. Since developed countries would rightly regard tariff preferences as foreign aid in disguise, it would be natural for them to take this into account as an *offset* to straight foreign aid. In addition, they would be likely "to exact whatever political and economic conditions appear to them to be suitable from time to time, ranging from tied loans to non-trading with Cuba, from special conditions on nationalization to 50–50 shipping . . ."[11] If the Third World wants to achieve economic and political independence, this seems scarcely the way to get it.

Trade Alternatives to Tariff Preferences

If tariff preferences are rejected as a means of helping developing countries, are there better ways of accomplishing the same objectives? Most students of the problem emphatically agree that there are. These alternative solutions fall into two separate categories: trade alternatives to tariff preferences and other alternatives, through various forms of economic assistance. Trade alternatives to preferences may be summed up as follows:

(1) In the words of a leading student of UNCTAD, "UNCTAD's success in highlighting tariff obstacles has not been matched by a comparable impact on what is undoubtedly the most restrictive set of barriers to processed exports confronting the low-income countries . . . the Long-Term Cotton Textile Arrangement negotiated in 1962 under GATT auspices." This arrangement, recently renewed for another three years, is described as "the vehicle through which highly restrictive quotas have been imposed—in Europe as well as in the United States—with little regard to the criteria for determining the existence of market disruption. . . . Surely here is an area where UNCTAD should be helping to expose the gap between avowed purpose and actual performance."[12] The liquidation of the cotton textile arrangement would probably do more for the exports of developing countries than would tariff preferences. There are many other existing protectionist devices, such as the statutory and "voluntary" import quotas in many industrialized countries, whose removal would be a big help to developing countries.

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[11] Ibid., p. 54.

[12] Isaiah Frank, "New Perspectives in Trade and Development," *Foreign Affairs*, April 1967, p. 534.

(2) Another measure that would greatly benefit developing countries without doing violence to the principle of non-discrimination would be the abolition of tariffs on tropical products, as authorized by the Trade Expansion Act and proposed by the United States in the Kennedy Round negotiations. As noted earlier, agreement on this measure was frustrated by the EEC, because of its reluctance to generalize existing preferences to its associate members in Africa. The EEC's professed desire to help developing countries is revealed by this action as a desire to consolidate a special trading relation with African countries—a fairly obvious form of the "neo-colonialism" so often denounced at UNCTAD meetings.

(3) It has been proposed that the Kennedy Round tariff reductions, which under the Trade Expansion Act will be spread over a period of five years, be made effective for developing countries immediately upon conclusion of the negotiations.[13] Japan is understood to be taking this action in the case of tropical products, reducing its tariffs thereon to zero in one fell swoop, in order to assist developing countries. In the United States such action would require amendment of the Trade Expansion Act, which the Administration is reported to be considering. Such action would, of course, constitute a form of preferential treatment in favor of developing countries, unless it were confined to tropical products only. But at least such preferences would be purely temporary, being limited to five years, thus removing one important objection to the self-perpetuating vested interest created by tariff preferences without time limitations.

(4) Finally, a legitimate complaint of developing countries has been that figures on average tariff levels substantially understate the degree of protection on manufactured products of the kind originating in underdeveloped countries. This is true for two reasons. First of all, the duties on products which the less developed countries are capable of manufacturing are generally higher than the prevailing U.S.-EEC average tariff of about 12 percent. Clothing, for example, is dutiable at 25 percent in the U.S. and 15 percent in the EEC. Comparable figures for shoes are 17 and 20 percent; for bicycles, 14 and 21 percent; for toys and sporting goods, 15 and 18 percent.[14]

Second, and at least equally important, is the fact that tariff rates typically increase with the degree of processing. While the EEC tariff is zero on hides and skins, it is 9 percent on leather and 17 percent on leather manufactures. A similar escalation of duties in relation to the degree of processing is found in the tariff schedules of other industrial countries as the pertain to such products as cocoa, cotton, jute, paper, rubber, wood and others. That this structure of tariffs discourages trade in the more highly fabricated products is obvious. In effect, such tariffs really protect processes rather than products.[15]

This difference between nominal and effective tariffs—a difference highly prejudicial to the exports of developing countries—underscores the importance of including in future tariff negotiations reductions in duties on manufactured products important to the present or potential export trade of less developed countries. Such reductions would do far more than tariff preferences to increase their access to the markets of industrial countries, and they would do it without violating the principle of non-discrimination.

Other Alternatives for Developing Countries

In addition to trade alternatives to tariff preferences there are a number of other alternatives for developing countries, involving various forms of economic assistance. These additional alternatives may be summarized as follows:

(1) The most obvious way of assisting the development of under-developed countries—that is, of effecting a transfer of economic resources from the industrialized to the developing countries—is of course through straight foreign aid, undi•guised as something else. This is not only a matter of increasing the amount of aid granted (although the present amount, world-wide, falls far short of the agreed upon goal of 1 perecnt of the advanced countries' GNP) but of providing whatever aid is given in the most effective form, which is far from being the case today.

In particular, the practice of tying aid to purchases in the grantor-country (a practice increasingly prevalent) tends to raise the cost of aid-financed imports

[13] Isaiah Frank, *op. cit.*, pp. 532–533. The rates are those prior to the Kennedy Round reductions.
[14] Ibid.
[15] Harry G. Johnson, *Trade and Aid Policies: The UNCTAD Alternative*, Brookings Research Report 60, 1967, p. 5.

into the less developed countries in two ways: It confines the aid-wanting countries to high-cost sources of aid-goods, and it permits suppliers in the aid-giving countries to charge excessive prices for the goods, since there is no foreign competition. The transfer of real resources from developed to less developed countries could be substantially increased by supplying the existing level of aid in the form of untied grants.[16]

(2) Another, less obvious but tried and tested, way of assisting developing countries is through a form of aid known as "compensatory financing." This amounts to providing financial resources to compensate underdeveloped countries for fluctuations in foreign exchange receipts from the export of primary commodities. In 1963 the International Monetary Fund liberalized its system of loans ("drawings") to compensate for such shortfalls in export earnings. In 1966 the Fund expanded this compensatory financing facility and liberalized its conditions still further.

In addition, in 1965 the World Bank presented a staff study to the United Nations recommending additional measures of compensatory financing; these recommendations are still being considered by UNCTAD, which has shown more deliberation than speed in this matter. Here, clearly, is an area where aid to developing countries can be provided in practical form, without interfering with normal market forces or the principle of non-discrimination, with a minimum of rhetoric and a maximum of effect.

(3) Still another form of promoting economic development lies in regional integration. Such regional arrangements as the Latin American Free Trade Area (LAFTA), the Central American Common Market, and the Latin American Common Market proposed at the recent Punta del Este summit conference, are designed to create a wider internal market, promote greater investments, and thus accelerate industrialization. Provided such regional integration is outward-looking rather than autarkic in intent, and provided it avoids the danger of creating new domestic monopolies or serves as an easy substitute for badly needed domestic reforms, it can be an effective measure for the promotion of industrial development in the less developed countries.

(4) A more controversial form of assistance to developing countries lies in commodity agreements designed to stabilize—or even to augment—the prices of primary commodities, especially of tropical commodities like coffee, tea, cocoa, sugar, tin and rubber, of special interest to less developed countries. The controversy arises not merely from the fact that such agreements interfere with natural market forces, but that—especially when designed to increase rather than stabilize prices—they are in fact cartel arrangements intended to secure monopolistic prices for the producers at the expense of the consumers. In addition they may be often self-defeating because they tend to promote the use of substitutes, e.g. synthetic instead of natural rubber. Since commodity agreements already exist in the case of coffee and tin, this leaves in effect only cocoa,[17] where UNCTAD has been unsuccessfully trying to promote a commodity agreement since 1963.

The Case for Non-Discrimination

The basic GATT approach to world trade—non-discrimination, elimination of quotas on imports, and gradual but continuous reduction of tariffs through bargaining for mutual concessions—simply stands for the proposition that the best way to accomplish the most effective allocation of the world's resources is through free trade.[18] Even advocates of tariff preferences agree that the "best solution to the problem of providing additional external resources for the acceleration of development would be free trade, plus the provision of aid . . ."[19] They also admit that preferences are an "inefficient means" of securing "more net aid from the developed countries, or improved access to developed-country markets."[20]

The central conception of the postwar trading world, envisaged during World War II and carried through in the General Agreement on Tariffs and Trade in 1947, was non-discrimination in trade, i.e. unconditional most-favored-nation treatment. This international agreement was the capstone of an arch long under

[16] Stanley Metzger, *op. cit.*, pp. 43–44.
[17] Tea, where a commodity agreement existed only from 1950 to 1955, is not an important factor in the market. Sugar, which is produced in developed as well as underdeveloped countries, presents a different problem: the main problem here arises from import barriers in the advanced countries. See Frank, *op. cit.*, pp. 526–527, and Metzger, *op. cit.*, pp. 19–32.
[18] Harry Johnson, *op. cit.*, p. 114.
[19] Ibid.
[20] Stanley Metzger, *op. cit.*, pp. 41–42.

construction through national legislation. Beginning in 1923, the United States embarked upon unconditional most-favored-nation clauses in its commercial treaties. And in the 1934 Trade Agreements Act it made non-discrimination mandatory as a matter of domestic statute, which has continued down to the present time. European countries had adopted the unconditional most-favored-nation clause much earlier; by the 20th Century all the important countries had adhered to it.[21]

It is true that customs unions and free trade areas were viewed by GATT as permissible exceptions to the rule of non-discrimination, under certain conditions, and that existing preferences for colonial territories were tolerated, though they were deplored by GATT and no *further* preferences were permitted.[21] But the fact that a few exceptions to the rule were permitted, under careful safeguards, is certainly not an argument for permitting additional new exceptions, such as preferences for developing countries. Otherwise the exceptions will become the rule, and the rule will become the exception. This, it should be noted, is not a matter of dogma, as sometimes claimed, but a basic question of equity. The plain fact is that tariff preferences, whether for developing countries or any one else, are inequitable because they discriminate against third countries.

To sum up, it appears that developing countries, in their own best interests, should concentrate their efforts on the more constructive alternatives discussed earlier, and especially on getting rid of such protectionist devices as the International Cotton Textile Agreement and other formal and informal import quota arrangements by the "advanced" countries. Since preferences would simply perpetuate existing distortions in the allocation of world resources nurtured by protectionist quotas and tariffs, the enlightened long-term objective of the Third World should be free trade for all rather than preferences for a few.

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[21] Ibid., p. 43.

A PROPOSAL FOR NEW INITIATIVES IN U.S. FOREIGN TRADE POLICY*

The Trade Expansion Act of 1962 (TEA), which inspired the Kennedy Round of trade negotiations, will expire on June 30, 1967. Thus, the President and the Congress are confronted with the necessity of making some basic and crucial decisions regarding future U.S. foreign trade policy. Five years ago, when the last major review of the entire U.S. trade program was carried out, President Kennedy and the Congress agreed upon substantial changes, embodied in the Trade Expansion Act. In my judgment, preparation should now be made for new trade legislation authorizing even more far-reaching initiatives. Before examining these proposals, it will be instructive to review briefly the history of U.S. trade and tariff policy since 1930, with emphasis on the TEA and the Kennedy Round negotiations.

At the beginning of the great economic depression, Congress passed the Smoot-Hawley Tariff Act of 1930 establishing the highest tariff rate in U.S. history, hoping thereby to protect U.S. industries rather than to increase exports. Inevitably, this legislation set off a series of tariff retaliations abroad, and world trade declined precipitously. In effect, depressions were exported from one country to another. Disillusionment quickly followed, and there was growing awareness that an expansion in world trade must depend on reciprocal tariff reductions by all major nations. To lead the way, the Reciprocal Trade Agreements Act of 1934 authorized the President to reduce U.S. import duties by not more than 50 per cent in exchange for equivalent concessions from other governments. By 1945, several bilateral trade agreements had been negotiated by the United States, thereby reversing the trend to protectionism.

In 1945, with World War II coming to a close, Congress extended the Trade Agreements Act, authorizing the President to reduce existing tariffs by an additional 50 per cent. Most of the authority under the original act had been exhausted. Concern about potential injury to U.S. industries led Congress to add a "peril point clause"[1] in the Trade Agreements Extension Act of 1948 and an "escape clause"[2] in the 1951 Act. In the 1955 and 1958 extensions of the act more "escape clause" restrictions were added, including safeguards dealing with national security.

By 1962 it appeared that the old form of trade legislation had become outmoded for a variety of reasons. The 1958 renewal of the Trade Agreements Act, permitting a 20 per cent reduction in the U.S. tariff on an item-by-item basis, resulted in the Dillon Round of 1960—the fifth series of trade negotiations since the war. This produced only marginal tariff cuts.

When President Kennedy proposed the Trade Expansion Act of 1962, he was motivated by other considerations: the potential threat of the European Common Market (EEC) to American exports and the desire to promote unity in the Atlantic Alliance. The new legislation was framed, not so much to protect our import-competing industries, but to enable our exports industries to keep their dominant positions in world trade, and to "bargain down" the common external tariff of the six-nation Common Market or of an enlarged Common Market. (In 1962 it was anticipated that Great Britain and possibly many other European countries would soon join the EEC.)

Moreover, the Common Market was offering a 20 per cent across-the-board or "linear" reduction in its common external tariff which the United States, be-

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[1] The "peril point clause" directs the Tariff Commission to determine—prior to negotiations—the minimum level of duties necessary to prevent injury to domestic producers.

[2] The "escape clause" authorizes the U.S. Executive to withdraw tariff concessions that result in substantial injury to domestic industries.

cause of its item-by-item method of tariff reduction, was unable to match. To achieve results the President would have to be given authority to offer linear tariff cuts, unrestricted by peril points. The Congress gave him this authority. Protection to American industry was provided by the TEA's "adjustment assistance" provision for both industry and labor in addition to tightened escape-clause criteria. Tariffs could be cut by 50 per cent, reductions of tariffs to zero were permitted on certain tropical products of interest to the less-developed countries, tariffs of 5 per cent or less (nuisance taxes) could be reduced to zero. Under the "dominant supplier" provision the President was authorized to reduce to zero the tariff on articles in which 80 per cent of Free World trade was accounted for by the United States and the EEC. But this latter provision was based on the assumption that the United Kingdom would soon become an EEC member; it became virtually meaningless when President de Gaulle vetoed Britain's application in January 1963.

This brief outline of U.S. trade legislation brings us to spring 1967, when the fate of the Kennedy Round hangs in the balance. The U.S. government must now decide whether the momentum achieved in liberalizing international trade can or should be continued, or whether the frustrations that have attended tariff negotiations in the Kennedy Round should be allowed to slow down or actually bring to a halt the gradual lowering of trade barriers by the nations of the Free World.

Three Courses of Action

Three possible courses of action appear to be available to the President in making recommendations for trade policy legislation to succeed the TEA. (1) The President could decide that no new trade legislation is necessary. (2) He could ask Congress to extend the Trade Expansion Act for one or more years, in its present form or with certain changes. Or (3) he could request the enactment of new legislation, either modifying the Kennedy Round approach or proposing a bold new initiative in foreign trade policy.

Failure to enact new trade legislation would slow progress toward lowering trade barriers, raise doubts about the United States determination to continue in this effort, and sacrifice U.S. world leadership in this vital area of economic policy. Moreover, continuing participation in the General Agreement on Tariffs and Trade (GATT) requires that the President be empowered to enter into limited trade agreements from time to time. If the United States invokes the escape clause of the TEA, we must be in a position to offer compensatory concessions to the injured parties, or face retaliation in the form of countervailing barriers to U.S. exports. It would seem imperative, therefore, to enact some legislation not long after the TEA expires.

A decision to extend the Trade Expansion Act in its present form for one or two years would preserve the basic authority necessary for the President to handle routine trade problems arising from our obligations under GATT. Such a simple extension, however, would sidestep certain imperatives of the present situation both here and abroad. An evaluation of domestic and foreign political factors suggests a two-step approach: first, a request to extend the TEA, with certain additions and modifications, for a period of two years; and second, preparation for a major new foreign trade initiative in 1969.

In support of this two-stage approach, postponing major new legislation until 1969, it can be argued that both government and private industry want a respite from further intensive negotiations. It may be necessary, therefore, for the President to give assurances to the Congress that no major tariff negotiations are contemplated during the period of the extended legislation. Thus the residual authority would be used only for such adjustments as become necessary. Certainly it will take time to evaluate the effects of reductions negotiated in the Kennedy Round.

Moreover, since 1968 will be a Presidential election year, the political climate probably would make it inadvisable to introduce any strikingly new and potentially controversial trade legislation before the election. Whether or not President Johnson wins a second term in 1968, the year 1969 would appear to be an appropriate time for setting forth new and forward-looking trade proposals. Thus, it would be logical to request a two-year extension of the present act.

Any modifications of the present TEA requiring extensive Congressional hearings should probably be avoided because of the pressures for protectionist amendments that could arise from certain industries which fear the effects of the Kennedy Round, as well as from those Members of Congress who think that tariff reductions will adversely affect the U.S. balance-of-payments position. There are a number of desirable changes, however, which might not require such extensive public hearings. First, a liberalization of the adjustment assistance provisions of the present act would make them more easily applicable to cases of import injury to both industry and labor. They could be patterned after the trade adjustment provisions of the Canadian-American Automobile Agreement.

Second, some of the legitimate complaints of the less-developed countries could be met in part by granting them immediate application of reductions negotiated in the Kennedy Round rather than phasing these over a period of five years, as specified in the present Trade Expansion Act.

Third, little progress has been made in negotiating the elimination of nontariff barriers in the Kennedy Round. The only possibility appears to be an agreement on a code of anti-dumping rules. It might be well, therefore, for the President to seek approval from Congress to conclude agreements with other countries on nontariff barriers, with the proviso that any agreements requiring new legislation or changes in present U.S. laws would be sent to the Congress for approval. Obviously, any treaties negotiated would require approval of two-thirds of the Senate.

During the two-year extension of the present or modified TEA, the United States should explore with other nations the possibilities, advantages and disadvantages of a bold new approach to trade problems involving Western Europe and other developed countries, the less-developed countries, and those communist nations willing to make some adaptation of their state trading systems to the market economies of the West.

A New Foreign Trade Initiative: A World Free Trade Association

The 1969 Trade Bill should project a bold and far-reaching new initiative in the field of foreign trade policy. Its introduction should afford the President a unique opportunity to assume world leadership in the continuing effort to expand friendly and profitable economic intercourse among all nations. Such an initiative, to be politically acceptable, should appeal not only to the pragmatic judgment of business and labor, but also to the deep feelings of idealism of the American people. It was just such a mixture of pragmatism and idealism that enabled President Kennedy to push through the TEA of 1962.

Any new initiative should, of course, be designed to provide benefits to other industrialized nations. It should offer some promise of action to meet the increasingly vehement demands of the developing countries for a more positive treatment of their problems. It should aim to reduce international political tensions. Most important, it must contribute to increased employment and profitable economic activity and a greater volume of international trade.

To achieve these objectives, this writer suggests that the United States propose to the other developed countries of the Free World the establishment of a World Free Trade Association (WFTA). It would be patterned after the European Free Trade Association (EFTA) and established within the broad framework of the GATT, under whose rules the great postwar expansion of international trade has taken place. It would be open to all countries willing to chart a course toward the greatest possible elimination of trade barriers.

WFTA, GATT, and MFN

The proposed WFTA should include in the first instance the United States, Canada, and the seven members of EFTA (Great Britain, Norway, Sweden, Denmark, Switzerland, Portugal and Austria). It would be desirable to have Australia, New Zealand, and possibly Japan as founding members. The EEC should be invited to join as a unit, with the sincere hope that it would do so—but the WFTA should be formed with or without the accession of the EEC at the start.

The proposed WFTA could be patterned after EFTA with some notable exceptions, such as the inclusion of agricultural products which are left out of the EFTA agreements. The WFTA would eventually include a great many countries, both developing and developed, with economic systems, resources and requirements of much greater variety than those of the EFTA Seven. Consequently the proposed association's charter should be less demanding than that of EFTA in terms of uniformity and timing of tariff reductions, but not so loose as to violate the basic Most-Favored-Nation (MFN) provision of a free trade association permissible under GATT rules, or to permit members to find loopholes which could invalidate the basic purposes of the organization.

Basic to the GATT is the principle of unconditional Most-Favored-Nation treatment, which specifies that all tariff concessions negotiated between any members shall be extended to all other GATT members on the same basis. U.S. tariff policy has been based on this principle of almost universal MFN since 1923.

The GATT has proved to be extremely adaptable to new developments.[3] Under Article XXIV, free trade areas, such as EFTA and the Latin American LAFTA, and common markets. such as the EEC and the Central American CACM, have permitted as exceptions to the Most-Favored-Nation clause.[4] GATT's flexibility in response to changing conditions of politics and trade has been achieved both by unanimous decision of the membership to amend the agreement (a form seldom employed) and by the waiver provision of Article XXV–5, which empowers the membership by a two-third vote to waive any obligation in the agreement and set forth conditions of ratification for any such waiver.[5]

In proposing a World Free Trade Association the United States would be following precedent as established in EEC, EFTA and other regional groupings, whereby departure from the unconditional Most-Favored-Nation principle is authorized in return for achieving substantially free-trade conditions over a broad area within a designated time period. This is a compromise—a second choice to our traditional MFN policies—but one that has received GATT endorsement and now is generally accepted among Free World trading nations. It should permit an important measure of progress toward a major policy goal of trade expansion.

The proposed WFTA should provide. as permitted under GATT rules. a plan whereby certain countries would be empowered to lower their tariffs according to a slower time schedule than other countries, either for all of their trade or for the trade of certain of their industries which might not be able, without causing serious economic hardship, to adhere to the overall WFTA uniform time schedule for the complete abolition of duties. This would seem to be consistent with policies approved in previous GATT Ministerial Resolutions and in particular with GATT's avowed determination to exercise a firm influence toward helping less-developed countries to expand their exports. Precedent for such exceptions is found in the rules of EFTA. which permit Portugal to apply alternative and more favorable rates of reduction of import duties on certain categories of products and according to a different time schedule than that required of the other EFTA countries.[6]

There may well be difficulties in this proposal. including the potentially divisive implications of such an arrangement. Nevertheless, the initiative should be aimed at the widest possible membership. and should always be open-ended. It should not be undertaken at all unless the subscribing nations comprise a significant sector of GATT's industrialized membership. The determination of these countries to carry out such a program would present a powerful incentive for other nations to join.

The time period during which tariffs would gradually be reduced to zero should be flexible, so as to accommodate the different stages of development of

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[3] The GATT was founded in 1948 and its membership now includes 70 Full Contracting Parties plus 14 other countries in some stage of accession (as of November 1. 1966). GATT includes all the industrialized nations of the West except Ireland; as well as Japan, Australia and New Zealand. Fifty-one developing countries are full or partial members, including India, 9 Latin American and Caribbean nations (notably Brazil, Argentina and Chile), and 29 African countries. Two communist nations, Czechoslovakia and Yugoslavia, are Full Contracting Parties, and Rumania has made special arrangements. Poland's request to become a full member has been backed by most Western trading countries. All of these 84 nations subscribe to GATT rules and regulations in their trading relations.

[4] Article XXIV recognizes that the closer integration of national economies is a desirable objective and that a customs union or free trade area may serve to facilitate trade between the participating countries while not raising barriers against the trade of others. Accordingly, the Agreement permits violation of the MFN standard only when the scheme takes the form of a free trade area or customs union (or an interim arrangement leading to either) with certain characteristics: (a) complete, not partial, elimination of trade restrictions among members, and with commodity coverage accounting for "substantially all the trade" among its participants; (b) no increase in the restrictiveness of trade barriers against nonmember countries; and (c) a definite plan and schedule calling for the complete elimination of duties within a "reasonable length of time." Where a free trade project fails to meet these standards, a waiver must be granted by two-thirds of the GATT members. The difference between a free trade area and a customs union is that the countries forming a free trade area are not required to adopt a common external tariff.

[5] Such a waiver was granted when the United States and Canada concluded their bilateral agreement on free trade in automobiles and auto parts in 1965.

[6] In general, the EFTA agreement allows Portugal to proceed to the elimination of duties on certain products at half-speed until 1970, by which time these duties must be reduced by 50 percent; according to the overall EFTA timetable, virtually all other duties on industrial products among EFTA members were abolished January 1, 1967.

the member countries and the vulnerabilities of special industries. In order to maximize the growth of world trade with a minimum of dislocation to domestic industries in each country, the schedule for the reduction of tariffs to zero might be set at ten or fifteen years or longer, with a consequent 10 per cent or even lower annual reduction. Special provisions might be proposed to specify no reduction of less than one percentage point per year, and to encourage total removal of duties of 5 per cent or less. Somewhat similar provisions are already included in the current U.S. Trade Expansion Act.

WFTA should also urge its members to adopt adequate adjustment assistance provisions to cushion the economic dislocation that might be caused by increased import competition. It is interesting to note that companies and unions in EEC and EFTA countries have made very little use of the adjustment assistance provisions embodied in their respective treaties, although tariffs on industrial goods have been almost completely eliminated on internal trade within the two groups.

The proposed WFTA should provide for continuing negotiations, after adoption of the agreement, on all nontariff barriers—for example, border taxes, domestic purchase requirements (whether official policies such as "Buy American" requirements in the United States, or unofficial practice as in most other countries), customs evaluation methods, labeling requirements, technical regulations, and the like.

It is important to stress that the new Free Trade Association should be established within the framework of the GATT. Any changes in present GATT rules that may be necessary or desirable under the new initiative could be submitted to the GATT membership for approval, either through amendments to the GATT agreement, or, preferably, under the waiver procedure noted above.

PREFERENCES FOR THE LESS-DEVELOPED COUNTRIES

Special treatment for the less-developed countries will be a basic feature of the proposed WFTA. The GATT has already made such a provision in a Protocol and a New Part IV section on trade and development adopted and incorporated in its new charter of February 1965. In essence this section states that complete reciprocity by the less-developed countries is not required when tariff and trade barriers are reduced or eliminated under MFN agreements of the other GATT members.

The U.S. Congress has also recognized the special status of the less-developed countries. The 1962 Trade Expansion Act provides for elimination of U.S. tariffs on tropical products which are of prime concern to them and which are not produced in substantial quantities in the United States. It exempts these reductions from the five-year staging requirements so that the total agreed reduction in duties is effective immediately.

The less-developed countries, on their part, have been seeking preferential treatment for exports through the United Nations Commission on Trade and Development (UNCTAD).[7] The United States in particular has opposed such preferences as violations of traditional MFN policy. Analyses of trends in international trade during the last thirty years show that preferences are of value only when the exporting country exports goods (1) which are not produced in the importing country, or produced in quantities insufficient to meet the total demand of the importing country; or (2) which it produces more economically than the importing country can.[8]

If preferences could be granted to certain selected exports of major importance to the less-developed countries, to enable these exports to compete with similar products of industrialized nations without causing market disruption, the result would be as valuable to developing economies as granting overall preferences on all their exports. Equally important, developed countries would no doubt be more amenable to negotiating preferences under such conditions.

Since it appears that relatively few of the less developed countries will have the confidence to forgo protectionism at their present stage of development, the staged concessions industrialized members would grant to each other under the

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[7] UNCTAD, which first met in 1964, has a membership of 119 nations, including 77 developing countries.

[8] For example, for many years India enjoyed substantial benefits as a result of the Imperial Preference system in trade with Great Britain on primary products and certain light consumer goods such as cotton and jute textiles and leather, which India could produce more efficiently than could British producers. Despite preferences, however, Indian exports to the United Kingdom of all other manufactured goods—bicycles, electric motors, electric fans and the like—remained negligible.

proposed WFTA should be offered equally to all less-developed countries without demanding immediate reciprocity. This means that the latter might be granted either free or preferential access to the markets of the developed countries according to an accelerated timetable.

International Trade Review Board

An International Trade Review Board (ITRB) should be established to define criteria by which a nation qualifies as a less-developed country, to determine which countries and which industries are eligible for special preferences, and to conduct continuing reviews to determine at what point such countries or industries within them would be able to withstand the rigors of world competition under nonpreferential world trading rules. At this point of time in its development a former less-developed country could become a candidate for full membership in the WFTA.

Since the proposed Review Board would have to make judgments charged with highly explosive political implications, it should be composed of individuals meriting the confidence of the majority of nations. There are three international organizations that have existed since World War II which enjoy such international confidence. Members of the ITRB should be nominated from among their ranks:

(1) One member could be named by the World Bank, which has made detailed analyses of most less-developed countries. The Bank should be able to develop criteria determining whether a country should be considered less-developed; how long it should remain in that category; and whether all or only certain of its industries should be eligible for special preferences.

(2) Because of the acute balance-of-payments problems experienced by most less-developed countries, it would be appropriate for the International Monetary Fund to furnish one ITRB member. These payments deficits are usually associated with fluctuations in prices of raw materials on which many less-developed economies depend. They also derive from the heavy burdens of principal and interest payments on development and other loans.

(3) The third member of the ITRB should be nominated by the Director General of the GATT, for it is under GATT rules and covenants that international trade has flourished in the years since World War II.

The members of the ITRB should probably be nominated for a fixed term, and should be provided with a permanent operating staff. Substantive questions could be referred for guidance to any one of the three international organizations represented on the Board. Provision should be made for appealing decisions of the Board through the type of conciliation procedure worked out by the Secretary-General of the United Nations for unresolved disputes arising in UNCTAD and its committees.[9]

It is suggested that requests for tariff preferences be forwarded to the ITRB by one or more less-developed countries. The request would list the product or products involved, and would include all the necessary data concerning the supply position and the price at which the goods could be delivered. If the ITRB approved the request and if a majority of industrial countries was prepared to grant such preferences, a decision would be taken to depart from the MFN rule and preferences would be authorized, subject to the following terms and conditions:

(1) Preferences would be granted only if all or a substantial number of importing countries were prepared to open their markets to such products, so as to spread the possible adverse effects of increased import competition over the domestic industries of many countries.

(2) Importing countries would be permitted to exclude certain less-developed countries from the benefits of preferential treatment should the ITRB determine that these countries had already reached a level of economic development and efficiency in the industries involved to permit competition on relatively equal terms with the industries of importing countries.

(3) Preferences would be granted for a limited period only—perhaps not to exceed ten years. The decision should probably stipulate that, barring a decision to the contrary, preferences would be reduced gradually after five years, with a view to their elimination at the end of ten years. The preference might be eliminated even sooner if the ITRB ascertained that preferential treatment was no longer required. All decisions would be subject to review to determine whether adjustments were necessary due to changing conditions.

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[9] See Richard N. Gardner, *In Pursuit of World Order* (New York: Praeger, 1964), p. 276.

If developed countries should decide not to grant preferences for unlimited quantities of goods, tariff quotas could be set for limited quantities or for a certain percentage of the domestic market. Imports in excess of these quotas would carry a higher tariff rate. All such quotas should be global, however, and should be applied in a nondiscriminatory manner to all less-developed countries accepted as eligible for such preferential treatment.

While the less-developed countries should receive the benefits of the WFTA trade liberalization program without the requirement of strict reciprocity, they too should be asked to make commitments. They should be invited, and in every appropriate way persuaded, to liberalize the flow of goods and capital into their countries and to ensure fair treatment of both. All less-developed countries receiving preferential treatment should be required to report annually to the ITRB on the steps taken to fulfill their commitments. At the same time, they should be encouraged to form regional free trade associations similar to the Latin American Free Trade Association, so as to derive the advantages of lower trade barriers.

Thus, WFTA would grant all less-developed countries the same privilege of exemption from MFN obligations, and in certain cases even preferential tariff treatment, subject to periodic review by the proposed ITRB. Special treatment of certain countries for historical, political and geographic reasons, such as that accorded the former African colonies by the six members of the Common Market, would be barred.

Tariff Reduction by Sectors

Since negotiations for establishing the proposed WFTA will be extraordinarily complex, involving many disparate countries, industries and commodities, provision should be made for reducing duties on particular products or groups of products according to an accelerated time schedule.

It has been suggested that if a substantial proportion of any one industry in the United States and in other nations deemed it to be in its best interest to negotiate a reduction of tariffs to zero among the several countries, this industry could initiate such negotiations through the respective governments without waiting for a full-scale tariff conference such as the Kennedy Round.[10] This approach to tariff reduction was advocated by Eric Wyndham-White, Director General of the GATT, in a speech at Bad Godesberg, Germany, on October 27, 1966. He said:

"It has become apparent in the course of the Kennedy Round that there are certain sectors of the industrial production—characterized by modern equipment, high technology and large scale production, and by the international character of their operations and markets—where there are evident gains to all in arriving, within a defined period, at free trade. As has been seen in the EEC and EFTA, a 'defined period' is extremely important since it provides industry with a clear indication both of the need for adjustment and adaptation to conditions of free trade, and an assurance of a reasonable period in which to make these adjustments. While, initially, the period has to be made sufficiently extensive to provide this assurance to industry, experience in the EEC and EFTA suggests that, in practice, it is likely to be curtailed. Industry tends to adjust more quickly than its fears suggest and once the adjustments are made, there is evident advantage in moving more rapidly to attain the benefits of freedom of trade."

Such special negotiations, of course, would have to be conducted within the broad established rules of the proposed association. They could be conducted among members of WFTA as well as with those nations that did not join WFTA but might want to join in negotiations on the particular product or group of products in question. It should be emphasized that MFN treatment would have to be extended to all WFTA member nations, regardless of whether they were parties to the special negotiations.

The principle of negotiating for complete elimination of tariffs has already been accepted as U.S. policy. The 1962 Trade Expansion Act gave the Administration authority to negotiate to zero on those items for which the United States and the Common Market together accounted for at least 80 per cent of world trade—the so-called "dominant supplier provision." In drawing up enabling legislation for the WFTA, Congress should have less hesitation in broadening the zero tariff authority to cover items for which the United States and all other developed countries (not merely the United States and the EEC) account for at least 80 per cent of Free World exports.

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[10] Due consideration would have to be given to U.S. antitrust laws in this connection.

TRADE IN AGRICULTURAL PRODUCTS

The foregoing discussion of a proposed WFTA has been concerned primarily with industrial products. The EFTA Convention specifically excludes trade in agricultural and fish products from its rules. However, the Congress specified that the United States must negotiate on both industrial and agricultural products, and the Common Market has made its common agricultural policy a keystone of its operations. Therefore, the proposed WFTA must be given authority to deal with both industrial and agricultural products.

Agriculture is clearly a most difficult issue. Practically every country in the world protects its agricultural producers and its home markets for food products in a variety of ways. Tariffs are not the major barriers to the flow of trade. Instead, such devices as import quotas, tied to internal price supports, direct payments and other controls aimed at ensuring a reasonable income for the farmer and protecting the home market, are the principal restraints to international trade in agricultural products. Processed and manufactured foods, including canned foods, meats and dairy products, are exceptions to this general rule, and tariffs do play a significant role in trade in these items. In most countries this whole complex of controls is widely regarded as coming within the realm of domestic policy; for the net importing countries, particularly, their effects on foreign trade are regarded as of secondary concern.

The problem of agricultural trade in a sense falls into two categories, whose characteristics differ considerably. There is, first, the trade in temperate products, i.e., those grown or produced in the industrial nations, primarily in the North; and second the trade in tropical products grown primarily in the South. In the northern half the major question concerns the relationship between major exporters and major importers of foodstuffs; in the South, the chief concern is the relationship between less-developed countries and the major markets in the North.

Frequently the products of the South—coffee, cocoa, tea, fruits—are taxed by northern states both to produce revenue and to cut consumption. The less-developed countries are deeply disturbed by these measures. The solution would seem to be a concerted effort, which is now under way in the GATT, to reduce impediments against such products and to urge importing countries to find their tax revenues in other ways. There remains the continuing problem of overproduction and price instability in many products of importance to the South. Commodity agreements now in force seem to be less than adequate: unless more steps are taken in the direction of broadening their geographic coverage and increasing the discipline on the participants, both importers and exporters, it would seem that these agreements will fall short of providing a long-term solution to commodity problems.

The problem of trade in temperate agricultural products is even more difficult and complex. If production is to be maintained at lowest cost and under the most favorable circumstances, the whole question of domestic agricultural policies and farm income in each industrialized country must be the subject of intensive international consultation. There must be a willingness on the part of every government to make concessions if trade among these countries is to be freer and more economic. On the other hand, in the coming years we must expect to be in a race against famine as the world's rapidly growing population begins to outrun its food supply. It may be necessary to maintain high-cost production on a subsidized basis in order to supply the food needs of underdeveloped countries. While this may mitigate trade problems among the countries of the North, the relationship between subsidized agriculture and commercial trade and the question of how costs are to be divided among the rich countries in supplying the food needs of the poor will remain critical.

For the United States, it seems clear that the President must be in a position to negotiate with other countries on U.S. domestic agricultural policies and to revise them in the interest of an international agreement. As an exporter, the United States is interested both in its commercial exports because of their importance to its balance-of-payments position and in its role as a major provider of foreign aid to the less-developed countries. These two interests can and ought to be reconciled in the larger context of international trade and comity. The essential point is that the President, under proper Congressional safeguards, should be authorized to proceed in this direction.

In the case of some agricultural products that present no serious problems, agreement might be reached to treat them as industrial goods subject to normal gradual tariff reductions. This technique was applied by the EFTA countries in 1963 for a number of items, mainly on Portugal's behalf. The special treatment of tropical products of particular interest to the less-developed countries is already under consideration by the United States and the GATT.

WFTA and the United States: Legislative Proposals

The proposed World Free Trade Association offers a plan for removing tariffs and nontariff barriers over a minimum of ten years (and more probably twenty years), at the initiative of the United States but with the initial participation of a majority of the developed nations of the world. During these ten years there are bound to be great and rapid changes in the world economy as well as in political relations between countries and among groups of countries. To meet these contingencies, Congress should give the President broad and flexible negotiating authority, subject to broad criteria defining the national interest and emphasizing the economic, defense and other objectives of the nation as a whole, including its formidable international political responsibilites.

A principal consideration will be the potential impact of WFTA on the U.S. domestic economy. Advantages for U.S. export trade must be carefully weighed against possible disadvantages to domestic industry and agriculture. The legislation should provide for Presidential accountability to Congress in the form of annual reports detailing (1) actual use of the authority, and (2) the effect of WFTA operations on the American economy (with recommendations for remedial legislation if necessary) and the overall objectives of the United States.

It is important that the legislation authorizing U.S. participation in a World Free Trade Association include adjustment provisions similar to those recommended above for the revision and proposed two-year extension of the 1962 Trade Expansion Act.

Measures for the protection of countries encountering balance-of-payments difficulties are currently being applied successfully by the IMF and the GATT, and of course will be applicable to WFTA members. No special balance-of-payments problems should be anticipated for the United States as a result of its participation in this free trade association. While average U.S. tariffs have decreased substantially from the rates in force when the Reciprocal Trade Agreements Act was passed in 1934, our volume of exports has increased and we have enjoyed a favorable balance of trade on merchandise account in all of the intervening years. Our current balance-of-payments difficulties arise not from any inability to compete in world markets, but from military and foreign aid commitments, foreign investments and tourism. Consequently there is no reason to fear that U.S. industry and agriculture will be unable to sustain in the future, as they have over the past thirty-odd years, their overall predominance during the contemplated gradual reduction of tariffs. Complaints against U.S. technological superiority voiced by other countries—notably by the Common Market nations—are most reassuring on this score.

At this point a brief comment on the present TEA is necessary because of the possibility that future legislation might follow the postwar pattern of holding general trade conferences instead of seeking to form a free trade area. New legislation should delegate broad authority to the President to negotiate trade agreements without specific restrictions such as the 50 per cent limit on tariff reductions under the present act. This will allay a frequent (and justifiable) criticism of our current legislation. The United States is the only country that places such restrictions on its negotiators, primarily because the fixing of tariffs. is, under the Constitution, a prerogative of the Congress. Delegation of this authority has always been hedged with strict limitations, presumably because of Congressional distrust of the Executive branch, or Congressional anxiety over import competition and possible injury to certain sectors of industry or agriculture. Government negotiators, however, backed as they are by nongovernment technical advisers from both industry and agriculture, might better serve both the national interest and various private interests if they were not hampered in their negotiations by arbitrary numerical and other limitations. There is nothing magical about a 50 per cent tariff reduction, instead of a figure of 25, 75 or 100 per cent, as being in the best interests of an industry or of the nation as a whole. If our negotiators should make unwise decisions, these could normally be rectified by adjustment assistance, or in extreme cases by Congressional action.

THE ATLANTIC COMMUNITY, EEC AND EFTA

Let us now examine the possible effects of a WFTA on the relations of the United States with the Common Market, the European Free Trade Association, NATO and the Atlantic Community.

The six countries of the EEC (France, Germany, Italy, Belgium, Netherlands and Luxembourg) have enjoyed increasing economic prosperity since the signing of the Treaty of Rome in 1957. As internal tariffs have fallen, trade among Community members (1958–1966) has increased by 242 per cent, as compared with an increase of 89 per cent in their trade with the rest of the world. As a unit, the Six has become a formidable trading bloc. Currently the fastest-growing internal market in the world, the EEC commands, by virtue of its common external tariff and a volume of external trade surpassing that of the United States, greater bargaining power than the United States in trade negotiations. Primarily as a result of French pressure, the Common Market has adopted an isolationist-protectionist attitude during the tariff negotiations of the Kennedy Round. The common external tariff is the principal cement now holding the Six together. Unless other sections of the Treaty of Rome are implemented over the next several years, this bond may not prove strong enough to prevent the dissolution of the Community.

The EFTA countries, often called the "Outer Seven," abolished tariffs on trade among themselves (with some exceptions) on January 1, 1967. As tariff barriers within the EEC and EFTA are removed, maintenance of the Common Market common external tariff threatens to disrupt European trade and investment patterns between the Six and the Seven as well as with other countries—unless substantial tariff reductions are negotiated in the Kennedy Round.

If the Common Market continues its inward-looking policies and other European countries cannot gain admission to it, the latter may find in the proposed WFTA an alternative method of expanding their markets, as well as a potential counterbalance to the EEC in any future trade negotiations. It is also possible that an agreement by the EFTA countries to form the WFTA together with the United States, Canada and other nations may either be so attractive to the EEC or, conversely, pose a sufficient threat to the EEC, as to cause it to consider joining the WFTA.

To cope with Great Britain's economic difficulties, Prime Minister Wilson and the Labour Party decreed a policy of drastic deflation and have determined to renew Britain's application to join the Common Market. However, in doing this the United Kingdom will face some very real problems. Acceptance of Common Market agricultural policies will inevitably result in higher food costs to the British consumer; and the delicate issue of the pound sterling is bound to complicate negotiations. If the EEC nations deem it necessary that sterling be devalued in order to make British industry more competitive and to rectify Britain's adverse balance of payments, and the British refuse to take this step, it is questionable whether France or even the other five EEC nations would vote for British membership.

It is also questionable whether sterling as a reserve currency entailing world financial obligations has a place within the EEC as presently constituted. On the other hand, the recent reorientation of the German government toward a stronger and more independent position within the EEC may cause France to accede to the British request to join the Common Market. Britain's inclusion would create a counterbalance to a Germany that is stronger than France both economically and militarily (except for nuclear capability), and for the first time since 1945 threatens to pursue policies independent of both France and the United States.

In any case, Britain's request for membership in the EEC may not be granted for a few years—and perhaps not at all. Britain wants and needs membership for political and economic reasons. Her exclusion has eliminated her political influence in maintaining the balance of power on the Continent. Economically she needs a larger market for her industrial products as well as the tough competition that would be provided by the industries of the Common Market, and that is not afforded now by her six EFTA partners. An enlarged free trade area such as the proposed WFTA might well be an attractive solution. Conversely, an agreement by Great Britain to join the WFTA might block her way into the EEC unless the latter were to become a member also.

From the point of view of the United States, it would be to our advantage if the British were to join the Common Market and if the Six as a unit were to join the Seven in an enlarged free trade association. A united Europe, including the United Kingdom and working in cooperation with the United States and Canada, could become a major force in establishing a solid foundation for world peace and prosperity. The danger exists, however, that a united Europe might pursue protectionist trade policies, might develop antagonistic attitudes toward the United States, with the avowed purpose of becoming a political "third force," and might not assume its share of responsibilities to the less-developed countries. As such it would pose a serious threat to the United States and to the security of the Western world. By proposing a WFTA the United States could help to reduce these dangers and retard the threat to established patterns of trade resulting from tariff and other barriers erected by the two rival European trading blocs.

In proposing a WFTA, the United States would be laying the foundation for an economic structure compatible with its commitments to GATT and the IMF and yet broad enough to include dissimilar economic groups. Because the WFTA would seek to include all developed nations, Washington would be able to counteract the probable accusation that it was trying to undermine the EEC or to dominate the nations of Europe. Indeed, a WFTA proposal might result in giving new expression and meaning to the concept of an Atlantic Community, both militarily and economically. Constructive economic cooperation in a WFTA might counteract the disintegration of NATO, a symptom of the changing political attitudes and increasing economic strength of Europe during the last decade. It might encourage the EEC to divert some of its attention from internal concerns to those of the Atlantic Community and the world as a whole.

A New Look at East-West Trade

A review of U.S. East-West trade policy should be undertaken in developing a U.S. foreign trade policy for the coming decade and in planning for the proposed WFTA. In the first instance, it will be necessary to formulate policies and procedures for trading with countries maintaining collectivist economies. This includes all the communist countries of Eastern Europe and Asia, except Yugoslavia.[11] Second, when any communist country adopts sufficient features of a free economy, similar to Yugoslavia's, it should become eligible for membership in the WFTA. In other words, the development of East-West trade could proceed side by side with the development of WFTA. As the Eastern bloc acquires trade and payments procedures similar to those of the market economies of the industrialized West, steps could and should be taken to explore mechanisms to enable the collectivist nations to become partial or full members of the WFTA.

On February 16, 1965, President Johnson appointed a special committee, with J. Irwin Miller of the Cummins Engine Company as chairman, to "explore all aspects of expanding peaceful trade in support of the President's policy of widening constructive relations with the countries of Eastern Europe and the U.S.S.R. In its report of April 29, 1965, the Miller Committee recommended that the United States use trade negotiations with individual communist countries more actively, aggressively and confidently in the pursuit of our national welfare and world peace. The committee emphasized, however, that political, and not commercial or economic, considerations should determine the formulation and execution of our trade policies with communist nations.

Several of the Miller Committee's recommendations (notably proposals to expand credit guarantees and to extend MFN treatment to communist nations other than Poland and Yugoslavia) were embodied in the Administration's East-West Trade bill of 1966. But Congress took no action on this measure, and the President has not yet submitted a new East-West Trade bill to the 90th Congress.

The United States will undoubtedly liberalize its policy in the direction of expanding East-West trade in the years ahead. Such liberalization, however, should be judged against the political reality of Soviet statements and actions antagonistic to U.S. interests. Despite recent steps which suggest that there may be areas in which American and Soviet interests coincide—the recent treaty (still to be ratified by the U.S. Senate) to outlaw the use of outer space for military purposes, the agreement to open a direct Moscow-New York air service, the Consular Treaty, and the continuing negotiations on a nuclear non-

[11] Modifications in its economic and monetary system have allowed Yugoslavia to adhere to the GATT and conduct trade in a manner not greatly different from that practiced between nations with free economies.

proliferation treaty—we must not forget that it is scarcely six years since the Berlin Wall was built, and not yet five years since the Cuban nuclear confrontation. In addition, the Soviets currently are providing large-scale military assistance to North Viet Nam, thus prolonging the Vietnamese war. On the other hand, the communist countries no longer constitute a monolithic bloc. The apparently irrevocable split between China and the Soviet Union and the efforts of certain East European countries to assert increasing independence of the USSR afford opportunities for the United States to use its dominant position in world trade in furtherance of its policies.

Until very recently, it has been U.S. policy to limit trade with most communist countries to minimum levels. This policy has been based largely on the theory (or the fear) that such trade would be of greater benefit to the communists than to ourselves. During periods of acute crisis or war, many Americans have felt moral compunctions about trading with the enemy. Most West European countries and Japan, however, have deliberately and steadily increased their trade with communist nations. They have acted jointly with the United States only in embargoing trade in certain strategic military hardware and goods having direct military application, the so-called COCOM list, which has been steadily shrinking in length over the years. The U.S. list of embargoed items is considerably more extensive than the COCOM list.

Because of our more rigid and uncompromising attitude—official or popular—toward expanding trade with communist nations, many U.S. firms have either been prohibited from competing for such business or inhibited from bidding because of fear of adverse publicity in this country. In many cases they have been unable to match the more liberal credit terms offered by competitors in other industrialized countries.

While the communist states have generally been punctilious in the prompt repayment of commercial credits in convertible currencies, private firms are nevertheless reluctant to extend such credits without guarantees. The Export-Import Bank has been cautious in extending such guarantees to American trades, adhering to the rules of the Berne Convention in limiting guarantees to five years, and then only for major capital exports.[12] Our government has taken the view that guarantees are in effect a form of foreign aid, and can be equated with the transfer of capital, releasing scarce foreign exchange which communist governments might use for purposes hostile to U.S. interests. Other Western countries have been more liberal in guaranteeing commercial credits, and efforts to hammer our agreements on credit terms with our NATO allies and Japan have so far been unsuccessful.

The first recomendation for future U.S. East-West trade policy is procedural in nature: The President should be granted sufficient authority to determine a course of action without the burden of Congressional prohibitions. Since communist trade policies are rarely established without regard to their political implications, the President should have the freedom to determine U.S. measures of economic intercourse so as to achieve the greatest political and security, as well as economic, advantage for the United States. He should be accountable to Congress for his actions, of course, and should be required to present an annual report on steps taken to expand or contract trade with communist nations.

Specifically, the President should be authorized to extend or withdraw MFN treatment in trade relations with selected communist countries when he finds this to be in the national interest of the United States. (At present, this authority exists only for trade with Poland and Yugoslavia.) He should also be given authority to permit appropriate government agencies to extend credits or to guarantee private credit for nonstrategic trade with communist countries up to a maximum of five years, or, if forced by competition from other noncommunist countries, for an even longer period.

Finally, our policy of a complete embargo on trade with Communist China should be reviewed. Despite that country's intransigent and aggressive posture, there is always the possibility that limited trade with China could be of distinct advantage to us. For example, the United States might have been able to bid

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[12] The President can authorize the Export-Import Bank to guarantee commercial credits to a communist country when he determines that guarantees to such a country are in the national interest. The terms of such credits must be within the range of common commercial practices, but in any event it is U.S. government policy to limit such credits to five years. This limit is also consistent with the Berne Union—a long-standing, though informal, agreement reached by leading insuring and guaranteeing institutions in the field of international credit.

successfully against Canada for its recent huge sales of wheat to China, and this would have enabled us to reduce our balance-of-payments deficit. In sum, the Congress should not make it impossible for the President to take action in regard to trade with Communist China when he deems this to be in our national interest.

SUMMARY

This paper has proposed a new approach for an international trade policy to meet the complex political and economic issues that will confront the United States over the coming decade. It would appear to be impolitic to introduce major new legislative proposals involving controversial foreign trade policy initiatives in 1967 or 1968. During these two years, the President should explore with all other countries (with a view to introducing the necessary legislative proposals to the U.S. Congress in 1969) the possibilty of estabilshing a World Free Trade Association patterned after the European Free Trade Association.

Congress should give the President broad and flexible negotiating authority, permitting such initiatives. The legislation should set forth broad criteria defining the national interest, emphasizing the economic, defense and other international objectives of the nation. Congress should also delegate to the President certain powers in connection with East-West trade designed (1) to open the proposed WFTA to communist countries under certain conditions, (2) to extend or withdraw MFN treatment consonant with the national interest, (3) to extend credits or guarantee private credits for nonstrategic trade, and (4) to consider limited trade with China.

The WFTA, established within the framework of the General Agreement on Tariffs and Trade, would be open to all nations at any time. It should be established at the outset, however, only if a substantial number of the developed countries became founding members. This initial group should include the United States, Canada, the seven EFTA nations (Great Britain, Norway, Sweden, Denmark, Switzerland, Portugal and Austria), and hopefully, Australia, New Zealand and Japan. The EEC should be urged to join as a unit, but WFTA should be formed regardless of whether EEC acceded at the start.

In proposing WFTA, the United States would be following the precedent established in the formation of EEC, EFTA and other regional groupings, of departing from the unconditional MFN principle—a cornerstone of U.S. tariff policy since 1923—in return for achieving substantially free-trade conditions over a broad area within a designated time period. Such conditional (as opposed to unconditional) free trade arrangements are permitted under the rules of GATT.

An International Trade Review Board should be established to define the criteria by which a nation qualifies as a less-developed country; to determine which countries and which industries are eligible for special tariff preferences; and to conduct continuing reviews to ascertain at what point special preferences should be withdrawn from such countries or industries within those countries. The IRTB would be composed of three individuals, one from each of three organizations enjoying great international confidence: the World Bank, the International Monetary Fund and the GATT.

The ITRB should be empowered to grant special tariff preferences subject to certain limitations: (1) preferences should be granted only if all or a substantial number of importing countries are prepared to open their markets to selected products; (2) importing countries should be permitted to exclude certain less-developed countries from the benefits of preferential treatment if the ITRB should determine that such countries were able to compete on relatively equal economic terms with the industries of importing countries; and (3) preferences should be granted for a limited period—perhaps not to exceed ten years and with gradual reductions—and should be subject to review and termination by the ITRB.

It is important that the less-developed countries, for their part, commit themselves to liberalize the flow of goods and capital into their countries and to assure fair treatment for both. Those receiving preferential treatment should be required to report annually to the ITRB on steps taken to fulfill these commitments.

The WFTA, combining the advantages of both multilateralism and regionalism, should have a salutary effect on political, economic and military developments in Western Europe and on relationships among the nations of the Atlantic Community. It should reduce current threats to established patterns of trade resulting from tariff and other trade barriers erected by the two rival European trade blocs. If the Common Market should decide against joining WFTA, the other European countries may find in the WFTA an alternative method of expanding their markets. If Great Britain is unsuccessful in winning entrance into the European Common Market, she may find an enlarged free trade area an attractive alternative.

From the American point of view, it would be most advantageous if the British were to join the Common Market, and the EEC and EFTA were to come to an agreement which, with U.S. and Canadian participation, would be the basis of an Atlantic Community. There is a danger to the United States and to the security of the Western world in an inward-looking united Europe pursuing protectionist trade policies with little regard for its relationships with the United States and its responsibilities to the less developed countries, and bent on becoming a political "third force" between the United States and the Soviet Union.

This two-step policy should help to sustain the continuing expansion of commerce among nations, strengthen U.S. leadership in the international trade field, and contribute to the lowering of international tensions.

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