476

A FOREIGN ECONOMIC POLICY FOR THE 1970'S

HEARINGS

BEFORE THE

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OF THE

JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

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A FOREIGN ECONOMIC POLICY FOR THE 1970'S

MONDAY, MARCH 16, 1970

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

The Subcommittee on Foreign Economic Policy met, pursuant to notice, at 10 a.m., in room G–308, New Senate Office Building, Hon. Hale Boggs (chairman of the subcommittee) presiding.

Present: Representatives Boggs and Reuss; and Senators Sparkman and Miller.

Also present: John R. Stark, executive director; John R. Karlik, economist; Myer Rashish, consultant; and George D. Krumbhaar, economist for the minority.

Chairman BOGGS. The subcommittee will come to order.

Today we begin the second series of hearings in our effort to formulate "A Foreign Economic Policy for the 1970's." The Subcommittee on Foreign Economic Policy opened this investigation in December with 4 days of hearings to survey the external economic policy issues the United States is likely to confront over the next decade. We subsequently decided that the next step in our examination should be devoted to U.S. trade policy toward other developed countries and it is this stage that we begin today.

Definite plans have been made for at least two more sets of hearings. In May we shall consider U.S. trade and aid relations with the developing countries. Later, in July, we intend to consider the issues raised by the growing presence of foreign-owned enterprises, in both industrialized and developing countries and the questions posed by the expansion of multinational corporations.

Today's panel is devoted to economic regionalism. We are concerned about the relationship between the United States and Europe and are especially interested in the possible consequences of enlarging the European economic community. Listing today's witnesses in alphabetical order, first is Attilio Cattani, currently president of General Electric Information Systems in Italy and former Secretary General of the Italian Ministry of Foreign Affairs and, earlier, Ambassador from Italy to the European Economic Community in Brussels.

Next is Hugh Corbet, director of Trade Policy Research Center in London.

Third is Theodore Geiger, chief of International Studies of the National Planning Association, a private research organization here in Washington.

Fourth, Pierre-Robert Goetschin of the Management Development Institute in Lausanne, Switzerland.

Finally, and certainly not least, John M. Leddy, former Assistant Secretary of State for European Affairs.

I am very happy, as I said a moment ago, to welcome all of you here.

I think normal practice is for each witness to present a statement, and then to engage in examination.

Mr. Cattani will be our first witness.

STATEMENT OF ATTILIO CATTANI, PRESIDENT, GENERAL ELECTRIC INFORMATION SYSTEMS ITALIA; FORMER SECRETARY GENERAL OF THE MINISTRY OF FOREIGN AFFAIRS AND AMBASSADOR TO THE EUROPEAN COMMUNITY IN BRUSSELS

Mr. CATTANI. I am grateful to you, Mr. Chairman, and to this subcommittee for the honor of being invited as a European to participate in your hearings on future U.S. foreign economic policy.

Before dealing with the main subject that is under consideration by your subcommittee at the present hearings, I would like to make some general remarks on what seem to be fundamental trends in trade and investment during the seventies.

This is a world of sweeping changes affecting all aspects of human life and reaching increasingly even the remotest places on the globe. It is therefore of vital importance for businessmen, administrators, and legislators to constantly keep under review past developments and to correctly assess future trends. If we look ahead at international economic relations in the seventies, there is at least one basic fact of which all of us can be certain: the life of the average American or European citizen will be influenced more than ever before by events outside the specific region or country he is living in. He will purchase more products that have been produced, partly or wholly, in other countries or continents. More people will work with companies having their main operations in other parts of the world, and all of us will increasingly depend on business conditions prevailing elsewhere. We shall thus, no doubt, come closer to the "one-world economy" which will prevail at some later stage of human history.

International trade will continue to expand faster than world gross national product, even if one excludes the substantial amount of trade that will be carried on within regional groupings like EEC, EFTA, Central American Common Market, LAFTA, et cetera.

Trade expansion will continue to be fastest among the highly industrialized countries; essentially, North America, Europe, and Japan. Manufactured goods will further increase their share in total world trade.

But trade will be only one aspect of the evolving pattern of foreign economic relations. The network of the international economy will be even more fundamentally determined by a greatly increased mobility of capital, technical and managerial know-how, and even of labor.

The worldwide reductions of trade barriers and of restrictions to capital movements have created a new situation in the world economy: industrial corporations are more free than ever before in their choice as to how and where to manufacture and market their products, by setting up subsidiaries in overseas markets or granting licenses to foreign companies.

In the past decade U.S. direct foreign investment has grown substantially faster than its exports. There is no reason to believe that this trend will be suddenly reversed in the seventies.

This development is not very surprising. Indeed, there are limits to the cost advantages to be obtained by concentrating production at one point from which to supply the whole world. Economies of scale that might perhaps be derived from such a concentration may be more than offset by higher transportation and handling costs and by insufficient ability to adjust to specific market conditions in distant countries.

If one realize that exports and foreign investment are only two different methods of penetration into foreign markets, it becomes clear that a fair amount of American exports of manufactured goods may increasingly be replaced by production through American subsidiaries in the overseas markets. It is therefore quite natural that the "traditional" U.S. trade surplus is diminshing or even disappearing and that investment income is more and more financing imports, tourism, and other services which the United States requires from other countries: in 1969 income on foreign private investment amounted to nearly $8 billion per year or 22 percent of United States merchandise exports.

This compares to $1.7 billion per year or only 12 percent of exports during the years 1950 to 1954. It can be safely expected that by the end of the next decade income from foreign investment will be an even more important item in the U.S. balance of payments than it it today. The United States, principal "rentier" of the world, will have to accept an increasing flow of imports from outside if it wants to enable the host counrties of American investment to earn the foreign exchange necessary to finance the remittances of investment income.

Let me add a few remarks on what I conceive to be major trends and problems in the field of international trade and trade policy during the decade ahead.

It seems to me that the seventies will be a period of intensified international competition. When the Kennedy round negotiations will have been fully implemented by 1972, tariffs will be lower than at any moment of modern history. According to plans which are being worked out at present, the less developed countries will enjoy duty-free access to large segments of the developed countries' consumer markets.

The lowering of tariff barriers will go parallel with further reductions in transportation costs which can be expected as a result of a more generalized application of advanced handling techniques—container ships, aircargo, et cetera. There is no guarantee for industries in particular countries to preserve any "traditional" advance.

But the United States and Europe must learn no longer to consider their advance in certain industrial sectors as a given fact of life. It may well be that they will both be evicted from relatively safe market positions which they hold in certain sectors. Such changes are painful. The problems both the United States and Western Europe are facing in established industries like textiles and shoes are a case in point.

Whatever the difficulties, the solution cannot be found in resisting the inevitable and mutually profitable changes but only in a smoother process of adjustment. Economic policy must increasingly encompass measures providing for long-term structural adjustment. If we do not succeed in making substantial progress along these lines, it will be very difficult to embark upon further trade liberalization.

The United States, when it adopted the Trade Expansion Act of 1962, clearly recognized the close relationship between trade policy and adjustment measures; but it will no doubt be necessary to go beyond the provisions of the Trade Expansion Act.

Some students of trade policy wonder what measures toward further trade liberalization might be taken after the Kennedy round reductions will have been fully implemented. They already envisage a situation where the exchange of manufactured goods will no longer be hampered by the existence of tariff barriers.

However, if we look dispassionately at the world trade situation most likely to evolve in the seventies, it appears that we must set more modest benchmarks. As long as fundamental economic conditions and policies continue to remain as different as at present, we can hope at best to get only a few steps closer to the ultimate goal of free trade. In other words, we should concentrate our efforts on certain sectors where tariffs remain excessively high compared either to those protecting other industries or in relation to value added.

There has been increasing awareness recently of the restrictive influence which might be exercised on world trade by the existence of numerous nontariff barriers. In a way, this is a perfectly normal consequence of the successful reduction of tariffs and the quasi-disappearance of quantitative restrictions which makes other barriers loom larger.

We have had this experience within the EEC. After internal tariffs had been eliminated, businessmen suddenly discovered all sorts of other hindrances to their exports, such as administrative rules, fees, sanitary prescriptions, technical norms, public procurement procedures, or simply different habits. We found it both challenging and extremely difficult to attack these less tangible impediments to an unrestricted flow of goods. Progress is, therefore, bound to be slow, in some areas even very slow.

When trying to eliminate nontariff barriers at a world level, difficulties will be infinitely greater than within a homogeneous group of countries, such as the EEC members, which are contractually bound to create one large domestic market for their agricultural and industrial products.

I understand that the GATT industrial committee has identified some 800 categories of nontariff barriers, including such diverse things as customs valuation methods, tariff classifications, prohibitions on advertising certain alcoholic beverages, and certain forms of discriminating taxation; for example, on automobiles and spirits.

It is my impression that all of the major trading nations have their fair share on this list and that, therefore, the "burden" is much more equally distributed than quite a few people, especially in the United States, seem to think.

Whatever the problems and difficulties, it seems of vital importance that we tackle them and that the international trading community makes some progress, in the years to come toward eliminating a fair portion of those nontariff barriers which prove particularly harmful to trade.

Considering the difficulties involved, and particularly the problems of defining concessions on a basis of reciprocity, negotiations will inevitably be long and cumbersome. It is, therefore, of vital interest to all participants that any agreement which may be reached at the negonegotiating table will also be honored by the respective national legislatures.

We simply cannot afford to go into such lengthy negotiations without being fully convinced of the credibility of our negotiating partners. Let me add in this connection that the delay of action by Congress concerning the abolition of ASP which is part of the Kennedy round agreements has caused some scepticism as to the U.S. credibility in the field of nontariff barrier negotiation. I do therefore hope that Congress will quickly adopt the trade bill which President Nixon submitted to Congress on November 18.

Let me now turn to that part of international economic relations that concerns more directly the United States, on the one hand, and the EEC or rather Western Europe, on the other.

Since the end of World War II, the United States has consistently given its support to the idea of European political and economic unity. The United States did so because it was convinced that a prosperous and united Europe would be the best guarantee for peace on the European Continent.

At the same time, the United States had undoubtedly hoped for a united Europe assuming increased responsibility in world affairs and thus relieving the United States from the strenous burden of being the sole safeguard of freedom in the Western World.

Recently, however, there have been signs, at least in American public opinion, of some changes in the traditional U.S. support of European unity. There seems to be a growing disillusionment with that policy. Some think that it was one of the grand and sad dreams of American foreign policy in the past 20 years.

It is therefore not surprising that some highly esteemed personalities in American political life have recently expressed fears that British entry into the EEC, once considered a primary objective of United States-European policy, might have deleterious effects on the United States which should therefore reconsider its support for British entry.

What then is the past record of European integration and what is its outlook for the seventies? How does this process affect American economic and political interests? How will United States-European relations be influenced by further progress toward economic and political cohesion in Western Europe?

As far as our past record is concerned, we need not be ashamed of ourselves. Within only 12 years we achieved more in terms of economic unification than many of us dared to hope in 1956–57 when we drafted the Rome Treaties setting up the EEC and Euratom.

The six EEC economies have become closely interdependent. Goods and labor move nearly without any restrictions. We have thus made substantial progress on our way toward achieving our principal economic goal, that is, to create one big domestic market on the European Continent.

Recent events have made people realize that we have to push this process further, full economic and monetary union being necessary to insure lasting success. Plans are actually being drawn up to achieve all this by 1978–80.

Economic integration in Europe has been a major factor responsible for spurring economic development. The spreading of prosperity among all layers of the population has undoubtedly helped to contain movements of social unrest which might otherwise have arisen.

Politically our achievements have been much less conspicuous. We have not created any new institutions in the field of political cooperation, particularly for foreign and defense policies. For a variety of reasons and historical circumstances, our efforts to achieve more institutionalized political cooperation among European countries have failed so far.

However, this apparent absence of specific political action should not lead one to believe that Europe has not gotten closer to unity. There can be no melting of six or 10 national economies into one economic union without a substantial amount of political cohesion among the countries concerned. The creation of the EEC has been an essential factor in eliminating the century-old distrust and enmity between the Western European powers, especially France and Germany.

But our task is far from being accomplished. At The Hague conference in December 1969, the EEC governments reiterated their resolution to go ahead with the task of unifying Europe. We shall progressively tackle highly sensitive issues that touch the basis of national sovereignty, like monetary union.

It appears that the EEC will have to accomplish essentially four tasks in the seventies:

Define its outer boundaries, that is, settle the long-pending problem of enlargement;

Create a modern agriculture able to compete in the world market with a minimum of government interference and avoid surplus problems, thus contributing to an orderly world market in agricultural products;

Shape the instruments and institutions for coordinating or unifying basic economic policies within the EEC, particularly in the monetary and industrial fields;

Apply trade policies which take into account the important responsibilities of the community in world trade; and

Set up coordinating machinery in political areas not presently covered by the EEC treaty.

If, as I am confident it will, the EEC succeeds in achieving substantial progress in each of these areas, this will have an important bearing on United States-European relations. To the extent that the European countries will harmonize or unify their policies in a growing number of fields, the United States will progressively be confronted with a single position only, instead of six or 10.

Technically this will undoubtedly simplify our dealings. But it does not necessarily imply identity of views. As long as six or 10 European countries acted more or less independently of each other, they were likely simply to adapt their policies to whatever measures were taken by the United States.

This adjustment mechanism worked satisfactorily because of the imbalance of "power" between the United States and each European country individually. However, when the European countries get together to decide certain things in common, such decisions may have repercussions on U.S. policy formulation.

Indeed, the mere fact that European countries decide in common on certain questions will give such decisions a substantially greater weight even outside Europe. Suppose we already had some kind of monetary union within the Community, as is presently envisaged for the late seventies, and all Central Banks within the Community decided to raise their rediscount rates to the same level.

It is quite evident that the impact of such a decision on U.S. monetary policy would be substantially greater than if only Belgium or Italy raised its rates. This example indicates the new type of reciprocity, or the interdependence, which will evolve in United States-European relations as a consequence of a higher degree of economic and political integration within Europe.

Some may regret the days when there was essentially only one decision center in the Western World and when the United States was free to give not too much weight to the policies followed by other nations. But it should not be overlooked that the new relationship which is gradually developing between the United States and Europe will, at least in certain fields, bring about that sort of power sharing that the United States hoped for when it supported European unification.

The United States will less frequently have to take "lonely" decisions, for, in addition to American public opinion, Europe may have its word to say, as happened recently on the question of a general tariff preference system in favor of the less developed countries. As long as there continues to be basic agreement between the United States and Europe on fundamental policy issues that determine our common way of life, there can be advantages to a certain degree of emulation and rivalry between the two Atlantic regions.

We simply have to realize that our views are bound to differ in certain fields and that in a growing number of economic policy issues neither side can dictate its solution to the other. To the extent that common solutions may be required or desirable, they will have to be agreed upon in a dialectical process of challenge and response. This appears to me to be the deeper meaning of any "Atlantic partnership" concept.

Turning to more immediate and concrete U.S. concerns with respect to European unification, I should like to make a few remarks on two vital Community issues: its enlargement and its agricultural policy (CAP). Indeed, it appears that the U.S. judges the Community primarily on the basis of its policies in these two fields.

As far as the enlargement of the Community is concerned, it is a political imperative. The six-member Community is to be considered as only a preliminary stage of European unification. Indeed, Western Europe is too small in size to be able to afford to stay permanently divided into different groups amongst its 20-odd countries.

For well known reasons, the enlargement has not been achieved earlier. But the Community has now arrived at a point in its history where this issue must be settled. Without a solution of this question progress in other fields might well be blocked forever. It is, therefore, a key issue for the Community, for Europe, and also for the United States.

That is why I regret Senator Javits' recent statement evoking the possibility of the U.S. administration withdrawing its support of British membership. As former Italian Permanent Representative to the EEC I had many occasions to gratefully acknowledge the moral and political support which previous administrations have given to European unification. But as a European citizen I should also make quite clear my conviction that the Europeans have a right to organize their economy and society as they consider it to be in their best interest, provided they respect their international obligations.

What then will most probably happen when the Community is enlarged by four new members—the United Kingdom, Denmark, Norway, and Ireland?

They will join an existing customs union. GATT provides for such an enlargement, and sets the rules to be followed in such a case.

It should be recalled that in the field of manufactured products, which cover the major part of U.S. exports, EEC tariffs are on the average significantly lower than those of both Britain and Ireland. Under the hypothesis that Britain (and the other candidates) would adopt the common external tariff, subject to some minor adjustments, the United States would get a more favorable access to the British market for some 60 percent of its exports.

The situation might be different for certain agricultural commodities. But it is my impression that the impact of British entry on U.S. farm exports has been greatly exaggerated. In fact, there is only one major U.S. agricultural product, feed grains, which benefits from a higher protection in the EEC than it does presently in Britain.

On such important U.S. export items as soybeans, oil cakes, vegetable oils, dried fruits, and vegetables, the level of EEC protection is either lower or about the same as that of Britain. In the case of tobacco, which is the most important single agricultural product exported to Britain, accounting for about two-fifths of total U.S. farm exports, total tariff and excise charges are higher in Britain than in the Community. Considering these factors, it is by no means excluded that U.S. farm exports to Britain which have been stagnating at about $400 million during the last 6 years may be stimulated as a consequence of Britain's joining the EEC.

Whatever may be the result of these different, conflicting forces that are likely to affect U.S. exports of industrial and agricultural goods to Britain, overall U.S. imports into Britain should be favorably influenced by the positive effects which British entry in the Common Market will most probably have on its rate of economic growth.

While the case of Britain, Ireland, Denmark, and Norway is relatively simple, the links with other European countries raise a different set of problems. Roughly these countries fall into two categories, those unable or unwilling to subscribe to the political objectives and implications of the Rome Treaty, and those not yet in a position to become full members of the Community.

Sweden, Austria, Switzerland, and Finland, pursuing for different reasons a policy of neutrality, belong to the first category. Spain, Portugal, Greece, and Turkey to the second. All of these countries do between 50 and 70 percent of their trade with other European countries. Because of their small size they would no doubt suffer injury if they stayed completely outside of the economic integration movement which is going on in Europe. It is therefore of vital importance to them that mutually acceptable solutions be found to settle their special problems.

Canada and the United States finding themselves in a somewhat comparable position have tried to solve their special trade difficulties on a basis limited to one major industry, automobiles. By virtue of the United States-Canadian Automotive Agreement of 1965, for which the GATT partners have granted a "waiver," the United States and Canada are able to do about one-third of their trade free of duties and other restrictions.

In the case of Europe, it will no doubt be necessary to find solutions on a more general basis. There is no question of concluding "preferential agreements" designed to produce minor trade advantages for the Community. It is a question of prograssively bringing these countries into the vast European market which will gradually come into existence.

Of course, this will mean that sometime by the end of the seventies U.S. commodities exported to most West European countries may be hit by tariffs—however moderate—while those from West European countries integrated in the Common Market will not.

However, from the European point of view the situation is entirely the same as regards goods imported into the State of California from New York on the one hand and from Europe on the other hand. The analogy may appear farfetched. But, after all, Europe is simply realizing, after decades of international strife, that it is imperative to create a single economic area if it is not to fall hopelessly behind the natural "continental powers" like the United States, China, or the Soviet Union.

We shall therefore have to revise our traditional concepts of what is foreign trade. Today nobody would consider commercial transactions carried on between two German cities such as Hamburg and Nuremberg as part of foreign trade. But as recently as 1880 they were still "foreign trade" in the same sense that trade between Germany or France and Denmark is today.

Twenty years from now foreign trade will be done essentially on an intercontinental basis, the intracontinental flow of goods being more and more assimilated to domestic trade. It is in this perspective that one should look at European integration as well as at similar integration drives that have developed in Latin America, Africa, and, to a certain extent, in Asia.

There can be little doubt in my mind that the shaping of economic unity in Europe has not caused injury to the United States in the past. On the contrary, I am inclined to think that American businessmen, more than anybody else, knew how to fully benefit from the changing economic conditions of one single market and the increase in prosperity that went along with European integration.

Indeed, American exports to the EEC increased more over the last decade than to any other part of the world. On the other hand, American direct investment within the EEC more than quadrupled in the 10 years following the beginning of the Common Market. This record is unique in the history of economic relations between nations. American investments are heavily concentrated in the manufacturing industries where affiliates of U.S.-based companies account for up to 80 percent of total output and investment.

The replacement value of U.S. direct investment and participation within EEC is estimated at some $30 billion. Assuming an annual turnover of $2 for every dollar invested, sales should be in the order of $60 billion per annum; that is, roughly 15 times U.S. exports of manufactured goods toward the Community.

These figures clearly show that in order to correctly appraise the closeness of U.S.-European economic relations one must not just look at the trade statistics, because they tell only part of the story.

It has become "en vogue" in the United States to accuse the common agricultural policy of being one of the major factors accounting for, what is considered by the United States, an unsatisfactory development of its agricultural exports toward the EEC: While U.S. agricultural exports to the Community increased by 17 percent between 1963 and 1968, exports of manufactured goods went up by 44 percent. I think it would be unfair not to admit that in some cases the common agricultural policy may have negatively affected U.S. agricultural exports to the Community.

But one should not overlook a certain number of basic tendencies in world agricultural trade and attribute their consequences to EEC agricultural policy. Indeed, total U.S. agricultural exports have been stagnating since 1964. As the share of the EEC market accounting for roughly one-fifth of total U.S. farm exports has not diminished during that period, one has to find a more fundamental explanation for this trend. In my mind, the explanation lies essentially in the unprecedented increase of agricultural productivity in all countries, whatever their system of agricultural protection, and their level of agricultural prices.

When agricultural productivity increases at some 6 to 7 percent per annum while consumption rises by only 1 to 3 percent, the degree of self-sufficiency of traditional deficit countries, like Western Europe or Japan, is bound to increase. It is to this basic change in the pattern of agricultural production and trade that the United States and other exporting countries have to adapt themselves.

Of course, it is contrary to economic reason that Europe should try to produce agricultural commodities which it could import from the United States or other countries at substantially lower cost. However, one should not forget that in all developed countries, including the United States, agricultural problems cannot simply be solved by applying economic criteria. It is not possible to expel some 5 or 10 million farmers within a few years from the countryside without provoking a social and political uproar. Nor can one undo within 10 or 15 years the shortcomings of a hundred years' agricultural policy striving for more food production and trying to preserve the so-called family farming.

It is good to remember in this connection that the United States had its first experience with agricultural surpluses as far back as the early twenties and that 30 years later it still had to resort to a most impressive food aid program under Public Law 480 in order to get rid of tremendous agricultural surpluses.

The European agricultural problems can be solved only by a progressive integration of agriculture into the market economy. This requires fundamental changes in habits, in farm size, in production, and marketing methods. In democratic countries such changes can not be brought about overnight.

Indeed, Europe can only reduce its farm population if the excessive farm labor can be transferred to other sectors, in particular to manufacturing industry. Already, the proportion of the active population engaged in farming in the Community has come down within 10 years from over 20 to 14 percent. But it is still far away from the 5-percent figure of the United States.

We are well aware in Europe of the seriousness of these agricultural problems, and they figure high on the priority list of the Community. Action will be taken, but nobody could solve these problems overnight.

Some may have had doubts in past years as to the capacity and political will of Europe to pursue a dynamic policy of unification. I do not blame them. We have indeed gone through a period of stagnation and hesitation.

But since the European Community summit meeting last December, it is clear that these political obstacles have now been overcome. I did draw your attention already to the important decisions about a program for full economic and monetary union. Negotiations for accession of Great Britain and other European countries are now being actively prepared.

In all fields, European integration seems to have refound its dynamism, and this corresponds, I think, to a desire that has characterized American foreign policy ever since World War II. Indeed, the existence of a strong and stable European partner seems to be a prerequisite for lasting and coherent Atlantic cooperation, based on a better equilibrium in possibilities and efforts than we have today.

To work together effectively, Europe must be organized. We shall not always agree on everything, but our fundamental approaches to world problems are the same. We must set up, I think, appropriate mechanisms of permanent consultation to be able to work together in the most effective way.

I should like to add some observations to what I have already said in the preceding statement which I had the opportunity to present to you. I feel as if I were a citizen of the Atlantic World discussing common matters and engaged in a scrutiny of the trends of development which affect our world.

I am probably anticipating a little the situation in which we will all be at the end of the decade of the 1970's; as a matter fact, however, this is the main object of your present review and forecast, and I feel that this is the main contribution to your work that I can bring from the other side of the Atlantic. Do permit me this approach, as I have been devoted to these aims from the age of maturity, in both my official duty—from the Marshall plan to the formulation of the objectives of the European Community—and now as chairman of the General Electric affiliates in Italy.

1. The first point I wish to stress to you gentlemen is this: do not have any doubt about the soundness of the objectives you pointed out to us Europeanse during the post-war period; you said correctly that the best way for use to strengthen the free world was through the unification of the nations of Europe. It has been a difficult task to achieve successfully through common agreements and consent—not by force or federating power.

2. Do not be worried if you think you see signs indicating a slowing in the movement toward European integration. This is the European way of bringing to fruition step by step an historic new approach—

a pacific revolution, we might say. We had stops—changes in the methods of fulfillment—pauses from time to time, even crises superseded at the price of agreeing to disagree temporarily, but the timetable established in 1967 for the accomplishment of the customs union in 12 years has been met. The numerous escape clauses provided for in the Treaty of Rome have not been invoked or have been disposed of by mutual agreement.

3. The creation of the Common Market has been an important factor in determining the realization of the well-conceived international world that you thought of in shaping the Convention of Bretton Woods. The unparalleled expansion of international trade during the 1960's is the reward that such dynamic vision in world policy has brought to you and to us.

4. The economic and political inspiration you have transfused to the old world of Europe—while protecting its freedom—is the most fundamental reward you have obtained. In looking at your example we were able to reverse our traditional and historical errors of the past, and to secure a new confidence in ourselves for shaping our future and for deciding how best we could contribute in forging a European pillar to share the burden of maintaining the peace and freedom for all. This is the fundamental change in history you have impressed upon the world and we have to remember it every time when confronting views as to where we are and where we are going. Well, we can be proud, you and we, of the developments in Europe, even if one is not satisfied with the achievements so far reached—and one has never to be satisfied with whatever progress has been achieved so far. But let me see with you, where we are and in which direction we are moving.

5. In Europe we have achieved—within the time limit we had set 12 years ago—the customs union which we had agreed to create. The community is alive and in fairly good condition, notwithstanding all the difficulties encountered. As we went on, we realized that the customs union was only the beginning of the process for the integration of the six countries: new targets had to be established in order to fully achieve a common market.

6. A new impetus in two main directions has been given to the Community's work by the decisions adopted at the summit during the meetings held at The Hague last December. The first is the logic consequence of the completion of the customs union. We are now committed to a monetary union and to a common currency; this should not be accomplished overnight but by progressive steps already established in connection with a better coordinated economic policy.

The European Commission has been entrusted with the important new role in various fields ranging from matters concerning industrial and economic policy to the establishment of a common monetary reserve fund. For the first time, the European Parliament has received an extension of powers even in the budgetary field.

The second important development stemming from the summit at The Hague is the decision to engage in negotiations with the countries that have expressed a willingness to join the Community, the United Kingdom, Norway, Denmark, and Ireland, and finally the decision to explore the political field in connection with the enlargement of the Community, with particular regard to the membership of the United Kingdom. This is not yet a dramatic decision but it is, nevertheless, the beginning of the move in order to face the political complexities.

7. We are now free of the uncertainties that were worrying us in Europe in the latter part of the 1960's and we are now looking ahead to the problems of the 1970's confident, as you are, in the changing world. I will not go over that part, as I have already expressed my views in the general statements that you have permitted me to present to you. But let me summarize the essential point, as I see it. Our destinies, as Americans and Europeans, as your President has clearly reminded us all, are vitally interdependent.

We have the responsibility and the challenge to shape our destinies together. We may differ from time to time in the ways to follow in order to fulfill this common destiny of ours, but differences in views may even be a good thing and will finally strengthen our endeavors and benefit each other as long as we are united in the essential aims. What we always have to keep in mind is to explain continually to each other—from both sides of the Atlantic—our goals and the ways to achieve them and, if differences arise, we must honestly explain to each other the reasons for these differences.

The time has come to develop a more regular system, an appropriate machinery to inform each other—not through press articles or declarations—but by means of appropriate methods of discussing the difficulties which are besetting our common path and our common interests.

It is through a constant consultation among ourselves on the differences which divide us on specific problems, that we can reach a common understanding, so as to arrive at a general appraisal of our mutual interests.

I promise to do my part in bringing this system into being.

Thank you, Mr. Chairman, thanks to all of you for the honor you have granted me.

Chairman BOGGS. Thank you very much.

We will now hear from our next witness, Mr. Hugh Corbet, who is the director of Trade Policy Research Center, London, England.

Mr. Corbet, will you proceed, sir.

Mr. CORBET. Thank you, Mr. Chairman.

STATEMENT OF HUGH CORBET, DIRECTOR, TRADE POLICY RESEARCH CENTER, LONDON, ENGLAND

Mr. CORBET. Mr. Chairman, my name is Hugh Corbet and I am the director of the Trade Policy Research Center in London. The center is a nongovernment body. It was set up in 1968 and therefore, being relatively new, is still in the process of establishing itself. Its purpose is to promote the analysis and discussion of British policy in the field of international economic affairs.

The initiative in setting up the center was taken by a number of those associated with an independent research project, the Atlantic Trade Study Programme, which has been concerned with exploring the implications for Britain of taking part in a free trade treaty among developed countries as possibly the framework within which might be pursued the next phase in the liberalization of world trade.

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The center, having general terms of reference, does not represent any consensus of opinion. What I have submitted in my prepared statement, and what I will be saying here, has been influenced by the work of others. In particular, I should acknowledge my debt to the writings of Prof. Harry G. Johnson, of the London School of Economics, and Prof. Gerard Curzon, of the Graduate Institute of International Studies in Geneva. But of course I take full responsibility for this testimony.

That said, I think it can be fairly added that my remarks are representative of a large and growing body of opinion in Britain which, in the long debate over the country's place in the world, has become weary of the imprecise reasoning and vague generalities that have passed for public discussion. And so I am pleased and honored, and also very flattered, to be invited to contribute to your deliberations on the directions which should be taken by American foreign economic policy in the 1970's. What the United States does obviously bears heavily on the interests of other countries and profoundly affects their room for maneuver.

On the subject of economic regionalism it has been suggested that you might be interested in the politics of the present European situation. With Europe in a state of flux it is very difficult to delineate future developments with any degree of confidence. My object this morning is simply to underline a few aspects of the problem of European economic integration that tend to be overlooked in the formulation of policy.

Before my present job I was a specialist writer on the Times—which is one of our leading newspapers. There I took a close interest in the problems of international economic organization and in Britain's role in the economic integration of Western Europe. My journalistic interest in the latter goes back to when the Macmillan government first tried in the early 1960's to negotiate British membership of the European Community.

What one's views are on this specific question are usually disguised by saying that one favors British membership of the Common Market provided "acceptable terms" can be negotiated. It all depends then on what is meant by acceptable terms. There have always seemed to me to be good grounds for doubting whether acceptable terms for Britain could be obtained from the European Community and in this connection I can recall very vividly an interview I had in January 1963, at the American Embassy in London.

The senior official with whom I discussed the problems of the world on that occasion could not understand why I was so interested in alternatives to British membership of the Common Market. He might have understood better a few days later when the French Government vetoed Britain's application to join the EEC club. That senior official is now even more senior in the foreign service of your country and, if I may say so, I do sincerely hope that he is not still as prone as he was then—like many others—to extol upon the simplicity of the Grand Design which at that time was the basis of American foreign policy.

Under the Grand Design the United States admitted no alternative to British membership of the European Community. Not only that, the "dominant supplier" authority of the Trade Expansion

Act of 1962 was designed, not to put too fine a point on the matter, to coerce Britain to join the Common Market and to induce the Common Market to accept her. It was a gesture that was not widely appreciated either in Britain or in the Common Market countries. Nor was it much appreciated by Britain's partners in the Commonwealth and in the European Free Trade Association which expected to be directly affected if Britain did join the Common Market without obtaining acceptable terms.

It might be inferred from President Nixon's recent foreign policy message to Congress that his administration will not attempt a similar maneuver. In that message the President said that the organization of European unity has to be left to Europeans and that "we—his administration—do not believe there is only one road to that goal."

While the American position vis-a-vis European unity is apparently becoming more flexible, it would also appear to be becoming more critical, which—again if I may say so—is not before time.

American objections have been expressed recently over the proliferation of discriminatory trading arrangements that have been agreed between the European Community and a variety of other countries.

The amount of trade involved is not that great. But that is not the point. The arrangements are undermining the effectiveness of the principle of nondiscrimination in international trade which has been a major factor in the restoration of some semblance of order in world trade following the chaos of the 1930's and 1940's.

In my prepared statement I pointed out that the formation in Western Europe of a discriminatory trade bloc, the European Economic Community, and the implementation of allied preferential arrangements under the Yaoundé Convention for 18 French-speaking countries in Africa, was bound to create problems and resentments among the countries left outside these arrangements. For the countries left outside the choice has been to seek an accommodation with the European Community or an accommodation with other countries in similar discriminatory arrangements.

So what has been happening? Following Britain's efforts to join the Common Market, four Commonwealth countries in Africa have negotiated association pacts with the European Community—Nigeria has a separate one and the Arusha Convention covers Kenya, Tanzania, and Uganda. Two small Commonwealth countries in the Mediterranean, Malta and Cyprus, have had preliminary talks with the Community on a form of association.

Five larger Mediterranean countries have negotiated association pacts. They are Greece, Turkey, Morocco, Tunisia, and Algeria. Negotiations on an associate arrangement with Spain have been completed. Last month the European Community concluded a 5-year preferential trade agreement with Israel. Talks on a preferential trade agreement have begun with Lebanon and Egypt as well as Argentina are after preferential trade agreements.

Such is the situation that has arisen in the effort to accommodate certain African and Mediterranean countries left outside the European Community. Most of the countries have had close links in the past with EEC member countries and, indeed, the Community argues that it must have a concerted policy toward the Mediterranean area where Europe has important political and economic interests.

If Britain succeeds in joining the European Community, and in the absence of a global scheme of tariff preferences for developing countries, the circle of countries in the third world that will consider themselves "left outside" will be very much wider.

As I have mentioned, four Commonwealth countries in Africa have already been accommodated by the EEC, which just leaves Zambia, Ghana, Sierra Leone, Malawi, Gambia, Lesotho, Botswana, and Swaziland, Mauritius. Precisely what these countries will want is not known. But it might be expected that, as beneficiaries of the Commonwealth preference system, they will want to protect their access to the British market—in the absence, that is, of a generalized scheme of preferences.

The same will go for the Caribbean members of the Commonwealth which is to say Jamaica, Guyana, Trinidad, and Barbados. But they will not present the headache that could be caused by the Asian members of the Commonwealth: India, Pakistan, Ceylon, Malaysia, Singapore and the Crown Colony of Hong Kong. (The developed members of the Commonwealth other than Britain—namely, Australia, Canada, and New Zealand—will pose formidable problems, but there is no question of them seeking preferential trade agreements.)

If Britain succeeds in joining the European Community it is accepted that she could hardly be expected to reerect tariffs against her former EFTA partners. Norway and Denmark have also applied to join the Community. Of EFTA's four neutrals, Sweden and Austria are seeking an associate arrangement, while Switzerland considers that her application, in the early 1960's, for associate membership has never been withdrawn. The fourth neutral, Finland, is not seeking an association, but it is believed, at least by the Nordic countries, that in the end a suitable arrangement could be devised for her.

Portugal and EFTA's newest member, Iceland, would also have to be accommodated. Besides the EFTA countries, Ireland—which has a free trade treaty with Britain—is expected to follow Britain into the European Community.

The new economic order in Western Europe, in the event of Britain becoming a full member of the European Community, could therefore have very profound implications for the continued credibility of the principle of nondiscrimination. It could also have very profound implications for the moment toward European political integration.

Strenuous efforts are being made by the Eurocrats in Brussels to revivify the idealism of the European movement with grand proposals for a currency union by the end of the 1970's that presume a very considerable degree of political integration of a supranational character. In my prepared statement I have dwelt on the way the momentum toward political union has been running down as the countries of Western Europe have recovered their prosperity, their self-confidence, and their sense of security.

Britain's presence in the European Community would greatly strengthen the forces of resistance to supranationalism. The Nordic countries would also throw their influence against a strong political authority at the center of the new Europe. In addition, the enlargement of the European Community from six to 10—maybe more—full members, with several associate members, would alter the economic structure of the new Europe. It would be very different from the present tight organization of the six.

If the countries of Western Europe are unable to recover the momentum toward their political union, there is a growing awareness there that the United States might adopt more critical attitudes toward the European Community; indeed, more critical American attitudes of late have plainly caused alarm in Brussels.

So far I have assumed that Britain will be able to negotiate full membership of the European Community. Once negotiations get going both British and the Community will be trying hard to avoid a complete breakdown. If Britain's third attempt to join the Community comes to nothing it is extremely unlikely that a fourth attempt will be made. Nevertheless, "acceptable terms" could easily prove elusive.

In my prepared statement I have argued that the hardening of public opinion in Britain against acceding to the Treaty of Rome is a fundamental difficulty and that the higher price which Whitehall is expected to demand of the Community reflects genuine concern over the possible cost to the country of joining the Common Market.

It may be that full membership proves impossible to negotiate in which case the other EFTA countries may prevail on Britain to reconsider the German and French proposals of 1968 for commercial arrangements between the EEC and the EFTA countries.

One would not expect such ideas to be revived in a way that suggests a second-class status for certain West European countries in relation to the Common Market. We would not like that! But it is conceivable that the proposal contained in the Spaak Report of 1956, suggesting that the EEC might form a free trade arrangement with the rest of Western Europe, could be resurrected in an extended form in order to cover, in particular, the agricultural interests of France.

Few would hear of the idea at the moment. But it may be what Europe falls back on if full membership of the European Community continues to elude the United Kingdom. Such an arrangement would enable the Six to pursue their primary interest of political integration within a wider grouping primarily interested in economic integration.

Some in Britain would not be satisfied. It would be quite wrong to suggest that these would be confined to the Foreign Office. But I do believe the disappointed would not extend far beyond that section of Britain's political elite which has had the most difficulty in adjusting to Britain's lesser status in world power politics and, since the transformation of the British Empire into the Commonwealth of Nations, has been casting about for a new domain to run.

Whatever some politicians and officials might say, the British, by and large, would be well satisfied with a European-wide free trade association. Insofar as it would dispose of the problem of the EFTA neutrals and a number of Commonwealth problems it would probably ease the way for Britain to join the Six at a later date.

In my prepared statement I refer to the confused state of public discussion in Britain on the European issue. It seems to me though that what people have really wanted, even when speaking of joining the Common Market, is a large European free trade association. I would not say that officials, politicians, journalists and businessmen (or even all economists) in Britain have generally understood the finer distinctions between the various stages through which economic integration can go from a free trade area to a customs union to a common market to an economic union. But you rarely see it argued in Britain, not even by the Europeanist lobby, that it is necessary in a free trade scheme to harmonize economic policies across-the-board in the way it is commonly argued in the Common Market countries.

Various economists have shown (since the EEC and EFTA were formed) that under a free trade association the need for policy harmonization additional to what is required of countries already extensively engaged in international trade is relatively slight. Further harmonization (beyond the elimination of tariffs and quotes) is more a matter of choosing to augment the benefits of free trade rather than harmonizing as a result of free trade. In any case, little important is lost through not harmonizing other policies. Such harmonization issues as do arise can be handled, as EFTA has shown, by the consultative and negotiating procedures with which governments are thoroughly familiar. They do not require elaborate international agreements.

In my paper I have tried to draw a distinction between two attitudes towards European economic integration: the economist's view, in which the need for supranational institutions is not a necessity; and a politican's view, in which supranational institutions are a necessity because political union is the name of the game.

I will read the two paragraphs from the paper in order to emphasize the point:

> From an economic point of view, the harmonization of economic policies, insofar as it is necessary to overcome distortions of competition, requires a co-ordinating authority. But it is enough that the co-ordinating authority is effective. It might be intergovernmental. It does not have to be supranational in character. In the economist's scenario of events, political union is therefore deemed almost incidental, as it were, to the real and primary goal of economic integration.
>
> The whole argument is turned upside down by those, the founders of the EEC and its main supporters, who instead envisage political integration as the real and primary goal. They argue that the determination to integrate economic policies (even if the economic benefits are marginal) will compel the formation of a supranational economic government which in time will assume responsibility for foreign polcy and military security. Theirs is a doctrine of functional inevitability. Economic integration, from the politican's point of view, seems merely to be a pretext for political union; it is a means to an end, not an end in itself. It does not matter how small, or how large, are the economic gains from policy integration. What is important is the will to go ahead regardless.

Whether they know it or not, most of our shapers of public opinion in Britain and most of our makers of public policy, hold the economist's view. They may not do so for reasons that can be found in formal economic theory and empirical analysis. They may do so partly because of the bureaucratic nature of what they have seen of the European Community's supranational institutions (which I suspect most Americans would decline to submit to) and partly because of Britain's very strong extra-European ties, especially with other Commonwealth countries and with this country.

It is often forgotten that, unlike the Six, nearly two-thirds of Britain's trade is done outside Western Europe and over 85 percent of her enormous overseas investments derive from outside Western Europe.

You may want to quibble over the figures. But what I am talking about is what contributes to the worldwide outlook of the United Kingdom and the difficulty many of its people have in seeing themselves immersed in a European arrangement that involves dislocating traditional economic and political links.

It is indeed because of her extra-European links that Britain is having so much trouble getting into the Common Market. If Britain did not have a "cheap food" policy, based on a relatively liberal policy toward imports from American and Commonwealth producers, do you think we would be as horrified as we are by the European Community's farm policy and what it would cost to adopt it?

Britain's membership of the Common Market is far from a foregone conclusion. The government's recent white paper on the costs and benefits has confirmed much that the criticism and skeptics of British membership have been saying all along. On the costs side, the white paper blurred the issues, giving a wide range of possibilities.

In terms of payments across the exchanges, food imports might involve a gain of £85 million; on the other hand, they might involve a loss of £225 million. Britain's contribution to the Community budget might be only £150 million; on the other hand, it could be as high as £670 million. Receipts from the agricultural fund might be £100 million; on the other hand, they may be only £50 million. The balance of trade (apart from food) might be worse off by £275 million.

On all sides it is agreed that much depends on the forthcoming negotiations. But it is acknowledged that the balance of payments burden which Britain might incur is more likely to be above the mean figure of £600 million a year than below it. Much has to be expected then from the benefits of membership of the European Community which are seen in terms of the dynamic effects. Since time is getting short, I will give you an idea of what Fleet Street made of these by quoting from the very influential Lombard column in The Financial Times, which editorially has hitherto been a strong supporter of British membership of the Common Market.

Gordon Tether had this to say:

> The matter [of the dynamic effects] is clearly one of fundamental importance For the upshot of the official exercise [the White Paper] is that, unless these dynamic effects turned out to be of a substantial order, the United Kingdom would lose out heavily on the venture [of joining the Common Market]—indeed, that in such circumstances entry might turn out to be nothing less than an unmitigated disaster. It was therefore essential that no false or highly questionable assumptions should have been allowed to creep into this aspect of the Government's investigation. Unhappily they have done so in a big way.

With her strong extra-European ties it is baffling to see how Britain is going to find her place by embracing the Euro-centric role in which she is being cast. Yet if Britain is not accommodated in the new Europe, either as a full member of the European Community or in a new pattern of economic arrangements, then it is also difficult to see how the economic division of Western Europe can be resolved by Europeans working on their own.

In your first set of hearings in this series, Mr. Chairman, several experts emphasized the extent to which the world economy was integrated during the 1960's. With the increasing interdependence of the developed countries of the world it seems ill-attuned to the times for governments still to be thinking in predominantly regional terms.

The advances made in transport and communications over the last decade and more have made a paradox of much political thinking that insists on relating countries to a particular continent or a particular ocean. It does not seem to me that the problems of economic integration in Western Europe can be resolved in an exclusively European context.

What is required is a new initiative to carry forward the further integration of the world economy. For a quite different set of reasons, additional to the reasons outlined this morning, I argue then in the second half of my prepared statement for a free trade treaty among the developed countries.

(The prepared statement of Mr. Corbet follows:)

PREPARED STATEMENT OF HUGH CORBET*

POLITICAL AND COMMERCIAL PERSPECTIVES ON TRADE BETWEEN DEVELOPED COUNTRIES

There was a note of frustration in what Monsieur Olivier Long, the Director-General of the General Agreement on Tariffs and Trade (GATT), had to say on November 19, 1969, to the National Foreign Trade Convention in New York. "Governments," he said, "preoccupied with their domestic and regional difficulties and frequently confronted with important problems in the economic and monetary fields, seem little disposed to seek constructive solutions or take any real initiatives in the international trade field."

I. POLITICAL PERSPECTIVES

Those remarks hold true for the governments of most major trading nations. More particularly, they hold true for the British Government, which became increasingly preoccupied during the 1960's with achieving United Kingdom membership of the European Communities (EEC) and in the second half of the decade was confronted with what were, by any standards, very serious economic and monetary problems.

Britain's EEC debate

The European issue is now Britain's chief preoccupation in foreign affairs. It has diverted attention away from numerous other important questions. In the view of many in the country the objective of British membership of the Common Market has got completely out of perspective. This is gradually being recognised more widely and perhaps most especially among the post-war generation which is very concerned about the position of developing countries. In any event, the recovery of the British economy, along with the recovery of some degree of self-confidence, has resulted in a much tougher Whitehall attitude towards negotiations with the EEC.

Last October the Prime Minister told the International Chamber of Commerce in London that if "entry into the Common Market were withheld once more, Britain could be increasingly confident of her ability to stand on her own feet outside the EEC". Since then Mr. Wilson has made a number of statements along similar lines. After all the splendid orations on Europe it would appear that he is trying to reassure the nation that all the options are open. No doubt Mr. Wilson has also been trying to show, with a general election in the offing, that Britain's Labour Government is not totally committed to what is possibly a lost cause.

Whether all the options really are open has been the subject of much speculation in Fleet Street where it has been noted (by, for instance, the Political Editor of *The Financial Times*) that most members of Mr. Wilson's Cabinet have lately adopted "take it or leave it" positions on British membership of the EEC. Any break-down of influential opinion on this question is complicated by those who support negotiations with the EEC not because they think such negotiations will succeed, or even because they want them to, but because they believe that until the issue is settled it will be extremely difficult for any British government to shift national policy on to a new or broader course. What seems highly likely then is that as preparations are being made for a third British attempt to join the Communities, firmer and higher stipulations will be made, not only by ministers but also by officials, about the conditions Britain expects and I suspect, too, that more will be heard about the political accountability of the EEC bureaucracy.

*The Trade Policy Research Centre does not represent any concensus of opinion and so, although the writer has benefited from the writings of colleagues and others, he is entirely responsible for the views expressed in the below statement.

It would be wrong to suggest that the higher price which the British Government is currently putting on EEC membership has been brought about by the hardening of public opinion against the whole proposition. There never has been a strong case for British adherence to the Treaty of Rome. It is not the place here to examine the case in detail. For present purposes it is enough to point out that with the development of the EEC's farm policy, on the one hand, and the successful conclusion of the Kennedy Round of tariff negotiations, on the other, the economic side of the case has been very seriously weakened, as was demonstrated in the Government's recent White Paper on the subject. It will suffice to be equally mild about the political side upon which greater store is placed by Europeanists in and out of government. Beyond a few vague generalities the political aspects have not been spelt out and so they have made little or no impression on the public at large which is accordingly suspicious of the bland assertions that are made by ministers, opposition spokesmen and others on the benefits for Britain from "greater," "wider" or "closer" European unity.

About the present uneasiness of public opinion on the European issue there can be no doubt. The value placed on opinion polls must be circumspect, but since they get deployed to demonstrate support for one proposition it is hardly surprising that they attract attention when they appear to demonstrate an opposite one. The British electorate has never been tested directly on the Common Market at a general election. Insofar as it has been a secondary issue at general elections, it is fair to recall that the Conservative Party was re-elected to power in 1959 after deciding against having Britain join the EEC and that the Labour Party was elected to power in 1964, and re-elected in 1966, when its leaders were on the whole opposed to British membership of the Common Market. Political leaders have therefore only had opinion polls to go on in the declarations they have made from time to time about the British people being ready to join the European Communities.

It would appear that President de Gaulle's departure from the French political scene has served to crystalise British public opinion. When Britain first applied to join the EEC the electorate had little opportunity to assess the issues involved, such was the highly emotional climate of discussion, although it was led to believe that what was being proposed was merely a new trading alignment. When the British Government sought membership a second time it was plain to the man in the street that the French Government was not going to let it happen anyway. Although the difficulties in the way of Britain's accession to the Treaty of Rome have always extended far beyond the person of General de Gaulle, it was convenient to present the former President of France as the principal, if not the sole, obstacle and so when that apparent obstacle disappeared it became clear that the question of joining the EEC would have to be decided in Britain after all. By the autumn of 1969, with the issue again in the forefront of public discussion, the opinion polls were returning remarkably consistent results which showed that only a minority in the country supported British membership of the EEC.

There has not been a similar spate of opinion polls on the Common Market since then, but isolated ones have shown that opposition to British membership has, if anything, consolidated. This state of affairs presents problems for the Government, for the Opposition and for the Liberal Party. The leaders of all three favour British entry. There are substantial minorities within their parliamentary parties though that are opposed while for larger sections in the House of Commons the outcome depends on the terms that the Government is able to negotiate.

To some extent the dramatic shift in public opinion may reflect, as some Government spokesmen suggest, a certain disenchantment with Britain's supplicant posture before the Common Market. But during the 1960's public opinion has become better informed and the Great Debate that Mr. Wilson called for in 1966 has become more evenly balanced. Many aspects of the issue neglected in the early 1960's were brought out into the open in the late 1960's. The issues are still far from generally understood. All the same, people are more aware of the arguments on both sides, and in the middle. The mood is certainly for closer relations with other European countries. But the Common Market involves more than that. Only a narrow section of British opinion would support membership of the EEC at the expense of Britain's close ties with other Commonwealth countries and with the United States. On that score there has been little fundamental change since the late 1950's when because of those extra-European relationships the United Kingdom declined to commit itself to the Treaty of Rome with all it was then mean to imply.

In analysing the Great Debate it is as well to distinguish between, on the one hand, the Europeanist body of opinion which is continentalist in character and, on the other, the Atlanticist body of opinion which retains a maritime view of the world even while supporting, in many cases, the British application to join the Common Market. There is no clear pattern of thought, but almost by definition the former are mainly interested in the political side of European integration while the latter, more impressed by Britain's world-wide interests and capacities, are mainly interested in the economic side of European integration.

Commonwealth complications

While there are cogent political reasons for promoting greater European unity, the formation of a customs union in Western Europe, accompanied by tariff preferences for associated overseas territories (under the Yaounde Convention), was bound to create resentments among the countries left outside these arrangements. For the "outsiders" the choice has been to seek an accommodation with the EEC or an accommodation with other countries in similar discriminatory arrangements.

Among the outsiders have been a number of Mediterranean countries. Some American alarm has been expressed in connection with the special preferential trade arrangements (outside the framework of the Yaounde Convention), which the EEC has struck with Greece, Turkey, Morocco, Tunisia and Algeria and six other similar arrangements are on the Brussels agenda. The credibility of the principle of non-discrimination cannot stand up much longer under such a strain. The preferential arrangements which African countries have with the EEC, and which they will want to protect, have caused the United States publicly to entertain a preferential arrangement with the countries of Latin America. The idea of the world dividing into North-South trading zones is not a happy thought.

Also among the outsiders have been the countries of the Commonwealth which includes large areas of under-development like India, Pakistan and Nigeria an major agricultural exporters like Australia, Canada and New Zealand. The accommodation which one of them, namely the United Kingdom, is seeking with the EEC has thus created resentments in the other Commonwealth countries. The African, Mediterranean and Caribbean members of the Commonwealth might be accommodated in the enlarged EEC. But the Asian members along with Australia, Canada and New Zealand pose formidable problems.

The overall effect of British policies, which are seen to be increasingly Eurocentric, is that Australia and New Zealand are being driven towards some kind of discriminatory trading arrangement with Japan to whom Canada is also looking. Over the last few years there have been a number of promising developments in Asian-Pacific economic collaboration involving Japan and these three developed Commonwealth countries. These are greatly to be welcomed, but Britain would rather be included than excluded from economic arrangements in the Asian-Pacific region where she has substantial trading and investment interests.

Postition of EFTA neutrals

The position relating to Britain's partners in the European Free Trade Association (EFTA) is also extremely complex "with Denmark keen to join the Common Market," as Geoffrey Smith of *The Times* once explained, "but liable to be uneasy without Norway; Norway eager to join but unwilling to contemplate being parted from Sweden; Sweden anxious for economic benefits while probably unable to pay the political price; and Finland unable to join but fearful of being left alone." The Nordic countries are seeking a way out of their predicament through the formation of a customs union of their own. The treaty for this Nordic economic arrangement, or "Nordek" as it has been called, was agreed in February, 1970, and has been conceived as a way of strengthening the bargaining position of the Nordic countries, which first acted as a concerted group in the Kennedy Round negotiations. While "Nordek" is based on a liberal trade policy, aimed at extending commerce and economic co-operation with the rest of Europe and the world, it is not regarded as a transitory arrangement that will disappear when a solution has been found to the economic division of Western Europe. Instead, it is based on the idea that the Nordic union can, and should, survive as a region within an enlarged EEC, which will become too big and bureaucratic if some degree of decentralisation is not permitted.

Interest in "Nordek" was heightened by the proposals put forward in 1968 by Herr Willy Brandt, as West Germany's Foreign Minister, and later elaborated upon by Monsieur Michel Debre, as France's Foreign Minister, and together suggested a more flexible approach to European integration. For the general adoption of commercial arrangements between the EEC and other countries would relieve fears in Denmark and Norway that the strengthening of their Nordic ties would jeopardise the chances for them of obtaining full access to the EEC. Otherwise if the two Nordic neutrals, Sweden and Finland, were not able to negotiate full or associate membership of the EEC, or an arrangement *suis generis*, Then Denmark and Norway—if successful in their negotiations—would be obliged to chose between breaking firm Nordic links and losing the gains from Nordic integration or foregoing the benefits of EEC membership.

The Nordic predicament largely arises out of Finland's delicate relations with neighbouring Russia. It may be that the problems relating to Sweden's neutrality, as far as her relations with the EEC are concerned, could be resolved. But so long as Swedish neutrality is thought to guarantee the independence of the Finns, the Swedes are bound to take care not to compromise their country's international status, at least in the eyes of the Russians. If Sweden is careless in this respect, the Soviet pressure on Finland could increase substantially.

Austria is also in a difficult position by virtue of the neutral status she adopted unilaterally shortly after signing the State Treaty which restored the country's sovereignty. The Soviet Union, one of the four great powers that is a party to the treaty, recognises Austria's neutrality. But what if Austria was to become associated with the EEC? The State Treaty prohibits her, under Article 4, from joining a political or economic union with West Germany, or from taking any steps which could lead in that direction. Russian objections to an Austrian association with the EEC, informally expressed on numerous occasions, are not based, however, on any interpretation of the State Treaty. They are to do with Austrian neutrality, which is not connected in any *de jure* sense to the State Treaty (although there is a *de facto* connection), and with the fact that the members of the Common Market are all members of NATO and came together under the Treaty of Rome to form a European political union. In the hope that in the end the Russians would relent, the Austrian Government has carried on the endeavours, begun in 1962, to negotiate an agreement *suis generis* with the Community. The course of the talks has been tortuous. Because of the pressures which the Russians could bring to bear, the Austrians have had to be extremely cautious. But if Britain were to be successful in her third attempt to join the EEC the resultant economic structure of Western Europe might not represent the same political threat to the Soviet Union as the organisation of the Six.

Like Austria, EFTA's fourth neutral, Switzerland, has never been interested in full membership of the EEC. Instead, she has been the most militant champion of the EFTA approach to integration, recognising from her particular vantage point in Europe the difficulties of accommodating in one tightly-organised union the interests of all European countries. The Swiss gave strong support to early "bridge-building" attempts between EFTA and the EEC; and they were positive in their response to the Brandt and Debre plans, particularly the latter since it was not confined to applicants for full membership of the EEC.

Switzerland and the Nordic countries have therefore been disappointed by Britain's attitude towards European integration. Many in the United Kingdom have also been disappointed. Geoffrey Smith alluded in the article quoted earlier to "a certain schizophrenia" in the British attitude: "We talk of enlarging the Europe of the Six into the Europe of the Ten, but we think simply in terms of British joining the Common Market. This means that we are assuming, perhaps subconsciously, either that Scandinavia will be happy to accept whatever arrangements Britain negotiates with Brussels or that there will be no special difficulty in fitting the Nordic nations [and, I would add, the other EFTA countries] into the new pattern for Europe."

Flexibility on economic integration

If full membership of the EEC does not prove attainable for Britain in the forthcoming negotiations, however desirable it may be, she may be induced by her EFTA partners to reconsider the idea of commercial arrangements as a move in the direction of a single market for the whole of Western Europe. At the time of the second attempt to join the Common Market, and still more so in the preparations being made for the third attempt, the policy of the United Kingdom has been based on political considerations. But industry's support for British membership of the EEC was attracted, especially at the time of the first application, by the prospect of access to a large market across the Channel, although it is true that a number of industrialists are also interested in the political role Britain might play in Europe.

If the EEC countries were as imbued with the spirit of European union at the end of the 1960's as they were at the beginning, the Brandt and Debre plans might have seemed unrealistic. But just as the Governments of the Six were showing a willingness to consider alternative ways of accommodating the interests of other West European countries, the British Government chose to be more Europeanist than the continental Europeans.

Although there have been signs of change in the attitudes of EEC countries, the position of the EEC Commission has remained intranscient, which only goes to show that the General had no monopoly over this particular characteristic of European power politics. The bureaucracy of the Common Market has persisted in their opposition to a free trade area solution to the problem of European integration in spite of mounting internal policy problems.

On the various ideas for commercial arrangements between the EEC and applicants for membership, Monsieur Jean Rey, the President of the EEC Commission, said to the European Parliament on March 12, 1969, that "one may even ask whether [these commercial arrangements] would rather be grist to the mill of these (and there are such people, particularly outside our Community) who are inclined to believe that a free trade area should be created in Western Europe. Our Commission, I repeat, does not share this opinion."

Monsieur Rey went on to reaffirm: "We and all our governments are at one in thinking that there can be no changing the nature of the Community; no transformation of the Common Market into a free trade area; and no going back on what we have maintained for ten years, that a free trade area is not a good way of organising relations between highly industrialised countries. On the contrary, it is in tighter organisation, and in common policies, that we must seek a solution to our problems. In this respect there has been no change in the opinion of either my colleagues or myself."

The Six in general, and the EEC Commission in particular, have disliked the free trade area concept because it does not implicitly invoke significant centrifugal forces among member states. Differences between them and the EFTA countries can be explained by the dichotomy in what is meant by European integration. For there is the economist's interpretation and the politician's.

From an economic point of view, the harmonisation of economic policies, insofar as it is necessary to overcome distortions of competition, requires a co-ordinating authority. But it is enough that the co-ordinating authoriy is effecive. It might be inter-governmental. It does not have to be supra-national in character. In the economist's scenario of events, political union is therefore deemed almost incidental, as it were, to the real and primary goal of economic integration.

The whole argument is turned upside down by those, the founders of the EEC and its main supporters, who instead envisage political integration as the real and primary goal. They argue that the determination to integrate economic policies (even if the economic benefits are marginal) will compel the formation of a super-national economic government which in time will assume responsibility for foreign policy and military security. Theirs is a doctrine of functional inevitability. Economic integration, from the politician's point of view, seems merely to be a pretext for political union; it is a means to an end, not an end in itself. It does not matter how small, or how large, are the economic gains from policy integration. What is important is the will to go ahead regardless.

Such was "the European idea" as revised by Monsieur Jean Monnet and his followers when it was found, with the failure of the projected European Defence Community, that the political union of the nations of Western Europe could not be broached directly. But in the middle 1960s, as Theodore Geiger noted at the time, there was spreading scepticism in Europe about the doctrine of functional inevitability.

Changing political circumstances

In the United States and in the EEC there was a tendency to attribute the uncertain outlook for European unity to President de Gaulle. There was a similar tendency in the United Kingdom. It may be that strong French leadership in favour of European union could have sustained the momentum of the EEC's early years. But the Gaullist expression of French nationalism has not been the only factor in reducing the EEC to the state of permanent crisis, and near stagnation, that appeared to exist at the end of General de Gaulle's presidency. It only obscured other factors which are more fundamental.

The idea of European political union continues to command influential support. But its inertia derives from the momentum of the past. The old pioneering zeal among the Eurocrats of Brussels has greatly diminished. And the European movement itself has come to rely on elder statesmen for leadership and drive. It is as if newer generations of European elites are seeking their futures in a different context.

This should not be surprising. After all, two of the major underlying factors that gave the initial impetus to the post-war European movement, namely the need to restore the economic fabric of Western Europe and the need to stand off the Soviet military threat, have now been overtaken by subsequent developments. Economic recovery is complete. Self-confidence, and even a little self-satisfaction, has returned. The countries of Western Europe have ceased to depend on the United States for their prosperity although, in an increasingly interdependent world, they are still affected by American political and economic affairs. Unfortunately the integration of the world economy has been proceeding so fast that political thought in Western Europe has been left far behind. There is therefore some concern about "the technological gap", the role of the multinational corporation and similar issues. Indeed, more interest is professed in these than in ideas relating, for instance, to political union. For the most part political energies are being devoted to the socio-economic problems of affluence.

As for the Soviet threat, it does not seem, more than a decade after the signing of the Treaty of Rome and notwithstanding the Russian invasion of Czechoslovakia, that the USSR is any longer bent on pushing Communism across the face of Europe. This question is of course more complex than any other this paper has touched upon and extends well beyond the subject of the discussion. But the point has an important beyond the subject of the discussion. But the point has an important bearing on the lessening momentum of the European movement. It is a point that has not been lost on the Europeanists who have felt obliged to fasten on to up-to-date issues in order to demonstrate the relevance of their cause to present times. Much is thus made of *le defi American* and it appears, from what they say, that the absence of European unity has got something to do with "the problem of youth today" just as the presence of European unity, we are also to understand, would contribute wonderfully to "the quality of life."

Self-satisfaction in Western Europe has been further nurtured by the sense of relief that has followed the European withdrawal from overseas responsibilities. On the whole they are glad to leave the faraway troubles of Africa, Asia and Latin America for others to worry about. They have even exhibited some impatience over Britain's tardiness in relinquishing her overseas responsibilities. As far as certain Europeanist schools of thought have been concerned Britain could not be truly "European" until she had disengaged from extra-European activities.

Insofar as the politically aware in Western Europe have looked abroad at all in recent years it has been to Eastern Europe that they have mainly looked. Although the events in Czechslovakia of 1968–69 may have checked liberalising trends in other Soviet client-states, a number of them have recognised the limitations of centrally-planned economies and, like Yugoslavia, have gradually been introducing certain features of the market economy. Through trade, cultural exchanges and tourism can therefore be envisaged the possibility of the Western and Eastern halves of Europe coming together.

But this concept of European unity is a cultural and social one. It represents a European way of life. It is a form of "unity", like that of the English-speaking peoples, which is to do with common approaches to problems. Its achievements does not depend on submerging old nation-states in a supra-national union that simply amounts to a new nationalism writ large. Indeed, in their growing preoccupation with the problem of East Germany, the Bonn Government has seemed inclined to regard a supra-national union of the Six as an inhibiting factor in their dealings with Eastern Europe. On a visit to Britain recently the Chancellor of West Germany conceded that European unity would be pursued in future more through inter-governmental operations than by supra-national means.

Not only do West Germans appear to have had second-thoughts about a supranational Europe. The depth of Italian, Belgian and Dutch interest has also been questionable. General support for supra-national union has been expressed by the governments of all four countries. But they have unanimously rejected European independence from the United States. "For why trouble to create a European super-state," a distinguished American observer, Harold van B. Cleveland, has asked, "unless full independence and a great-power role are the purpose of unifying?"

Putting aside the willingness or otherwise of the EEC countries to embrace a federal future, the concept evinces no enthusiasm from the British electorate. Indeed, Mr. Wilson has rejected on numerous occasions the idea of the United Kingdom submitting to a supra-national European state. "Whatever the long-distance future may hold," he told the House of Commons on May 23, 1969, in the course of rejecting proposals for an Anglo-French nuclear capability, "[a European federal state] is not a reality. Nor is it what we are asking for." As an immutable factor in the European situation, the British attitude was neatly stated when the London Correspondent of the *Frankfurter Allgemeine Zeitung* wrote: "Wilson's rejection of any form of European federation is as authentic as was Churchill's, Eden's, and Macmillan's and springs from the same source. Nowhere does the idea of a supra-national authority meet with such instinctive rejection as in Britain."

Yet political leaders in other West European countries (and elsewhere) have often seemed determined to deny this interpretation of the basic British position. Dr. Joseph Luns, Holland's long-serving Foreign Minister, pointed out in an address in London in July, 1969, that "many people on the Continent believe that British public opinion is generally lukewarm, if not outright hostile, to the idea of a united Europe on a federal basis and with a supra-national structure". While this belief appeared to him quite erroneous, he emphasized that if it were true "the prospects of Britain's membership of the Common Market would be adversely affected. It is not a matter of economic considerations which are at the base of my country's enthusiasm for Britain's membership of the Communities and their enlargement in general," he said. "Our deep conviction of the necessity of European unity transcends all other considerations and in the Netherlands there would be a rather agonising reappraisal if we had serious grounds for doubting a candidate's willingness fully to accept the provisions, the implications and the spirit—especially the spirit—of the Rome Treaties."

About the future political organisation of Europe there is thus considerable difference of opinion. Dr. Luns has been representative of orthodox Europeanists, favouring a federal union that is expected to play a major role in world affairs, but in partnership with the United States against the Soviet Union. Herr Franz-Josef Strauss and his followers on the German right incline towards the Gaullist notion of a Europe that is a nuclear-armed Third Force in world affairs, acting independently of the United States and the Soviet Union, but they do not share the Gaullist aversion to supra-nationality. On the German left, led by Chancellor Brandt, the idea of a supra-national or federal union has little appeal because of their interest in Eastern Europe, which is also a Gaullist interest, but they accept the need for the close alliance with the United States.

Notwithstanding their professed interest in world affairs, both orthodox Europeanists and Gaullists have welcomed Britain's projected withdrawal from military activity in the Indo-Pacific theatre. But Britain's "retreat from East of Suez", as Herr Strauss called it, provoked Mr. Edward Heath, to whom Europeanists in Britain look for leadership (and who shares the Strauss-Gaullist interest in a nuclear-armed Third Force), to protest in no uncertain terms that "leading a lot of little Englanders into a mini-Europe has not been my purpose in working for a wider European unity".

On all these themes there are many variations. They pose divisives issues that are not likely to be settled in the 1970's. What must therefore be asked is whether the uncertain outlook for European unity should be allowed to fetter the further economic integration of Western Europe. The time may be approaching when it might be possible to try again the proposal contained in the Spaak Report to the Foreign Ministers of the Six in April, 1956. After all the 1957–58 negotiations for a free trade association between the Six and other West European countries came very close to success. Political integration could still be pursued by a smaller group of countries working within a wider framework that embraces countries only interested in economic integration.

Whether by enlarging the European Communities to ten members, with associate arrangements for those unable to become full members, or by negotiating special commercial arrangements (under Article 24 of the GATT) between the Six and other countries, the economic organisation of Western Europe could take on in the 1970's a revised form more akin to a free trade association or a customs union than a full-blown economic union. The time might be ripe for Washington to reconsider a European proposal made in the early 1950's, which had earlier been mooted by the British in the early 1940's, for across-the-board tariff reductions according to a pre-arranged formula. With the rundown in the momentum towards political union the logical course, in the changed circumstances of the 1970's, may be to concentrate on smoothing the way towards the achievement of an open world economy.

II. COMMERCIAL PERSPECTIVES

By the time the Kennedy Round agreement has been implemented, the objective of free trade among developed countries will not only be a desirable, but also an attainable, objective. This will need to be acknowledged in the major trade initiative that seems required for the 1970's if the course of trade liberalisation is to be maintained.

What, then, are the positive negotiating options that might be taken to achieve that objective? Three have survived prolonged discussion. First, another multilateral negotiation might be tried, conducted on a basis of reciprocity and most-favoured-nation (MFN) treatment. Secondly, the Canadian Government has proposed, and the GATT Secretariat has also appeared interested in, sector-by-sector negotiations towards free trade. Thirdly, interest has developed in a free trade treaty course under Article 24 of the GATT, as proposed in 1966 by the Canadian-American Committee and more recently taken up by the International Chamber of Commerce.

Another MFN Round

A number of down-to-earth reasons can be adduced in favour of seeking further multilateral across-the-board tariff cuts. A second Kennedy Round might be expected to build naturally on the success of the first. Given fresh minds on the subject it would seem a politically feasible course. It would continue, moreover, the evolution of GATT negotiations, involving no radical departures from established bargaining procedures. Even so, there are a number of serious arguments against another MFN round.

The Trade Expansion Act of 1962 proposed a break-through in tariff-cutting negotiations. But in the subsequent negotiations, the across-the-board approach reverted, in effect, to item-by-item haggling, especially over politically sensitive items on national tariff schedules. The latter approach was the form of five previous rounds of negotiations. A seventh MFN round would run a heightened risk of foundering on the weltered detail of bargaining and conciliation.

Negotiators have probably now reached the "hard core" tariffs. These are unlikely to yield to conventional approaches towards liberalising trade. Stronger resistance can be expected from the vested interests protected by them.

Furthermore, another universal type of negotiation would probably be so shot through with exceptions that the effort required to reach agreement could well far exceed the will to do so.

Like the first, a second Kennedy Round would need to be motivated by a high objective, sufficiently powerful to command a political commitment to its eventual success. That objective would almost certainly have to be the complete elimination of tariffs on all or most industrial products. Another 50 per cent reduction, after the first Kennedy Round agreement had been implemented, would hardly be enough. Yet it is extremely unlikely that a consensus on the desirability of free trade in industrial products could be achieved simultaneously among all developed countries.

Even if agreement in principle was obtained on the goal of global free trade, the major industrial trading nations would probably reserve from negotiations, through lists of "exceptions", the products of domestic industries which are politically sensitive. This would largely mean the labour-intensive and relatively simple products in which the developing countries have the strongest comparative advantage.

GATT experience suggests that new negotiating procedures are subject to diminishing returns in the short and medium term. Only two out of six rounds of GATT negotiations achieved substantial success: the first and the sixth. Each involved a fresh approach to trade liberalisation.

If the momentum of trade liberalisation is to be maintained, a bold and imaginative initiative is required as an effective counter to protectionist trends which have developed on both sides of the Atlantic since the Kennedy Round agreement was reached. From this point of view another MFN round would be too unexciting.

Sector-by-sector negotiations

Some inkling of what might be undertaken in sector-by-sector negotiations was obtained in the Kennedy Round bargaining over chemical products. Such a strategy has an interesting precedent in the "dominant supplier" authority of the Trade Expansion Act of 1962. The act empowered the Administration, it will be recalled, to negotiate tariff reductions of up to 100 per cent on those products in which the United States and the EEC together accounted for 80 per cent of free world trade. Such an authority could provide a basis for the progressive extension of free trade through:

(*a*) Expanding the definition of the countries to be covered by the basic statistic authorising negotiations; and

(*b*) Reducing the percentage of free world trade required to qualify an industry for trade liberalisation.

Since the conclusion of the Kennedy Round negotiations, the case for a sector-by-sector approach has been concentrated on the concept of free trade in those sectors of industry in which the major trading nations have both a significant export and a significant import interest. Free trade in both directions would thus involve changes in the composition of product specialisation, but no major industrial readjustments would be implied.

There are three broad categories where the sectoral approach might be both desirable and possible: (*a*) products which have a high technological content; (*b*) products that are already internationally made and traded; and (*c*) semi-manufactured products or investment materials that are themselves the inputs of other industries.

Because the "dominant supplier" authority was made dependent on the EEC's enlargement, and was therefore rendered inoperative when Britain was excluded from the EEC in 1963, the sectoral technique has not been extensively tested in international negotiations. It therefore retains a number of theoretical attractions. The technique would enable the negotiating process to be greatly simplified since it would only involve the countries chiefly concerned in each particular trade. In this way it would be possible to negotiate on all barriers to a particular trade, especially non-tariff barriers which are very important in respect to transactions in more sophisticated products. Where applicable the approach affords great leeway in that it divides protectionist forces on the home front and permits the exclusion of genuinely sensitive industries.

Since the Kennedy Round finished the sector-by-sector approach has been subjected to close scrutiny. Technical difficulties have been found and there are several other problems.

It is not easy, for a start, to isolate clearly defined sectors of industry in which free trade could be amicably applied. Moreover, because of the input-output linkages between industries in a modern economy, the national participants in a sectoral arrangement would be advantaged or disadvantaged by differences in tariff and other policies affecting their costs, while free trade in their products would affect the relative cost positions of user industries.

The industries in which the sectoral technique would be most applicable, at least theoretically, are the ones in which the advanced countries have a commanding lead and the backward countries have a comparative disadvantage. Not only would the strategy overlook the interests of developing countries. It would be seen to be doing so.

In a liberal climate of opinion, the flexibility of the approach might be deemed an advantage, but that very flexibility would be a considerable disadvantage when protectionist forces were gaining and not losing ground. For in the latter circumstances more industries would be by-passed as "sensitive" areas. Under the guise of a liberal trade measure the strategy would thus provide only a parital solution to the problem of protectionism.

Research has not yet revealed many industries in which the technique would be at all applicable. Serious doubts are therefore cast on the prospects for achieving a sufficient degree of reciprocity between the major trading nations to render a sector-by-sector strategy a worthwhile proposition. Difficulties over achieving reciprocity might be reduced by combining the technique with other techniques, but the problem would still be a substantial one.

Another drawback is that sectoral negotiations would be extremely slow and subject, too, to possible default on the part of a major trading nation.

Free trade treaty option

Whereas the two options discussed above elicit little more than passive interest, the third option appears to be attracting active interest in key places all round the world. This third option would call for the elimination of tariffs on a reciprocal basis and according to a pre-arranged programme of across-the-board reductions. Incorporated in the agreement would be rules of competition for dealing with non-tariff distortions to trade, specific commitments to cover liberalisation of trade in agricultural products and accelerated tariff reductions in favour of developing countries on a non-reciprocal basis.

What the option would amount to is a free trade treaty. It might even be thought of as an extension of the Stockholm Convention. Sir Frank Figgures, its first Secretary-General, once said that EFTA had "enlarged the possibilities of political and economic action open to modern states". Such is the character of many of the advantages of an even wider free trade association.

The promotion of a free trade treaty would provide a bold and effective counter to protectionist trends in Western Europe and North America. It would thus help to maintain the liberalisation of world trade.

As a fresh approach to multilateral trade liberalisation, a free trade treaty would avoid the diminishing returns of a second Kennedy Round (and the bilateralism of *uncontrolled* conditional MFN treatment).

By contrast to another MFN round, the free trade treaty option would not require all the leading industrial countries to agree simultaneously on the desirability of moving to free trade. The pace of negotiations would thus be governed by the most eager and not by the most reluctant.

Those prepared to lower trade barriers would not be obliged to give a "free ride" to countries unwilling to make reciprocal concessions. Yet the GATT's interpretation of the principle of non-discrimination in international trade would not be infringed because the strategy would be authorised under the article in the GATT which provides for exceptions from this general rule.

By contrast to the sector-by-sector approach, the free trade treaty option would prevent prevarication and present instead a clear and over-riding trade policy objective. The treaty's set timetable for removing all tariffs would make it impossible to exclude protectionist strongholds from the system. The treaty commitments would be powerful instruments for dealing with "hard core" tariffs. The strategy would thus be much less likely to peter out in the face of the kind of difficulties that would confront a piecemeal approach.

If the developed countries could agree on how they are going to manage trade between themselves, they would also be able to agree on how to encourage less developed countries to exploit the opportunities of world trade rather than engage in often uneconomic import substitution. Whether it is to be by aid or trade, or a combination of both, an international solution to the problem of poor depends upon agreement among the rich. As has been proposed, a free trade treaty could provide for a self-eliminating scheme of non-reciprocal tariff preferences affording less developed countries greater access to the markets of industrial nations.

A free trade treaty among developed countries would also insure against a division of the world into North-South trading zones. It would have a further integrating effect in that it would be able to take into account the interests of Pacific as well as Atlantic countries. In this way it might smooth the course of political integration in Western Europe and underpin the larger role in East Asia that Japan seems destined to fulfill.

By providing a treaty commitment, a multilateral free trade association could probably provide a more effective means of harmonising non-tariff distortions of competition than the *ad hoc* procedures of GATT experience. In view of the brief, but some what mixed, record of EFTA on policy harmonisation one cannot be certain that a free trade treaty will always prove an effiicent instrument in tackling non-tariff barriers and other harmonisation issues. Included in the proposed free trade treaty would be, as there is in the Stockholm Convention, an agreement to consult and negotiate o nthose practices and policies which have the effect of frustrating the benefits expected from free trade. Like the EFTA constitution, it could require adherence to rules of competition covering such contentious issues as restrictive business practices, rights of establishment (a serious bone of contention with Japan), public procurement policies, anti-dumping measures and government aids to industry.

With a view to changing gradually the direction of policies affecting agricultural trade it should be possible, through such a commitment to consult and negotiate, to devise a programme for harmonising the support given to farmers in the signatory countries. This approach may be employed in another Kennedy Round or under a sector-by-sector strategy. But an approach embracing a commitment to free trade in industrial products may contain the leverage, or put another way the *quid pro quo*, required for progress to be made on the agricultural front.

A free trade association allows members to exercise full national sovereignty in trade relations with the outside world. It is therefore far less exacting than a customs union; indeed, it does not imply any political commitment in the way that a customs union does. For this reason the United States could participate in a multilateral free trade association without upsetting the political balance of the developed world.

The free trade treaty option has attracted widespread interest in Britain. It is frequently labelled an Atantic arrangement. But the explanation for this can be found in the Europeanist/Atlanticist division of opinion. What has been urged though is the open-ended free trade association that Sir Eric Wyndham White has mentioned. Over 120 Members of Parliament, covering most sections of opinion in all three parties, signed an "early day" motion in the House om Commons a year ago calling on the Goevrnemnt to look into the proposal. The principal objection has been expresed by Mr. Wilson who has stated on various occasions that "at the moment" the United States is not interested.

Chairman BOGGS. Thank you very much, Mr. Corbet. We will now hear from Mr. Geiger.

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

Mr. GEIGER. My name is Theodore Geiger. I am chief of international studies of the National Planning Association, a private nonprofit research institution in Washington, D.C., but the views I express today are my own.

My remarks, in fact, outline certain aspects of the analysis in a book I have just completed, tentatively entitled "The Fortunes of the West: Continuity and Change in the Future of the Atlantic Nations," and scheduled for publication later this year. It is impossible to summarize here this analysis of the many interconnected factors and developments affecting the relationships between North America and Western Europe and the limitations and possibilities of the policy choices likely to be open to these countries in the years ahead. Hence, my remarks are confined to the major determinative trends most relevant to the subjects under examination by the subcommittee—which, I hope, will make allowances for the oversimplifications and omissions that are unavoidable in summary generalizations.

Since the other participants in these hearings are focusing on the specific issues in Atlantic economic relationships, I thought I might avoid repetition by directing my paper to the basic way of thinking about the nature of these relationships and the factors likely to determine their course of development during the 1970's, and then to some of their implications for policy. It is as important today to be concerned with how we think about transatlantic relationships as with what we think about them. This increased importance of the conceptual framework for analysis reflects the difference between the postwar period that ended sometime during the 1960's and the new period now underway which—for reasons indicated later—I call that of the new nationalism.

In the postwar period, both the analysis of international problems and the formulation of policies for dealing with them were comparatively simple, especially for the United States. The years from 1945 until the end of the 1950's were a decade and a half of basic reconstruction of an international political and economic system which had been largely shattered by the great depression, the interwar aggressions of Italy, Japan, and Germany, and the immense destruction and disruption of World War II. During these years, there was, moreover, not only a nearly universal conviction that a new world order—more peaceful, just, and prosperous than the old—had to be constituted. There were also two competing designs for such a new world order—one implicit in the expectations and policies of the United States and the other explicit in the ideology of the Soviet Union—and each was backed by a powerful nation possessing the will to try to realize its conception. In such circumstances U.S. policymaking could consist of defining its interests, and those of the world, as it saw them; formulating goals that would represent fulfillment of its and the world's aspirations; and devising policies to move the international system from its then-existing unsatisfactory state to where the United States thought it should be. And, because the international political and economic system needed reconstruction and the United States had the power and the wealth required to play a major role in that process, the dramatic policy initiatives generated by such a way of thinking—the Truman doctrine, the Marshall plan, NATO, American leadership, and support for the unification of Western Europe, and so forth—were relevant and effective; indeed, far more successful than any foreign policies pursued by the United States previously in the 20th century.

However, in the new period in which we are today, a different conceptual approach to policymaking is needed because the characteristics of the world political and economic system are now quite different. For better or for worse, the international political and economic system has been reconstituted. Its existing structure and basic power relationships are not likely to be fundamentally altered in the foreseeable future by either of the two superpowers—or by a possible new superpower, such as China—except by a global nuclear war, which neither of them wishes to initiate. This basic stability does not mean that the international system is any more secure than during the postwar period, for it remains subject to recurrent crises, which threaten to escalate into the dangerous direct confrontations that the superpowers are trying to avoid. In such circumstances, the making of policy is conceptually more complex and psychologically less satisfying than in the cold-war period.

Today, the definition of interests and formulation of goals must be preceded by—

A realistic analysis of the nature of the international system—or the aspects of it with which policy is trying to deal—and of the determinative trends operating in it at both national and international levels;

A projection of the more and the less probable ways in which these determinative factors are likely to evolve over the period for which policies are being planned; and

An objective evaluation of the future possible limits within which goals can be formulated and means for achieving them devised.

The limits of policy choices in the present period are very much narrower than in the past for the United States, since it no longer possesses a significant margin of military power over the Soviet Union, or a decisive disproportion of economic resources and flexibility over Western Europe, or the preponderant political influence in world affairs that formerly stemmed from its military and economic preeminence. Hence, in the present period, effective policymaking requires a much deeper comprehension of what we can and cannot do and a much less passionate commitment to world-transforming goals, however desirable, and to activist means, however satisfying. The significance of President Nixon's recent message on foreign policy is that it represents the conscious expression of this new way of thinking about the nature of the international system and the approach to policymaking appropriate to it. Conversely, the criticism of so many commentators and publicists that the message offered neither solutions to the world's problems nor action programs for bringing them about reflected their continued devotion to ways of thinking appropriate to a period now passed.

What, then, would be the main elements of a conceptual approach relevant to the future probable relationships and problems among Atlantic nations? Its broad outline can be discerned by looking at existing realities and determinative trends at three levels— the international system as a whole, the national societies of the leading Atlantic countries, and the regional system itself—that is, the relationships among its member nations.

WORLDWIDE TRENDS AFFECTING THE ATLANTIC REGION

At the level of the worldwide system, there is only one factor of major importance affecting the future of the Atlantic region. That is the possibility of a global nuclear conflict. Other developments outside the Atlantic region that do not contribute significantly to the nuclear contingency, important as they may be in their own right for the countries involved, do not exert a decisive influence on the development of the Atlantic region. For, the Atlantic countires are not so dependent economically, politically, or socioculturally upon the rest of the world that the probable changes in other regions would fundamentally alter the character of the future evolution of the Atlantic region.

The prospect for global nuclear war relates in the last analysis to the capabilities and intentions of the superpowers, today the United States and the Soviet Union, very likely China during the current decade, and perhaps others over the longer term. Although the nature and severity of the Soviet threat has changed in the course of the 1960's, the Atlantic countries are likely to continue to believe that it is sufficiently serious to perpetuate the need for some form of defense alliance among them. Nevertheless, the Soviet threat is no longer perceived as sufficiently menacing to impel the West Europeans to feel that they have to "unite or perish," as they did during the late 1940's and much of the 1950's. In contrast to the postwar period, when they felt alarmingly exposed to imminent Soviet invasion, their sense of security has steadily increased during the 1960's. Even the two aggressive Soviet moves during the past decade—the Berlin Wall crisis in 1961 and the occupation of Czechoslovakia in 1968—were in time seen in Western Europe to be defensive actions designed in large part to counteract the attraction it exerted on the East European members of the Russian hegemony.

DEVELOPMENTS WITHIN ATLANTIC COUNTRIES AFFECTING REGIONAL RELATIONS

Far more significant for the future of the Atlantic region are the developments occurring at the lowest of the three levels; that is, within the member nations themselves, and especially in the largest countries which exercise the most important influence on regional relationships. These changes within Atlantic societies are of such immense complexity and depth as to defy generalizing about them with reasonable accuracy. Perhaps without too much distortion, I can summarize their significance in terms that go beyond the strictly economic manifestations with which you are already quite familiar.

One major aspect of the basic changes that have been occurring within all Atlantic countries is the long-term trend toward increasingly comprehensive and active management of their national economic systems. The purposes are to assure that resources will grow at an adequate rate, that they will be allocated to meet the expanding diversity of high-priority national objectives, and that there will be neither significant unemployment, on the one hand, nor excessive inflation, on the other. This trend of macroeconomic management needs to be seen not only in its economic aspect but, more importantly, as the reflection of a profound alteration in the values of Atlantic societies. The change is manifested in the unprecedented diversity and scale of the goals that the people of Atlantic countries now believe must be realized as quickly as possible and no longer regard merely as ideals to be achieved, if ever, in some far-distant future. This revolution in basic attitudes and expectations has had the effect of adding new functions and responsibilities to those hitherto believed necessary and proper for governments and private institutions to perform.

In addition to their previous activities, governments now seek to provide minimum incomes and equal opportunities to all, assure rising standards of education and health, protect, and improve the physical environment, rebuild the cities, foster and finance the advancement of knowledge, support the arts, expand recreational facilities to meet greater leisure and earlier retirement, and in a growing variety of other ways better the quality of life for an increasing population. These new needs and expectations are being met not only by expanding the public sector but also by enlisting, pressuring, and regulating the private sector. In varying degree, business firms, too, are helping to improve the environment, renovate the slums, support education, science, and the arts; the universities are acting to reform, and not simply prescribing for, the ills of society; and the churches are trying to make the secular city like the heavenly one. There is not a major institution in Atlantic societies that, voluntarily or perforce, is not broadening its conception of its appropriate functions.

One of the many ironies of our fascinating age is that those who, in the name of higher values deplore the importance attached to rapid economic growth, are themselves among the main perpetrators of the intensified pressures for increasing resources. The fact of the matter is that there are few, if any, among the proliferating values that Atlantic societies are now trying to realize which do not require greater economic resources in one form or another. And, the effort to achieve such goals is practicable for the first time in human history only because the industrialized economies of the Atlantic countries are so productive and have grown so fast. Moreover, the unprecedented productivity of Atlantic economic systems depends upon their size, flexibility, and diversification, upon their intricate and highly interdependent division of labor, upon their cast mechanizaton and spreading automation, and upon the sophisticated knowledge, skills, and motivations that animate them. Assuring the growth and the internal and external equilibrium of these immense, complex economic systems are not least among the more difficult functions that Atlantic governments are now increasingly performing.

Carrying out this expanding range of responsibilities has had the effect of strengthening the institutions of the nation-state in all Atlantic countries. This development is manifested not only in the establishment of new government organizations and the growth of old departments but also in the adoption of new decisionmaking and data-processing techniques more efficient than those used in the past. Moreover, as the agencies of the nation-state have penetrated more deeply and broadly throughout Atlantic societies, people have correspondingly looked more and more to them to protect their interests and realize their aspirations for a better life. In the course of the 1960's, both governments and people have increasingly focused their attention and sense of concern inward upon their own domestic problems and expectations rather than outward upon the roles their countries were or should be playing in the international system. This shift of interest and resources was manifested first in Western Europe and Canada and has only recently become evident in the United States, reinforced by reaction against the Vietnam war. These trends are among the major reasons for characterizing the present period as that of the "new nationalism" (new because it is not outward looking, expansionist and xenophobic like old nationalisms of the 19th and early 20th centuries).

LONG-TERM TRENDS IN THE ATLANTIC REGION

Having glanced at the basic changes taking place within the Atlantic countries, we now turn to some of their effects at the third level of analysis: that of the Atlantic regional system intermediate between the worldwide political and economic system and the individual national systems of Western Europe and North America.

When the Atlantic regional system was reconstructed during the postwar period, certain political and economic goals were felt to have overriding importance. In the main, they reflected the desire to avoid the troubles of the prewar years—aggression, oppression, depression—and the dangers perceived in the emerging cold war. Insofar as the Atlantic region was concerned, the political-strategic objective was the realization of sufficiently integrated mutual defense arrangements to assure the safety of Western Europe against the Soviet threat and the effective mobilization of the resources of the resulting NATO alliance in support of the American conception of a peaceful and progressing world order. The economic goal went beyond the immediate necessities of European recovery to envisage abolition of the many formidable barriers to trade and payments among Atlantic countries inherited from the prewar period or imposed during the wartime and immediate postwar years. Such an integated regional economic system free of neomercantilist restrictions would, it was believed, foster continuing economic growth in the Atlantic countries.

The successes and the frustrations of these policies of the postwar period are too well known to require description here. Suffice it to say that economic integration has gone furthest in the European community (EC), which has completed its customs union and is now trying to unify other aspects of its members' economic systems. With less ambitious goals, the European Free Trade Association (EFTA) has also made notable progress in achieving and maintaining free trade in industrial products. But, the degree of economic integration realized by the Atlantic region as a whole is also unprecedented and has equally momentous consequences. When the cuts agreed upon during the Kennedy round become fully effective, the Atlantic region will have a lower level of tariff barriers than existed before 1914. With the restoration by Western Europe of the current account convertibility of its currencies in 1958 and the burgeoning of the Eurodollar market in the course of the 1960's, the Atlantic region now enjoys an unprecedented scale and freedom of financial movements among its members, despite some continuing restrictions on long-term direct and portfolio investments.

The differences between the contemporary integrated Atlantic economic system and the legendary "golden age" existing before 1914 are not simply of degree but, more important, also of kind. And, it is these new characteristics that are in part responsible for both the benefits of and the dangers to the regional system. The significant differences may be summarized as follows:

In the 19th-century system, trade among Atlantic countries consisted mainly of raw materials (ores and refined metals, fuels, cereals and other agricultural products) and finished commodities for consumption or, as in the case of most textiles, for direct conversion into consumers' goods by handicraftsmen and households. Today, two other classes of goods have become increasingly important—capital goods (production machinery and ancillary equipment of all kinds) and intermediate commodities (semiprocessed metals, manufactured chemicals and synthetic materials, and an immense and growing variety of parts, subassemblies, and components needed to make all kinds of final capital, service, and consumer products).

In the pre-1914 system, the regional flow of good-term capital was almost completely into portfolio investments in other Atlantic countries, rather than into direct foreign investments—that is, into manufacturing, financial, and service enterprises owned and operated by foreigners. Although long-term European holdings in the United States are still largely portfolio investments, the American subsidiaries of European companies have been growing in number and size; and long-term American holdings in Canada and Europe are now overwhelmingly in direct investments.

In reversal of the 19th-century relationship, the total annual output of American, Canadian, and European subsidiaries in other Atlantic countries very substantially exceeds the total regional trade.

Although trade in capital goods and intermediate products began to be significant even before the great increase in direct investment during the 1960's, the two have now become inseparably intertwined. In essence, they constitute the material and the financial aspects of the new characteristic of transnational integration of production in the Atlantic region. This trend exists not only within the EC and the EFTA and between contiguous Canada and the United States but also between North America and Western Europe—the latter development additionally facilitated by improvements in the speed and efficiency of transatlantic transportation.

The transnational integration of production in its material and financial aspects gives the Atlantic regional system a more organic type of economic integration than that conferred on the 19th-century system by trade in raw materials and finished products and by portfolio investment. The ties that bind today are more deeply rooted in the structure and functioning of the constituent national economies than they were then. Moreover, the 19th-century system was willing to accept and endure the consequences of disruptions of trade and capital flows—as in its periodic commercial crises and money panics—whereas the contemporary system is not. Nonetheless, although its integration is more pervasive and powerful than that of the 19th century, the Atlantic regional system is also confronted with difficulties at both microlevels and macrolevels that, paradoxically, are inherent in its integration and continually threaten it with disintegration. In part, they are the long-familiar microproblems of competition among producers in the various countries. In part, however, they are the new perplexities generated by the interactions among national economic systems as a whole: that is, the macroproblems of continuous mutual adjustments related to both internal and external equilibrium.

In essence, the Atlantic countries are today, and will increasingly in the 1970's, be confronted with the tensions between two opposing trends:

To achieve and preserve the regional economic integration needed to foster their economic growth, they have voluntarily committed themselves not to exercise certain sovereign powers over their external trade and payments—powers by which, in the past, they were accustomed to insulate their national economic systems as a whole, or sectors or branches within them, from undesired external influences.

At the same time as they have been forgoing use of these important instruments of economic policy, national governments have been acquiring the new and more difficult functions and responsibilities that impel them to greater and more effective management of their own economic systems at macrolevels and microlevels.

THE LIMITS OF THE POSSIBLE FOR FUTURE ATLANTIC RELATIONSHIPS

All of the current and prospective economic problems within the Atlantic region—trade discrimination, nontariff barriers and distortions, border taxes, import competition, balance-of-payments difficulties, volatile money flows, technological and managerial gaps, adjustment to the multinational corporation, et cetera—under discussion in these hearings, need to be seen within the context of the tensions between these two different trends. For, they define both the limits of the probable realities within which policymakers will have to cope with these and other problems and the kinds of policy measures available to them.

The extremes of the possible range within which these trends could develop are:

> At the one end, the disintegration of the Atlantic economic system, most likely along the major potential line of cleavage running through the Atlantic Ocean. This would resolve the tensions by restoring full control over their macromanagement and mircomanagement policies, on the one side, to the United States and those counrties, such as Canada, voluntarily or perforce associated with it; and, on the other side, to the EC and those EFTA members willing and able to join it in a larger and probably more unified European arrangement.
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> At the other end, complete economic integration of the Atlantic region as a whole. This would resolve the tensions by allowing much greater scope for market forces to harmonize national economic conditions. But, it would require the establishment of a supranational Atlantic authority to enforce the coordination of fiscal, monetary, and regulatory policies needed to insure that income and employment expectation would be met, reasonable price stability maintained, and unacceptable hardships and disparties in different parts of the region migrated.

However, neither of the extremes of this range of possible developments has a high probability. The disintegration of the Atlantic region is inhibited by the continuing political-strategic need for Atlantic solidarity vis-a-vis the external threats to the region's security; by the substantial benefits derived from, and the heavy costs of uprooting, the deep, organic kind of economic integration already achieved; and by the basic sociocultural affinities of its members. Full economic integration of the Atlantic system is equally unlikely because neither the United States nor the West European nations and Canada would be willing to delegate substantial powers of control over their national economic conditions to an Atlantic-wide central authority. Thus, both the probable future development of Atlantic relationships and the means of policy by which they are maintained will most likely be somewhere between these two extremes.

Within this middle range, the two opposing trends—the one reinforcing reginoal integration and the other manifesting the various characteristics of the new nationalism—will continue to operate not only at the level of the Atlantic region as a whole but also within the EC. Thus. their influence is exerted both directly on the relationships between North America and Western Europe and indirectly through their effects on the future development of the EC.

Since its inception, the explicit goal of the EC has been the achievement of a complete economic union which, in turn, would necessitate formation of a political union. And, the EC has expected that movement toward its goal would be sustained by "functional inevitability"—the theory that the more integrated economies become, the greater will be the pressures at both governmental and private levels for further integration—reinforced by the desire of Europe's leaders and people once again to play an independent and important role in the world alongside the existing and other possible superpowers. But, in the course of the 1960's, the waning of the external Soviet menace and the various manifestations of the new nationalism—especially the strengthening of the institutions of the Nation-State and the focus of attention upon internal problems and goals—have drastically altered the effectiveness of the forces conducing toward European economic and political union.

In consequence, the growth of supranational authority within the EC—the essence of the unification process in the full sense of the term—has become almost imperceptible. Nor are the factors that have brought it virtually to a halt likely to change fundamentally in the foreseeable future. Thus, while the achievement of the EC's original goal of economic and political union remains within the limits of the possible it has a quite low probability—about as low as the opposite extreme of dissolution of the EC into its component nations.

It is much more likely that the EC will also remain within a middle range. And, this probability is increased by the prospect of the EC's enlargement. The addition of the United Kingdom, Denmark, Ireland, Norway, and perhaps other EFTA members would reinforce the existing factors inhibiting the movement toward European union. The inevitable struggle for leadership within the enlarged EC among the "big three"—England, France, and Germany—would tend to slow down the decisionmaking process and to limit it to the lowest common denominator of acceptable compromises. Such a situation is implicit in the general expectation that England and France would be able to counterbalance the increasing economic and political power of Germany. Moreover, if the British and the French were unwilling or unable to collaborate effectively, their failure would probably bring the unification movement to a halt owing to the fear of all the other members that the Germans would dominate the union.

The diminishing prospects for European economic and political union do not, however, mean that economic integration within the EC is unlikely to increase. Indeed, the opposite will probably be the case. But, further economic integration will not, in my judgment, be accomplished by delegating to the supranational authority much, if any, of the crucial fiscal and monetary powers traditionally exercised by national governments. While additional revenues may be assigned to the European Commission, it and the European Parliament are not likely in the foreseeable future to be given the power to levy economically significant taxes at their own initiative. Nor, despite current discussions of monetary union, is a European central bank likely to be established with the power to regulate money and credit in the EC as a whole.

Instead, further economic integration in the EC will in all probability be achieved through greater, but still voluntary, coordination of economic policies by the member governments. Although politically easier, it is economically more difficult and less efficient. Nonetheless, it is sufficiently feasible and effective to yield worthwhile benefits at a cost in reduced freedom of action that national governments are likely to be willing to pay.

The probability that European integration will be limited to that achievable by coordination rather than supranationalism is reinforced by Western Europe's parallel interest in Atlantic integration as a whole. For, the West European nations have an even greater stake in the preservation and improvement of Atlantic economic integration than does the United States. For example, the benefits of freer access to an Atlanticwide market several-fold larger than its own impelled the EC in the Kennedy Round to agree to substantial reductions in its common external tariff, thereby risking one of the most important advantages and symbols of its own integration. In the years to come, the EC will be under continuing pressure, on the one hand, to maintain and extend its own economic integration and, on the other hand, to preserve and increase Atlantic economic integration.

SOME IMPLICATIONS FOR POLICY

The tensions among the various trends within Europe and in the Atlantic area as a whole continually generate specific problems and issues between North America and Western Europe. They would be intensified if the EC were enlarged because the issues between it and North America would no longer be partly buffered and diffused by the United Kingdom and the other EFTA nations.

There are two kinds of policy approaches for dealing with the difficulties and dangers in transatlantic relationships during the 1970's:

> The first would handle each problem as it arises, considering it in its own terms, and endeavoring to negotiate an acceptable compromise between the interests involved, or a package of compromises covering several simultaneous issues. However, under this approach, new difficulties would soon replace the old. The continued exacerbation of feelings on both sides would very likely lead to a vicious spiral of restrictions and retaliations that would increase the probability of the disintegrative extreme of possible future Atlantic relationships.
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> In contrast to the first approach, which treats symptoms as they occur, the second would endeavor to mitigate the underlying pressures from which the specific problems arise. Eliminating them completely would, of course, require the full economic integration of the Atlantic region which, as explained above, has a low probability. But, there are steps that can be taken well short of full integration which could reduce the underlying tensions sufficiently to eliminate many of the symptomatic problems and benefit both sides of the transatlantic relationship in other ways.

The second, more creative approach is by nature more difficult, requires more statesmanlike leadership on both sides of the Atlantic, and hence will take much longer to be adopted. Nonetheless, there is a considerable probability that the continuing frustrations and dangers inherent in the first approach will sooner or later provide to necessary incentives to Atlantic statesmen to choose the second. At the same time, the self-reinforcing momentum inherent in the economic integration process—while by no means as irresistible as the functional inevitability envisaged by European unionists—will be a powerful positive force operating to broaden and deepen the regional integration already achieved at both governmental and private levels.

Some of the policy initiatives and measures that might be involved in the creative approach can be briefly indicated:

1. Abolishing the remaining tariffs and quota restrictions among Atlantic countries: It is unfortunate that discussion of Atlantic free trade in recent years has largely been as an alternative to British membership in the EC. Although relevant to that issue, this way of considering the subject is not the context in which free trade among Atlantic countries is likely to become a significant probability. Rather, it would grow out of an effort to treat causes and not symptoms—the recognition that recurrent trade disputes are too costly and dangerous. Hence, the willingness of Atlantic governments to undertake serious discussions of Atlantic free trade would probably not develop until the second half of the current decade. Such negotiations would be difficult. Most, if not all, agricultural products would have to be included in the arrangement; but changes already incipient in the EC's own agricultural situation and policies could make possible during the next 5 or 6 years the kind of meaningful agreement that would be quite unlikely in the short term. Fairly long transition periods might also have to be permitted for certain industrial products. The Atlantic countries might be willing to open their free-trade arrangement to nations in other parts of the world—Japan and perhaps others—willing and able to join it.

2. Narrowing transatlantic gaps and competitive disparities: The longer Atlantic economic integration persists and the more deeply its effects permeate the economies involved, the narrower will be the economic disparities of all kinds among the countries of the region. Competitive pressures and cooperative arrangements among business firms of different nationalities are already fostering greater technological research and faster dissemination of the results, stimulating more innovative attitudes and efficient managerial methods, and continually redistributing comparative advantages and disadvantages within the Atlantic region. Thus, in the last few years, European business firms have begun to react positively to increased competition by adaptations of American management methods, growing professionalization, greater mobility of younger executive and technical personnel, larger research and development expenditures, and more aggressive marketing activities. These trends could well mean that le défi américain of the 1960's would be offset by le défi européen of the 1970's—and both could be confronted by le défi japonais. The accelerated diffusion throughout the Atlantic region of new technology not only in multinational corporations but also by cooperative arrangements among independent enterprises will make it more difficult for countries like the United States, much of whose comparative advantage lies increasingly in the advanced, science-based industries, to maintain adequate levels of exports and of employment and incomes in economic sectors and localities adversely affected by import competition. Hence, Atlan-

tic free trade would redouble the already evident need for coordination among the countries concerned of their micropolicies and programs for relieving local distress, attracting new investment and skills to declining towns and areas, and facilitating the shift of resources to more competitive economic sectors. And, there will probably be a few very recalcitrant situations that can only be handled by restrictive measures mutually agreed upon after multilateral negotiations.

3. Coordinating macromanagement policies: Free trade would allow greater scope for the automatic harmonization of national economic conditions by market forces. But such further deepening of the contemporary organic kind of regional economic integration and the characteristics of the new nationalism would combine to bring about a significant change in the nature and scope of the coordination of macromanagement policies needed to guide and supplement the operation of market forces and to offset their unacceptable consequences. In essence, this means that foreign economic policy, hitherto divided into largely unrelated functional subjects—that is, trade, monetary, investment, and other specific policies—would have to be formulated in a more comprehensive conceptual framework, which would treat its aspects as closely interrelated and partly substitutable instruments of macromanagement. More important, it means that Atlantic governments would relate these means of policy much more closely to the domestic side of their national economic policymaking and would consult with one another on the whole range of macromanagement policies before changing those elements likely to induce disruptive flows of goods and money among countries. The organizational means for more effective coordination of macroenconomic policies already exist in the OECD and the monthly meetings of Atlantic central bankers in Basle. The pressures and dangers in the regional economic system could gradually foster the willingness to use them more effectively. The extent of national economic policy coordination likely to evolve for the Atlantic region as a whole would be substantially less than in the more integrated EC but could still be sufficient to reduce significantly the severity and frequency of disruptive swings within and among the countries involved.

4. Easing balance-of-payments difficulties and exchange rate adjustments: From time to time, one or another Atlantic country is bound to be unwilling to accept the consequences either of harmonization by market forces or of coordination of national economic policies. Hence, it should have open to it the possibility of appreciating or depreciating its exchange rate more readily than has been the case during the past two decades. Some degree of greater flexibility would be desirable, as provided in the proposals for wider bands and crawling pegs. But, in addition, more favorable attitudes toward deliberate changes in parities are needed and are likely to be fostered by the beneficial results of the recent changes in British, French, and German exchange rates. Indeed, the success of thees actions will probably strengthen the reluctance of the member governments of the EC to forgo this important instrument of national economic policy despite their expressed desire to work toward monetary union. And, if U.S. balance-of-payments difficulties become more critical during the 1970's, the option of altering the exchange rate of the dollar may have to be made available to the United States.

The course of development likely to ensue under the creative approach would not be, however, a panacea for the problems of the Atlantic region. The nature of these difficulties is such as to make their complete removal unlikely because the means for doing so will continue to be politically unacceptable. But, neither is it probable that the problems would be so magnified as to precipitate the splitting of the region. Thus, the Atlantic system will continue to be plagued by serious economic issues, political difficulties, and psychological anxieties and frustrations which, even if they cannot be resolved, will at least be prevented under the second approach from fatally undermining the security, prosperity and dynamism of its member nations.

If successfully pursued, the creative approach of increasing Atlantic economic integration would involve progressive restrictions on the freedom of action of national governments. Such a trend would mean that, along with the strengthening of the domestic institutional bases of Atlantic nation-states, their scope for conducting independent economic policies and actions would be narrowing. In effect, they would be exercising their sovereign economic powers more and more in common. This process differs sufficiently in its organizational and operational manifestations from the deliberate transfer of crucial economic functions to supranational authorities for it to be much more acceptable politically and psychologically by both the United States and the other Atlantic countries. Thus, while the institutional roots of nation-states would continue to spread wider and deeper within their own societies, their branches would grow more and more intertwined and interdependent. The perimeters of the sovereignties of the Atlantic countries would become increasingly blurred as they tacitly renounce more and more of their freedom of action and deliberately concert more and more of their policies.

This course of development would not be likely in the foreseeable future to lead to the formal merger of sovereignty in an Atlantic federation, for the reasons explained above. But, if the trend continues for the remainder of the century, it could well be that new forms of large-scale social organization would imperceptibly evolve at both Atlantic and European levels that, in accordance with the paradoxical nature of human history, would in quite unintended and unexpected ways both preserve the diversity and strengthen the unity of the region. Such developments would mark the end of the current period of the new nationalism, at least for the Atlantic countries. Whether and in what circumstances the independent sovereign nation-state might in this manner eventually pass away are speculative questions whose determinants within Atlantic societies and in the regional and international systems lie beyond the range for which a projective analysis can validly be made. Nonetheless, it is probably that, for all its continuing tensions and problems—indeed, in part because of them—Western society and culture will still be capable of great creative acts of innovation and statesmanship when the times are again propitious for them.

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

We will now hear from Mr. Goetschin.

STATEMENT OF PIERRE-ROBERT GOETSCHIN, MANAGEMENT DEVELOPMENT INSTITUTE, LAUSANNE, SWITZERLAND

Mr. GOETSCHIN. Mr. Chairman, I must first apologize for not having submitted a written statement before this session. Time was extremely short and professors are lazy. This is why they are professors anyway.

And I ask for permission to submit my written document a few days after these hearings.

Chairman BOGGS. Without objection it may be done, sir.

Mr. GOETSCHIN. Thank you, Mr. Chairman.

Mr. Chairman and gentlemen, first of all I would like to say how honored I feel to have been offered the opportunity to give evidence before your committee. I congratulate you on having taken the initiative of inviting to your hearings several people from foreign countries. You are thereby setting a precedent which could be followed and adopted in other countries.

I believe that conflicts and discords are often the result of bad communications and insufficient information. Your initiative is a way to improve mutual understanding in international relations.

In the light of today's discussions, it seems to me, as a foreigner, fitting to render homage to a certain American vision of the world which is illustrated by the support given to the Bretton Woods tenets, by the Marshall plan and above all, more recently, by the launching of the "Dillon round" and the "Kennedy round."

It is a remarkable fact that during the past 20 or 30 years the American economic philosophy in the field of international relations has been essentially prompted by the desire to promote the expansion of world trade and international investments by means of the well-ordered elimination of commercial and financial restrictions of all kinds and by the creation of institutions suitable for supporting and consolidating such an evolution.

The vast increase in international economic relations, based to a large extent on the freedom and initiative of private enterprise has brought numerous gains; incomes and standards of living have risen considerably in all countries which have taken part in the liberalization process. So that even if the customs duties have not entirely disappeared and the nontariff barriers are still important, that the liberty of movement of men, capital and "know-how" is still subject to cumbersome impediments, that the monetary problems are far from being wholly resolved, it must nonetheless be fully realized that tremendous progress has been achieved and that American initiative and leadership have, in this context, been a determining factor, even if here and there a slowing down of the rhythm has been caused by laggard counteroffensives.

This permanence of American objectives is worthy of respect and those who rejoice in the progress achieved can only hope for the maintenance of as firm a policy in the future.

The object of our discussion is economic regionalism which seems, on more than one score, to be in opposition to a system based on a world scale and on freedom of international economic relations, which seems to question certain aspects of the progress realized previously and which gives rise to conflicts and disparages such widely accepted concepts as the most-favored-nation clause.

These difficulties are illustrated by various antagonisms which have characterized the relationships between the countries of the Common Market and those of the European free trade area as well as between the United States and the Common Market, particularly in the field of agriculture and border taxes.

In my opinion, economic regionalism is an inevitable phase of the present economic evolution. We should not forget that almost all modern states are in fact themselves the product of a progressive economic and political integration of several regions. The most evident examples are without doubt the United States and Switzerland.

In my own country, it has taken more than a century for integration to reach its present level and one can say that it has still not been totally achieved. For example, the fiscal systems in the different Swiss cantons are sufficiently divergent for one to have the impression that certain forms of discrimination exist within the Confederation itself.

One can admit here the analogy between the process of economic integration between States and the process of merger between firms. The firms combine their resources according to the principle of synergy which requires the pooling of these resources in order to obtain results that are more positive than if they would continue to be exploited separately. It is known that mergers demand compromises and sacrifices from those who participate in them, and if such mergers are successful they provoke a greater menace for competitors due to the fact of the increased power of the new entity.

The experience of conomic life seems to show that in most cases the long-term benefits of the merger for the firm and for the community at large are superior to the costs that have to be borne temporarily by the participants and the competitors. The same can be said, I think, for economic integration at the regional level.

In the economic sector, the achievement of symbiosis between several nations is considerably more complicated than the mergers of companies. The interests of the partners can diverge greatly even if they have common objectives, and the solution of such conflicts may require some isolation from outside pressures. Some sort of protection, at any rate temporarily, is an almost inevitable consequence of any integration process. Although this is much less evident, outsiders might suffer such discriminations for a while if they believe that they will derive increased benefits from the success of the operation, for instance, if the new market is such that they will increase their business with it.

In this spirit, the United States have accepted the discriminations imposed by the Common Market, judging that the political and economic goals of the EEC on the long-term justified discomfort on the short term.

All this to explain that regional economic integration on all continents will be a characteristic of the next few years. Neighboring nations will naturally try to pool their resources in an attempt to survive in the face of large and powerful integrated units. And this process will probably involve some form of discrimination. The essential factor, however, is that these discriminations should remain within a tolerance that can be borne by the outside members of the international community, and that they do not last too long. They should not threaten the building of the really desirable worldwide integrated units, which is a worldwide community, even if such a goal looks at the present time somewhat unrealistic and remote.

It is evident that viewpoints will be widely divergent as to what is tolerable and as to how long the discrimination should last. Up till the last few years, the problem has been partially resolved in the industrialized world by the major tariff negotiations which have helped to reduce the length of duration of the tariff discriminations and to diminish their burden. It is absolutely essential that this is carried on. In fact, this has led to a somewhat interesting pattern. Regional integration has been followed relatively fast by international negotiation, the aim of which was to attenuate the discriminatory effect of the first move.

It is probably very difficult to have the two things going parallel, but the international negotiation should be planned in such a way that integration progress at regional level is quickly followed by similar progress at world level.

Because of the rapid evolution of the EC, and of its possible expansion, it is essential that the industrialized countries should enter into another bout of international negotiation about tariff reduction, and try to eliminate the cumbersome barriers to trade.

A necessary corollary to this of course is that the Kennedy round be entirely completed and achieved, and this, incidentally, also includes such things as the American selling price.

The industrial world is already a semi-integrated economic system, with several powerful partners, almost to the point where one can make an analogy with an oligopolistic structure. Autonomous decisions taken by any one of these partners has immediate impact and detrimental consequences for others. In a game where the players are powerful but few, a move made by any one of them has great impact on the rest.

Such a situation is propitious to the outbreak of major conflicts if there is no coordination. If coordination exists and is efficacious then, on the contrary, the advantages of concerted action can be very great.

In this sequence of ideas one must in effect admit that the policies concerning money and credit, taxes, labor, scientific development, education, health, and pollution will become progressively more important than tariff policies in the strict sense of the term.

This tendency will naturally necessitate a more global view of the phenomenons of integration and will force the mechanisms for international coordination to be extended and perfected, implying more than the mere removal of obstacles to trade.

Agriculture is a case which illustrates the situation. It is not only possible to solve the agricultural problem exclusively by removing a certain number of barriers, the problem is to look deeply into the agricultural policies themselves within the long term view.

In the same way that, over the last few years, we have seen a much more intense monetary cooperation, an evolution of the same kind will have to come about in the fiscal sector or in other fields, where subtle discriminations can occur.

In summary, it seems to me that economic regionalism is going to be a distinctive trait of the next decades, in the industrialized as well as in the less industrialized world. This process will almost inevitably bring in its wake a certain number of discriminations which might have to be accepted for the sake of constructing stronger economic units, on the condition that these discriminations are not excessively burdensome for third parties and are of limited duration.

It also seems that the traditional barriers to trade will become of lesser importance in comparison to policies in other fields, which might turn out to be also discriminatory. If the perspective of a free world market is the guarantee of the greatest efficiency in the use of resources, it is absolutely indispensable that the mechanism for international negotiations be kept and improved in order to provide for a systematic and orderly removal of these discriminations in the shortest possible time.

Switzerland, because it is a small country, in an unfavorable geographic position, and lacking in natural resources has been obliged to adopt a worldwide outlook on the question of trade.

At the same time, it is part of the European continent and it realizes the importance of an intense and far-reaching cooperation between European countries. For this reason, it wishes to insert itself, in a form that is politically acceptable, into a regional system while hoping wholeheartedly that this regional system will not close in upon itself but that it will remain turned toward the rest of the world with a wide optic.

It is for this reason that Switzerland belongs to EFTA, that it has asked for association with the Common Market and that it feels a close affinity with the point of view upheld by the United States on the question of international commercial policy.

Switzerland can only hope therefore that the trade bill of 1969 does not represent a period of stricture but a point of departure for an American initiative with a view to a new international economic negotiation, going beyond the objectives of the Kennedy round.

The industrialized countries cannot allow themselves to remain in a status quo and still less allow themselves to indulge in protectionist tendencies and, what is worse, in retaliation policies. This would not only be costly from an economic point of view but would also render the solution of the problems of the least developed countries still more difficult.

Switzerland is no doubt not the only country to have such an outlook and I am persuaded that an American program of liberalization similar in its significance to the preceding ones would find a very positive echo in several countries, Switzerland included.

Even though not an expert in diplomatic relations, I think that a joint action could even be envisaged on the part of the countries who consider that the regional integrations only make real sense if they finally pave the way to a world community.

Such an initiative is all the more necessary because the nations engaged in regional integration procedures naturally tend to give priority to the solution of problems of internal adaptation to which such an integration gives rise. Therefore, it is necessary to have the two movements simultaneously, regional and world, otherwise the temptation to turn in upon oneself could be too strong.

However, it is necessary to be full aware of the fact that with a constant technological progress and growing competition, the industrial world of the advanced countries is confronted with profound structural mutations in the industry, agriculture and other sectors.

The Trade Expansion Act of 1962 and the present trade bill have introduced and confirmed the concept of adjustment assistance. Even if the implementation of such measures is full of difficulties it is essential that the future negotiations are also aimed at coordinating the measures to be taken to facilitate the adaptation of firms, and industries and people.

The uncertainty that reigns over the future evolution of international economic relations and the insufficiency, in almost all countries, of the policies that encourage swifter changes to take place in the industrial and agricultural structures tend to reinforce the protectionist reactions. Simply to eliminate the obstacies before the horses move onto the course is not sufficient, one must insure that the horses want to race well.

It would be regrettable if governments choose the methods of adaptation for the industrial and agricultural structures influenced only by the menaced national sectors and without seeking international coordination.

A new international economic negotiation should therefore be concerned more than has previously been the case with the problems of the threatened sectors and would seek, as a group, the measures that would allow the adaptation of the structures in order to replace them as rapidly as possible in the context of world competition.

But there is another kind of assistance which has been developing for a few years. And this is in respect to the new and modern sector of technology and industry. Every country has tried to specialize in the kind of activities in which it has the best aptitudes. But everyone also hopes in this age of science to develop its technology to the highest possible degree.

This is even more true in large integrated groups, in which every avenue of activity is possible, and desired. Therefore we see everywhere government and industry joining forces for the sake of attaining high technology and building thereupon modern economic systems.

This will lead to several kinds of financial or other supporting measures that will not always conform completely with market mechanism. Here again in the future coordination and collaboration will be necessary on a world scale.

The fact that any new international commercial negotiations will encompass not only tariffs, but also the nontariff barriers, international investments or even economic policies, not to speak of the relationships with the developing countries, for whom the tariff barriers are less important than industrialization, would signify that such negotiations will be more complex than the preceding ones.

The identification of obstacles and the quantification of the advantages or disadvantages of such and such a solution would be harder and this could give rise to diffidence or to fear. The GATT has played its role of organizer of tariff negotiations very well, notably those of the Kennedy round. A new negotiation will also very possibly be within the GATT framework.

It seems to me that one should not delay in reinforcing further this institution by giving it the means to put into operation all the modern methods of administration which would be of assistance in the preparation and the straightening out of the complex negotiations.

It is necessary not only to resort to the aid of electronics and computers but also to equip the GATT so that it can continue more thoroughly than ever all its studies and its research so that it will gain a better understanding of the problems, an essential condition in the search for the intelligent solutions.

In conclusion, I consider, that—

(*a*) it is advisable to encourage efforts of economic regional integration when these help toward a better mobilization of the resources of the countries who choose this formula;

(*b*) it is necessary to continue rapidly and without respite the efforts that will lead to the realization of an economic integration of all the industrialized countries, taking into account the growing interdependence with the developing countries;

(*c*) it again rests with the United States, in agreement with the nations who pursue the same goals, to create the conditions for a new international economic negotiation destined to promote the free movement of men, ideas, products and services between states;

(*d*) such a negotiation ought to deal at the same time with the tariff barriers and the nontariff barriers and should also concern itself with the harmonization of economic policies which have a direct or indirect repercussion on exchanges; and

(*e*) the GATT, central tool of such negotiations, must be strengthened so that it is capable of ironing out as far as possible the greatest technical difficulties that one can imagine future negotiations would create.

Thank you.

Chairman Boggs. Thank you very much.

Mr. John M. Leddy, former Assistant Secretary of State for European Affairs is our last scheduled witness for this morning's session.

STATEMENT OF JOHN M. LEDDY, FORMER ASSISTANT SECRETARY OF STATE FOR EUROPEAN AFFAIRS

Mr. Leddy. Mr. Chairman, my statement would have been in your hands a few days ago if it had not been for the fact that the Post Office Department took 4 days to carry a special delivery letter from Foggy Bottom to Capitol Hill. I am sorry about that. But it is a very short statement, and I will just read it into the record.

Chairman Boggs. Thank you.

Mr. Leddy. Mr. Chairman and members of the subcommittee, thank you for inviting me to comment as a participant in your panel hearings on economic regionalism. It is a pleasure to respond.

I would like to address briefly and in general terms a few of the more significant issues concerning European economic integration and political unity, looking at them from the standpoint of the American interest.

THE AMERICAN STAKE IN EUROPEAN UNITY

To begin with a rhetorical question: are the European Communities, and the prospect they offer of eventual political unity among the Community members, in the overall interest of the United States?

In one sense the question is fruitless. There was a time when American influence was important, and indeed at certain stages critical, in the evolution of "Europe" beginning with the Coal and Steel Community in 1950 and continuing through the formation of the Common Market in the Treaty of Rome in 1958.

When the Marshall plan was launched more than 20 years ago America could have opted for a policy of "divide and rule." Instead it bet heavily on European unity, first economic and then political.

It is too late in the day to remove our stakes from the table. The European Communities are there and progress toward full economic union continues to be made—sometimes by fits and starts as periodic crises emerge—but progress nevertheless.

In my judgment this process is irreversible. The dynamic of the Communities is that as each problem is solved by common action, its solution creates new problems, which can then also only be solved by common action. The dynamic appears to be working.

It is no accident that the Communities are now undertaking studies looking toward a common currency. This is done not just as an exercise in finding useful areas of intergovernmental cooperation but because a common currency will one day be necessary if the economic system envisaged in the Treaty of Rome is to function effectively.

THE AMERICAN POLITICAL AND SECURITY INTEREST

Nevertheless, although the United States can't turn the clock back it is just as well to remind ourselves occasionally of the reasons why we shouldn't even if we could. There are still those who for varying reasons would like to see at least a diminution of American support for European unity. Some prefer the "divide and rule" approach; or to put it as some Europeans would, American "domination." Others feel that American support for European unity diverts attention from their own objective of an Atlantic union. Still others seem to think that a North Atlantic free trade area might be better than a united Europe with Great Britain as a full member.

The case that a fully united Western Europe would be in the best interests of the United States seems to me as strong as ever; and indeed perhaps stronger. As the United States and the U.S.S.R. have emerged as superpowers, the once-great European states have receded to the status of small and medium-sized powers.

So long as this condition exists the Western Europeans, including importantly Great Britain, cannot again play a truly significant role on the world stage of politics and security. In this area America certainly needs a strong partner, a partner which can only be found in a politically united Europe. What is more, Europe's ability to contribute to the defense of the Atlantic alliance itself will continue to be inhibited by the condition of political separatism. While a substantial American security involvement through NATO, including substantial American forces in Europe, will continue to be necessary for the foreseeable future, the political will of the European citizen to do more in the common defense would be greatly enhanced by the formation of a European political state which would be on a scale comparable to that of the two super-powers.

I believe it was wise, therefore, for the President, in his foreign policy message last month, to reaffirm as strongly as he did American support for the goal of European unity while recognizing that the leadership responsibility for its development must lie with the Europeans and not with the United States.

THE AMERICAN ECONOMIC INTEREST

However, there was one passage in the President's message which troubles me, and which leads me to my next point: the American economic interest in European economic integration.

One page 32 of his message the President said:

> We consider that the possible economic price of a truly unified Europe is outweighed by the gain in the political vitality of the West as a whole.

I am troubled by this passage because it appears to imply either that European economic unity is not economically advantageous, overall, to the United States; or that we should accept damaging trade measures by the Economic Communities simply because they are taken by a unified Europe.

In my view neither of these propositions is supportable.

It is not necessary to reach back into customs-union theory to support a hypothesis that full-fledged customs unions are more likely than not to benefit world trade as well as trade among the customs union partners.[1] The facts are available for analysis. I think there is no doubt that the impetus to economic growth given by the formation of the Common Market, helped along by the reduction of external trade barriers through successive tariff negotiations, has yielded a much larger flow of profitable trade and investment between the United States and the Common Market countries than would have taken place if the six members had maintained their separate national customs territories.

I do not wish here to get into numbers. The facts are readily available to the subcommittee. Some have recently been provided by the European Communities in a note to our Ambassador to the Communities, J. Robert Schaetzel, and subsequently published. Among other things they show a substantially larger 10-year growth of American exports to the European Communities than to EFTA and to the rest of the world.

But to me the most persuasive point is this: Segments of agriculture apart—more on this below—I know of no substantial sector of the American economy which would like, on trade or investment grounds, to see the Common Market dissolved and its separate economic and trade barrier systems reconstituted on a national basis.

I think that this is so; and if it is so, it speaks louder than statistics about the American economic interest in European economic unity.

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[1] Even Professor Jacob Viner, who in his outstanding work, The Customs Union Issue (1950) challenged the uncritical assumption that all customs unions are necessarily good, recognized that "On economic grounds, there can be little basis for reasonable doubt that the formulation of a customs union embracing all or most of Western Europe—would, in the net, contribute both to the economic recovery of Europe, once the necessary adjustments had been made, and to a greater degree of international specialization."

UNITED STATES–EUROPEAN COMMUNITIES CONTROVERSY

Yet the net economic and financial benefit to the economy of the United States which results from European economic integration does not mean that we should overlook, in the name of European unity, damage to our trade or investment caused by restrictive or inequitable actions taken by the European Communities.

If the Common Market is now a "Big Boy" no longer needing our tutelage, as the President's message clearly states, then we should treat it as such.

There is no longer any need, if there ever was, for pulling our punches in insisting with the Economic Communities on the same principles of reciprocity and mutual advantage which we have applied in our economic relationships with any major foreign country. We have had, for example, innumerable economic arguments with Great Britain and, after hard bargaining on both sides, have solved them or forgotten them with more or less success.

We should apply the same approach to the European Communities. We had a "chicken war" with the Common Market and will no doubt have other arguments of this kind. The point is, there is no reason why the United States should not insist upon its commercial-policy rights and economic interests in dealing with the Common Market just as it does in dealing with any other major foreign country.

SOME SPECIFIC ISSUES

Two major specific issues which are on the debating table between the United States and the Common Market are the—

(1) Adverse effect on American agricultural exports of the common agricultural policy (CAP), and

(2) Carefree way in which the European Communities seem to be pursuing their external commercial policy through preferential arrangements with third countries.

Let me discuss briefly each of these in turn:

THE COMMON AGRICULTURAL POLICY

The CAP has been a thorn in the flesh of American agriculture from the beginning; and almost wrecked the Kennedy round of tariff negotiations.

But the problem has not been the existence of a common agricultural policy, as such, among the Six. Agriculture had to be brought into the system of economic integration or the Treaty of Rome would have foundered from the very start. A European Economic Community could no more read agriculture out of an integrated market than we could read American agriculture out of our own economy.

The problem has rather been in the—

(1) Techniquest of the CAP in boosting domestic farm prices above world market prices almost exclusively by shutting down on imports, and

(2) Restrictiveness with which these techniques have been applied to imports.

Ambassador Schaetzel reports that although U.S. agricultural exports did increase substantially to the European Community until 1966, thereafter they have declined by about 6 percent annually.

As members of this subcommittee well know, the United States also has its agricultural import restrictions, which result from our domestic price-support policies accompanied by section 22 restrictions on imports and, from time to time, export subsidies.

So that there are trade barriers to agricultural exports and imports on both sides. Yet it is true to say that American agriculture is more efficient than European agriculture; and a sensible international economic order involving governmental intervention would give more opportunity for the growth of efficient American agriculture and less for the growth of higher cost European agriculture.

Agricultural restrictions on trade have been a matter for controversy, sometimes hot, in GATT for many years.

I know of no easy or satisfactory answer to this through the traditional route of negotiating about trade barriers (we made such commitments ourselves in GATT some years ago but later had to withdraw from them mainly because of our dairy restrictions).

Perhaps the only way is to attempt to leap over the trade barrier problem and negotiate directly on internal price-support levels and methods between the Common Market and ourselves. Certainly the CAP is not working well. Surpluses are now accumulating in Europe where deficits were the rule. This may well force a rethinking on the part of the Europeans as to the wisdom of their agricultural policies.

But to reiterate my main point: it is the form and restrictiveness of the CAP that is at fault, not the fact that it is common to the Six, an element that is central in any scheme of economic integration.

COMMON MARKET "ASSOCIATION" AGREEMENTS

I put the word "association" in quotes because it is too often a euphemism for simple preferential trade arrangements or other discriminatory arrangements having little or nothing to do with full membership in the Common Market or the idea of European political "unity" in the right sense of that word. About the only effect of arrangements of this kind is to put the outside trading world at a disadvantage without contributing to the economic objectives of the Treaty of Rome or to the ideal of political unity which lies behind it.

According to press reports the European Economic Commission is about ready to put the final touches on an agreement with Spain providing for selective and preferential tariff cuts in both directions which, as described in the press, will almost certainly not live up to the standards of GATT governing customs unions or free-trade areas.

Whatever political papering is used to cover an arrangement of this sort it is hard to accept it in the name of European unity at a time when most Europeans refuse to invite Spain to become a member of NATO.

Other so-called association agreements seem to be in the offing—including Austria, Sweden, Switzerland, the Arab States, and Israel.

The United States has repeatedly emphasized its objections to arrangements of this kind, both to the officials of the Common Market in Brussels and to the governments in the capitals of the Six. The

Europeans have been singularly deaf. I have the impression that the European Communities have no settled or reasoned external commercial policy; that they engage in these deals because of expediency and political log-rolling.[1]

I believe that when such deals are consummated the United States should oppose them in GATT and if carried through notwithstanding GATT we should insist upon commercial compensation either through withdrawing concessions ourselves or obtaining concessions from the others. And even if a particular deal—say a free-trade arrangement between the Common Market and Switzerland—is technically "GATTable" under the free-trade-area exception of article XXIV, we might well consider requesting compensation, if our trade is damaged, in accordance with the concept of nullification or impairment provided for in GATT.

At any rate, the present course of the European Communities, if continued, may well make a shambles of the most-favored-nation clause among the developed countries as we know it today (I leave aside the subject of Common Market preferences with former African territories of European states, a subject which has a unique historical and transitional background.)

BRITISH ENTRY INTO THE COMMON MARKET

United States support for British entry into the Common Market dates from 1961. The British had opposed the Common Market concept beginning with their refusal to join the Coal and Steel Community in 1950; continuing with their futile efforts to displace the movement with a Europewide free-trade area, efforts which failed with the signing of the Treaty of Rome in 1958; and continuing even further with the information in 1958, along with the Scandinavian countries, Austria, Switzerland, and Portugal, of the European Free Trade Area (EFTA) which seemed designed to sink the Common Market ship despite the Treaty of Rome.

Whether Britain was really ready to join the Common Market when it sought membership in 1961, or whether it was wise for the United States to support this course as early as 1961, is a matter for the historians.

What seems to me now, however, is that the Britain of today is truly prepared to become a full member, with all that that implies, both economically and politically. A turning point may well have been the British decision in 1968 to withdraw, substantially, its military presence from "East of Suez." With this fateful action, plus the accumulated erosion of both their Commonwealth ties and their "special relationship" with the United States, the British faced a future of becoming either an isolated "little England" or a vital part of a larger world entity, namely the European Community.

At any rate, it is this line of reasoning that leads me to believe that on the British side the renewed negotiations have prospect of success. And on the continental side the political barrier, at any rate, seems to have been lowered if not eliminated with the departure of General de Gaulle.

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[1] It should be noted, however, that the recent trade agreement between the European Communities and Yugoslavia appears entirely acceptable; mutual trade-barrier reductions extended to others on an unconditional most-favored-nation basis.

Nonetheless, the transitional economic costs of British membership will be sizable, especially in the field of higher food and agricultural prices to the British consumer. The technological gains to Britain and the continent should also be substantial, although longer run. But politically, there can be little about that America, Britain and continental Europe will be better off with the full engagement in Europe of the British talent for making technology, government, and democracy work.

NAFTA

A final word about the idea of a North Atlantic Free Trade Area. I can do no better than to echo the words of Mr. Eric Wyndham-White in his appearance before this subcommittee last December 3. He called NAFTA an "imaginative fantasy." And so it is. For when you add into NAFTA all the countries you could not leave out—Japan and the developing countries among others—you have not a North Atlantic Free Trade Area but a world system of free trade. This, of course, would be a good idea, but it is not NAFTA, and it is not for now.

Chairman Boggs. Thank you.

Mr. Leddy. I might just add one word, Mr. Chairman. I would like strongly to support an idea expressed by Ambassador Cattani, and that is that we should find some means of intensifying the dialog between the United States and the central institutions at Brussels, because of the many problems that exist. No doubt the diplomats can find mechanical devices to assure that result if the political will exists on both sides.

Chairman Boggs. I quite agree with you. I made the same recommendation myself not very long ago.

Senator Miller?

Senator Miller. Thank you, Mr. Chairman.

Mr. Ambassador, in your statement you say that farm exports from the United States to the EEC have not diminished during the period 1964 onward. This is contradicted by what Mr. Leddy has testified to. Mr. Leddy pointed out the decline in his statement. I have figures here which show that from 1964 through 1969 agricultural exports from the United States to the EEC dropped 10 percent. In 1964 these exports amounted to $1,416 million, and in 1969 $1,269 million.

And on the other side of the coin, the agricultural imports to the United States from the EEC went up from $258 million in 1964 to $363 million in 1969, an increase of 40 percent. I cannot reconcile your statement with those figures.

If you wish to make a comment I would be happy to have it.

Mr. Leddy. I should add, Mr. Chairman, there is a study prepared by the Economic Research Service of the Department of Agriculture which gives the details of this. This study shows that American agricultural exports rose to a peak of $1,564 million in 1966, and then declined to $1,367 million in 1968; that is, a drop of about 13 percent over 2 years or about 6 percent a year.

Senator Miller. In any event, Mr. Ambassador, I thought I ought to clarify the record, because the figures do not substantiate your statement.

Now, you also go on to say that in your mind the explanation lies in the unprecedented increase of agricultural productivity in all countries. Now, I would hope that you are not suggesting that the reason for this is all attributable to technological advances in agricultural production. If you are suggesting this, then you and Mr. Leddy again are at odds, because Mr. Leddy has pointed out in his statement that one of the problems with the CAP has been in its techniques in boosting domestic farm prices above world market prices. It seems to me that what is involved here is not just a great increase in agricultural production. We have to look to the underlying reasons. And if I understand it correctly, one of the underlying reasons in the EEC is the artificially high domestic prices which naturally would prompt farmers to increase their production. This has been especially true in wheat.

Mr. CATTANI. I do not pretend in any way to say that the agricultural policy of EEC is beyond any criticism of the countries concerned, including the countries outside the participants. We are aware that we have to change methods of policy support, so as to stop or to reduce the increasing surplus, but I said on the other part of my statement that the main difference in policy comes from the fact that in Europe we have an agricultural production based on the long tradition of preserving the peasant family life and that makes the agricultural policy of EEC structurally differ from that of United States. We know that the agricultural policy of EEC should be restructured on the basis of the proposals submitted by Mansholt to the six governments because too many people are still engaged in agriculture in too many fragmented properties so to arrive at a sounder economic agricultural policy.

We are aware of that. But the predominant fact, especially in France and Italy, is the structural necessity of reducing the agricultural population which was at the beginning of the Common Market in the proportion globally of 22 percent and is now at the level of 14 percent. It is indispensable to displace from agriculture to industries or to other more profitable activities, an amount of 5 or 10 million persons more. But this process is not to be done overnight.

Senator MILLER. I would be the first to agree with you that this cannot be done overnight, Mr. Amassador. The only thing that concerns me is that it is not going to be done, or not done quickly enough, unless we face squarely up to the problem. And the problem is not just one simply of over-production, the problem is these high artificial prices. I understand the political and economic and social considerations.

I think that the sooner we get on with the problem of trying to move in the right direction the better. And we are not going to do it unless we face those problems squarely and call a spade a spade.

Now, Mr. Leddy, in your statement you say:

> The transitional economic costs of British membership will be sizable, specially in the field of higher food and agricultural prices to the British consumer.

Has this consequences already been agreed to by the rules under which Britain would enter the Common Market?

Mr. LEDDY. Mr. Congressman, this is a speculation on my part. I assume that the Common Market will be forced to alter and lower somewhat its goals. I think they themselves are finding this policy so costly in money terms, in terms of these surpluses, that they are going to have to reduce it. But there is probably in my view going to be a considerable disparity between even those lower prices and the prices that prevail inside the United Kingdom.

Now, the British have recently put out a white paper called "Britain and the European Communities, An Economic Assessment." It was published very recently. There are some uncertainties and imponderables so that they find it rather difficult to come to mathematical conclusions about this. But the element of the cost of food and agriculture they certainly regard as being one of the significant items.

What they have to say is:

> The crucial question is therefore whether our gross national product, after taking account of the transfer problem mentioned above—

That is, flowing from the contributions to the agricultural fund and costs of agriculture—

> whether the GNP can be expected to grow more quickly over a transitional period and beyond if we are members of the Community than if we are not. If it can, and if the additional growth is greater than the cost of membership, then there would be a net economic advantage to us in incurring that cost.
>
> As noted, it would only need a slightly greater increase, considerably less than 1 per cent annually over a period of a few years, to offset any probable cost of entry, and leave us with a net gain.

But in their analysis they do assume a sizable cost, flowing in considerable part from the agricultural problem.

Senator MILLER. You referred to the white paper.

Mr. LEDDY. Yes, sir.

Senator MILLER. Who put that out?

Mr. LEDDY. This was presented to Parliament by the Prime Minister. It was prepared by the British Government.

Senator MILLER. Does that represent the majority thinking of the House of Commons, or is it just discussion?

Mr. LEDDY. No, sir; it is not a Parliamentary document. It is submitted to Parliament for its consideration. And it winds up by saying that "On the economic arguments each honorable member will make his own judgment, et cetera."

Chairman BOGGS. Mr. Corbet would like to comment on that question?

Senator MILLER. May I just make a response here.

It seems to me, when you say in your statement that it will be sizable, and you anticipate that it will, that that may be an unduly pessimistic view of it. Certainly I would hesitate to predict that the House of Commons, by its consideration, is going to be tolerant of a sizable increase in the cost of living for their people. And it would seem to me that what they would try to work out would be to phase in Britain's entry into the Common Market as the common agricultural policies are phased downward so that this unfortunate result would not occur.

Mr. LEDDY. I suppose that this is all on the negotiating table, Mr. Congressman. They just made an estimate here. It is not a sizable net cost. It is a sizable cost flowing from the agricultural aspect of it. And what they are suggesting is that there might be a net gain, depending upon the internal growth rate in Britain. But I have no doubt that the British will want in the course of this negotiation to get as low a price level within the common agricultural policy as they can induce the other members to agree to.

Senator MILLER. I am sorry. I did not get that.

Mr. LEDDY. I say, I am sure that the British would want to achieve as low level of the common agricultural policy, as low a price level, and as low a cost in budgetary terms, as they can get the other six members to agree to.

Senator MILLER. I was just going to come to Mr. Corbet. And if you want to comment on this I would appreciate it. But I was going to ask you this question, whether in your view it is foreordained that British entry into the Common Market would necessarily be accompanied by her adoption of a variable levy system, and high price supports, which would artificially stimulate her local production of cereals and meat, and encourage the purchase of European wheat and feed as a substitute for imported feed grains from the United States and other countries, and whether it is foreordained that British entry would open the British market to surpluses from other members of the EEC which would slow down the inevitable progress of the CAP?

Mr. CORBET. Mr. Chairman, I can answer the question very briefly. The answer, I think, is "Yes."

As to what the white paper had to say on food prices, the general acceptance in Britain is that food prices will indeed become a good deal higher after we enter the Common Market. There will be aspects of the Common Market's farm policy that will be raised in the negotiations and, of course, every effort will be made by Britain to ameliorate the adverse effects on her food prices. But the white paper sought to minimize these and other consequences.

It referred, as Mr. Leddy has quoted, to "the considerably less than 1 percent increase in GNP" that would be entailed in moving to the Common Market's economic arrangements. In the British context "less than 1 percent" is a good deal. We have been trying over the last 5 years in particular since the 1964 crisis, to increase the growth rate in the United Kingdom. In this respect, a figure of 1 percent is a very substantial objective for the British economy to undertake when you consider what we have been trying to do, without very much success, to increase our rate of growth. It is looking at the issues with rose-tinted glasses to contend that "less than 1 percent" is not a very tall order.

Senator MILLER. You see the problem this causes someone like myself. We now have a problem with the CAP with six countries, and if the ground rules of Britain's entry into the Common Market are so arranged that reductions in these variable levies and these high price supports are postponed or delayed, we are going to have seven problems. That is why I am concerned. And frankly, Mr. Leddy, it seems to fit in with part of the trouble I had with the President's statement when you say—I am troubled by this passage—that the European Economic Community is not economically advantageous over all of the United States. It does not look to me like it is going to be advantageous if we are going to now compound the problem of the EEC by having Britain go in unless these ground rules minimize the effects of that.

Chairman BOGGS. Would anyone else on the panel like to comment on Senator Miller's observation?

(No response.)

Senator MILLER. I have just one more question, Mr. Chairman.
Chairman BOGGS. Go right ahead.
Senator MILLER. This is to Mr. Geiger.
In your statement, Mr. Geiger, you say:

Most, if not all, agricultural products would have to be included in the arrangement; but changes already incipient in the EC's own agricultural situation and policies could make possible during the next 5 or 6 years the kind of meaningful agreement that would be quite unlikely in the short term.

What changes are already incipient in the situation and the policies? What do you have in mind?

Mr. GEIGER. My answer to your question, Senator, really turns on the meaning that one attaches to the word "incipient." By that I mean that there is already a recognition in the European Community that the CAP is an immensely costly policy which sooner or later will have to be modified. The problem is that there seems to be lacking in the shorter term the political will to make any significant modifications in the policy.

Senator MILLER. The reaction to the Mansholt proposal, for example?

Mr. GEIGER. Yes. And the failure to make any substantial decreases in the price level. But my feeling is that over the next 5 or 6 years, unless substantial changes are made in the CAP, its burden will become so immense that the pressures will bring about a willingness to make some changes within the European Community. This is only a prediction, and there is no certainty about it.

Senator MILLER. I am advised that EEC Government subsidies amount to about $8 billion a year, and that increased costs to EEC consumers resulting from artificially high prices amounts to $6 billion on top of that, so that the present CAP is costing $14 to $15 billion a year. Does that sound right to you, or sound approximately correct?

Mr. GEIGER. Yes, around $14 billion counting all direct and indirect costs.

Senator MILLER. There is only one thing that you did not quite get around to answering: What incipient policies did you have in mind?

Mr. GEIGER. The incipient policies I have in mind are the small changes, the small reductions which have been made in the support prices for certain commodities for which surpluses have accumulated, such as butter, for example; the willingness to discuss the Mansholt plan even though they are not yet willing to appropriate any substantial funds to try to bring it about. I would call those incipient changes in policy. They could be stopped, or they could be further developed into very substantial changes in policies.

Senator MILLER. But you are optimistic regarding changes?

Mr. GEIGER. On balance I am. But for the longer term, not for the short term.

Senator MILLER. Thank you very much.
Thank you, Mr. Chairman.

Mr. LEDDY. Senator, may I just say something on that?

Chairman BOGGS. Surely.

Mr. LEDDY. I have the feeling that your figures are very, very high. I am looking at the expenditure figures for the European Agricultural Guidance and Guarantee Fund given in the British White Paper. And they cite the total for 1968–69, which up to then was the peak, at £950 million, which would be something a little over $2 billion dollars annually. That is far short of the $8 billion, you said, or $7 billion.

Senator MILLER. I have $8 billion a year as the cost of all of these supports, plus another $6 to $7 billion increase in consumers' costs for EEC consumers.

Mr. LEDDY. I just say it does not seem to me to square with the tables.

Senator MILLER. I think unless we have a breakdown of those figures that you had—do you have a breakdown in the White Paper?

Mr. LEDDY. Yes. It gives the breakdown by commodity and by country, and so forth.

Senator MILLER. Of the support prices?

Mr. LEDDY. Of the cost, of the expenditure from the guarantee section of the agricultural fund under the CAP. I am not talking about the cost to the economy which flows from the distortion of resources into inefficient agriculture, but the amounts expended by the central institutions in Brussels to support these prices, either through intervention in the market or through export subsidy.

Senator MILLER. You mean the tax cost, in other words?

Mr. LEDDY. The tax cost, in other words.

Senator MILLER. You have what, about?

Mr. LEDDY. Well, for the guarantee part—that is the part that deals not with retraining or guidance or getting people out of agriculture into something else, but for price support operations, including export subsidies, £831 million in 1968–69. And you have to multiply that by 2.4, as I recall. This would be about $2 billion.

Mr. GEIGER. Mr. Chairman, may I make a comment?

Chairman BOGGS. You certainly may.

Mr. GEIGER. I think the difference lies in the fact that Senator Miller's figures relate to two other things. They include not only the expenditures by the central authorities in Brussels, but also lots of individual national programs within the six countries which in one way or other subsidize agriculture, and they also include in the overall estimate of the cost to the economy as a whole the difference between world price levels and price levels within the community, whereas in the White Paper the figures relate only to the operations of the central authorities in Brussels.

Mr. LEDDY. I have no figures on that.

Senator MILLER. I am quite sure you are correct, Mr. Geiger.

Chairman BOGGS. I want to address some questions to the panel. Any one or all of you can answer or comment on them.

What do you think the impact will be, assuming expansion of the Common Market, on Japan? Where will Japan fit in?

Do you have a comment on that, Mr. Geiger?

Mr. GEIGER. Well, I would envisage that much the same kind of development would take place with respect to relationships with Japan that I have projected in my paper for relationships between North America and Western Europe, that is, that trade disputes will continue. They have already become significant with Japan, and I think that they will persist in one or another form over the foreseeable future. At some point, probably a more distant point than in the case of Western Europe, the possibility of free trade with Japan, among all of the developed nations in other words, would become as relevant as the possibility of free trade between North America and Western Europe will be within the next 5 or 6 years.

So I would envisage in a creative approach to these problems that Japan would ultimately be included in any arrangement.

Chairman BOGGS. Mr. Corbet?

Mr. CORBET. Mr. Chairman, one of the consequences of Britain going into the Common Market would be that Australia and New Zealand would be driven still closer toward some type of trading arrangement with Japan. And so might Canada. I refer in my paper to the trends which seem to be developing in the Pacific towards closer collaboration of various kinds. There has certainly been much discussion, at the academic level, on the merits and demerits of some kind of free trade arrangement in the Pacific area. A full-blown Pacific free trade area hardly seems on the cards. But there has been a good deal of serious discussion on a more limited arrangement between Japan, New Zealand, and Australia. And given the problems that would be created for Australia and New Zealand, assuming their access to the British agricultural market would be greatly diminished, their interest obviously would be to find new markets and to exploit what movement there seems to be in Japan toward opening up the Japanese market to more foreign foodstuffs. One could conceive that sort of situation arising fairly easily. We have not seen much happening on that front up until now. But with the movement of Britain into the Common Market, if that comes about, I think there would be an acceleration of the discussion which has been taking place along these lines over the last 2 or 3 years.

Chairman BOGGS. Mr. Leddy?

Mr. LEDDY. Mr. Chairman, I think a good case could be made here that at some appropriate early date—I am not talking about this year, or maybe not even next—there should be a further substantial movement in the direction toward free trade, whether this is through stages like the Kennedy Round or not, but something in which the United States would participate and Japan would participate, and the end result of which would be, on a reciprocal basis, a further lowering of the barriers of the Common Market. I think their industrial tariff is now about 8 percent, and the British is about 10. But obviously the lower you can make the external common tariff on the basis of reciprocity, I think the better off we all would be.

This is the regular case for free trade.

Chairman BOGGS. Do you see any prospects for getting such negotiations underway?

Mr. LEDDY. Not this minute, no.

Chairman BOGGS. Mr. Corbet, if the United Kingdom does not enter the Common Market, what future do you see for trade with Western Europe and in the Atlantic Community?

Mr. CORBET. I think the first point that one ought to make in this connection relates to what would be the reaction in Britain herself. There are a number of Europeanists in the present government. At the same time there are what one might call "old-fashioned Japanese." I mean this in the sense that there is a body of opinion in British political life which is all in favor of Britain going it alone. Now that go-it-alone attitude could be an inward-looking one. That does not seem to me that likely. It is more likely that the go-it-alone attitude would emerge as an outward-looking one, aimed at making the most of Britain's present trading links with EFTA, the Common Market, the Commonwealth and so on and, too, with the United States. And possibly we would see a considerable increase in interest in some free trade treaty approach toward the liberalization of world trade.

In this last connection I would like to comment on a point which Mr. Leddy made. He referred to, and applauded, a statement that was made by Eric Wyndham-White on the idea of North Atlantic free trade area. It has been called an "imaginative fantasy." These kinds of statements usually come from people who have not looked very closely at what is being proposed or meant by a North Atlantic free trade area. There are not very many people who have in fact proposed, and seriously argued or studied, a purely North Atlantic free trade association. The discussion that is taking place in the United Kingdom along those lines arose out of a proposal made by the Canadian-American Committee, in this counrty and Canada, which suggested a free trade association appraoch toward the liberalization of world trade embracing all developed countries. It is a new technique for liberalizing world trade that has been suggested.

That idea was taken up in the United Kingdom. When you look into how the Atlantic label was attached to it you need to be aware of the dichotomy which exists in Britain between what are called Europeanists, on the one hand, and Atlanticists on the other. It is a division of opinion which has existed at least since World War II. Roughly speaking, the Europeanists tend to be continental in their outlook. They tend to think that Britain's place is such that she must concentrate her interest and trade priorities in Europe. The Atlanticists tend to share the American outlook. They prefer a maritime strategy and tend to be impressed by, and interested in, Britain's worldwide interests and capacities. And so in order to relate a proposal like the free trade treaty option to current discussion in Britain, it was either necessary, or it became the natural thing, to speak of the idea largely in terms of an Atlantic free trade association. But in all expositions of the idea it has been the hope that Japan would take part and that means would be found to accommodate Australia and New Zealand as well as other developed countries outside Western Europe and North America.

It might also be added that these ideas have usually been accompanied by proposals for some kind of preferential or accelerated tariff reductions in favor of the less developed countries. In other words, what has been proposed over the past few years, and discussed fairly widely, have been the same sort of ideas which have more recently been taken up by the International Chamber of Commerce.

And so, to come back to your question Mr. Chairman, this might be a way of accommodating in a new trade strategy the interests not only of Atlantic countries but also of Pacific countries.

Chairman BOGGS. Getting back to agriculture, as far as I know there is relative little rice produced in the six countries of the Common Market, yet they apply variable levies on rice imports to the disadvantage of U.S. exports. How many areas of agriculture are specifically affected by these various import devices that the Common Market uses in the case of rice, wheat, and feed grains?

Would you comment on that, Mr. Leddy?

Mr. LEDDY. I do not have all the details with me, Mr. Chairman. I think probably our most important agricultural export is in the grain field. In other areas where we have rather good markets they could be threatened, of course—soybeans, and so forth. I think on fresh fruits and vegetables we have done rather well. But I think the real critical one is in the field of grains; and not only in terms of our exports directed to the Common Market, but also in terms of their export subsidies on products where we and they are in export competition in third markets.

Chairman BOGGS. Thank you very much.

We have a morning set aside for a specific discussion of agriculture. We will get into greater detail on it then.

I want to comment on the benefits that would accrue to the United States by an expansion of the Common Market. We are talking now almost entirely about the detrimental effects.

Do you care to comment on that, Mr. Geiger?

Mr. GEIGER. Well, the benefits to the United States from the expansion of the Common Market, I think, would come mainly from any increase in growth rates in Western Europe that might thereby be stimulated. I am talking about the economic benefits, not political or other kinds of benefits. If, for example, over a period of 3 or 4 years, the growth rate in the United Kingdom would be stimulated. I think this would be of benefit to the United States, both in terms of our trade with the United Kingdom and of our direct investments in the United Kingdom. Membership in the Common Market might ease the monetary problems which the United Kingdom has been facing. If the other members of the European Community were prepared to make certain arrangements for assuming responsibilities for the sterling balances, for funding of sterling balances, the contingent liability of the United States would thereby be reduced. This, too would be in our interest. But, as I said in my own paper, I think that these advantages would be offset by the magnification of other kinds of problems which would result from the enlargement of the European Community. Paradoxically, this could also be in the U.S. interest—that is, if the exacerbation of the issues between the United States and Western Europe resulting from full or associate British membership in the European Community were to lead to the free-trade approach outlined in my statement.

Chairman BOGGS. Does anyone else care to comment on that?

Mr. GOETSCHIN. Mr. Chairman, I would say that up to now the European integration has perhaps to some extent been more inward looking, for obvious reasons. I think this is a complex operation, and probably internal problems have been predominant, specially on the agricultural side. But I think in the long run or middle range the community will be much more outward looking by nature. And I think this might be probably the best place for future agreements.

I think the community will have to look outside because it is becoming more and more not only an important country, but an exporting area. And as soon as you become an exporter to an extent which most of the individual countries of the European Community have not been, but this becomes a general approach, you have to become an importer the same way.

I think the two things work both ways simultaneously. And we have made this experiment in Switzerland. Our life depends on exports. And the result of this is that you have to become extremely free trade minded on the import side. There is a kind of combination of the mind and of realities of the economic side. And I think this is where probably, perhaps not immediately, during the time of the negotiation, which will be tough, and still inward looking, in the long run, 2 years, 5 years, 6 years' time, I think they will have to be much more outside looking. And this might create the condition for a much broader agreement arrangement.

I think there is a danger in looking at the short period of time, specially the next few years, as characteristic of a longer period of time. And the measures taken for these few years are still limited to this phase. And whether Britain is going in or out I think will not make a tremendous change for the outside adjustment which would take place, because in any case an agreeable solution will have to be found, whether Britain is in or remains out.

Mr. LEDDY. I might just add, Mr. Chairman, that the rate of growth of the members of the European Community has been extraordinarily high over a period of 10 years or so. It is over 6 percent annually, I think. I doubt whether anybody can prove what portion of this growth is attributable to the formation of the Community. But I think it is reasonable to assume that the existence of the Community has given impetus to that growth. And it is because of that growth that our exports have increased to the Community as much as they have. I think the figure is somewhere around 175 percent, or something of the sort, over that period.

Mr. GEIGER. Mr. Chairman, may I make a comment on something that Mr. Goetschin said?

Mr. Goetschin expressed the view that the membership of the United Kingdom in the European Community would have a very profound effect upon its commercial policy, would make it more outward looking, more free trading, and so on. This is a very widespread view both in the United States and in England that the British would have the preponderant influence in the European Community. I am inclined to question it for reasons indicated in my statement.

With respect specifically to commercial policy, I think one could make a case for predicting that it is equally likely—I would say it is at least equally likely—that the entry of the United Kingdom into the European Community would reinforce the discriminatory and preferential trend within the European Community. I doubt that the British would be able to impose their will on the continentals with respect to commercial policy. Moreover, the British themselves are members of a preferential system in the Commonwealth area. The net result of British entry might be the addition of certain Commonwealth countries to the existing circle of preferential arrangements that the European Community now has. I think we should admit the possibility that British membership in the Common Market might not bring about any significant change in the kind of commercial policies that the European Community has been following.

Chairman BOGGS. Mr. Corbet?

Mr. CORBET. Mr. Chairman may I comment on something that Mr. Leddy has said?

It seems to me that a distinction has to be made between the growth on which has resulted from the formation of the Common Market and the growth which has resulted from free trade. When you start playing games with growth rates I think you will find that the growth record of the EFTA countries over the same period has been, give or take a very small margin, much the same——

Mr. LEDDY. Much smaller.

Mr. CORBET (continuing). As the Common Market countries. The EFTA figure does not always compare so well with the Common Market figure when it is carrying the British record of the last few years. But I think if you exclude Britain from the EFTA figures and then compare the growth rates, there is not that much difference. And furthermore, there is not that much difference between the growth records of the EFTA and EEC countries and those of the non-EFTA and non-EEC developed countries.

Mr. LEDDY. You are excluding the largest element of EFTA.

Mr. CORBET. One is talking about free trade among the developed countries. There is a lot of free trade going on between the non-British members of EFTA. I am just questioning whether there is anything all that persuasive in deploying growth rates in the way it is commonly done.

Chairman BOGGS. Would you like to comment on that, Mr. Cattani?

Mr. CATTANI. I do not agree with the observation that Mr. Corbet has made.

Mr. GOETSCHIN. Mr. Chairman, I would like to comment on that aspect. We always talk about policy thinking that perhaps policy will determine all the time in the future. But consider that at the same time in the European free trade, as in the Common Market, we have in Europe quite considerable change in industrial attitudes. And I think that already now this is possibly the main factor of change. And I think that European industry in the European free trade area as well as in the Common Market has learned to live in a more competitive mood. And I think for the future years this is probably much more important than anything else, in the sense that in Europe industrialists who are becoming bigger and more efficient are certainly no longer considering less and less, their own restricted geographical area as being their world. And I think that within the next few years and decade this is going to grow even faster. And probably there will be at most an automatic tendency toward more liberalization in the mood of the people who are after our accounts more than anything else than those are trading and doing business. And I think this is one of the most positive features in Europe at the present time. And this should be a move that should be encouraged and used to the extreme for the sake of solving some of the other things which might be dealt with within the purely political area. And I think the percentage of growth which has been indicated is not only a result of integration, it is a result of profound change in industrial outlook, and to a large extent due again here to American attitude.

I would also point to something which is very important as regards the agricultural policy of the six and most other European countries. The rate of growth of manpower in Europe is very slow. We had barely over 6 percent on an average or overall on the European Continent, which means that manpower is going to be a very important factor. The only manpower available in Europe is on the agricultural side. We still have about 14 percent of agricultural people in the overall European Community outside. And I think the obvious interest of Europeans will be to release as many as possible of these people outside of agriculture in future years, because manpower is becoming a real important problem which is going to have an impact on the growth rates, which we have been mentioning lately.

So here again we can see that possibly forces inside the system will tend to perhaps greater liberalization and more efficiency.

The only thing which I think is important—and I come to what Mr. Leddy said—if this kind of trend can be accelerated and supported by some kind of outside move, a new negotiation on these problems, I think this will activate forces which are there, and which exist and are going in the direction of liberalization.

Chairman Boggs. Are there any further questions, gentlemen?

(No response.)

Chairman Boggs. Gentlemen, you have all been very helpful. We appreciate your coming here today and giving us the benefit of your thinking. I know that some of you have come a long distance. And we are grateful to you all for your assistance.

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

(Whereupon, at 12:50 p.m., the subcommittee recessed, to reconvene at 10 a.m., on Tuesday, March 17, 1970.)

A FOREIGN ECONOMIC POLICY FOR THE 1970'S

TUESDAY, MARCH 17, 1970

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

The Subcommittee on Foreign Economic Policy met, pursuant to recess, at 10:15 a.m., in room G–308, New Senate Office Building, Hon. Hale Boggs (chairman of the subcommittee) presiding.

Present: Representatives Boggs and Conable.

Also present: John R. Stark, executive director; John R. Karlik, economist; Myer Rashish, consultant; and George D. Krumbhaar, economist for the minority.

Chairman BOGGS. The subcommittee will come to order.

Today is the second of our current set of hearings to help formulate a foreign trade policy toward developed countries. Today we are considering the items that should be included in the agenda for future trade negotiations. A highly qualified panel has been assembled to give their views on this subject.

Listing the witnesses in alphabetical order, the first is Karl Casserini, chief economist, International Metalworkers' Federation; William Diebold, Jr., senior research fellow, Council on Foreign Relations, Inc.; Harald Malmgren, senior fellow, Overseas Development Council, formerly Assistant Special Representative for Trade Negotiations, Executive Office of the President; Jean Royer, consultant, International Chamber of Commerce, formerly Deputy Executive Secretary of GATT; and David W. Slater, dean, School of Graduate Studies, Queen's University, Kingston, Ontario, Canada.

We are very happy to have all of you gentlemen here, and we would appreciate your comments.

Mr. Casserini, we will hear from you first.

You may proceed, sir.

STATEMENT OF KARL CASSERINI, CHIEF ECONOMIST, INTERNATIONAL METALWORKERS' FEDERATION

Mr. CASSERINI. Mr. Chairman, I am very grateful indeed for the privilege of testifying before this subcommittee in the capacity of the director of the Economics Department of the International Metalworkers' Federation, an organization blessed with the initials IMF, yet we are not to be confused with the International Monetary Fund, the custodian of currency. In fact the IMF, with assets in international trade union solidarity, includes more than 10 million organized metalworkers throughout the free world.

Among them are about 4 million American metalworkers, over 4 million European members, 1 million Japanese trade unionists, as well as trade unions in many developing countries.

I am a labor economist of many years who represented the European trade unions with OEEC at the time of the Marshall plan. My work in these fields made me aware of the economic interdependence of nations and their common faith in social progress.

Nothing demonstrated this so clearly as the Marshall plan and farsighted American insistence on trade liberalization after the war. This policy was continued by the Trade Expansion Act, leading to the hard fought Kennedy round negotiations.

This American initiative was rightly designed to prevent European integration from being too inward looking.

Today, there is a whole series of problems which demand bold ideas and a precise program for worldwide trade policy in the 1970's.

The United States can and must play a leading role in charting new avenues in economic cooperation for the expansion of sound world trade. Let there be no mistake, hesitation, indecision, or drift toward blind protectionism by the United States or any other nation would adversely affect trade relations in the whole world.

Any initiative must take into consideration the following features of today's world economic development:

> Through the internal dismantling of tariffs and trade barriers and through common external trade policies, the regional integration process has reached particularly among the industrialized countries a stage where it acquires great importance for the rest of the world. With a liberal outlook on trade, along with policies of employment security and raising living standards, this can be a stimulus for growth elsewhere.
>
> Multinational corporations are rapidly growing in number and size; they alter trade relationships by their massive transfer of production into specific trade areas and especially to low-wage countries. Uncontrolled investment policies and artificial internal transfer prices have a tremendous bearing on world trade balance of payments, and employment.
>
> Despite a high rate of economic expansion in all industrialized countries in 1969, the threat of blind protectionism followed by retaliatory measures is growing.

These three features are closely interrelated. An increase of protectionism would surely cause regional integration to develop into restrictive trade blocs and growing nationalism would hinder governments from dealing jointly and effectively with the international problems posed by multinational corporations.

The new programs for trade negotiations must have as a main objective the goal of encouraging overall economic development. The creation of new multilateral trade opportunities must have the effect of enhancing the consumer welfare, coupled with additional job opportunities resulting from increased purchasing power in all trading nations.

Measures aiming at the social protection of the workers and furthering social progress, either in the importing or exporting country, are in no way restrictive to world trade. They are an answer to the need for international social policy which is in response to the internationalization of production.

At the same time, new programs for a sound expansion of world trade must take the wind out of the sails of blind protectionism which primarily consists in putting up nontariff barriers of all kinds and subsidizing export trade. The only ways to effectively challenge protectionism are new common steps to reduce hindrances to trade. There is a need for open and direct confrontation of all impediments to trade with a new emphasis to be placed on reducing nontariff barriers such as administrative practices, technicalities, and export subsidies.

It has been found that export subsidies and certain administrative practices which are commonly included as nontariff barriers have distorted fair competition between trading nations far more so than tariffs themselves. They are an attempt to correct the failure of proper industrial planning.

Technical requirements related to health, safety, and environment should not be considered nontariff barriers, but arrangements should be made to further and better coordinate these requirements between trading nations.

It would be absurd to pursue policies which prevent worldwide export opportunities commensurate with modern technology, just as it would be self-defeating to allow worldwide production capacities to increase without a corresponding rise in purchasing power elsewhere. We must, therefore, always keep in mind the social issues involved in international trade. This is why the European Community, while integrating economically through free trade, strives for common economic and social policies with the object of social harmonization in constant progress.

They have created a European social fund. This recognizes the fact that trade problems in the 1970's cannot be considered solely from the narrow economic point of view, but must be solved by fully taking into account their social implications. In the process of change spurred on through technology and worldwide competition social progress must be made a driving force trenscending national frontiers.

We need a bold trade policy in the 1970's which multiplies the effects of social progress throughout the world, instead of threatening employment and living conditions by unfair trade with goods produced at substandard wages and conditions. To make such a worldwide trade policy a reality is a principal concern of the international free labor movement.

To this end, the IMF has worked out a well-defined scheme on international fair labor standards and set out the mechanics for its practical application in international trade. It is a workable concept which gives the guarantee for further advancement toward free trade and closer economic cooperation between all nations.

Adherence to fair labor standards does not mean that trade would not flow between countries of different income and wage levels. However, their observance would obviously reduce a threat to jobs in industries and firms where workers get a reasonably fair share in the returns derived from high efficiency. On the other hand, their observance would tend to eliminate substandard wages in the industry of an exporting country. It is a concept advocated by all IMF unions in the United States, in Europe, in Japan, and in the developing countries. Unanimously approved by the IMF World Congress in 1960, this policy was confirmed by the subsequent congresses of 1964 and 1968.

It stated that fair labor standards are to be promoted throughout the world by means of dynamic wage and social policies. In addition the international coordination of trade union activity must strive for worldwide leveling up of living and working conditions, on progressive lines. Free trade unions in economically retarded countries must be helped in order to overcome want and hardship and insure for the working population a fair share in the product of their economies.

Many times employers have charged unfair competition based upon substandard labor conditions in other nations. These allegations oftentimes reflected the employer's unwillingness to share the fruits of new technology with the workers and to rationalize his paying less than fair wages. This is particularly the case in regard to reference on differing wages and social conditions between industrialized countries.

Nevertheless there are instances of unfair competition in international trade, based upon the low level of labor conditions in exporting industries, which is detrimental to the welfare of workers in both the exporting and importing countries.

On the mechanics of international fair labor standards the IMF policy resolution demands:

> The General Agreement on Tariffs and Trade (GATT) is to include an obligation for all member states to carry out economic policies that achieve and that maintain full employment and to recognize the principle of fair labor conditions, particularly freedom of association and the promotion of free collective bargaining.
>
> A right of complaint is to be created in cases of market disruption, in order to insure observance of the obligation to maintain full employmnt and fair labor conditions.
>
> As a basis for action under the complaint procedure the following two criteria should apply: (1) One must determine whether the total hourly labor costs in the exporting firm are substantially below the average for its industry in the exporting country; and (2) Is the hourly and unit labor cost in the exporting firm unjustifiably below those of the same industry in the complaining country.
>
> For these purposes labor costs should include all forms of employer payments to or on behalf of employees whether in the form of direct wages, contractual fringe benefits or social charges required by legislation.
>
> Annual reports ought to be submitted to GATT on developments in working conditions where increased export trade has resulted in market disruption.
>
> Proper measures should protect workers from the consequences of international competition, so as to reintegrate them into the production process, to train them or to move them to other places of residence, without loss of pay.
>
> Employers contemplating major production and investment decisions, especially transfer abroad of production establishments, which affect the welfare of their workers, should provide the competent unions with full information and should negotiate with them in a sense of profound social responsibility toward

their labor force, the community and the country where they are operating.

I wish to make it clear that international fair labor standards are in no way designed to protect inefficient industries, but provide a policy of both expanding employment opportunities and a rapid increase of living standards in all nations and particularly in developing countries. There would be a thorough examination of the specific cases of wage and social differentials which will permit a realistic appraisal of economic and social development in both exporting and importing countries.

Within the IMF, representatives of the U.S. affiliates in the electronics and electrical industry have met with their counterparts in Japan to fully discuss the impact of Japanese exports to the United States.

While we recognize that our IMF affiliates in Japan have no control over the export policies of that country it was the intent of the IMF to have our affiliates in Japan fully understand some of the problems that were being created in the United States.

This particular problem extends beyond the United States-Japan relationship. We have seen American firms transfer their production to Japan to seek certain advantages in that country. We are now witnessing Japanese firms transferring their work to Taiwan, Hong Kong, and Korea to take advantage of cost savings in those countries.

Through the leadership of the IMF in Japan wages and salaries have increased nearly 20 percent per year for the last 3 years. It is the hope and goal of the Japanese metalworkers' unions that within 2 years or less their wages and salaries will be on par of some European countries. Here is an example of how a dynamic trade union wage policy can seek to level wage costs and living standards between nations.

However, the difference in wages between Southeast Asian countries and Japan is far greater than the difference in wages between Japan and the United States. For example, the total cost of wages and benefits for a Japanese electrical worker represents approximately one-third of that earned by his counterpart in the United States.

On the other hand, an electrical worker in Taiwan receives only one-fifth or one-sixth of what his counterpart earns in Japan.

As to the industrialized nations there are wage differences between various countries of Europe, that is, Sweden and Italy, that are just as great as the wage differences between the United States and other European countries. And yet the European countries are presently striving toward economic integration with the intent of making more uniform wages and social conditions.

What we are viewing in Europe today and what we are doing as an international labor movement represents an attempt to reduce this tremendous gap between the have and the have-not nations. Continued economic expansion and avoidance of national or regioal recessions are essential if we are to reduce these tremendous gaps and to build a better life for all.

The possibility of upward harmonization of working and social conditions between nations in accordance with the profitability of an industry or an important producer and despite great differences in overall economic productivity has been proven by the United States-Canadian Common Market for automobiles. Wage parity on a regional basis between plants of multinational corporations taking into consideration their consolidated accounts is also the aim of the European trade unions.

We, as the International Metalworkers' Federation, representing members throughout the free world largely and constantly affected by worldwide trade developments, urge that future trade negotiations on a multilateral as well as billateral scale recognize existing economic and social differences in the world. The international fair labor standards concept should be part therefore of any agreement, either general, regional, or commodity, reached through GATT or elsewhere.

In addition to the overall economic problems, I would like to cite particular difficulties in trade which we have experienced in a number of specific industries. They are the steel and the electrical manufacturing industries. In the latter case this is primarily due to the constant searching for the least costly material, energy, labor, and capital throughout the world by multinational corporations.

In the steel sector IMF at its World Steelworkers' Conference in Liege, Belgium, in September 1969, drew up a program of measures to be taken for solving on a worldwide level structural problems in the industry. The program would consider the basis of fair competition, adequate expansion possibilities of steel plants with modern technology, employment, and income security.

This program contains provisions which, along the lines of international fair labor standards, can be applied in other industry sectors as well. These provisions include:

International forecasts on future trends of demand and capacity.

International investment consultation along the practice of the steel committee in the OECD.

A steel trade open to all the world on the basis of a general agreement reviewed periodically by the governments with participation by the trade unions, with consideration given to the development problems of newly industrialized countries, structural changes, and their economic and social repercussions.

Such a general agreement would include an international code on trade ethics, particularly in regard to nontariff barriers and export subsidies. The basis of such ethics would of course be the principle of international fair labor standards.

This set of proposals offers a better long-term solution than voluntary agreements limiting exports and having some features of cartel-like market sharing.

An industry-by-industry approach must not lead to a fragmentation of international trade to the extent that economies of countries having some dying industries would be penalized in the exports of the products of their more dynamic and growth industries.

Therefore, the growing volume of world trade requires in every country an active labor market policy consisting of an active and real full employment policy. This necessitates thorough vocational training, lifelong opportunity for continuation of education, timely retraining, a sufficiency of suitable jobs in developing areas, assistance in relocation when work cannot be brought to the workers, improved employment agencies, social security when changing jobs, and a free choice of career.

Sweden is an example of a country where such policies can be found and where the adverse effects of import pressures on certain commodities are offset by growth in selected export-oriented industries. Workers are readily assisted, even before they lose their job, regardless of whether it is market or technological changes which affect them.

However, a sector approach should bring about mutual understanding of the worldwide interrelated economic and social problems. We need some examination of worldwide structural policies in the framework of constant government consultation. Necessarily such considerations go beyond the limits of trade problems in the traditional, now obsolete sense of the term.

Multinational companies force us to do some new thinking on trade policies. The rapidly growing number of multinational corporations is fundamentally changing existing patterns of trade mainly by investments in low-wage areas for the manufacture of components, which in specific cases like electrical manufacturing generate a large volume of new imports, threatening already existing high-productivity jobs with a socially adequate wage level.

Through their artificial internal price fixing and capital movements in connection with currency speculations, multinational corporations are a common concern of all governments. Furthermore, in individual negotiations with governments multinational corporations promise plant location to the country offering the best subsidies of all kinds such as tax rebates, low energy costs, investment grants, et cetera. This incites governments to outbit one another and make the taxpayers foot the bill for high profits.

Trade unions urge, therefore, that governments investigate at international level the activities of multinational corporations with special regard to investment policies and their economic and social effects on trade, world currency stability, and employment prospects.

Investment policies, tax evasion and flights from social responsibilities by the multinational corporations need to be dealt with through government cooperation directed to fair and freer trade.

As private business turns international, so must government thinking. As the trade unions within the IMF have founded world councils on multinational corporations to create the necessary counterweight of organized labor, so governments need to extend their international cooperation. They must arrive at agreements providing the basis for the expansion of fair trade which will contribute in a changing world to the creation of new employment opportunities and to worldwide harmonization of living and working conditions along progressive lines.

In closing, let me emphasize that if we do not resolve the vast problems that are caused by the dynamic and complex changes of today, these problems will continue to grow and accumulate beyond our ability to solve them. It is the feeling of the organization I represent and my own personal conviction that we must devote more time, more energy, more of our ability to better define, better identify these problems and to construct positive policies designed to expand sound world trade in contribution to full employment and continuously improved living standards of all people.

Thank you very much.

Chairman Boggs. Thank you very much for a very excellent statement.

Mr. Diebold is our next witness.

We are ready to hear from you now, sir.

STATEMENT OF WILLIAM DIEBOLD, JR., SENIOR RESEARCH FELLOW, COUNCIL ON FOREIGN RELATIONS, INC.

Mr. Diebold. Thank you, Mr. Chairman.

My main theme this morning is that trade negotiations in the future are going to be more difficult and complex than they have been in the past. This is a rather depressing thought for people who have been involved either in the negotiations or in the congressional activity that is necessary to make negotiations possible on this side. Nevertheless, it is a conclusion that I do not find it possble to escape unless we are going to turn our backs on further trade liberalization, a course which has nothing at all to recommend it.

Now, among the reasons for coming to this conclusion as to the difficulty and broadening of issues is the success, the great success, that has been achieved in reducing tariffs during the last generation, which has revealed new dfficulties and new barriers. Where those past efforts have not been successful, some new approach may be necessary.

The third source of these difficulties is that other developments in the international economy have created new kinds of problems which have not ordinarily been conceived as falling under conventional trade policy, but which clearly have to be taken into account in the future.

I will try to say a little bit about some of these. In this I will be essentially abridging a prepared statement that I have filed with the committee.

Now, nothing that I have said about the progress that has been made in removing trade barriers really applies to agriculture. There I think an all-too-familiar situation faces us in which the normal way of carrying on trade negotiations was not very successful throughout the fifties and early sixties in reducng barriers.

That was partly because of the policies of this country. Now, the main task of carrying the obstacle has shifted to the European Community, with its Common Agricultural Policy. That policy is in difficulties for what I think are perfectly predictable reasons. There will have to be changes made in the CAP. I am not myself sanguine that the changes that are made will greatly improve conditions of international trade in the near future. I think it has been commonly acknowledged that the main source of this difficulty in agriculture is the nature of agricultural policies that industrial countries have followed. And if that is so, it seems to me that there are really only two possible courses. One is a shift in the nature of these policies toward something that stresses income support more than price support, or, alternatively, that major countries, the United States, the Community and others, should begin to negotiate about the substance of the policies they follow, about production controls, levels of price support, problems of surplus, and things of that sort because of the nature of these alternatives, one cannot be very sanguine about progress.

If we turn, then, to problems of trade in manufactured goods, and industrial materials, things of that sort, I think there are three special problems. One lies with the European Community, where for understandable historical, political, and psychological reasons, the common external tariff is treated rather differently from the way a national tariff is treated.

It seems to me that this is going to be a continuing difficulty, though one may hope that it will decline somewhat as time passes. I see no alternative for the United States except to continue the same approach begun in 1962 based on the fact that it is to our interest and indeed that of all outside countries to get that tariff lowered as much as possible. And it can only be done by some form of reciprocal bargaining.

It seems to me that while the entry into the Common Market of Britain and perhaps also of other countries is being discussed, it will be difficult to get Europeans to pay attention to this problem to the degree that we are concerned with it for some time. That I think just heightens the difficulty of what we have to do, but it does not change the necessity for it.

The second of the three problems I wish to mention concerns Japan, where again the situation is a familiar one. It is two sided. On the one side Japan has not achieved the degree of liberalization of imports that the other industrial countries have. On the other side, other countries—the United States, Western Europe, and Canada—do not accord Japanese goods the same import treatment as we do the goods from one another, as is manifest in the greater emphasis on Japanese restraints and those of other countries.

It seems to me here that this is a double problem that we face as we are now—and correctly, I think—pressing the Japanese that in their modern condition it is no longer suitable for them to keep the degree of restraint that they once had. I think it is inevitable that the Japanese will respond by bringing in the other side of the equation so the special difficulties placed in the way of their exports will have to be taken into account in the same kind of negotiations.

The third special problem is one which applies to all countries. It is what I call the hard cases in tariff reduction or other forms of trade liberalization, the industries where not as much has been achieved as in others. Textiles is the most obvious, because it is in many ways the most widespread. But there are a number of others in almost every industrial country.

Now, it seems to me that here there is room for a lot of discussion of different kinds of negotiating techniques which I do not intend to go into this morning. I think the underlying problem is one of thinking of these industries in terms of economic adjustment. Adjustment is something that we are very familiar with in the domestic economy. It happens regularly on a far greater scale than is likely to happen in all but a few industries if there were something like full import liberalization. Nevertheless, we have not been able, have not been willing to think of the problems in these broad terms.

It is a matter of shifting resources to the more efficient rather than the less efficient industry. By and large I think one can take it for granted that among the industrial countries now the existence of relatively high protection in a certain industry means that resources are not as economically deployed in that industry as they are in the economy as a whole.

I am not now thinking, when I speak of adjustment, only of the adjustment assistance arrangements that we have in our own legislation. Considering how long ago it was that this device was invented, we really have very little experience of it. Perhaps we shall find in the immediate future, now that a small hole has been broken in that dam, something more about how effective these measures are. But it seems to me that there is a difference between thinking of limited adjustment assistance tied to import liberalization and the broader problem of allocation of resources in the economy through showing greater flexibility than in the past.

Now, this is not something that one does just to facilitate the removal of trade barriers, though that is obviously a desirable result. The aim really is an aim of American economic policy, to get the best possible distribution of resources at home, to make our productive structure strong and flexible, and to give our economy as great a degree of competitiveness in the world as it can have.

This aspect of trade policy, which in the past has not been prominent in our thinking, should be more important for the future. We are all aware of the difficulties of keeping American enterprise competitive in world markets. And I think we have to think of this not only in terms of concentrating our resources on those things we produce, but of not penalizing the efficient producers by raising the costs of their own production through protection of other parts of the economy that affect their costs of production.

Now, when one speaks this way it is getting very close to saying that foreign competition ought to be treated virtually on the same level as domestic competition. I think we are not yet at that point, but I think it is the direction, at least among industrialized countries, that it is necessary to go. That raises some very difficult questions as to whether one can have reasonable assurance of what fair competition in international trade is. What Mr. Casserini was saying seems to me to bear on one aspect of the problem. His people are very much concerned with foreign wages. But others are concerned about taxes, about pricing practices, about different legal systems.

I think the range of issues there is not one that is susceptible to a general solution. I think that it is also one of the kinds of complications that will be with us, industry by industry and more broadly, for a long time to come. It is closely tied up with the question of nontariff barriers.

A great deal has been said about nontariff barriers, and most things about it have been said a number of times in the last few years. I am not concerned to try to spell out anything in detail on that matter this morning, but let me point out that this is a catchall phrase.

As Mr. Casserini said, there are nontariff barriers which are clearly trade barriers, and there are other practices like different kinds of subsidies which are more properly called, as Robert Baldwin has said, trade-distorting practices. And among the true nontariff barriers there are some whose primary purpose is to impede trade, and there are others whose impact on trade is incidental or secondary to the pursuit of some of other governmental objectives, such as safety, health, and all sorts of sanitary regulation. Now, it is not very easy to distinguish motives in all of these cases, which adds to the difficulty of the program.

It seems to me that the issue is further complicated by the fact that this great variety of forms and great variety of motives makes it very difficult to imagine dealing with the nontariff barriers as a group.

One can easily see that for certain types of things it might be possible to reach an agreement on the elimination of certain practices, or their regulation in some form of international code, such as has been discussed for governmental procurement. In other cases, these solutions will not fit. It seems to me that in almost any case there will be difficulties in policing such arrangements. And as a result, I think we are engaged in what will be a long process of negotiating, finding different kinds of solutions, many of them not satisfactory at all, and some of them probably only temporarily satisfactory.

I think that one of the problems is that there is a great deal of study going on about this sort of issue, and it deserves study because of the very large number of practices that are involved, and their great variety. I am a little bit worried that just because of the difficulty, and study being sometimes a slow process, and international study being an even slower process, that we may find that we make less progress than we think is necessary. And while I do not think that one can properly speak of a short-cut here, since almost any step leads to other steps, I do think that it would probably be desirable for us to think in terms of speeding up the process by what I can only call complaining about one another.

Now, naturally complaint cannot stop with complaining. If one is going to call another country into court and say, you are damaging our exports, then we have to be prepared to negotiate about this, to expose some of our own practices to their complaints, if there is to be any bargain eventually reached. And above all it seems to me that we ought to think of that process as one that is educational, because we know too little as to what barriers are really important, and indeed how some of them operate.

American businessmen seem generally to believe that they suffer more from the nontariff barriers in other countries than other countries do from ours. I do not know whether that is correct or not. But it seems to me that that is an important asset in American trade diplomacy, we can begin at least to build on that belief of American businessmen, and attempt to challenge identifiable practices of other countries that seem in some way offensive.

Though a vigorous approach is needed, I think one must also be a little cautious, because I think in the end no good purpose will be served if this kind of an approach simply degenerates into a series of complaints of one country against another with no remedical action or if the result is really a series of retaliations on both sides.

For example, when you are dealing with imports that you believe to have been subsidized in foreign countries, it is of some importance to check that particular operation, but in the longrun it is really more important to come to an understanding about what types of practices or taxing arrangements constitute offensive practices and what are what might be called acceptable subsidies.

I think we can never get rid of concern with nontariff barriers. I think they are an inevitable consequence of a modern government's trying to manage or regulate a modern economy. I think one has only to use a little imagination to see that the serious effort that we all now hope will be made to deal with the problems of pollution controls of all sorts, and other matters affecting the environment, are bound to produce new kinds of economic conditions, and new kinds of taxes, costs, and new kinds of regulations, all of which will have some effect on international trade.

Now, since we know that it behooves us, I think, as Mr. Casserini was suggesting, to work at these problems as nearly as possible on an international basis. But it is also important that we act on them and therefore it may be necessary in some cases to cure later what cannot be prevented now.

There are many other elements that are making trade policy more complex for the future than in the past. Much has been said about the growth of investment, with the result that there are produced in American owned factories abroad far more manufactured goods than are exported from the United States. There is a sense in which one can say that a trade policy ought to be concerned with these things. Even though such production is not the same as production in the United States, it is also not quite the same as production in non-American companies abroad. I have no answer to the question, but I think the question continues to haunt us: In what sense can trade policy take account of these new forms of international production? And indeed they raise a question as to whether traditional concepts of national economic interest, which assume a certain box surrounded by a customers border, or statistical border, or geographical border, or monetary system, are adequate concepts for the inter-penetrated world we are now living in, which, at least among the industrialized countries, something like an international privately owned economy is developing which does not fit the regulatory pattern which still naturally respond to the basic political leaning of the nations.

There are a set of problems about the place of trade policy in the process of international monetary adjustment. There is another set of problems about the bearing of trade policy on our own balance-of-payments question. There it seems to me that the direction indicated by the President in his message, that trade policy should be considered in longrun terms, and that temporary balance-of-payments difficulties—which may indeed not be as great as they used to be thought to be—should not be allowed to lead us to restrictive trade practices.

There is a whole new—not new, it is quite old—but a whole area that has hardly been touched in recent American trade policy, and that concerns the trade practices of private business. We tried to deal with that beginning in 1945, and it proved to be extremely difficult. And there has really been very little success in it. We are bound I thing, to get back into it, partly for the reasons I mentioned concerning the importance of foreign investment in national production, and partly because many nontariff barriers and trade practices are very much tied up with private practice. It is not easy to see how one should move in that direction.

Now, in reviewing these situations I hope I have demonstrated or justified the assertion I made at the beginning, that future trade negotiations will be more difficult than those of the past. We can see that for a hundred years almost the sole targets of trade policy were tariffs and quotas, and the difficulties they were to deal with. That task was in one sense relatively simple. One could clearly state the objectives. The methods were more or less obvious. And there were whole generations of economic theory to provide a rationale for what was being done, difficult as it was sometimes to convince people of that.

Now, it seems to me that we face problems that we do not fully understand. And even if governments were quite ready and willing to act on every issue, it is not always clear what they should do. Uncertainty, I think quite properly, breeds caution in these matters. And as we remove the conventional trade barriers we find we are dealing with new obstacles and distortions that are really closely rooted in domestic practices, and that are byproducts of responsible efforts to manage national economies.

It is not very easy, often, it seems to me, to face the prospect of having to negotiate internationally about matters which we have always thought of as being difficult enough to deal with on a domestic basis by familiar political processes.

I think there is a further complication arising from the fact that many of these issues which I have tried to describe in rather general terms will arise in the form of very specific cases, such as specific nontariff barriers, this restriction on investment, that objectionable practice, et cetera. And, of course, there is an advantage in dealing with things case by case, especially if, as I have argued, it is a little hard to see how to lay out the whole process, and you do not know exactly where you are going.

But there is always danger on a case-by-case basis, because governments need sometimes, it seems to me, a stiffening of the backbone in matters of trade policy which comes from having a commitment to a board policy of trade liberalization.

I think that has been extremely important, if you look at the whole postwar period. Domestic pressures, as we all know, are strong when they are concentrated on avoiding change.

So as we move toward unknown territory, it is really of great importance that this country, for all the difficulties we are facing, should maintain a clear commitment to a policy of further liberalizing trade and solving problems arising from the interpenetration of industrial economies by striving for more openness and not by—what I think would be fruitless in any case—an effort to try to close off these growing interconnections of our economy with that of the world.

Thank you, sir.

That completes my statement, Mr. Chairman.

My prepared statement I have already submitted to the subcommittee.

Chairman Boggs. Yes; we have your prepared statement which will appear in the record at this point.

Mr. Diebold. Thank you, Mr. Chairman.

(The prepared statement of Mr. Diebold follows:)

PREPARED STATEMENT OF WILLIAM DIEBOLD, JR.[1]

The Kennedy Round was the culmination of a process that goes back, not just to the end of the war when the removal of trade barriers was seen as an essential

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ingredient in building a healthy world economy, but to 1934 when Cordell Hull was responsible for reversing American policy and trying to stem the world-wide tide of protectionism. Except for a few interludes, that tide had been rising for a good part of a century and had gained strength in the Depression years. The United States was still at a low point in 1933. Hull's effort seemed a bit old-fashioned—almost Quixotic—but it worked and is still working.

When agreements made in the Kennedy Round are fully in effect, the tariffs of the industrialized nations will be at record lows for modern times. That is a remarkable achievement and yet, when I call the Kennedy Round a culmination, I do not mean that the process has reached the highest possible point, only the highest point so far. As is usual in public affairs, we are not presented with a nice, clean break, with one set of probelms out of the way and new ones before us. What is before us is a mixture of old and new, but there has been a significant shift in the composition of that mixture.

Past efforts at trade liberalization have naturally focused mainly on tariffs and quotas, the chief impediments to trade. Important barriers of this sort remain. But one of the results of the Kennedy Round has been a new awareness that even if all tariffs and quotas were eliminated we would not have a free-trade world. Another is the realization that, at the time that what may be called conventional trade policy was achieving its greatest success, developments in the world economy—some of them resulting from the success or stimulated by it—have made it evident that in the future trade policy must deal not only with new problems but also with issues in which foreign trade in the usual sense is only one element.

Novelty, increased complexity, and greater breadth combine to make it appear that the conduct of trade policy in the future will be more difficult than in the past. This is a depressing thought for anyone who has observed or taken part in the tedious, hard bargaining of postwar trade negotiations or the Congressional battles that made that bargaining possible. Yet I cannot see what other conclusion we can draw from the facts—unless we abandon the idea of further trade liberaliztion, a course which seems to me to have nothing to recommend it. Let us put that rather gloomy thought aside for the time being and look first at the prospect before us.

I

In the foreground are the remains of old problems. Our subject today is American trade with the industrialized countries of the free world: Canada, Japan, and Western Europe. Therefore, we can leave aside the very difficult problems of expanding trade with the less developed countries and the awkward, but less difficult, ones of trading with the Communist world. That still leaves us with the largest part of world trade and of American foreign trade and a good share of the hardest problems.

Nothing that I have said about the general lowering of trade barriers since 1934 applies to agriculture. One can discern liberalization in some segments of farm trade but basically we face the all-too-familiar fact that the processes that have worked so well in trade in industrial products hardly function in agriculture. For a good part of the postwar period the United States provided the main roadblock; now that function has passed to the European Community. Although the Community's Common Agricultural Policy is causing a good deal of trouble because it has worked just as one might have expected, the measures the Community takes to deal with these difficulties are not likely to result in opening its markets more freely to foreign products. British entry will make matters worse for overseas suppliers, including the United States, at least for some time.

I can see no reason to suppose that it will be any easier to reduce agricultural trade barriers in the future than in the past. They reflect the kinds of policies by which the governments of industrialized countries have tried to help their farmers by raising prices above the level at which food could be imported. So far as I can see, there are only two ways to get around the problem. If governments were to shift to policies that focus on farm incomes instead of support prices, there would be less reason to restrict trade. Alternatively, governments might try to come to some understanding about the amount and kind of support each would provide for its own agriculture with the aim of reducing international friction and avoiding the excesses to which purely national measures are prone. Both courses are difficult. While I believe that the United States should make it its business to see what can be accomplished along these lines, it is hard to be sanguine about the prospects of liberalization in farm trade for some time to come.

When we turn to trade in manufactured products, semi-manufacturers, non-agricultural raw materials, etc., where trade barriers have been substantially reduced, we see three special problems. Again, one of them lies in Europe. Having eliminated tariffs among themselves, the countries of the European Community still attach rather special importance to their common external tariff. For some time to come they will be preoccupied with efforts to extend their internal integration to other matters and especially with negotiating with Britain and other applicants about the broadening of the Community. It will not, therefore, be easy to get their full attention for proposals for a further reduction on barriers to international trade, but that is just what the United States should try to do. I make no judgment at the moment about timing or techniques but one thing is clear: as in the case of the Trade Expansion Act of 1962, we cannot expect to receive unless we are prepared to give, so the president will need not only bargaining power but support in using it.

The second difficulty is in Japan. The fastest growing of the industrialized countries, Japan lags in import liberalization. There are understandable reasons for this, but they are no better excuses for inaction than most. The representations that the U.S. government and American businessmen are making to Japan to the effect that a country with a thriving economy and a strong balance of payments should hasten the process of getting rid of quotas and other restrictive practices are examples of the right way of going about this matter. They strengthen the hand of those Japanese who see the connection between what their country does about imports and what other countries do, or may do, to Japanese exports. No doubt the Japanese, when pressed to liberalize, will call attention to the fact that others single out their country for special treatment by asking that Japan restrain exports of a number of products to North American and European markets. It may well be that in the end Japan's behaving as other industrialized countries do will prove to depend on the others' treating her as they do one another. It will not be easy for other countries to accommodate themselves to Japan's productive strength or for Japan to adopt more liberal ways, but it is hard to see what other course makes any sense.

The third of the problems affects all countries. Each, including the United States, has industries which receive a considerably higher degree of protection than the average. Some of these industries are common to all, notably textiles, others differ from one country to another. Perhaps another go at these hard cases in future trade negotiations will produce good results, but I suspect that something more is needed. By now the continuation of high protection is usually an indication of the competitive weakness of the industry and that in turn often means lower returns to capital and labor, a pretty good sign that the resources could be better used elsewhere. In the interests of the national economy as a whole, some change seems called for. Often enough the pressure of increased competition alone—which might be achieved by a staged reduction of the tariff—will produce good results. Sometimes governmental help may be needed, not just to cushion the blow to workers and employers, but to make transition smoother and help the parts of the industry that are capable of doing well in the new situation meet their requirements. It is hard to discuss these matters without going into the position of specific industries but it is a fair guess that only in the most exceptional cases is the question one of the survival of a whole industry; it is more likely to be a question of some producers going out of business, others shifting to new kinds of activities (or at least dropping some of the old), while still others—and they may make up the bulk of the industry—will find themselves able to meet the challenge of new competition better than seemed possible before.

I am speaking not only of adjustment assistance as envisaged in the Trade Expansion Act of 1962. That attractive piece of social engineering has had its wheels gummed up so that we do not really know what can be accomplished by it—and the record of the Kennedy Round shows that the prospect was not good enough to encourage the kind of strong attack on the hard cases I am talking about. Perhaps we shall soon see what can be done with the TEA's adjustment assistance but the process I am talking about is a broader one (though it may well include adjustment assistance). We recognize that the ability to adjust to changing circumstances—to let new competitors arise as old ones fall and to permit new products and processes to displace the old ones—is one of the strengths of the American economy. Traditionally we have left that adjustment largely to the market place. No doubt we shall continue to do that for the most part though we increasingly recognize the need for a certain degree of governmental intervention, for example, in bringing industry to depressed areas, training people for better employment, helping to meet the financial needs of some industries. This is not the place to discuss this subject in general. I wish only to suggest that it would be useful to look at adjustment to import competition as part of the larger, continuing process of adjustment that is a natural feature of a competitive, innovating economy. We have already done that for most industries almost unconsciously. Has not the time come to deal consciously with what I have called the hard cases? While it may still be sensible to link some kinds of adjustment assistance to imports, my inclination is to say that we should address the problem as one of adjustment to changing circumstances of all sorts and make our objective the creation of industries that after a transitional period can stand on their own feet without special help from the government, in the form of a tariff or otherwise.

The purpose is not just to facilitate the removal of trade barriers, though that is in itself desirable. The aim is to get the best possible distribution of American resources, a strong and flexible productive structure, and an economy that can stay competitive in world markets. In the kind of open international economy that is developing, shelter for weak industries will be more costly than ever before. Not only are the resources misallocated, but the cost of protection affects the rest of the economy, often very directly by raising costs of production of industries that must themselves be as efficient as possible to export and to meet foreign competition at home. Rich as we are we cannot afford to do things less economically than is feasible unless we are consciously paying a national price for security, social welfare or some other public purpose. Guaranteeing a share of the market to domestic producers does not come under that heading.

The question arises, of course, if we do not have to concern ourselves as to whether foreign competition is "fair." This does not mean that every producer should operate in exactly the same circumstances, because then much of the basis for international trade would disappear. Nevertheless the question is a more difficult one when economies are open to each other than when each is heavily protected by tariffs. One man worries about foreign wages, another about foreign taxes, a third about pricing practices, a fourth about policies of foreign governments favoring this industry or that or providing capital, for production or export, at less than the going rate. Some of these issues are real and some are false. I cannot explore them adequately this morning. The problem will remain with us. Part of it is closely connected with that highly popular subject, nontariff barriers.

II

In the last few years many words have been written and spoken about nontariff barriers—often the same words. No doubt others will be dealing with this important and complex set of issues in more detail, but a rough sketch is essential to my central point.

In a sense, the subject is mislabeled. As Professor Robert Baldwin of Wisconsin has pointed out, much of the concern is about practices that distort trade rather than impose barriers to it, for instance, subsidies and discriminatory taxation. Some of the barriers operate through the tariff, for example, American Selling Price which concerns customs valuation. Of the true nontariff barriers, some are clearly intended to be just that, for instance, governmental purchasing that discriminates against foreign goods. Sometimes, however, the trade-restricting effect is incidental to some other purpose, as in the case of sanitary regulations, automobile safety provisions, etc. These latter may, of course, be abused for protectionist purposes.

Mixed motives, manifold forms, multiple purposes—these are some of the hallmarks of the difficult problems posed by nontariff barriers. Many are quite old but have come into a new prominence as tariffs were reduced and quotas removed. We have a certain amount of experience of negotiating about some nontariff barriers but nothing at all adequate to indicate a clear course for the future. No simple formula, like the reciprocal reduction of tariffs, will suffice because often the barriers exist as a result of a government's pursuit of some reasonable end which it will not abandon simply to liberate trade. And where trade restriction is the primary aim of the barrier, one may seek to eliminate it but there are difficulties in policing national behavior in these matters since the same practice may also be used for other purposes; for example, government purchasing may be used to help depressed areas as well as to discriminate against foreign suppliers. It seems unlikely that nontariff barriers can be dealt with in a uniform manner. In some cases it may be possible to draw up a code of rules and provide means of discussing their application in an international forum. In other cases, only common standards or uniform specifications will serve to eliminate trade distortions and these may prove very hard to negotiate, given the room there always is for reasonable men to differ about what is safe, wise, fair, and feasible.

A good deal of study is going into these questions inside and outside governments and in international bodies. That is all to the good both in clarifying issues and perhaps in laying the foundations for agreed action. Paradoxially, however, the very difficulty of the subject, which makes study so necessary, may prolong the process to the point at which it impedes action. There is a risk that an international quest for perfection will become an excuse for not taking imperfect government measures. While "short-cut" seems hardly to be the descriptive word for what are bound to become prolonged negotiations, direct action in challenging the nontariff barriers of others has much to recommend it. (I am using the conventional label to cover all kinds of trade-distorting practices as well.) The complaints must, of course, be concrete and directed at identifiable practices which can be shown to be harmful to American exports. It is too much to expect that other countries will immediately cease and desist. On the contrary, the expectation should be that the effect of the complaint will be to initiate a negotiation that will go beyond the specific instance and open the way to possible agreement on what kinds of practices are legitimate and what not. The United States will have to be prepared to have some of its own practices scrutinized and to make changes in its ways of doing things if it wants to reach agreement with others.

I do not know if American businessmen are correct in their general belief that they suffer more from the nontariff barriers of other countries than foreigners do from ours but that belief provides an added reason for a strong American initiative in these matters. A vigorous approach is called for, but a word of caution is also in order. No good end will be served if the effort to get on with the business or identifying and dealing with nontariff barriers degenerates into a series of blows by one industrial nation against the trade of the others, with each action leading to retaliation. Tempers are easily aroused in this business and the hands of governments can be forced if they are not clear about their short-run and long-run objectives. Desirable as it may be to shut out certain subsidized exports from other countries, it is even more desirable to pave the way for an understanding about what kinds of subsidies justify this reaction. Nor should it be expected that a clear-cut agreement can always be reached; often the result may be an immediate compromise, coupled with recognition of the need to consult and negotiate about related problems. Temporary accommodations of this sort may one day look like steps in the process of building a kind of common law about nontariff barriers that is likely to be just as important as whatever degree of codification proves possible to arrive at.

We have lived with nontariff barriers longer than most of us have talked about them and we shall have them with us forever. Even if all those now identifiable were satisfactorily dealt with in a decade—a widely optimistic notion—new ones would have been created. Protectionist motives aside, it is in the nature of modern industrial society and the effort to govern it that nations will take steps that in one way or another will have an impact on the trade of others. You have only to let your imagination play for a moment on what will have to be done if all our hopes of reducing the pollution of air, water, and earth are to be acted on to see how that noble effort will result in rules, regulations, and practices that are bound to take on at least some of the appearance of what we now call nontariff barriers. Having recognized the problem we can try to minimize it by working for as much international uniformity as possible in rules and standards, but the agenda is already long and speed is important, so what cannot be prevented may have to be repaired.

III

There are still other factors broadening and complicating future trade negotiations. American direct investment abroad, heavily concentrated in the industrial countries, has reached a scale on which the sales of American-owned companies abroad are themselves important in international trade. What kind of account should American trade policy take of this trade which, while it may never touch American shores, has a connection with the American economy that the sales of foreign-owned companies abroad do not have? I have not been able to work out a full answer and yet one feels that there is something lacking in a trade policy that totally ignores this factor. At a simpler level, American businessmen are concerned if foreign restrictions on either trade or investment are too stringent; their activities are hampered, they want a freer choice in deciding how best to arrange their patterns of production and sales to meet global demand. While an inconclusive controversy goes on at home as to whether investments displace exports or stimulate them, foreign countries worry about the effect of increased American investment on their own exports and imports. While few clear conclusions can be drawn about how these growing interconnections between trade and investment will affect trade policy, there is little doubt that they will have an effect, not least because they make it impossible to argue that the sum total of American national interest in foreign trade can be gauged by a calculus that takes account only of goods that cross American borders.

Another set of connections links trade policy with the growing concern about how a country should adjust to changes in its balance of payments. If a country is in deficit, should it be allowed to restrict imports without fearing the retaliation of others? Can it minimize the disruption by levying taxes or temporarily raising duties instead of imposing quotas, which is all that GATT permits? When international funds are tapped to tide over a deficit, what rights have donor countries to say what limits should be put on accompanying trade restrictions? Would more flexible adjustment arrangements make it possible to avoid import restrictions altogether, at least in most cases?

The United States's own adjustment problem—the management of the balance of payments—may also have an impact on trade policy. It would take more space than I have to build up an argument as to why, in the new monetary state of the world, there is less justification than ever for letting fear about the balance of payments stifle trade initiatives. Nice calculations about the balance of payments effect of trade liberalization are apt to prove spurious. Such balance as is necessary can be achieved at a high level of trade as well as a low one. President Nixon was surely right when, in his trade message, he rejected the idea that the decline in our trade surplus should cause us to move away from trade liberalization. Such a step would kill the chances of getting other countries to liberalize further, damage the American export position, and make it harder than ever to keep the American economy competitive.

Not all trade restrictions are imposed by governments. Failures of past efforts warn us how difficult it is to deal effectively with the restricting or distorting effects of private business practices. It is hard to know how serious a problem now exists in this country, but it is equally hard to deny the possibility that as governmental barriers fall private barriers may become more important than in the past. Since nontariff barriers sometimes involve both governmental and private activities, our effort to deal with them may well require cutting a new path into the thicket. There is a need, too, for a new assessment of the relation of national security to foreign trade, whether we think of keeping out imports or denying exports to others. Most practice in these matters is influenced more by carry-overs of old beliefs than by persuasive analyses of what is reasonable and what is not in a nuclear world that explores arms control and engages in limited war by conventional means.

IV

Though I have sketched large areas only roughly I have, I believe, said enough to justify the assertion made at the outset that future trade negotiations will be more difficult than those of the past. For a hundred years the main, almost the sole, targets were tariffs and quotas. Difficult as they were to deal with, the task was in one sense relatively simple. The objective could be clearly stated; the methods were basically quite obvious; there were generations of economic theory to provide a rationale for what was being done. Now we face problems we do not fully understand. Even if governments are willing to act, it is not always clear just what they should do, and uncertainty breeds caution. The obstacles and distortions that are revealed after the removal of conventional barriers are closely rooted in domestic practices and indeed are often by-products of responsible efforts to manage the national economy according to the best lights available. Matters always thought of as domestic are now to be put on the green tables of international diplomacy because they are seen to affect others as well as ourselves. The prospect is troublesome for any government.

It is almost enough to make us turn our backs on the whole complex process—but there is no gain in that as we can clearly see even if we think only in old mercantilist terms about the way to export more. Willy nilly we are involved in these matters and have to deal with them. It would be nice if we could subsume them all under a formula and then work hard for that. I suspect we cannot.

Inevitably many issues will arise in the form of specific cases—the nontariff barrier here, the subsidy there, the restrictions on investment in another place. There is some advantage in moving step by step when you are not in a position to chart the whole route. But there is danger, too, the danger that in trying to deal with each case "on its merits" and to reach the compromises that are inevitable in international negotiation, governments will lack that stiffening of the spine that comes from being firmly committed to main lines of policy and major objectives, however distant. Domestic pressures are always more concentrated when they express specific interests than when they deal with the broad public interest. In trade matters that usually means protectionist pressures. It is, therefore, of the highest importance that in spite of the complexities and uncertainties of future trade relations, the United States should maintain a clear commitment to a policy of further liberalizing trade and of solving the problems arising from the interpenetration of industrial economies by striving for more openness, not seeking—I should think futilely—to close off these fruitful interconnections.

A verbal policy to this effect will carry no conviction if it is not matched by action, both in how we deal with specific problems and in the initiatives we take for international action in broader spheres. It is common talk that this is not a period for great American initiatives and in trade it is not clear that sweeping initiatives are the most useful way of proceeding. More limited proposals with limited goals may suffice, but they will have to be seriously intended and diligently pursued. Everyone knows that Americans have other things to worry about than trade and that many of them would be glad if the rest of the world went away. It will not. But an American trade policy for the 1970s is not something to be undertaken for the benefit of the rest of the world; it is something we should do in our own interest. It cannot be a successful policy if it does not take account of the interests of others and offer them advantage. But what should make us move is the realization that our economy is part of the world economy and that the problems I have outlined, complex and novel though they are, are as much problems about providing for the welfare of Americans and the proper functioning of the American economy as they are questions of "foreign" trade.

Chairman BOGGS. Our next witness is Mr. Harald Malmgren.

Will you proceed, sir, in your own way, to give us your statement.

STATEMENT OF HARALD MALMGREN, SENIOR FELLOW, OVERSEAS DEVELOPMENT COUNCIL; FORMER ASSISTANT SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS, EXECUTIVE OFFICE OF THE PRESIDENT

Mr. MALMGREN. Thank you, Mr. Chairman.

By way of introduction, it may be helpful to explain that many of the views expressed in this document are based upon my experience in the Office of the Special Representative for Trade Negotiations in the Executive Office of the President, from 1964 through 1969.

After the end of the Kennedy round in the spring of 1967, I was put in charge of the international activities of the Trade Office, and headed most of the U.S. delegations to the GATT committees dealing with nontariff barriers, agricultural trade problems, and special issues such as border taxes.

In particular, I spent much time organizing and planning the U.S. positions toward the GATT work program which has been underway during the last 2 years. I also headed a number of U.S. discussions on a bilateral basis with the EEC and other trading partners of the United States.

These views, therefore, are my own, based upon these experiences, and are not presented as the views of the staff, officers, or directors of the Overseas Development Council, with which I am presently associated.

First, my apologies, Mr. Chairman, to you and to the other members of this subcommittee for the inordinate length of my prepared statement, running on, as it does, for 86 typewritten pages. It is long for a substantive reason. When I took pencil in hand last week I realized at once that there was a very complicated but important story to be told.

My theme is that we must now begin to plan our economic policies and negotiations on a much more comprehensive basis than in the past, with a view to international harmonization of many national policies, taking into account the real national and international economic adjustment problems.

In order to explain what is involved in the negotiations of national policies as well as border measures, I have laid out most of the major problems we now face, and how they interact. Building up from some observations on the changing world trade and economic structure, and from a problem-by-problem analysis, I try to lay out a broad policy approach, and a strategy for trade negotiations in the 1970's.

The world economy is undergoing major adjustments. Many of them will move ahead whether we do or do not take actions of our own. We can, however, give shape to these worldwide adjustments, if we have the will, and if we take the long view. To do this we shall have to rethink the relation between our approaches to economic adjustment at home and the economic forces abroad.

We shall have to reexamine some of our foreign policies, where our economic premises may have been changed by events. We shall have to place the role and problems of the developing countries back into the mainstream of our commercial and financial policy considerations.

We are entering a period in which international negotiations will be far more complex, and more difficult, than the tariff-cutting exercises of the past. Consultation procedures, and the writing down of broad new principles, will be at the center of international talks.

Such international consultation and negotiations will have to be slow and methodical taking into account long-term economic objectives as well as short-term necessities.

However, though I argue for a comprehensive approach to policy, I do not conclude that we must therefore wait until we can move on all the pieces of a comprehensive policy at one time. On the contrary, I argue that it is essential to our own national interest that we get going on an active multilateral program right away, starting piecemeal, with small things, and building up from them a better system of world economic adjustment based upon a comprehensive conception of our economic interests.

World trade doubled from 1958 to 1968, and the rate of growth broke all records in 1968 and 1969, at over 12 percent per year. Trade during this period seems to have become far more sensitive to changes in income, and more flexible as regards market destination. The consequences is that balance of payments and international adjustment considerations have become relatively more important to trade policy than in earlier years.

This world trade growth has brought with it new forces: The EEC is now the largest trading unit in the world. Its exports and its imports to the world, excluding its internal trade, now exceed those of the United States. The Japanese economy is moving up fast. The traditional leadership role of the United States in multilateral trade policy, which was related to its dominance of world trade, is being reexamined as much abroad as it is at home.

At the same time, the United Kingdom seems finally to have found an opening for negotiations on accession to the EEC. Denmark, and some of the other EFTA countries will pursue entry, or association with the EEC, in order to protect their own trading positions.

Spain and Austria will continue to pursue a broadened special relationship. Many other countries are busily engaged in establishing discriminatory preferential relationships with the EEC, on top of the already existing discriminatory arrangements with the Yaounde Convention countries and other African nations. In this context, most of the countries concerned are extremely reluctant politically to take any position on trade matters which might be thought to be offensive to the EEC or any of its member states. Where the EEC goes in the GATT, for example, most of the key countries are content to follow, or remain silent. Thus, the whole political balance has been altered.

After explaining this problem in the introductory part of my paper, I go on to lay out some of the other structural changes which are unfolding rapidly. These changes include, as you will see, structural shifts in the pattern of exports of developing countries, with effects on developed countries; they include the rise in protectionist sentiment in a number of countries including our own; they include the profound troubles and distortions we can see in agricultural trade; and they include the emerging strong role of multinational business in determining the location of production and employment, and the pattern of world trade.

Let me begin my detailed commentary on the prepared statement with the section on nontariff barriers. We learned much about these barriers in the Kennedy Round, but were able to do very little about reducing their trade-impeding effects. Most of these barriers are deeply rooted in political and social policies, laws, and regulations of each of the nations. The fact that nontariff barriers remain after so many years of international trade negotiations is evidence that these are the truly hard-core barriers.

My prepared statement explains, using a number of examples, the great complexity of these issues, and the difficulty of generalizing. Instead of dealing with each one, in all of its incredible technical detail, I argue the case for cutting across the field in a search for general rules. These rules would involve national commitments and provide national guidelines for national policies, or else they will be meaningless.

In turn, I examine the possibilities of finding common principles; the desirability of seeking simplification of import procedures for its own sake; and the problems inherent in bargaining about barriers unique to one or another country.

In my prepared statement I emphasize the importance I would place upon drawing up some new set of understandings on the use of trade and domestic subsidies, and on the use of countervailing duties to offset them in importing countries. I cover the vexing problem of border taxes in passing, referring back to an earlier speech I have made on this subject, and noting that the problem is sometimes exaggerated and often misunderstood. Some modest conclusions are noted in my prepared statement.

In passing, I also note the new problems pollution laws may create, and offer a modest proposal.

Turning then on subsequent pages of my prepared statement to national security import restrictions, and to quantitative import restrictions inconsistent with the GATT—illegal quotas if you like—I urge that we put these into a context of new international ground rules.

This whole range of problems, and my suggested approach, leads to the question of negotiating authority. In my prepared statement, I raise this very fundamental question as to how governments are to gain the necessary authority, and implement their agreements. Many of these issues touch on domestic economic policies, on taxes, on investment policies, and on social and development policies.

They are tied up in all kinds of domestic laws, regulations, and administrative practices managed by different parts of each government.

In the United States, there has been much congressional sentiment against giving the executive branch a blank check. On the other hand, the executive cannot effectively negotiate without a mandate. Thus I conclude that the answer must lie in a much closer consultative process with Congress, together with an expression of intent on the part of Congress in order to give the executive a strong bargaining position.

Turning to agriculture, in my prepared statement, I explain the very profound adjustments now taking place. As a consequence of Government policies and technological change in a number of countries, would production of the major temperate products is rising rapidly, resulting in rapid buildup of commercial surpluses and Government trading policies which aggressively seek to pass on the cost of excessive programs to other countries—modern beggar-thy-neighbor policies.

This tendency to seek to reduce imports, stimulate home production, and stimulate exports is a new form of mercantilism. The European common agricultural policy is a major part of the problem in the world, but the United Kingdom, Japan, Denmark, and others, including ourselves, share the responsibility.

Both Senators Miller and Javits of this committee have on occasion very kindly referred to my recent public statements elaborating on this mess we are in, and, thanking them, I will not dwell on the details orally. Rather, I would like to look now at the future.

In my own view, there is now no way of avoiding new international procedures and understandings which would provide limitations on the freedom of national policies.

In this regard, I raise the broad question of commodity arrangements, and the international grains arrangement in particular. Here I explain that one often hears the suggestion, particularly from Europeans, that what we need to do is "put order into world markets" by regulating international prices. But, as I explain, this attacks only one element of the worldwide problem, and by itself is not viable.

Other national policies must be comprehended: There must be sharing of the worldwide burdens of production moderation; or some kind of understanding about marketing behavior; or some ground rules for domestic farm supports; or all of these. The wheat agreement breakdown is a good example. It could have done the job, I believe.

It had the necessary consultative ingredients, and the negotiating history was clear enough on the nonprice problems which would have to be coped with. However, the governments concerned were not willing to adopt the necessary national policies to make it viable. On the other hand, I also observe that indiscriminate price cutting helps nobody, and probably hurts the United States in particular.

In the case of wheat—and indeed for all grains—I argue for a reexamination of fundamentals. If Europeans and others are keen on such arrangements, then I think we should now place on these countries the burden of demonstrating that such arrangements can be made viable. It is they who should explain what policy steps they are prepared to take to demonstrate that a new agreement is feasible, viable, and desirable.

In the interim, I point out in my prepared statement the fact that we have been negotiating right on grains in both the United Kingdom and the EEC, which must be paid for if the IGA lapses. I take the position that we should let the grains arrangement lapse, and turn our attention to our negotiating rights, and to the legal situation generally in world farm trade.

Ultimately, as the example of wheat shows, we must find ways to coordinate and harmonize national policies. In this world competition of finance ministries and treasuries, even developing countries seem to be finding themselves caught up, with support prices far above world market levels. Because governments have so heavily intervened, I argue that we must find international principles for governments to live by.

Abrupt adjustment to free trade at national borders would not solve this problem of the already existing heavy role of governments. I add in passing that it would seem that farm producer groups throughout the world appear to be increasingly ready for new, more orderly international arrangements or international rules, and it is governments which at the moment appear to be dragging behind.

In the section on developing countries in my prepared statement, I cover the major trade policy issues. On tariff preferences, I point out the reasons for our change in policy recently, as well as the pitfalls ahead. My conclusion on this matter is that, given the pitfalls, and given the danger that action on preferences will take the heat off more basic trade issues, as well as endanger our development assistance efforts, I argue the basic need for a more comprehensive approach. I share Chairman Boggs' concerns expressed in his February Business Council speech on this matter.

It seems to me the wisest course is that preferences should be dealt with as part of a more comprehensive economic package, and not be handled as a separate legislative matter. On the one hand such a package could include a series of internationally orchestrated steps in aid, trade, investment, and debt rescheduling.

On the other hand, such a package could be in the form of major new trade legislation covering all the world trade and related matters, with preferential authority representing only one element. In this way we might insure that real benefits ensued, and that the necessary world economic adjustment measures took place in a well-thought-out framework of rules and consultative procedures, backed by appropriate international financial measures and national adjustment assistance programs. It would also insure equitable distribution of opportunity to the LDC's themselves.

Turning to import quotas and international restrictive trade agreements in my prepared statement, I explain that we are dealing here with adjustment problems, in the United States, in Europe and Canada, in Japan, and in the developing countries. Labor-intensive manufactures from developing countries are precisely the kinds of products these countries are best able to export. Conversely, they are the type of products most likely to displace labor opportunities in the developed countries, hitting as they inevitably must, labor-intensive industries in low-wage areas of the developed countries. We cannot wave these problems away with a magic wand.

In my prepared statement I take up the sensitive example of textiles. I point out the patchwork of restrictions which have developed worldwide, and the adjustment problems ahead, including the pressures on Japan next from her lower wage neighbors, and the pressures on them in turn farther on down the pike. Further textile restrictions are now inevitable, and we should turn our attention to the question of principles we wish to apply.

In my prepared statement, generalizing from the textile experience, I explain that restrictions arose here and there, and eventually systematically, on a selective basis, throughout Europe and Canada, making a case for equivalent restrictions in the United States. Ad hoc restrictions, country by country, without regard to the policies of other developed countries, and without sufficient foresight about the long-term structural changes going on in the world, led to the present situation.

It is useless to point fingers, and argue that this industry or that is breaking away from the basic thrust of a liberal trade policy.

The problem has arisen out of taking on the changing world circumstances piecemeal. Now we ought to find ways to rationalize and harmonize the import restriction policies in the context of sensible economic adjustment principles, internationally agreed.

In my prepared statement I lay out some proposed guidelines which I would like the committee to consider. I believe such an approach is negotiable internationally, and that many countries would welcome it. It should be explored.

With regard to commodity arrangements, I have little new to contribute, except to explain that the problems of competitive products like fats and oils are so far more complex than most people realize, and that there are no simple answers to the developing countries' needs through the magic of commodity arrangements. More than trade negotiations are needed.

In my prepared statement I try to draw together the policy issues. In this section, I call for a reexamination of our policies and practices where our own economic interests are at stake, with more aggressive trading policies coupled with more attention to existing trading rules. For example, I explain the complicated and harmful nature of the present proliferation of discriminatory trading arrangements in Europe.

I point out that the trade effects on us may now be small, but their implications for the long term are very serious: The pattern is being set for other major trading countries, and many others, to be treated in the same way, including the EFTA countries, United Kingdom dependent territories, the Caribbean countries, and the Commonwealth. Thus, as I say in my prepared statement, we may soon have to face violence not only to our trading principles, but to our actual trade interests as well.

The problem of enlargement of the European Common Market is dealt with in my prepared statement. I explain here the serious problems the United States faces and its economic rights, and suggest reorientation of our policy for the future. Taking into account the direct access problems, plus the problems of increased competition in agriculture in third markets, plus the discrimination likely to result from further discriminatory arrangements, I conclude that the United States has a vital interest in both the process and the outcome of the negotiations for British entry and the further enlargement of the Common Market.

Here, I enthusiastically endorse your views, Mr. Chairman, expressed in your business council speech, and indeed I quote your words extensively in my statement, not being able to improve upon them myself.

Those who argue that we should stand back and leave the process to its own evolution do, I think, live in the past vision of the Grand Design of the late 1950's and early 1960's. That design was right enough at the time; but our experience with European attitudes should now lead us to be somewhat more pragmatic. Europeans themselves are certainly practical about this, as I point out in my prepared statement, referring in particular to some words of former Chancellor Erhardt. I also quote Sir Eric Wyndham-White's words to this subcommittee: "It seems sometimes that the United States was more European than the Europeans."

It is not a matter of our objecting to British entry at all—rather, it is a question of actively defending our own interests where they may be affected, and keeping our interests clearly in the open view of Europe. Unless we look to these issues, and defend our commercial interests, the multilateral possibilities for trade expansion in the 1970's will be very limiter in scope, and the United States will be increasingly forced into a posture of political and economic retrenchment—a posture which I am certain would harm both our foreign policy interests and our domestic economic interests.

Turning to Japan in my prepared statement, I point out the great degree of mutual interest between the United States and Japan. I explain some of our strong feelings about Japanese restrictions, but also explain some of Japan's problems in liberalizing these restrictions, in relation to her own export limitations into the European market.

We sometimes forget the link between Japan's restrictions and the European discrimination against Japan.. I also point out that the United States maintains many restrictions of a "voluntary" character against Japan, and that our own hands are not entirely clean in this matter of adherence to the world trading principles.

In conclusion, we must recognize that at times we ourselves restrict Japan. Japan must recognize that her restrictions go to excess and are well beyond the bounds of a reasonable balance.

In conclusion, I believe we should at home reassess our ad hoc approach to trade restrictions, and examine what the right international guidelines ought to be. We should also pursue the question of adjustment assistance more energetically at home, and began to explore the international interactions between our trade, monetary, corporate, and aid policies.

This in turn leads me in my prepared statement to an outline of some of the broader issues which must be brought into our range of consideration in laying out our trade policies. Trade and financial issues are closely related, and when there is a monetary problem we should not find ourselves throwing out our trade policy—we should design better mechanisms.

Investment policy and corporate activity supervision also have a direct effect on trade and must be directly taken into account. There is a pressing need to reconcile and regularize the differing national policies.

Looking further down the road, I point to the major, indeed massive adjustments which will have to take place in world production, investment, and trade to cope with the world labor and employment problems ahead, and in order to put agriculture back into some sound relationship with world commercial and development needs.

To make the point in another way, I use in my prepared statement the East Asian situation as an example of regional structural change, in which our commercial interests are rapidly shifting, and our political interests dictate a new economic policy.

A GATT work program is already underway, aiming at decisions on whether or not to "negotiate" on NTB's and agriculture in 1971. This work should be pressed ahead, as part of the process of laying the groundwork. But our horizons must slowly be broadened, and the GATT work program be developed in the framework of a more comprehensive strategy.

As I say in my prepared statement, I believe we should press ahead now.

One sometimes hears the argument that it would be preferable to move gradually, and with care, digesting the Kennedy Round before we reach for another bite. But it is doubtful whether the United States, or Europe, or Japan serve their best self-interest by moving as slowly as they have been doing up to now. In the case of the United States, it seems to me crucial to have underway a number of multilateral efforts during the process of negotiation of European integration.

Only in this way can we insure the sensible evolution and outward-looking character of Europe. Across the Atlantic, given the internal and external adjustment problems Europe faces, Europe ought to welcome more external pressure upon it to help it make the hard political decisions it must make, if rationalization of European agriculture and industry is to be brought about.

The Japanese have much to lose if there is no broad agreement of the major countries soon, into which their special problems can be folded. Without this, Japan will face a painful readjustment both on the import and export sides—an adjustment which would not have to be so painful with sound policies and an outward orientation towards multilateral adjustment principles.

I do not believe we should yet reexamine the GATT rules themselves. We may yet come to the day when "MFN on condition" will have to replace MFN without exception; we may yet have to take up the idea of a Pacific basin area negotiation. First, however, we should try the multilateral approach on a world basis, within the existing rules, and try to convince our trading partners that we must do this soon, in the interest of all our respective national economies.

Taking my earlier thoughts together, I explain that simple notions of reciprocity in bargaining will not be sufficient. Sometimes we shall have to think of negotiations as the defining of rules which all nations can commit themselves to. In a sense, it is a return to fundamentals, a return to rule writing, as we did at Bretton Woods and thereafter.

Our negotiating approach should comprise three basic elements: First, a comprehensive approach which relates trade and investment, and which relates internal and external adjustment policies. Second, the definition and establishment of new consultative procedures, which will relate traditional bargaining to the need for harmonization of national policies. Third, the definition of principles and guidelines to which governments might commit themselves which go well beyond the present trading rules, both in terms of specific product and problem areas, and in terms of general economic adjustment policies.

The centerpiece at least initially should be the GATT, because in the GATT there are rules, there are obligations, and there are penalties. We should not throw these away, because they are in our economic interest. While using the GATT as a centerpiece, we should undertake active bilateral consultations with the major trading entities, especially the EEC, United Kingdom, Canada, and Japan, and begin informally working on a grand design for the 1970's.

We should insist on the gradual phasing of these informal talks into multilateral negotiations. The Europeans will say that it is "difficult" to undertake multilateral talks while carrying on bilateral discussions with the U.K., Ireland, Denmark, and Norway. It will be difficult. But the EEC is now a great power, with great responsibilities.

It is reasonable for other countries to ask the EEC to take on what must, for it, be a most difficult undertaking. For the other countries, important issues are at stage. For the EEC, it is better now to cope with these issues, than to have them become disruptive later. If more people are needed, then they should be found. There is too much at stake for Europe to argue that it is all too difficult.

We should simultaneously utilize the OECD, stepping up the pace and level of its work, so as to gradually broaden the boundaries of our international economic discussions. Somewhere along the way in this intensive and persistent process we might consider Senator Javits' idea, put forward as a question in the December hearings:

"Has the time come," he said, "for a new London Economic Conference, or some other basic large-scale approach to the new situation in the world, in a new framework or perhaps in one of the existing frameworks?"

This might become necessary, at least to set the high-level policy scene, and to broaden the negotiating horizon sufficiently to comprehend all of the international economic issues involved.

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Let me also note that, since we no longer dominate world trade, our bargaining leverage is less. We increase that leverage, as a nation, by broadening the scope of our international talks to include those matters where we are strong.

Turning to principles and guidelines, I have mentioned many in course of this prepared statement, ranging from health and safety standard procedures to guidelines for import quota and adjustment assistance use by national governments. We shall want to reduce uncertainty, whether it arises out of unreasonable administrative discretion, excessively complex rules, or excessive flexibility (as in the variable levy in Europe). We shall want to look for the most common international usages or approaches, and set up procedures under which countries justify deviations from these norms. We shall want to reach agreement that new impediments to trade, and new national policies directly affecting trade, be subject of consultation prior to implementation. We should also want to insure reasonable delays in implementation in cases where an adjustment period for exporters will allow adaptation to new rules.

We will want agreements that governments will instruct their government agencies and semi-government enterprises not to discriminate, so that the practices of individuals do not thwart the national and international undertakings. We should welcome guidelines regarding special import protection schemes, whatever their justification, folding them into a broad philosophy of trade expansion, taking into account domestic and international adjustment needs.

In aiming our policies in this way, we must remember to keep in mind our ultimate objectives. As I said in my prepared statement, free trade is not an end in itself, but rather a means toward trade expansion, growth in national economies, and growth in world employment opportunities. There have been times when we have had to deviate from the free trade means, but if we have our eyes firmly fixed upon these ultimate objectives, I am confident that we shall be able to find new guidelines to add to the old which will insure and promote world economic growth, and which at the same time will take into account real national and international economic adjustment difficulties. And ultimately, looking after our economic interests, we will insure that our foreign policies are politically viable. To those who will question the wisdom of putting economics first, I simply wish to say: Economics is powerful politics.

That ends my statement, Mr. Chairman.

Chairman BOGGS. Thank you for a most thoughtful statement.

(The prepared statement of Mr. Malmgren follows:)

PREPARED STATEMENT OF HARALD MALMGREN

TRADE POLICY AND NEGOTIATIONS IN THE 1970'S

By way of introduction, it may be helpful to explain that many of the views expressed in this document are based upon my experience in the Office of the Special Representative for Trade Negotiations in the Executive Office of the President, from 1964 through 1969. After the end of the Kennedy Round in the spring of 1967, I was put in charge of the international activities of the Trade Office, and headed most of the U.S. delegations to the GATT committees dealing with non-tariff barriers, agricultural trade problems, and special issues such as border taxes. In particular, I spent much time organizing and planning the U.S. positions toward the GATT Work Program which has been underway during the last two years. I also headed a number of U.S. discussions on a bilateral basis with the EEC and other trading partners of the U.S.

These views, therefore, are my own, based upon these experiences, and are not presented as the views of the staff, officers, or directors of the Overseas Development Council, with which I am presently associated.

I. THE CHANGING WORLD TRADE STRUCTURE AND THE POLITICS OF TRADE

The world economy is undergoing major adjustments. The problems ahead, and their interaction with specific economic adjustment policies of governments, is essential background to laying out a strategy for international negotiations in the 1970's. This paper is an attempt to pull together for the first time all of the major issues.

World economic adjustments are unfolding inevitably. We should, in order to safeguard our national interests, be engaged in a process of consciously shaping these world economic adjustments. In this process, however, the United States can no longer act as if it alone is in the driver's seat. It is no longer even the major trading power. Thus we can no longer set out to drive the rest of the world to some desired destination. Instead we must try to find, with the other countries, new and better rules of the road, in order to get where we are going, without accidents and massive tie-ups on the way in the years immediately ahead.

Consciously shaping world economic adjustments requires a long view. It requires a rethinking of the relation between our approaches to economic adjustment at home and the economic forces abroad. It means reexamining some of our foreign policies, where our economic premises may have been changed by events. It requires placing the role and the problems of developing countries back into the mainstream of our commercial and financial policy considerations.

We are, in other words, entering a new period in the history of the international economy. It is a period in which international negotiations will be far more complex, and more difficult, than the tariff-cutting exercises of the past. Basic national policies will have to become part of international discussions. Consultation processes, and the writing down of broad new principles will be at the center of international talks. Such international negotiations will have to be slow and methodical, taking into account long-term economic objectives as well as short-term necessities.

However, while arguing for a comprehensive approach to policy, this paper does not conclude that we must wait until we can move on all the pieces of a comprehensive policy at one time. On the contrary, I believe it essential to our own national interest that we get going on an active multilateral program right away, starting piecemeal, with small things, and building up from them a new world order, based upon a comprehensive design.

Trends in world trade

From 1958 to 1968 world trade doubled. The length of this period of uninterrupted growth, and its pace, are unprecedented. In 1968, trade grew by 12 percent, a rate which the Secretariat of the GATT believes to be an all-time record. 1969 was probably another record year. From the point of view of the United States, the volume of trade grew exceptionally rapidly, but the balance of trade was poor. This was, in the main, a result of the tendency for imports to rise more rapidly during periods of inflation. However, there is increasing evidence that other fundamental forces are at work which would push up imports more rapidly than the rates to which we have been accustomed in the past. Manufactures are increasing their share of U.S. imports, partly because they are more sensitive to income growth than other types of imports, and partly because of the improvement in quality standards of imports and the marketing practices of exporters to the United States. In my view, this means that we must be even more conscious than in the past of the need to improve our commercial exports.

Another important development is that the export trade of the world seems to be increasingly flexible regarding market destination. The high level of trade reached in the past few years seems to be maintaining itself through quick responses to changing geographic patterns of demand. This point is elaborated in the recently published GATT survey, *International Trade 1968*. This again is in part related to the extraordinary rise in trade in manufactures, which are sensitive to income changes. For example, nine-tenths of the growth in world trade in 1968 was due to trade in manufactures. Their share of total world trade was 63 percent in 1968, and the proportion is rising.

Professor Richard Cooper published in 1968 an excellent book, *The Economics of Interdependence,* in which he argued that the growth in sensitivity of foreign trade to changes in national economic conditions can be expected to continue. In summary, he said:

"Transportation costs have fallen somewhat, tariffs and other barriers to trade have fallen much more, 'horizons' have broadened to provide greater receptivity to foreign goods. Moreover, the accumulation of capital and the international transmission of technical knowledge have caused a convergence in the potential structure of production in industrial countries so that national advantages arising from climate, resources, or unique technological skills are less successful in insulating a country from foreign competition than they once were."

Because of this increasing sensitivity of trade to changes in national economic conditions, it follows that balance of payments and international adjustment considerations become more important. In other words, the viability of national economies will increasingly depend upon the international mechanisms for adjustment which will allow them to weather shifting patterns and levels of trade, without having to resort to extraordinary trade and payments restrictions.

Balance-of-payments considerations will increasingly intrude on trade policy unless we can develop better methods for dealing with payments deficits. The extraordinary trade measures taken by Canada, the United Kingdom, France, and Germany in the last few years are cases in point.

The evolving common market giant

The positive side of the growing U.S. demand for imports was that the trade of the rest of the world grew faster than it otherwise would have done. However, times are changing. Whereas in 1968 the United States was the strongest engine pulling world trade upwards, in 1969 it would appear that the EEC became the prime moving force. This points up an important new development, which is that the EEC has become the largest trading unit in the world. Its exports and its imports to the world, excluding its internal trade, now exceed those of the United States.

Thus a major development lies in the changing politics of international trade. The EEC has become the trade giant. The Japanese economy is moving up fast. The traditional leadership role of the United States in multilateral trade policy, which was related to its dominance of world trade, is being reexamined as much abroad as it is at home. At the same time, the United Kingdom seems finally to have found an opening for negotiations on accession to the EEC. Denmark, and some of the other EFTA countries will pursue entry, or association with the EEC, in order to protect their own trading positions. Spain and Austria will continue to pursue a broadened special relationship.

Proliferation of discriminatory arrangements

At the same time most of the Mediterranean countries are busily engaged in establishing discriminatory preferential relationships with the EEC, on top of the already existing discriminatory arrangements with the Yaounde Convention countries and other African nations. In this context, most of these countries are extremely reluctant politically to take any position on trade matters which might be thought to be offensive to the EEC or any of its member states. Where the EEC goes in the GATT, for example, most of the key countries are content to follow, or remain silent. On difficult decisions in the GATT, the U.S. has to hope for interest in its problems on the part of Canada, Australia, and Japan, since the other countries are in this difficult quandry.

This recent proliferation of discriminatory trade agreements is sometimes passed off by Europeans as being minimal in its trade impact and political in character. (If we help Israel, they say, how can we not help in at least token fashion Israel's Mediterranean neighbors?) What is worrisome about this proliferation is not the present trade impact, although that should be of interest to the United States. Rather, it is the good possibility that Switzerland, Sweden, Austria, and others will end up with similar types of discriminatory trade agreements, under the name of "association," using the precedents currently being set now. This development would clearly discriminate against North American and Pacific source trade. The formal division of the world into economic spheres of influence also runs counter to the whole thrust of American trade policy since Cordell Hull.

The developing countries and world economic adjustment

So far, I have dealt with developments among the major developed countries. There are now profound changes occurring in some of the developing countries. The problems for developing countries are even more numerous and politically troublesome than for the rich countries. While their total trade is increasing, their share of world trade has continued to decline throughout the 1960's. Moreover, their exports seem to be more volatile, and more dependent upon economic conditions in the rich countries, than is the case for trade among the developed countries. Recently, they have had impressive increases in export earnings, partly due to the rising demand for raw materials in the developed countries, partly due to a modest rise in the unit value of key commodities, and partly due to the increasing share of exports being taken up by manufactures. This latter development, the opening up of real growth in manufactures, is crucial to their development endeavors. While manufactures represented only 8 percent of the developing countries' exports in 1955, they now stand at 16 percent.

Much of this improvement has been concentrated in a few countries, particularly on the Eastern rim of Asia. This same improvement has made itself felt as strong pressure on domestic industries in the United States, Canada and Europe. The problem for the developed countries is that the developing countries are making the greatest strides in labor-intensive manufactures, in which their comparative advantage lies. On the importing end, the importation of labor-intensive manufactures hits industries in the developed countries which are also labor-intensive. These labor-intensive industries not surprisingly are often located in low-range areas, or in economically distressed areas, where labor is cheap and plentiful. Thus the success of the developing countries creates social adjustment problems, which inevitably become political problems, in the rich country markets. This intensification of effort in manufactures in their overall export pattern by the developing countries can be expected to continue, and to accelerate. Therefore, an *ad hoc* approach to trade restrictions where domestic disruptions appear to occur is bound sooner or later to develop into a more general pattern of political and economic adjustment difficulties, with a patchwork of measures to cope with them.

The rise of neo-mercantilism

This set of problems in turn brings up the issue of rising protectionist sentiment in various countries, and the emergence of what I would like to describe as Neo-mercantilism. Industries in difficulty often associate their problems with imports from other countries, sometimes as an excuse for bad management, sometimes because the problems are very real. In this country the problem has become further compounded by the increasing concern of organized labor that imports were becoming a major source of job displacement. Moreover, to the extent that imports from low-wage countries find easy access to the United States, organized labor fears the incentive for American manufacturers to relocate abroad, further displacing labor, or at least slowing the rate of growth of domestic investment in relatively labor-using industries. The Report on International Trade of the Economic Policy Committee to the AFL-CIO in February, 1970, reflects this growing concern. In basic industries like steel, the problem has been somewhat different. Here we are faced with import pressure and the need for competitive readjustment in an industry where heavy fixed capital commitments are not easy to adjust overnight, and where large-scale investments in modernization is somewhat constrained by uncertainties about the future of the demand for imports relative to domestic products. In agriculture special problems in beef, tomatoes, dairy products, strawberries, honey and other products have led to a desire for new import protection. Often, these problems are seasonal, and the key complaints relate to the economic adjustments from month to month; although in dairy the problem has become more basic because of the high level of export subsidization of other countries.

Agricultural trade in trouble

In Europe, the tendency towards new impediments to trade are mainly to be found in agriculture. In industry, there have been no significant new nontariff barriers in Europe since the end of the Kennedy Round, contrary to some popularly held views. On the other hand, in agriculture the EEC has turned into a Neo-mercantilist power which consciously reduces imports, artificially stimulates domestic production, and subsidizes exports. This not only reduces access opportunities, but also through the generation of production surpluses and export subsidization, eats into the third markets for Western Hemisphere and Austrlaian exports. It even causes severe world trade damage to the developing countries, in products like sugar and rice. In the United Kingdom, the government has consciously sought to decrease the share of imports in domestic consumption through such devices as the Minimum Import Price Scheme and domestic production incentives. Denmark has had to respond to the rise of Neo-mercantilism elsewhere with its Home Market Scheme, which is essentially a large-scale export subsidy program. Meanwhile, in Japan the economy has been racing ahead, while maintaining an awesome array of formal and informal restrictions on imports, the most important of which are in agriculture. While doing this, the Japanese government has been subsidizing home production of rice at level nearly three times as high as the world market, spoiling the rice export prospects not only for the U.S. and the East Asian developing countries, but also spoiling the more general prospects for liberalization of all the onerous Japanese agricultural import restrictions.

The world agricultural situation can only be described as worsening rapidly, with rising production, rising surpluses, and declining commercial price levels. Most of this problem is due to artificial and unrestrained agricultural policies of governments. It is closely linked to social rural adjustment problems in each of the countries caught up in this maelstrom of Neo-mercantilism. These distortions and wastes in agriculture are particularly ironic in view of the shortage of food and feedstuffs in many of the developing countries. It is a classic case of global maldistribution of the world's resources.

Protectionist and Neo-mercantilist tendencies interact internationally to produce an ever-increasing set of pressures on governments. Liberal trade advocates in the United States are becoming soured by certain restrictive practices abroad; and Europeans and Asians are increasingly unwilling to ease up their own restrictive tendencies in the face of what they consider unreasonable practices or predilections in the United States. Thus the political balance of forces in each country concerning trade policy is undergoing change, with uncertain consequences.

The role of multinational businesses and investment flows

A different set of circumstances has also arisen out of the rapidly growing importance of the multinational businesses and the rise in direct investment in manufacturing and marketing activities outside national boundaries. A rapidly increasing amount of world trade is flowing within corporate entities, as intracompany transfers. Investments, and therefore production, and therefore the pattern of world exports, are being influenced by differences in taxation, differences in national economic policies, differences in tariff and non-tariff protection, differences in governmental supervision, scale advantages, differences in foreign exchange controls, and many other factors which traditionally have been treated by governments and academicians as non-trade matters. The frictions which arise out of these activities are sometimes highly political, and at other times they bring about substantial international economic adjustments; but governments shrug their shoulders, out of inability to deal with them in traditional modes of policy.

This introductory background is essential to understand, if we are as a nation to begin to create a comprehensive foreign economic policy for the 1970's, and especially if we are to undertake international negotiations in the field of trade. The politics are changing around the world. The world economic structure is changing. Measures for world adjustment are called for which must be much more sophisticated than the relatively simple tariff-cutting negotiations of the past.

II. NON-TARIFF BARRIERS

As tariffs have come down through international tariff negotiations, the remaining barriers to trade have become relatively more significant. This was fully realized during the Kennedy Round discussions. On the whole, however, more was learned about these barriers than was done to reduce their trade-impeding effects. The subject turned out to be far more complicated than expected, and the problems of getting governments to alter their policies on non-tariff barriers (NTB's) seemed insurmountable in the time frame allowed by the negotiations.

The difficulty of negotiating NTB's results from the simple fact that most of these barriers are deeply rooted in political and social policies, laws, and regulations of each of the nations. The fact that NTB's remain after so many years of international trade negotiations is evidence that these are the truly hard-core barriers.

During the Kennedy Round some modest progress was made in a few areas. An international code on anti-dumping practices was negotiated. Although some people disagree, I do think this code represents an important gain for both American exporters and importers, and it provides some of the remedies urged for years by certain domestic industries in the U.S. At home, for example, some industries have urged that anti-dumping proceedings be much faster, so as to provide for more rapid application of remedy if justifiable—the code provides for time limits on proceedings. Abroad, the code provides for clear and open procedures when actions are being considered against American exporters—this means greater protection for American exporters. Before the code, the Canadian government did not require any test of injury for anti-dumping actions. As a result of the code, Canada changed its law to provide for findings of injury before action could be allowed. During the time of negotiation of the code, the EEC was planning a harmonization of anti-dumping practices of the member countries and new common regulations. The new regulations now conform fully to the code; it was clear that they would have come out quite differently without a code. Above all, the code provides for common procedures in each of the signatory countries.

Some NTB's were caught up in the now famous "package deal" on American Selling Price (ASP) customs valution: Besides the mutual tariff concessions in chemicals, and the giving up by the U.S. of ASP, the other countries agreed to changes in such matters as automobile road taxes (where taxes discriminate against larger, American-type vehicles) and the U. K.-Commonwealth tobacco preference. On the whole, however, the NTB's most complained about both here and in the rest of the world remained untouched.

Finding common principles

In negotiating NTB's, one principal objective must be the finding of a common set of norms or guidelines for all countries to follow, as in the case of the anti-dumping code. One of the principal obstacles to trade is the uncertainty arising out of different approaches in each country to similar problems, and the uncertainty inherent in administrative decisions which are not subject to international guidelines.

This is a very important notion. In the case of many governmental regulations and practices, it is not possible to tie down the specific practices for each product, or quality of product. Take for example, national product standards. Some countries require certain types of tests and certification. Others require only that certain specifications on size or product composition be met. Others require only labeling, while others require little or nothing for the same products. Sometimes technical experts can make progress, quietly, on the technical level on such problems. Thus, the participation of government and industry specialists in the world discussions of the CODEX ALIMENTARUS has brought about considerable progress on can and package size and sanitation standards, for processed foods. The experts seem to have had much success to date. At other times, however, progress will only be possible on the policy level, in terms of broad principles; or there will be cases where technical work can take place only in the context of already-agreed principles.

In some cases, where testing during production is the only means of true verification, it is difficult to accommodate imports from countries where labeling or post-production testing is the only requirement. In such cases, it is not easy to change the national health and safety standards. What can be done is to provide general international guidelines, and procedures under which certification by various governments might be considered mutually acceptable amongst these governments. In some cases of national standards, it will be very hard to change what, for some countries, appear to be real consumer protection issues. It may nonetheless, be possible to aim at an international understanding of what seem to be most common practices, and then arrange for a consultative process in which countries deviating from "common practice" could be asked to justify their deviations. Again, the heart of this is agreement on some sort of norm.

In addition, where new standards are introduced, there ought to be provision for delaying implementation for a reasonable period of adjustment. The U.S. allowed, for example, a period of consultation ard adjustment for exporters of automobiles to this country.

A more precise example of the need for finding guidelines or norms would be the area of state trading company operations. It is not reasonable to attack the existence of state trading operations in other countries. What is reasonable to expect is that in carrying out their operations, such organizations follow certain rules which are common to all countries. State trading organizations should not discriminate as amongst national sources of supply; they should not discriminate between imports and domestic purchases; their mark-up pricing policies for imports should be similar to those practiced for domestic transactions. If such guidelines were developed, an international consultative committee could then police the situation, through providing a forum for multilateral consideration of grievances brought by specific countries.

Another area of trouble, sometimes creating serious impediments to trade, can be found in consular formalities, customs procedures, methods of valuation, and other administrative procedures. It would not be easy to negotiate a common customs form for every country, and exactly the same administrative procedures in each and every case. The capabilities of customs officials vary from country to country, depending upon their organizational status and the number of officials employed in relation to trade. Yet it is reasonable to expect some uniformity in approach. The Customs Cooperation Council in Brussels is trying to work in this direction, and the U.S. recently began to take a more active membership role in it. But more than this can be done. There are many abuses of administrative procedures, particularly in the developing countries, for the purpose of discouraging imports.

Some developed countries maintain regulations which make valuation for customs purposes a highly uncertain affair. In saying this I should add that the U.S. is much criticized in this regard by other countries. To some extent, of course, fears about valuation and administrative procedures result from the complexity of tariff schedules themselves. The U. S. in particular maintains a tariff schedule completely different from most of the major trading nations, who have adopted the so-called Brussels Tariff Nomenclature. While I personally doubt whether this is a true source of difficulty for foreign exporters, Europeans do believe it is a significant trade impediment.

Still another problem of a similar kind is in the area of government procurement. The U. S. does, through its legislation, discriminate against procurement from foreign sources. However, the discrimination is explicit, and bidding procedures are open. A foreign exporter can sell to the U.S. government if his price meets the specific benchmark, which varies with the type of procurement, 6 percent preference given in some cases to domestic sellers, and 12 percent in others. In heavy electrical equipment procurement by the federal government, for example, it is my understanding that over half of the procurement in 1968 was from foreign sources. Contrast this with the practice of many other countries. There are no published criteria, and no government guidelines which constrain procurement authorities. Governments say that they do not discriminate, yet the evidence is that no imports at all are purchased in many such cases. It may in some of these cases require conscious government effort to *prevent* procurement authorities from discriminating.

In saying this, I do not suppose that procurement in the area of so-called national security items is likely to change very much in any country. The U. S. is certainly not the worst in these cases, having as it does special defense purchase practices which are clearly understood by most other countries.

What can be done again, however, is to find some set of norms and some kind of consultative machinery to deal with problems as they arise.

Simplification for its own sake

I have now developed the theme that common guidelines are needed in many of these areas. The same line of thought suggests that practices and regulations should wherever possible be simplified. Let me note in this regard that customs authorities are often blamed for the complexity exporters face; my own experience is that customs authorities generally favor simplification and that it is trade policy officials looking for protection or maintenance of protection who prefer complexity.

Systems such as the variable levy system in agriculture in the European Common Market and the American Selling Price system in the U.S. are far too complex. Practices like import licensing in some of the industrialized countries in Europe, and in Japan, are simply unnecessary and unwarranted red tape, slowing import procedures without any tangible benefit. Europeans complain that they need import licensing in order to provide good statistics on imports. In this era of computers that is simply not any longer a reasonable argument. The Japanese make similar claims, yet the various import licensing systems are in practice often used to inform domestic interests of impending import trouble, giving them time to work up opposition domestically to projected sales.

In the direction of simplification, the developing countries in particular should make a major effort. They do have special balance of payments problems, but the answer to these problems should be in the form of specific, clear impediments, preferably import charges. Many of these countries maintain a wild array of unusual procedures. Proliferation of administrative complications harasses foreign traders, angering the commercial friends of these countries. Moreover, it makes the job of their own government control of imports more, rather than less, difficult since there is no way planners can measure the effects of the import protection system, and vary it from time to time as domestic economic needs change.

Uncertainty and complexity themselves discourage exporters, particularly small and medium size exporting companies. Most governments, both developed and developing country governments, are trying to boost the efforts of their smaller exporters and to bring into the export market companies previously oriented domestically. It should therefore be a common interest of all countries to try to work together to reduce uncertainty and complexity in all of their markets.

Special discriminatory barriers

Some types of barriers are similar from country to country, either in terms of their effects or in terms of administative characteristics. Others are unique to the countries maintaining them. The U.S. for example has been much criticized for its wine gallon method of tax assessment on imported alcoholic beverages. The U.S. system taxes domestic bourbon, for example, on each proof unit. Imported beverages in bottles are taxed as if they are 100 proof, even though their real proof may be around 84.

Some countries have specific import quota restrictions on specific products. These vary widely amongst countries. Many of them discriminate against the developing countries and Japan as a group. This is mainly to prevent importation from Japan, Hong Kong, Taiwan, and Korea, which have proven themselves highly effective competitors.

In these cases of specific barriers, overtly discriminatory against imports generally, or against imports from specific sources, negotiations would have to be based on trading *quid pro quos* in the more traditional sense. There will be major disagreements between countries as to their relative worth. The upshot might be that progress was possible only in the context of broad tariff and quota negotiations. In some cases progress might be possible on a piecemeal basis, putting together specific small packages.

The special problem of export subsidies and countervailing duties

One particularly important area which proves to be a source of frequent trouble, and is potentially explosive, is the broad question of subsidies, and the measures allowed under the GATT to offset them. Under American law, dating back to 1897, the Secretary of the Treasury is required to impose a countervailing duty in cases where an imported product is found to have received a "bounty or grant." This law allows no discretion, and consequently cannot be used by the Executive Branch as bargaining leverage to gain trade concessions by other countries. Moreover, it is in conflict with the GATT, which provides for the use of countervailing duties only where injury is shown to exist. The American law does not require any determination of injury. It is allowed for the U.S. under the GATT by virtue of the fact this American law predates the GATT. Other countries do require a finding of injury.

However, because subsidies are often used, either selectively in certain industries, or more generally, countries do not normally use the countervailing duty powers they have, for fear of setting an example for other countries to retaliate on their exports. The use of subsidies transcends the case of governmental aids to export. Regarding government aids, we should in logic include any form of assistance to exports, including differential interest rates for export financing, special exchange rates for certain commodities, and special tax rates for sales abroad, in addition to straightforward subsidies. The case of Italian Law 639, which provides special tax rebates for exports has, for example, been subjected to countervailing duties in the United States on certain products. But subsidies can also be private in character. Industry associations can agree amongst themselves to tax themselves, to provide a financial pool to subsidize that portion of production which goes into exports. Mexican industry had on occasion used this device in the past. However, it can take forms which create very complex problems. Thus, for a time, the Australian peach canning industry resorted to this device to make inroads into the German market, at the cost of United States canned peaches. In this case, the injury was suffered by the United States, not German industry, and it was difficult to find a remedy. The German government did not wish to countervail Australian peaches. Ultimately the United States had to give consideration to an export subsidy of its own, before order was restored to the trade. This brings up the vexing problem of taking care of our export interests in third markets, in cases where the exports of other countries have an unfair advantage resulting from a special export aid. An international means of settling such problems is needed.

Moreover, there are often times when governments subsidize domestic production to reduce the level of imports and promote exports. Here the subsidies are not true export subsidies, yet they can have a trade effect. It is particularly troublesome in agriculture, obviously. But there are other areas where this problem arises, as in the case of area redevelopment in countries where trade levels are high. The Canadian and Norwegian governments raised this type of problem in the GATT when complaining about the recent British decision to subsidize heavily the development of an aluminum production facility in the North of England. The trade consequences could eventually be to create an export industry as well as drive out imports, thus creating intensified world market competition for Canada and Norway. In the economic world of the future, this kind of problem, relating as it does to domestic economic and social policy, will require new attention and new ground rules or consultative procedures.

There is potential for trouble in the clash of American law with imports from certain sources. There is potential for trouble in the *ad hoc* array of disguised export incentives in industry, particularly if in the future governments increasingly turn to gimmicks to provide for balance of payments adjustment. In agriculture, the problem is even worse. In industry, the GATT does provide some ground rules, even though they leave room for maneuver. In agriculture, the GATT allows subsidization so long as it is not used aggressively to gain a larger share of world markets. However, in these days of intense government competition to unload surpluses on world markets, it is difficult to keep track of who is being aggressive and excessive.

In dealing with the problem of subsidies, therefore, it can be seen that some ground rules are needed covering national economic policies, trade incentives, and countervailing measures to offset these subsidies, including countervailing measures to protect the export interest of third parties. This is a good example of a problem area in need of negotiation, and where the solution will involve harmonization of national policies and procedures.

The special problem of border taxes

Having already pronounced on this complex subject in a speech for the natonal Tax Foundation in December, 1968, I will not dwell on it here. That speech, printed in the *Canadian Tax Journal* in early 1969, laid out the American and European views. Let me say at this point, however, that the question of the impact of border taxes and the means by which they work is widely misunderstood. There is a problem; it has several dimensions. But it is not a simple matter of treating border taxes as if they were like tariffs. They are not like tariffs.

There are really two key issues. One is the international balance of payments adjustment effects of changes in border taxes which do not exactly correspond to changes in the domestic impact of indirect taxes. A case in point would be the German change over from the so-called cascade tax to the Tax on Value Added, during which transition the general level of charges at the border were raised more than proportionately to the domestic adjustments. The effects of this have been essentially subsumed by the revaluation of the Deutschmark. Another case was the changeover in France which took the form of abolition of the employment tax (non-rebatable under the GATT) and its replacement by an increase in the Tax on Value Added producing equivalent revenues which was rebatable on exports and levied on imports. This latter case is more important, because it demonstrates the incentive countries may have to convert their tax systems in part to indirect taxes like the TVA in order to ease the trade impact or gain an export advantage.

The second key issue of which I spoke is the effect of border tax adjustments in insulating the trade account from changes in domestic fiscal policy. In a country with substantial indirect taxes, a rise in such taxes can be used to alter the domestic mix of economic forces without creating, at least initially, an adverse trade effect at the same time. Thus the tax question becomes a broader question of international payments adjustment, and of international taxation principles.

However, I do also want to add that the remission of taxes on exports is somewhat different in character from the levying of taxes on import, in my judgment. It is on the export side, where our exports compete with exports of other countries, where the border tax problem is of some importance—but even then the problem should not be exaggerated. As I shall note later in this paper, this broader tax question should probably be folded into a broader set of international consultations on tax treatment of companies and of products.

Pollution control: A proposal

This subject, on which governments will soon be taking action throughout the world, is bound to lead to many new Non-tariff Barrier problems. We shall have to watch this closely, both at home and abroad.

I do believe that an appropriate set of procedures and rules can be found to help us clean up our environment without doing damage to reasonable international rules of commerce.

In this regard, and in passing, I leave this proposal with the Committee: It seems to me that in pollution control the government must use both carrot and stick. It must also find new sources of revenue. One idea put forward has been to tax each automobile sold in this country by, say $25, to offset the social costs of disposing of that automobile when it has reached the end of its useful life. This is a sound idea. I propose that we extend it to all pollutants. Any product which is difficult to dispose of, or which pollutes, should bear a tax on that product. Pollution taxes should not, in other words, be levied on company incomes, but rather only on the pollutant products directly. This would tend to force up the consumer price of pollutant products, reducing demand; or drive down company profits on them. Either way there will be an incentive to clean up the products and/or shift to nonpollutant products.

At the border, we would then treat pollution taxes on the product the same way that all countries treat their indirect, sales-type taxes: On exports, we would give a tax remission, and on imports, impose an equivalent pollutant tax. This is exactly what the Europeans have argued their TVA border taxes are designed to do, consistent with their general approach to taxation. What it would mean for our cars for example is this: Japanese or German cars entering the U.S. would have to be disposed of eventually, hence they would bear the tax, imposed at the border. U.S. cars exported to these countries would not bear the tax, since disposal would occur in some other country than the U.S.

Thus this simple principle ought to ease many of the problems in seeking both incentives and penalties for pollution control, while maintaining equitable relationships with imports, and without penalizing exports.

National security restrictions

Every country has an inherent right to do what it believes essential to protect its own security. However, in general it is unwise to use import restrictions under the argument that domestic production must be protected for national security reasons. The Japanese Government often argues, for example, that its computer industry must be developed behind a protective wall, for national security reasons, and that this is why elimination of import quotas is not possible. The argument is sometimes used in other countries in defense of their import restrictions. It is of course the basis for the special treatment of oil imports into the United States. The problem is that other countries do not always agree that some measure really is essential for security, and is not simply a protectionist device. Many governments consider the American oil import quota system a protectionist rather than a security measure, whatever we ourselves think of it.

In the future this kind of problem may become more troublesome, both with regard to smaller countries where all industry may be relevant to "security," and with regard to larger countries desiring to maintain certain restrictions, and in search of more viable justifications. Further elaboration of the ground rules for invoking national security as a rationale for trade limitation is needed internationally. Amongst other things, all security-motivated restrictions should be put on a fixed time schedule, so that they terminate unless explicitly extended. In many cases, the industry in question is characterized by either heavy fixed capital investment or the requirement for a permanent cadre of highly skilled engineers and technicians. This fixity is a problem in the short run. It is an economic adjustment problem. But in the long run, if such an industry is simply not viable, or if it is not actively undertaking measures which improve the level of security progressively, then it should find its protection phased out. International understandings to this effect would be within the realm of realistic negotiation.

Quantitative restrictions inconsistent with the GATT

Quantitative import limitations are generally illegal under the GATT. A large portion of the import quotas once imposed by many countries have systematically been dismantled over the life of the GATT. Many import quotas inconsistent with the GATT remain, however. Most of these are in agriculture, and relate to broader agricultural policy issues, which I shall discuss later. Some of the import quotas predate the GATT, and are covered by "Grandfather clauses"; some are the result of difficult balance of payments circumstances experienced at one time or another in a country's history, when import restrictions became necessary. There are other reasons, too; and there are even cases where the restrictions are simply illegal.

These restrictions are maintained by most countries on at least some products. They are particularly harmful to the export possibilities of the developing countries, since they often relate to imports of labor-intensive manufactures, or imports of certain commodities which compete with similar commodities produced in the developed countries (e.g., sugar).

Continued maintenance of any import quotas without some form of multilateral surveillance is simply an encouragement for countries to impose even more restrictions. If one industry is favored, then why not another, unless there are internationally understood rules of the game? Moreover, all such restrictions should be put on some kind of time frame, with the notion of phaseout built in. After all, the argument is usually that the industries protected need time for transitional adjustment to a disorderly, or rapidly growing import level. Again, international ground rules could be found. The present international patchwork, in my judgment, is simply not viable; and if maintained, will bring about an acceleration in the imposition of new and ingenious trade impediments.

National governments vs. local governments

A major problem lies in the hands of local governments, or local procurement authorities. Local governments sometimes set product standards so as to favor domestic producers. They sometimes write into state law discrimination against foreign purchases. This practice is growing in the U.S., sometimes under the influence of U.S. companies whose products are being discriminated against abroad.

This problem is not unique to the U.S. however. The Common Market Commission in Brussels does not have authority over many of the NTB's maintained by individual countries which belong to the EEC. The national governments in turn do not have direct authority over many of the quasi-governmental corporations. Thus a major negotiating problem lies in this area of what national, or supra-national bodies can do about their constituent local governments or semi-independent commercial organizations.

The question of negotiating authority for NTB's

This raises a fundamental issue. How do governments gain the necessary authority to negotiate on NTB's? Many of these issues touch on domestic economic policies, on taxes, investment policies, social and development policies. They are tied up in all kinds of domestic laws managed by many different parts of each government. In the U.S. there is much Congressional sentiment against giving the Executive Branch a blank check. On the other hand, the Executive Branch cannot effectively negotiate without some kind of mandate. President Nixon wisely pointed to this question in sending up his Trade Act of 1969 to the Congress. He said, regarding NTB's, that:

"Many would require specific legislative actions to accomplish their removal—but the nature of this action would not finally be clear until negotiation had shown what was possible.

"This presents a special opportunity for Congress to be helpful in achieving international agreements in this vital area.

"I would welcome a clear statement of Congressional intent with regard to non-tariff barriers to assist in our efforts to obtain reciprocal lowering of such barriers."

In the U.S. I believe the answer lies in a much closer consultative process with Congress, with an expression of intent by the Congress to the Executive Branch to get on with the job of negotiating NTB's. Such an initiative should start in Congress, so that Congress is deeply involved from the outset. Ultimately, it is national legislation which must be altered, or introduced to gain the necessary ends. Thus, it is not only desirable, but essential to involve Congress more fully.

In Europe, the Common Market Commission cannot speak for the member states in many issues, and this curbs the Commission's ability to negotiate as well. The answer here must come in the form of a more fluid consultative relationship between the Commission and the member country governments.

Another necessary step, I believe, is to face up to the implications of the immense complexity of NTB's: No one is going to negotiate very far in a short time. It will take several years of work. The necessary authority will have to be filled out in detail in relation to the specific problems which turn out to be negotiable. In other words, work in this area should be recognized to be lengthy and complex, and that time must be allowed for interaction between governments and their parliaments, as well as between governments themselves.

Let me add in conclusion on this question of negotiating authority that Europeans and the Japanese consider our ability to legislate the abolition of the American Selling Price system of valuation as a sign that the Executive Branch can in fact carry out a negotiation in the NTB field and deliver on it with Congress. Whatever one's views about the ASP package itself, this proof of negotiating power has become a key issue in our relations with other nations.

Open procedures

A fundamental ingredient of any successful negotiation will be openness and frankness. Part of the difficulty lies in the mystery shrouding many of these barriers. Many of the barriers are matters of practice rather than of written regulation. Governments often refuse to tell each other what they are doing. This, I believe, is what Secretary Stans is driving at with his concept of the so-called "Open Table." It is what the last Administration, and the present one, have been pressing in the context of the general work on NTB's presently going on in the GATT.

The objective of the GATT work is to get all the complaints out on the table, and examine them. They will be grouped according to type of problem and method of possible solution. This slow, painful process will bring to the attention of all governments what the problems are, and how individual practices vary. This will in turn enable education of domestic industry interests in each country concerning the practices of other countries. An important by-product of the process, I believe, will be to show that all countries are sinners in this business.

The biggest problem in industry, apart from reducing the barriers, is to prevent introduction of new NTB's in the next few years. The potential is great because governments are increasingly focusing on such issues as health and safety standards, and because they are increasingly becoming irritated with each other's practices, now that tariffs have fallen back to reveal what has been happening in the non-tariff area.

The problem will thus grow in importance. It should be dealt with now.

III. AGRICULTURE

It is traditional to treat agricultural trade separately from industrial trade on the grounds that the problems are different. It is my thesis that the problems are more intractable, but that they are quite similar conceptually to the trade problems we now face in industrial trade. Before explaining why I think this, however, it is necessary to go into the world agricultural problems in some depth, and analyze some particular trade-expansionary departures.

The present world adjustment problems

While developments in agricultural trade in this decade have been reasonably favorable, the underlying trend and some recent developments suggest a very difficult and dangerous period ahead in the 1970's. The results of the Kennedy Round trade negotiations were clearly beneficial for certain commodities. Agricultural trade has generally been increasing. Amongst the OECD countries, which are the major trading countries, it increased by 6½ percent per annum from 1960 through 1967. But in spite of this overall progress, many profound difficulties are emerging. Agricultural trade today generally is in deep trouble.

All countries were aware of the need to provide for expanding trade opportunities for agriculture during the course of the Kennedy Round. However, the real, substantive negotiating sessions in agriculture came too close to the end of the Kennedy Round talks to allow time for negotiating fundamental changes in access to markets or in national farm policies. The liberalization which took place was therefore modest in character.

World trade and production are clearly headed toward a period of major readjustment. As a consequence of government policies and technological change in a number of countries, world production of the major temperate commodities is rising rapidly, resulting in extremely high surpluses and rapid build-up of further surpluses. In many of the countries where surpluses are building up, there are no conscious policies of production restraint and no capacity for storage. In wheat for example, surpluses are growing and world market prices have been tending downwards. As world wheat prices decline, more and more wheat will be fed to animals. This means that feed-grain prices will also weaken at home and abroad. This also means that protein supplements like soybean meal will be facing increasing competition ahead, rather than be assisted, as in the past, by the demand stimulus resulting from artificially high world grain prices.

This type of development was not foreseen in the mid-60's. On the contrary, the short-term shortages in India and elsewhere led to considerable discussion of world food shortage and optimistic market expectations. The Green Revolution in agricultural development in the poor countries helped turn this situation around. The main factor, however, has been the uncontrolled and excessive government policies toward agriculture in the major developed countries, coupled with rapid technological change which is raising productivity at very high rates.

The rise in production cannot be looked at in isolation, however, any more than agricultural trade policies can be looked at without reference to domestic farm policies. Take the case of the European Economic Community: While new industrial protection and discrimination arising out of the integration of the European Common Market has been modest, and has been offset by general income growth and the Kennedy Round tariff negotiations, the Common Agricultural Policy (CAP) has become increasingly protectionist. The CAP was brought to near-completion in the 1966–67 period. With the variable import levy, the protection in the form of import charges now is about trebel what it was eight or nine years ago.

Defenders of the CAP have sometimes argued that the level of exports from the U.S. and other countries would continue to rise, in spite of the system. They believed internal demand would continue to grow fast enough to offset the damaging effects of the import levies. Until 1965–66 this did in fact happen. But subsequently, after the full system fell into place for many products, there has been a reversal. In the last three years, U.S. farm exports to the EEC have fallen nearly 20 percent. The items subject to the variable import levy system amounted to $736 million in 1965–66; in 1968–69 they were $441 million. They fell, in other words, by 40 percent. They will probably drop further in FY '70.

This is not the whole picture, however. The price support levels within the EEC lie far above world market prices. For example, the EEC price per metric ton for soft wheat is about 86 percent above the world market price; corn is about 60 percent above; butter is over 2½ times higher. Moreover, the CAP does not provide for production controls, and its administrators are strongly opposed to any quantitative limitations on output. The mechanism of the CAP was originally designed to provide a financial bridge up to the internal price levels through the variable levy import system, and a financial bridge down to world prices for exports through the restitution (subsidy) system. The restitutions were theoretically to be established to offset the effects of import charges, so that an exported ham or chicken would not have to bear the inflated costs of imported feedstuffs, or the inflated domestic price levels. In practice, in the day-to-day administration of the restitution system, this conception has been lost, the regulations have often been rewritten or reinterpreted, and the export subsidies are simply set so as to meet export competition and clear the internal market of surpluses.

The production stimulation has been far-reaching. For example, in 1969–70, West Germany will probably become a net exporter of wheat and flour, for the first time in its history. The unrestrained growth of production has resulted in an increasing need to unload surpluses in world markets at heavily subsidized, distress prices. Often the subsidies are larger than the value of the product itself. These aggressive export pricing policies have damaged United States interests in many markets, and have proven very disruptive for such countries as Denmark, Canada, Australia, and New Zealand. It means increased competition for all exporters in remaining markets and a downward pressure on world prices.

The trade distorting effects of the CAP are thus found not only in its import protection system, but perhaps even more importantly in the stimulus to production and its export restitutions. Most of the studies of the effects of the CAP ignore the latter elements.

The consequent costs of the agricultural system to the member countries are extremely high. The direct costs of the CAP system, as administered in Brussels, is about $2.5 billion (U. S.) now, and rising. Behind that figure, however, lies the national expenditures. The national budgetary costs to member countries for agriculture is about $5.5 billion, in *addition to* the CAP expenditures. The total public expenditure of $8 billion on farm programs is larger in absolute terms than the total of the whole United States. Moreover, the Common Market forces its consumers to pay out an additional vast amount in the form of prices well above world markets. One U. S. government estimate puts the consumer cost at about $7 billion annually.[1]

The EEC, however, is not alone in its tendency towards further trade distortions in agriculture. The Japanese, protected by a series of quantitative import restrictions inconsistent with the GATT, and holding to a price support treble the world market, are finding themselves with a rapidly increasing rice surplus and mounting budgetary costs. This creates pressure to maintain import restrictions on other temperate commodities, to make way for domestic diversification. Japan is also now trying to unload some of its mountain of high-cost rice in the form of food aid, disrupting the rice markets for developing country exporters. Denmark, finding itself squeezed by widespread subsidization in world markets, adopted its large-scale Home Market Scheme, a euphemism for export subsidy program. Australia and Canada have felt the pressures, particularly in declining wheat prices during the last year or so (witness the political turmoil in Canada's Western provinces). In part this was a result of the past unwillingness of the Canadian and Australian governments and wheat producers to recognize that they must share in controlling world production by restraining their own output, or else face general deterioration in world grains prices, the International Grains Arrangement notwithstanding.

The United Kingdom has also turned in the direction of increasing protection, justified in policy statements by balance of payments considerations. Both political parties in the U. K. advocate increased self-sufficiency in agriculture. The minimum import price scheme, which was introduced in 1964 for grains, is highly protective. The Economic Development Committee for Agriculture was established to develop import-saving policies. The Ministry of Agriculture has followed its general proposals to stimulate home production and cut back imports, in order to save about $400 million annually by 1972–73. While there have been some difficulties in moving toward increased self-sufficiency, and whereas the costs are high both to the government and the U. K. consumer, there is no doubt that the direction of policy is towards increasing self-sufficiency.

These developments in the major commercial markets come at a time when the developing nations are finally in a position to step up their rates of growth of agricultural production as a result of the Green Revolution in rice and wheat. Some of them are not only becoming self-sufficient, but they are also pinning hopes on potential commercial exports. This, at the very time when the developed countries together are pressing each other's prices downward through protectionism, artificially stimulated production, and export subsidization.

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[1] G. R. Kruer and B. Bernston, "Cost of the Common Agricultural Policy to the European Community," *Foreign Agricultural Trade of the United States,* U.S. Department of Agriculture, October, 1969.

It is in this context, of worldwide downward pressures on grain prices, surpluses developing in many products, and a resurgence of mercantilism in some of the major developed nations, that future trade negotiations in agriculture must be contemplated.

For the United States, increasing discrimination against its exports, and increasing competition arising out of unreasonable production and export pricing policies, will have both adverse economic and political effects. The U. S. political reaction can directly affect European foreign policy interests, as well as its economic interests.

Commodity agreements: The international grains arrangement

One suggestion often made for sorting out the difficulties in agricultural trade is to negotiate commodity agreements. Many farm organizations in many countries favor this approach. However, it is not always clear what people mean when they espouse the virtues of commodity arrangements. European government officials often speak of "putting order into world markets" through regulating international prices. This is not by itself viable, however. No matter what price levels are set, they soon become non-viable if there are no understandings about either the level of national production, or sharing world markets, or both. Usually proponents of the commodity arrangement approach are opposed to these latter essentials—rather, they want complete freedom on domestic production and on international marketing.

The example of wheat is a good one. By the time the International Grains Arrangement (IGA) came into effect in the summer of 1968, the agreed price minimums had already been pierced by aggressive selling of the major wheat exporters. Attempts to get prices back up to the minimums, or to stabilize them close to the minimums, did not work. At first, some countries wanted to clear their crops from the market for lack of storage capacity, and preferred to continue shading prices until the then existing overhang was drawn down. As conditions of surplus continued to show up, all of the key exporters practiced a variety of price shading techniques, through unusual shipping cost calculations, obscurity in transaction prices and export subsidies, toleration of unusual commercial transactions, and so on.

In the meantime, the United States as it had often done in the past, cut back acreage in order to ease the upward production pressure in the U.S. In earlier years, because the U.S. dominated the world market, this would have been enough to firm up prices. However, the increased production capability of the EEC, the rising Neo-merchantilism around the world, and the in-and-out nature of Eastern European trade no longer allow a U.S. cutback to alter world circumstances at one stroke. In the background, United States authorities urged foreign officials to cut back their own production, to share the burdens of production restraint on a worldwide basis; or else to curb their aggressive selling activities and leave a fair market share for each of the traditional selling nations. The EEC was unable to respond favorably, because the Common Agricultural Policy has not as yet envisaged production restraint or marketing restraint as a necessary ingredient in the heavy government intervention in managing prices. Canada and Australia did not seem to grasp the significance of the structural adjustment going on in the world, and also resisted major production curbs.

Consequently, prices were eroded to the present depressed levels. They are temporarily stabilized, but they can easily go further down, taking other feedgrain prices in the process. This makes little sense, because no country with such heavy government commitments to farm programs is going to allow loss of its share of the world market to another country. Demand for wheat is relatively inelastic. Import protection in the United Kingdom and the EEC insulates them from changes in import prices. The upshot is a lowering of prices without any long-term gain in sales for anyone. The United States in particular gets hurt because the lowering of world grain prices raises the import levies into the EEC, which are then used to subsidize EEC exports of wheat to compete with U.S. wheat in the Pacific and other traditional U.S. markets.

The International Grains Arrangement was in fact structured to allow for consultation and shifting of price differentials, and it was foreseen by the United States in the negotiation of that Arrangement that such changes would be necessary from time to time. Moreover, the Arrangement was structured in a way in which the willingness of all exporting countries to work together was essential to its viability, and United States spokesmen said this repeatedly throughout the negotiation. In my own view, it could have been used more effectively, if the will to use it had existed in all of the governments of the key exporting nations.

Pricing agreements not enough

This example, taking into account the heavy role of governments in the world market, demonstrates that much more is involved in commodity arrangements than simply arguing the need for stabilizing world prices. Prices are only one element. Prices relate to national income and price support policies, and to national production policies. Thus, to argue the case for "international organization of markets" or "putting order into world markets," as the Europeans in particular do, requires acceptance of the need for putting order into basic national policies as well.

It seems to me that the next step in wheat is to reexamine the fundamentals. Those countries most in favor of commodity arrangements with high prices were the countries least willing to adapt their other policies to meet the needs of such arrangements. The question has crossed many minds in this country why, for example, the EEC did not take the lead in setting an example itself, and demonstrating to others how to maintain wheat prices, when the market pressures were severe. If the EEC was so much in favor of commodity agreements, why did it not prove to other countries that such agreements could be maintained even under adverse market circumstances? On the contrary, the EEC was well in the lead in cutting prices and selling aggressively, even in traditional markets of other countries.

Thus, experience has shown that the next time around, if there is to be a wheat agreement, it must provide more explicitly for national policy ground rules and consultative procedures. The IGA expires in 1971. To set the scene for a more sensible approach, which included understandings on sharing the burden of production restraint on a worldwide basis, I believe that the United States Government should allow the IGA to lapse. In other words, when it is due to expire, let it be known that we will let it expire. The burden should, and must fall on *other* countries to demonstrate that any new agreement would be feasible, viable, and desirable.

In the interim, it will be recalled that the United States has certain access rights for grains into the United Kingdom. These rights were suspended under the bilateral agreement between the U. S. and the U. K., for the life of the IGA. The U. K. Minimum Import Price Scheme, and any future use of import levies by the U. K., would not be permissible if the bilateral agreement lapses. This would certainly force a reappraisal in London of its agricultural trade policies, and its common interest with other countries. In the EEC, the United States has standstill agreements regarding its access for grains, and these standstills expire with the termination of the IGA. This too would have to be brought up for negotiation. Other questions concerning the practices under the CAP system as a whole could at that point also be raised.

Against this background, and in light of growing surpluses and rising budgetary and consumer costs throughout the world, it may be hoped that harmonization of policies will become a more attractive proposition.

The need for coordination and harmonization of national policies

There is urgent need for some kind of approach to international negotiation, and coordination, of national adjustment policies in agriculture. In saying this, I am reminded of the recent warning of the Director-General of the GATT, Olivier Long, in an address on 26 January. He said, regarding agriculture: ". . . the situation now seems to have reached alarming proportions and to be already out of proper control."

As can be seen from what I have already said, any new approach must be much more fundamental than that of past trade negotiations. A key, indeed a crucial principle that must be at the center of any new departure is that governments must cease trying to pass the costs of domestic farm policies onto other countries. Again, to use the words of the GATT Director-General:

"If a government, or a community of countries, thinks fit to devote, from both the financial and the economic aspect, an important part of the national income to supporting a particular category of producers, that is, of course, its own business.

"But when the same government, still with the legitimate objective of shoring up agricultural incomes, decides to produce, at whatever price, products that it could obtain cheaply from abroad, clearly it is shifting an important part of its burden on to the foreign producer: either by reducing and then eliminating its own market's import possibilities, or by securing artificial trading positions in residual third markets, by granting massive subsidies to exports of the surpluses it has helped to create."

"The consequences of this situation are serious not only for the countries that are primarily agricultural exporters—and these are the ones most severely affected—but also for the future of multilateral trade negotiations in which agricultural counterpart offers are essential for the conclusion of baalnced arrangements between the parties involved.

"That is why agricultural trade—the bone of contention in bilateral, regional and international negotiations—must be placed on a normal footing. This can be achieved only if two conditions are fulfilled: on the one hand, if governments take a grip on the problem of production and, on the other hand, if they decide to negotiate among themselves on a virtually permanent basis on methods and techniques designed to avoid their causing injury to each other's trade."

There are many complex analytical questions which must be faced up to in the search for any international principles, guidelines, agreements, or understandings. Countries will continue, as they have in the past, accusing each other of maintaining systems which provide greater protection, production incentives, and export aids. There can be no progress unless better measurements can be found for the economic impact of the various national policies. The EEC suggested the *montant de soutien* technique during the Kennedy Round, as a means of measuring the margin of support. While this particular approach proved unworkable there is a need to find some technique of quantifying the level of agricultural support, and of the degree of price distortion from one country to another, and from one product to another.

One interesting analytical question has come up in the context of proposals to limit or eliminate subsidies. Naturally, the question arises in debate amongst countries as to what leevls to set for limiting subsidies, taking into account the effects of home production and marketing incentives. What is an efficient international price? This question is even more complex when trade from Eastern European, nonmarket economies, is considered; and the trade from these countries is increasingly important in world markets.

Although there will be many who have difficulty with the idea, it will be necessary to examine in some detail whether some types of access commitments and price arrangements, or subsidy limits, are necessary, at least for a transitional period; and whether levy systems might be put under international discipline, and if so, how.

It is thus no longer sufficient to say that the international agricultural market will somehow take care of itself, and that the best trade policy is one of minimum intervention. Governments have already committed their economic systems too far to allow abrupt adjustment to free trading principles. Given the present world technological adjustment problems, the seriously conflicting national policies, and the resurgence of mercantilism, there is urgent need for governments to intervene to restrain themselves, and to restrain each other. At this time it is not a question of free trade based on open commercial competition, because governments already have so heavily intervened. Developing country governments seem to be picking up the same approaches, and consequent costs. So long as governments play such a dominant role, any solutions must be related to government actions, require government commitments, and provide meaningful international guidelines for governments to live by. Without some breakthrough of this character many countries will face extremely costly adjustment problems. For some countries, particularly the developing ones, there will be even broader implications for their economic development and political stability.

Thus, as I indicated at the beginning of this section on agriculture, it can be seen that the problems are not so very different from those in industrial nontariff barriers. Harmonization or regulation of economic policies in some orderly framework is bound to be at the heart of any sensible new departures in trade liberalization.

Agricultural policies to support farm incomes and rural economies exist for social reasons. They are part of the fabric of national economic policy in all countries. They exist because there are ecoonmic imbalances within countries as between industry, the services, and agriculture, and as between the cities and the countryside. When the subject of trade is woven into this pattern of policies, governments must consider the economic adjustment process in broader terms.

Trade offers a way to ease the internal adjustment pains; it can also allow some passing on of the costs of adjustment to other countries. It is this latter tendency which must be contained. It is simply another form of beggar-thy-neighbor policy, and as such cannot remain economically or politically viable in the long run.

The time is ripe for policy harmonization

Costs of uncontrolled support programs have risen to such high levels in Europe and Japan that there are growing public pressures for change. Finance ministers must surely be looking for ways out of their predicaments. Consumers are paying far higher prices in these countries than would result from expanded, liberalized trade.

Moreover, producer groups in most countries are coming to recognize the absurdity of their own situations. Increasingly, they see the need for worldwide sharing of the burdens of restraint and of orderly adjustment. Increasingly in Europe they recognize the need for production restraint.[2]

With the negotiation for entry of the U.K. and others into the EEC, the opportunity exists for a true change in the structure of the CAP system—a change in the way the mechanism works, and how it is practiced. Such limited measures as changing the price differentials, and modest premiums for killing cows, are nearly useless at this point, without a change in the system itself.

In concluding this section, I would also like to add that agricultural policy is far too important to be left solely to agricultural technicians. The politics and economics are so broad as to require increasing attention by foreign ministers, and finance ministers. Indeed, other income maintenance programs are rapidly becoming comparable to farm income maintenance policies, and thus a broader domestic policy approach is becoming essential, even apart from trade considerations.

Industrial trade can be adversely affected if progress cannot be found in agriculture, and this means that industrial interests must also help in the search for equitable and orderly solutions to world agriculture.

IV. THE DEVELOPING COUNTRIES

It has been traditional to treat the trade problems of developing countries in a separate manner. Different bureaus and agencies of governments tend to be involved, different international organizations seek to play an operational role, and arguments are often made that the issues are quite different in character from those between the rich countries. I think this traditional distinction is harmful to the interests of the developing countries. There are basic structural difficulties in the developing economies, and they do require conscious world adjustment policies. This does not mean, however, that trade policy should be turned completely inside out and upside down in the case of the poorer countries. It is true that a real missing ingredient is the absence of sufficient bargaining power on the part of the developing countries to place their problems higher on the agenda of the foreign policy considerations of the developed nations. Had they greater bargaining power, I should add, we would require of them more responsible trade policies on their own part as well. I shall return to this point subsequently.

In the introduction to this paper, I explained two key developments which must shape any consideration of trade policy towards the developing countries. One of these is the emergence of regional and special discriminatory preferential arrangements with certain developing countries. The other is the changing pattern of developing country exports, their favorable export performance in some cases, and the enlarged role for trade in manufactures.

The Pearson Commission Report placed heavy emphasis on the role of trade in economic development: "The first requirement for rapid international development is continued vigorous expansion of world trade." But they also added: "However, many developing countries must become more outward-looking and competitive if they are to take advantage of this expansion. Trade policies of advanced countries also raise many obstacles to the growth of export earnings for less developed economies."

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[2] See, for example, the Policy Statements and Resolutions of the Seventeenth General Conference of the International Federation of Agricultural Producers, Tokyo, 24 Oct.–1 Nov., 1969; and "General Farm Program and Food Stamp Program," Hearings before the Subcommittee on Livestock and Grains of the House Committee on Agriculture, Nov. 20–24 and Dec. 1–3, 1969, especially pp. 1173–1187.

The basic trade problems

The trade problems of the developing countries can be broken down into three basic types: The *first* is the basic tariff structure of the developed countries, including its tendency to discriminate against further processing of raw materials in the developing countries, and including the use of special consumption taxes in some European countries on non-competing tropical products. Under this heading must also fall the problem of preferential access into developed country markets for some as against others among the developing countries. The second is the pattern of quantitative import restrictions, whether unilateral or as a result of bilateral or multilateral voluntary understandings or agreements, imposed by developed countries. The third is the whole range of problems in basic commodities, including both competing and non-competing products.

It is my thesis that progress in solving these problems in meaningful ways will depend upon the progress in solving world trade problems generally, and that therefore they should be looked at in conjunction with our policy assessments of the outlook for movement among the major trading countries. Piecemeal action will be difficult, require arduous legislative efforts, and tend to leave the most important trade barriers in each country intact as the least important are dealt with first.

Tariff preferences for developing countries

In order to promote the exports of developing countries, especially in manufactures, it has been proposed that the developed countries offer duty-free access or at least reduced duties for products coming from developing countries. This proposal provides, in other words, preferred access to developing countries.

This proposal had its origins in the U.N. system, mainly in the United Nations Conference on Trade and Development (UNCTAD). The United States Government resisted this idea for some years, on the grounds that it would distort and turn the basic thrust of American trade policy, without major compensating benefit to the developing nations. Economists have been arguing ever since about the possible economic benefits, and there is little agreement about figures or methodology. It is however generally agreed that the orders of magnitude of possible benefits are small, in the range of a few hundred million to a billion-plus dollars worldwide in trade terms. This is of course a short-range view; in the long run, preferences would theoretically bring about a flow of new investment and transfer of technology to developing nations to build up export capacity and gain the advantage of preferential duty treatment. As against this longer-term incentive for investment must be measured such facts as the likely further reduction in developed country tariffs some time in the 1970's, the low productivity of labor and the low quality standards of many developing countries, and the inefficient exchange rates and domestic economic policies of many of these countries.

Whatever the economic benefits, the turnaround in U. S. policy came about for other reasons. The main reasons for a shift in policy to support of the preference proposal were (1) the desire to do *something* for the developing countries, even though small, and (2) the desire to stop the proliferation of special, discriminatory preference arrangements negotiated in Europe and eliminate the existing discriminations in favor of generally equivalent treatment for all developing countries. In a sense, this was intended to be a step back towards a uniform world trade system, with one level of Most Favored Nation treatment for all developing countries, and a step away from geopolitical fractionation of the world into economic spheres of influence.

These objectives made some sense. President Johnson gave the go ahead for explorations in the OECD on whether the developed countries could come up with a common approach. President Nixon, after careful deliberations within the Executive Branch, embarked upon a more active program with a concrete proposal. This proposal would provide duty-free access for all developing countries on all manufactured and semi-manufactured products, with the exception of specified problem product groups, and in addition for selected agricultural products. The preferences would be temporary, for a period of ten years. All developed countries would provide the same access conditions to all the developing countries, and those developing countries that were party to special discriminatory arrangements, particularly if they offered special access into their own markets on certain products, would be excluded from the benefits of the general scheme.

Clearly, there can arise adjustment problems in the developed countries from such a scheme. Safeguards will be necessary, as well as adjustment assistance measures tailored to the types of economic problems likely to be generated. The United States proposal would leave out sensitive products like textiles, and shoes, and provide for an escape clause mechanism for other product areas. The Europeans believe this approach to be unwise, leading to continuous diplomatic friction over seemingly arbitrary escape clause decisions and exemptions. They prefer a tariff quota approach, giving preferences up to a certain level of trade, and then providing for a snapback for further trade to enter at the MFN levels applicable to developed country transactions. While I do not wish here to go into all the intriguing ins and outs of these alternatives, I do wish to point out the recognition in the European approach of a basic problem with preferences. As the world stands today, the countries of Eastern Asia will get the lion's share of all preferential access, because they are already highly competitive in many types of labor-intensive manufactures. Other countries will have difficulty in gaining a piece of the pie. The tariff quota approach can easily be designed to cut off preferred access for those already competitive product by product, making way for the lesser-developed countries. This problem must be dealt with whatever the finally negotiated approach, or approaches.

Preferences not enough: The need for a comprehensive program

In any event, the Chairman of this Committee, Congressman Boggs, raised some very important, very profound questions in his speech to the Business Council on February 12. He questioned whether a uniform system is negotiable. He wondered whether we would not end up by favoring our friends in Latin America, thus embracing the very kind of trading policy we had set out to oppose by offering general preferences. Two other crucial questions were raised by the Chairman. First, by pressing ahead, we may feel we have done a major thing for the developing nations, and wash our hands of further assistance in other forms. Second, by pressing ahead, we risk a major legislative battle for probably minor gains.

I would like to comment on these two latter points. It seems to me that moving ahead on preferences without doing anything else at the same time can be very harmful to the developing countries. It will take the political heat from them off the really important trade obstacles, which are import quotas and other nontariff barriers, together with national trade-distorting policies, in the developed countries. Moreover, a United States move to help Latin America alone would take the heat off Europe to make way for Latin American products; and it would leave the Asians as orphans everywhere. Latin America stands to gain far more from improved access to other developed countries than it does from preferential treatment limited to the United States. Indeed, it is my view that Latin America does not now face serious obstacles in its trade with the United States, except in the case of beef and textiles—and these are problem products everywhere.

Regarding the second point, I dislike myself the prospect of a legislative package limited to the question of preferences. It would make much more sense to me to envisage preferences as part of a comprehensive package which had some economically powerful punch. On the one hand, such a package could include a series of internationally orchestrated steps in aid, trade, investment, and debt rescheduling. On the other hand, such a package could be in the form of major new trade legislation covering world trade and related matters, and preferential authority would represent only one element. In this way we might ensure that real benefits ensued, and that the necessary world economic adjustment measures took place in a well-thought-out framework of rules and consultative procedures, backed by appropriate international financial measures and national adjustment assistance programs.

Either way, the comprehensive approach requires relating trade preferences to many other considerations, and it requires thinking out, and negotiating out internationally, some general worldwide economic adjustments. Thus I believe that this question must be part and parcel of the basic, mainstream trade policy considerations of the 1970's, and be caught up in the basic negotiations on broader economic matters between the rich countries themselves.

Import quotas, bilateral agreements, and multilateral restrictive arrangements

This question of quantitative limitations on the trade of the developing countries is often ducked, because of its so-called "political sensitivity." Even the most ardent reformers of world trade tend to limit themselves to pleas for a standstill on further import quota schemes and gradual phasing-out of existing restrictions. These problem areas often appear to be the most intractable.

I do believe these problems are *politically* sensitive, and I do not feel awkward saying so. As I indicated in the introduction to this paper, labor-intensive manufactures from developing countries are the kinds of products they are best able to export. Conversely, they are the type of products most likely to displace labor opportunities in the developed countries, hitting as they inevitably must, labor-intensive industries in low-wage areas of the developed countries. This problem cannot, and should not, be simply waved away. There are real economic adjustment problems involved in the developed countries, even if they sometimes appear relatively small in comparison with overall levels of national income and economic growth.

The textile example

The United States and Canada and Europe currently have problems, for example, arising out of textile imports from Eastern Asia, including Japan. This was partially relieved by the negotiation in 1962 of a multilateral trade agreement in the GATT providing for control of cotton textile trade. This is the Long-Term Arrangement on Cotton Textiles (LTA). More recently the problems have spread to other kinds of textiles. At the moment, Japan is a major source of the economic pressure, but all of the rapidly developing areas of East Asia are now, or will soon be, involved.

It may be revealing to some people that some of the developing countries who originally opposed the LTA are today supporters of its renewal. The reason is that it tends to hold back countries like Hong Kong and Japan, while making room for countries like India and Pakistan who would otherwise have difficulty in competing. It thus contributes to the spread of investment to other developing countries, creating a continual flow of "new-starters."

Japan today is extremely efficient in textile manufacture and export. But Japan is also becoming highly developed, and is suffering labor shortages. Wages are rising extremely rapidly. The special position of Japan in labor-intensive manufactures can be expected to erode rather rapidly in the next few years. Indeed, many Japanese businessmen are already contemplating purchasing the labor-intensive components or semi-processed products from the developing nations and phasing out their own labor-intensive activities because of the labor shortage. This process is inevitable. It is a process which will eventually take place in Taiwan, Korea, and other such countries, as the even less-developed countries swing into action. This methodical adjustment process is inevitable. It will however tend to create labor problems in each country (and of course labor means votes). No magic wand of free trade principles will make this adjustment problem disappear.

The problem has not been adequately planned for, and the developed countries therefore tended to react with short-run measures, the simplest of which is the so-called "voluntary" export restraint, or bilateral trade agreement. Adequate financial assistance for difficult economic adjustments has not been available in this country, under trade legislation, or in most other countries. Only the United Kingdom has embarked on really major efforts to reorganize, rationalize, and reduce its industry in the context of major economic assistance programs.

At this juncture, a two-pronged approach has become necessary. On the one hand, some further trade restrictions are inevitable in the field of textiles, and the only question which remains is the principles to be applied. On the other hand, extensive use of adjustment assistance is called for.

The need for multilateral guidelines for import restrictions

I would like to generalize from this textile experience. Restrictions arose here and there, and eventually systematically, on a selective basis, throughout Europe and Canada, making the case for equivalent restrictions in the United States. *Ad hoc* reactions, country by country, without regard to the policies of other developed countries, and without sufficient foresight about the long-term structural changes going on in the world, led to this situation. It is useless to point fingers, and argue that this industry or that is breaking away from the basic thrust of a liberal trade policy. There is a problem. It arose out of taking on the changing world circumstances piecemeal. Now the problem must be to rationalize and harmonize the adjustments throughout the developed country economies. This is also, of course, true for quantitative import restrictions in agriculture.

It seems to me that we should begin to work out multilateral guidelines under which all of this patchwork of bilateral restrictions should work. Such guidelines should call for time limitations on such restrictions, to emphasize their transitional, adjustment character. They should require that industries embark upon modernization programs during the periods of special protection, and lay these programs out to the national governments involved. Unless there is a real effort to modernize, or unless a case can be made that major local employment advantages are gained behind special protective walls, the restrictions should be terminated. The burden might be put on industries to justify their protection by annual reports initiated by them, rather than by the governments. Governments in turn could annually appraise the economic adjustments taking place, taking into account similar adjustments in other countries, and guide their policies accordingly. Governments might also commit themselves to adjustment assistance measures. Multilaterally, some degree of international surveillance and cooperation could be provided by a consultative framework in the GATT. The GATT consultative framework would have as its terms of reference "the search for measures to provide *orderly trade expansion* in product areas where import restrictions exist." This would do much less violence to the GATT itself, which is an institution meant to assist the process of world trade expansion.

Such a consultative framework would be as much a process of national policy harmonization and reconciliation as it would be a trade negotiating framework. It is the right direction in which to move. Frankly, I think something like this is inevitable, unless we are to allow the present patchwork approach to become the standard operating principle. I would also like to insert here a thought to which I shall return at the conclusion of this paper, namely that free trade is not an end in itself, but rather a means toward trade expansion, growth in national incomes, and growth in world employment opportunities. It is these latter objectives which are fundamental, and when we must deviate somewhat from the free trade means, we should not throw up our hands and give up the whole world economic growth effort.

Commodity problems and commodity arrangements

About 85 percent of the export earnings of developing countries derive from primary products. While manufactures are clearly gaining ground, primary products will remain for a long time to come the major source of export income. Moreover, many of the developing nations are so far from the stage of manufacturing for export that they must in our time be thought of as primary producers, period. Many of these countries depend upon one or two commodities for most of their exports, and thus their whole development effort is caught up in the vagaries of the international commodity market.

Commodity arrangements may help, for noncompeting products like cocoa and coffee. They should be encouraged, provided the exporters are willing to harmonize their production or marketing policies. For the competing products, the problems are more complex. Here the very same issues arise as those faced by the developed countries, and as I have elaborated them in the earlier section on world agriculture.

Thus, those who argue that there is need for a world commodity arrangement on fats and oils, a major export-earner for developing countries, must make their case in terms of the sophisticated interaction of national policies which would be necessary to make any such proposition viable. It is my judgment that the fats and oils problem is far more difficult to deal with than the wheat problem. The fats and oil trade interacts with the trade on feedstuffs, because of the use of oilseeds to produce oilcake for feeding as a protein supplement. Soybeans, for example, of which the United States is by far the world leading producer, end up both as oil and as feed, the lattter being the more important determinant of the value of soybeans than the former. The variety of world oils is innumerable. And finally, some oilseeds are annual crops. Others, like coconuts, come from trees which last many, many years. Regulating price differentials in this context, and providing for orderly and equitable distribution of economic adjustment burdens in this commodity area is a formidable task.

It is for this kind of reason that I believe trade negotiations are not sufficient. We should pursue, wherever possible, the negotiating approach outlined in the agriculture section of this paper, aiming at regularization of trade and harmonization or reconciliation of national policies simultaneously. We must also, however, pursue more adventurous financial assistance policies with regard to the developing countries which are dependent upon primary products. Their prospects for participating in a more orderly world marketing system are not good. They do need substantial injections of capital both to improve their capacity to weather ups and downs in their foreign exchange earnings and in order to diversify their trading base. Consideration of these financial measures is often handled by different people in different international institutions, with a different philosophical approach. My own feeling is that somewhere, in each government, these financial and trade matters must be drawn together in a more comrehensive approach to the world economic adjustment needs of the 1970's.

Efforts by the develoing countries themselves

In concluding this survey of the negotiating problems ahead for developing countries, I wish to point out that many of the problems with which the poor nations find themselves are due to their own economic policies. Import protection and import substitution have often been pursued to such extremes that domestic economic growth and export potential are severely damaged by the artificially high price structure engendered by this import protection. Often they have to resort to export subsidies in order to compete internationally—a rather costly process for poor countries. Moreover, the developing countries have often maintained such a wide array of import restriction techniques, including conscious harassment of traders, that they themselves have no idea of how these restrictions fit into their own economic planning. These unpredictable and variegated restrictions are constant sources of friction with exporters from developed countries. These very same exporters are often the best friends of the developing nations, being, as they tend to be, supporters of liberal trade policy in the developed countries.

It would be in the best interests of the developing countries themselves to put their own trading house in order. Therefore, it might be desirable, as part of any comprehensive world package, to require developing countries to rationalize and reform their own trading regulations and their own domestic policies which directly bear upon trade. Participation in a meaningful consulative commission under the framework of the GATT, or perhaps the GATT and the IMF working jointly, might become the prerequisite for participation in special schemes such as trade preferences. This would be a natural evolution of the already existing GATT consultative committees which consider certain of the restrictions of the developing countries which are in balance of payments difficulties. However, the existing committees do not really bite, and this new framework would provide a much stronger incentive for reform. And reform, I repeat, is in the interest of the developing countries themselves, quite apart from its desirability in terms of rationalizing the world trading system.

In conclusion, I do believe the problems of the developing nations must be given central attention, and we should press forward with initiatives in trade and finance which can help them. However, I also believe that this will best be done in the context of some kind of broader package of economic negotiations and programs. Again, I also believe that the same kinds of issues must be dealt with, in similar ways, as in the case of NTB's and agricultural trade problems among the developed nations. Indeed, as I have already indicated, many of the problems of the developing countries interact with the problems of the developed countries, and cannot really be considered in isolation.

Finally, it may be necessary to remind ourselves from time to time that the strongest engines of world economic growth still are the developed countries themselves, and promotion of their trade expansion has a powerful suction effect on the export potential of the developing economies.

V. TRADE POLICYS SETTING THE SCENE FOR NEW DEPARTURES

As we head into the 1970's, our trade policy and daily trade practices should be adjusted to reflect the changing world trade structure and the changing politics of trade. Only in this way can we lay a sound basis for new multilateral initiatives.

A more pragmatic and businesslike approach

It seems to me obvious that the point of departure must be the world as it is, and not as we would hope it to be. Beginning in this way, I believe we should be more pragmatic and more commercially aggressive than we might have been in years past. Our export position is extremely important. As indicated earlier, there are forces at work on the import side which tend to reduce our trade balance, and these must be offset by a more active stance on the export side. While one could enumerate many reasons why the United States must have a strong trade balance, I will only mention two, both of which I believe are compelling: First, by actively defending and promoting our export interests, we gain more domestic American political support for outward-looking foreign economic policies. Without such efforts, we shall gradually lose that support. Second, by maintaining a strong trade position, the United States is in a better position economically to carry on a positive, constructive role in assisting economic development in the developing economies, in opening the channels of commercial life with Eastern Europe, in shaping the evolution of the world financial adjustment system, and in supporting the security objectives of the United States and the free nations of the world. Our trade policy is a crucial ingredient of a sound foreign policy.

Moving in this direction requires more aggressive policies on the export side coupled with more attention to the existing trading rules wth a view to testing and enforcing them, and it requires more comprehensive and realistic planning for the world economic problems of the 1970's.

A more businesslike approach to trade issues should include more attention to export promotion. This is a large subject in its own right, and I do not wish to go into it here at length. However, I am concerned with the negative attitude of some government economic experts who believe the United States is already doing all that needs to be done. Much more can be done in trade promotion, with the help of Congress. More can be done in improving our export financing capability. While I am not in favor of starting a credit war, I do believe we should be more energetic in putting the power of our domestic economic engine behind exports. There are a number of sensible and pragmatic steps that ought to be taken. Further flexiblity in discounting export paper is a case in point. As another example, the Export-Import Bank activities should be taken out of the comprehensive budget, taking them out from under government budget restraints presently imposed.

Reassessing discriminatory trade arrangements

Going beyond this type of issue to more fundamental ones, I believe that we must be much more attentive to the existing world trading rules and be more pragmatic about our economic interests in the context of international political developments.

Let me take the example of the present proliferation of discriminatory trading arrangements being negotiated by the European Economic Community.

The proliferation of preferential trading arrangements—which normally provide preferred access to the community market in exchange of lower duties on community products entering the signatory market (reverse preferences)—between the Community and African and Mediterranean nations mostly, have recently been variously characterized as a return to the law of the jungle by GATT Director-General, Olivier Long, and as being limited in number and "imposed by circumstances" according to President Jean Rey of the Common Market.

Twenty-two countries already have Association Agreements with the EEC. Three others have signed agreements which are yet to be ratified. Agreements with two countries are expected to be concluded shortly, and five other countries have held exploratory talks. Several other countries have hinted an interest in some commercial arrangement.

The twenty-two Association Agreements include: eighteen French African states (January 1958 and included in a protocol to the Treaty of Rome), Greece (November 1962), Turkey (December 1964, and Morocco and Tunisia (September 1969).

Kenya, Tanzania, and Uganda have signed preferential agreements which now must be ratified. An earlier agreement with Nigeria was never ratified because of the civil war. Now that the war has ended, it can be expected that the agreement will be resurrected.

Agreements with Spain and Israel are close to conclusion. Exploratory talks have ben held with Egypt, Lebanon, Malta, and soon with Cyprus. An agreement with Yugoslavia was recently concluded and Austria would like to conclude an Association Agreement, before U.K. entry talks begin.

The agreements with Spain and Israel are of particular significance in view of sizable trade between these countries and too, because until now, these other agreements, it could be argued, were based on a special relationship between Common Market members and former colonies. With the near conclusion of the Israel and Spain agreements however, these special commercial arrangements which exclude most trading nations can only be considered an important and established adjunct of Community trade policy—an adjunct which ignores a fundamental principle of world trade on which GATT is based, namely the Most

Favored Nation principle. This principle, in essence, means that any reduction in trade restrictions shall be applied to all member nations of GATT. Article 24 of GATT which provides for the establishment of customs union and free-trade areas is, of course, an important exception to this general principle. That article provides that the formation of a customs union or free-trade area *shall include a plan and schedule for the formation of such a customs union or free-trade area within a reasonable length of time, covering substantially all of mutual trade.*

With the possible exception of the agreement with Greece, no other agreements provide a plan or schedule for the eventual elimination of duties between the EEC and agreement country.

Increased American attention has recently focused on these discriminatory type arrangements, particularly since the Yaounde Convention (eighteen West African countries) and the Association Agreement with the three East African countries were, in mid-1969, renewed and extended to 1975. In addition the Morocco and Tunisia agreement—which is described as the first step towards an overall Association Agreement—was concluded only a year ago for a five-year period. One aspect of this agreement was an 80 percent reduction of the duty on citrus fruit. As a result of this particular preference, Spain and Israel were immediately put at a competitive disadvantage, so the Community unilaterally extended a 40 percent preference on citrus to both these countries. A GATT waiver was requested for this extension, but subsequently the Community withdrew the waiver request when the U.S. objected to the GATT. Citrus preferences will now be incorporated into a more comprehensive agreement with these two countries.

These arrangements have so far been limited in trade coverage. However, they do adversely affect American citrus interests. They will tend eventually to affect American canning interests adversely.

The approach of the EEC seems to be characterized by a conscious policy of solidifying a specific geopolitical base founded on bilateral trade agreements. As indicated in the introduction to this paper, the most worrisome aspect of this conscious policy is its implications for the future. The United Kingdom, in its discussions concerning entry into the EEC, may very well request that Association Agreements be made available to most of her dependnt territories, and to any independent Commonwealth country in Africa and the Caribbean that wishes to apply. Once members, the United Kingdom and other successful entrants such as Denmark, Ireland, and Norway, can be expected to concede preferences to countries already associated with the EEC. These developments, together with the direct implications of British entry, will further increase demands for special treatment from other countries, especially the other EFTA countries and Argentina.

Thus we may soon have to face violence not only to our trading principles, but to our actual trade interests as well. It is time for the United States to draw the line, and if necessary test the validity of the GATT rules. The Executive Branch does now have certain relevant retaliatory powers in Section 252 of the Trade Expansion Act of 1962; President Nixon's Trade Bill would broaden and strengthen this authority.

Enlargement of the European Common Market

This leads to another fundamental problem in immediate prospect: The opening of negotiations between the United Kingdom and the EEC for enlargement of the European Common Market. Any American should be struck by the fact that most expert studies of the economic costs of British entry assume, imply, or conclude with an adverse effect on United States agricultural exports. Some of the experts believe this adverse effect will be short-run in nature, arguing that overall economic growth in Europe will eventually offset the short-run damage. This belief is conjectural. There is also a tendency in such expert analyses to make three sets of assumptions: The CAP as it presently exists is the relevant force to consider, the costs of the CAP would be a restraining force on further trade distortions, and the agricultural policies of the rest of the world will continue exactly as in the past.

The present coverage of the CAP leaves out soybeans and its derivative products, tobacco, and canned fruits and vegetables. These are major American export earners in both the United Kingdom and in the EEC, on the order of a billion dollars. The intention of the Common Market Commission, at least thus far, has been to seek coverage of the CAP system, or other trade restrictions with similar effect, for these products. Thus it is where the EEC is heading, and not simply where it is now, which is important.

As for the trend in Britain, to date the pressures have been towards increased self-sufficiency through conscious government policies. Entry may change this, but the change will tend to be in the direction of accelerating the restrictive effects on imports from third countries.

As for the costs of the CAP, these, though high, have not yet brought about any fundamental changes in policy. No serious attempt has yet been made to alter the basic system of farm income support. That system is based upon unlimited production coupled with unlimited price support guarantees. The Manshold Plan for restructuring European agriculture may look adventurous and expensive (it is both), but the key issue of removing the basic causes of overproduction and high costs has not so far been faced. Nor has attention been paid to limiting surplus disposal to internal uses. Most of the political arguments within the Six have instead revolved around whether or not to raise support prices, and how to distribute the financial costs in relation to national import levels, national taxes, and national budgets.

As for the present worldwide situation in temperate agriculture, it is simply nonviable, and there are profound structural changes taking place, not the least of which is the basic trend toward lower world prices and higher world production for all grains.

Looking after our economic interests in Europe

Taking these factors into account, and the possible emergence of other discriminatory association arrangements, it is my view that the United States has very real economic interests in the process and outcome of the negotiation for enlargement of the European Common Market. The issues will eventually cover industry as well, since the tariff bindings in the United Kingdom, Ireland, Norway, and Denmark will often differ from the level of the Common External Tariff of the EEC. The details of the changes will be important to us, as well as the overall net changes.

At the present time the U.S. has free, or low duty, access rights to the United Kingdon on virtually all U.S. agricultural exports. The wheat and feedgrain trade rights, or "bindings," as they are called in GATT terminology, are substantial in trade terms. At the present time, the United Kingdom has a special import protection scheme, the Minimum Import Price system, which the U.S. and certain other exporters have accepted as a consequence of bilateral agreements waiving our rights temporarily. These bilateral agreements terminate with the end of the International Grains Arrangement in 1971. Similarly, there are standstill agreements on grains into the EEC coterminous with the IGA.

We should, as I indicated earlier, give serious consideration to allowing the IGA to lapse for a time. Even if it is extended, the bilateral agreements and standstills would have to be dropped, and our rights negotiated out, with appropriate payment from the EEC and U.K.

It is in such matters, where we have clear rights, that we are able to insist on being part of European trade talks or on having parallel efforts underway. Our bindings into Europe, our trade into third markets, and the question of discriminatory arrangements—all of these matters give us the right and the responsibility to look after our national and international economic interests.

This does not mean that the United States should be opposed to enlargement. What it does mean is that the United States should watch over its own interests, and insist that an enlarged economic community is outward-looking in its economic policies. In saying this, I enthusiastically endorse the words of Chairman Boggs in his February Business Council speech:

"The results of these negotiations will be of great interest and consequence for the United States as well as for the rest of the Free World. There is a danger that we will be faced with a *fait accompli* which we will not be able to influence and which will be very difficult to change through multilateral negotiations, after the process of internal European negotiations have been completed. This could breed frustration and retaliation, which should be clearly avoided.

"I, therefore, would enter a plea that the United States, as well as other interested countries, because they have a direct interest in the outcome of these negotiations between the EEC and others, ought to have a look in on the negotiations while they proceed, and be able to influence the course of the negotiations in the interests of the world trading community.

"There are large issues that hang on the outcome of the European negotiations. They will have a profound influence on the kind of trading world we will have in the 1970's and beyond. Will it be the open, nondiscriminatory world that we have taken such pains to construct since the initiation of the trade agreements program, or will it be a trading world marked by regionalism, discrimination and preferential arrangements? We have to know, it seems to me, fairly soon whether the EEC and the other European countries involved intend to channel their energies and interests into their own negotiations or whether they are prepared to undertake multi-lateral negotiations on a world-wide basis.

"This is not a question of whether one is hostile or favorable to the process of the European political integration. The United States has traditionally supported the integration of Europe as a noble and inspiring idea. Which way Europe proceeds on this course is a decision for the European countries to take. Of course, we can have an interest as do other countries in where Europe will be going and what policies it will pursue. But the point I want to emphasize here is that, as far as trade policy is concerned—and that is what is at issue here—tariff discrimination and protectionism are not necessary to protect the sovereignty of Europe and to generate political integration in Europe. If tariff and trade discrimination were the mortar of political unity in Europe, then it is a very fragile edifice indeed."

Lest this general thought be considered by some as unwisely putting economics before politics, I would like to say that economics is powerful politics. Moreover, there are many Europeans who increasingly doubt whether political unification ought to be central to closer relations. There are those who have been rethinking, and concluding that the whole approach has been wrong, as did Dr. Erhard a year ago:

"Unification, let alone the unity of Europe, remains blocked so long as we are not prepared to make a clear distinction between economic and political integration, between economic community and the formation of a state. A European state, however organized, may lie at the end of the road. But it was an obvious mistake to try to give the European Economic Community, in its initial stages, the character of a political, as well as an economic union. Not only did this idea generate opposition even inside the Community, but it was precisely the emphasis of this aspect which made it hard for outside countries (and, in particular, for the United Kingdom) to agree in advance to an increasingly extensive sacrifice of sovereign rights and powers." [3]

It is this trend of thinking which must bear close scrutiny by the United States, and which argues most strongly for a new, more pragmatic approach. In this regard, the remarks of Sir Eric Wyndham-White in the December Hearings of this Committee are very pertinent, particularly when he said that "it sometimes seemed that the United States was more European than the Europeans" (page 74). Unless we look to these issues, and defend our commercial interests, the multilateral possibilities for trade expansion in the 1970's will be very limited in scope, and the United States will be increasingly forced into a posture of political and economic retrenchment—a posture which I am certain would harm both our foreign policy interests and our domestic economic interests.

Japan

Our commercial relations with Japan have been put under severe stress by a number of mutual difficulties. This situation should not be allowed to boil up into a destructive pressure for trade disruptive practices at either end of our mutual trade. We have far too much at stake in common. Our mutual interests should dictate much closer cooperation than has been the case recently. This is crucial in setting the scene for new departures in world trade, and it is crucial to our broad political interests in the Pacific and Eastern Asia.

In reassessing American policies, and those of Japan, there are some considerations which should be weighed most carefully. For example, it is true that Japan's remaining import restrictions, including its quotas, licensing system, prior deposits, and the whole paraphernalia, are completely inconsistent with Japan's present economic strength and responsibilities. These restrictions anger many Americans who have been strong supporters of liberal trade policies, and encourage the imposition of U.S. import restrictions. They thus endanger the viability of Japan's present access rights to the United States. On the other hand, Japan does suffer discrimination against her products in many European markets. Japan's bargaining power to negotiate better access terms to European markets depends in part on her own restrictions against Europe. Some of those

[3] Ludwig Erhard, "Prospects for European Integration," *Lloyd's Bank Review*, January, 1969, pages 1–2.

major bargaining counters are import quotas which are also of interest to the U. S. Under the GATT, when a country liberalizes its import restrictions, it is supposed to do this for all parties equally. Thus, Japan sometimes finds herself in a quandary: If she gives the U.S. what it asks, the Europeans get the same access terms for free.

From the U.S. point of view, restrictions in Europe against East Asian products put excessive pressure on the relatively open U.S. market. Thus our interest is also caught up in the liberalization of European markets for East Asian products.

It is also important to take into account our own restrictions against Japan. The U.S. government has negotiated many formal and informal "voluntary" export restrictions on Japanese exports to the U.S. It is sometimes extremely awkward to request liberalization of a Japanese import, arguing the case of Japanese adherence to the GATT rules, while at the same time we make a request for voluntary export restraint on products entering the American market.

In fact, I believe that this whole range of issues should be discussed more pragmatically, with less philosophizing. We must recognize that at times we do the same thing to Japan. Japan must recognize that her restrictions go to excess and are well beyond the bounds of reasonable balance. Her responsibilities to Asia, to the East Asian developing nations, dictate a more open market. Moreover, Japan's economic growth is so rapid, at over 10 percent per year in real terms, that she can afford import adjustment more easily than any other major trading nation. It would be in her own interest to intensify outside competition. For example, it would tend to free labor from agriculture and make it available for labor-short Japanese industry.

On balance, the United States and Japan should work out a new *modus vivendi*, with Japan accepting that a new balance is politically and economically necessary, and desirable. We should then act like partners, instead of wasting our commercial energies in frustration and our diplomatic energies in endless discussion.

East-West trade

The mix of issues involved in trade with the non-market economies of Eastern Europe is complex. These matters have often been treated as foreign policy matters, of only marginal commercial interest. In fact, however, the American economy has much to gain from bloc trade. Thus, for example, our exports of tobacco could be raised substantially, and our exports of wheat and feedgrains would benefit.

Moreover, bloc exports are gradually gaining influence on world market conditions. For example, it has been argued again and again by the EEC Commission that its export subsidy levels on farm product exports are determined by the objective of meeting competitor prices. The lowest competitor prices have often been the prices of bloc exports. Thus EEC prices are driven down, increasing the downward competitive pressures on the U.S. EEC imports of industrial products from the bloc have also created problems of unusually low import prices. However, a low price on a bloc export cannot easily be compared with the domestic product price in the bloc country, given the non-market character of the economies. Thus it is difficult to assess dumping or countervailing duties. In order to meet this problem, which apparently created major EEC problems from time to time, the EEC introduced its so-called "Common Commercial Policy." This is a set of rules governing certain types of imports, and providing for their restriction as appropriate.

Thus this raises for the United States, as for other countries, working up some kind of general set of principles to be applied for measuring the "reasonableness" of trading prices and volume of trade from bloc sources.

Another problem arises out of the lack of convertibility of the currencies involved, and the linkage of the liquidity-reserve problem with the volume of trade. This area needs early and thorough exploration by our monetary and our trade experts.

These problems should be addressed soon, before another patchwork of independent national decisions emerges which creates trade distortions for the Western trading powers, and for the developing countries.

Planning and practices at home

At home, we have been faced with a variety of economic adjustment problems, leading to requests for import protection, both through new legislation and through existing administrative processes, for many products, both in industry and in agriculture. In dealing with the problems of the developing countries earlier on, I pointed out that there were indeed some special problems, and that these were primarily adjustment problems. They are especially difficult in labor-intensive industries.

I suggested in that earlier discussion in this paper that we should now begin to consider ways in which to move away from the piecemeal approach and the *ad hoc*, impulsive adoption of "voluntary" restrictions without some general principles. I also pointed out that there are very real problems, and they arise in part out of the multilateral patchwork as well as out of our own selective reactions. I do believe that this is the right moment for domestic consideration of what the most desirable international guidelines ought to be. I would hope the Congress, as well as the Executive Branch, could give this matter consideration, perhaps along the lines I have suggested.

In the interim, we must find ways in which to use domestic adjustment assistance more freely and more often. The Trade Bill of 1969 does provide for relaxed standards for adjustment assistance, and this is desirable if we are to avoid unnecessary further trade restrictions and trade conflicts. President Nixon has pointed us in the right direction by this decisions last month on the escape clause cases of pianos and glass. In those cases, he invited the industries involved to apply for adjustment assistance.

We must go further, at home, in coordinating our foreign economic policies more broadly, in order to plan more effectively for the kind of world economic adjustment processes which must, as I have argued, be at the center of future trade negotiations. Issues of intra-company activities internationally, national sovereignity over multinational enterprises, international tax treatment, the international balance of payments adjustment process, and so on, must also be brought together in our thinking. We should begin now with analyses on a broader framework than has ever been undertaken in the past. Along with these analyses, our daily practices ought to be harmonized so that a basis can be laid for sensible new departures, and so that existing patterns of practice and procedure can be explored and tested as to their usefulness in this new, broader context.

This kind of broad foreign economic policy coordination has been recommended by the Pearson Commission and by the Peterson Task Force on International Development, in dealing with the problems of the poor countries. While I agree with this suggestion in principle, I believe it must be extended to all of our trade and economic relations with the developed countries as well.

VI. A COMPREHENSIVE APPROACH FOR THE 1970'S

One of the strongest impressions left on me in dealing directly as a Government official with the kinds of trade problems covered in this paper is that further liberalization of specific border measures such as tariffs and NTB's is not feasible, nor desirable, without comprehending changes in national economic policies, and changes in the international financial underpinnings. It should by now be clear, from the arguments raised regarding NTB's and agriculture, that we are dealing with fundamental national and international economic adjustment issues, and not simply "freeing up" the world market.

The interaction of trade and financial issues

There are fundamental structural problems in the world which must be resolved. The structure will inevitably change, and the question is really how do we best shape and direct that change? The pattern and form of international liquidity devices will continue to evolve, both through conscious policies and negotiations and through the practices of businesses and banks (as in the case of the Eurodollar).

Because of the increased sensitivity of trade to changes in national economic conditions, already referred to, we must pay more close attention to the interaction between trade measures and international balance of payments adjustment problems. In saying this, one must recognize that quite a wide range of problems, and a wide range of opinions about those problems, is being swept together. For the moment at least, there is an emerging consensus among financial experts that the international adjustment process must be improved through direct measures to alter the mechanisms. We have adopted the principle of creating new liquidity with SDR's; now let us widen and flex the currency pegs, it is said. The Annual Reports of the Council of Economic Advisers in 1969 and 1970 reflect this evolution in thinking. On the other hand, there is a sophisticated view that another possible problem is the failure of reserves to grow sufficiently rapidly in the case of the major, "key" currencies which are used extensively in international banking. This view was recently articulated by Walter Salant:

"The truth is that problems of adjustment and of the adequacy of growth in world (not merely national) reserves are not so easy to distinguish, for they are accompanied by the same symptom: persistent deficits in the balance of payments of countries that perform international banking services. Persistent deficits of such countries do not necessarily mean that they have not pursued proper adjustment policies; that is only one possible explanation. Inadequate growth of world reserves produces the same result. A reappraisal of what has occurred in the past few years strongly suggests that much of what has been taken to be a failure to solve the adjustment problem was in fact a failure to solve the problem of growth of international reserves." [4]

The reason that I bring this up is that the solution found in the financial area will have a direct bearing on trading policies, and on the willingness of governments to consider further "freeing up" of their trade restrictions. The Japanese Government, for example, argues that many of its trade and investment restrictions are inextricably related to its reserve accumulation targets. The United Kingdom's unwillingness to be more positive in trade discussions has often at least in part been related to its balance of payments fears; and the French especially have used the argument of financial problems to explain their resistance to further trade initiatives.

In this debate about next steps in the financial area, the question of flexing exchange rates will, for the Common market, be directly related to its policies toward agriculture, at home and in trade. As the CAP stands now, flexible exchange rates would tear apart the system. The devaluation of the Franc and revaluation of the Deutschmark nearly did so already, and the difficulties are still being cleared up. A regional financial pooling arrangement to accommodate the problems of new entrants and to accommodate agricultural structural change will be necessary. It is in our national economic interest to see that such financial underpinnings are considered, and that we weight up the trade departures in terms of what may be viable in relation to the structural adjustments which can and will take place in Europe.

Looked at in a different way, another example of the interaction of trade policy and payments difficulties may be useful. The GATT allows countries in balance of payments difficulties to use quantitative import restrictions, providing that certain conditions are met. Article XII, paragraph 2. (a) states that:

"Import restrictions instituted, maintained or intensified by a contracting party under this Article shall not exceed those necessary:

"(i) to forestall the imminent threat of, or to stop, a serious decline in its monetary reserves, or

"(ii) in the case of a contracting party with very low monetary reserves, to achieve a reasonable rate of increase in its reserves."

In spite of these provisions, or perhaps because of them, some developed countries have instituted special restrictive trade measures for balance of payments reasons which fell outside these guidelines. Import quotas must be administered—they require large bureaucracies, and are therefore slow to be set up, and difficult to dismantle. Thus the U.K. turned to import surcharges and export subsidies as an alternative, without applying formally for a GATT waiver. Or a country may simply institute, as France did in the May 1968 crisis, extraordinary trade restrictions without any reference to international (or even EEC) rules.

To regularize this wide open situation, some trade specialists would argue that the GATT rules ought to be amended to allow explicitly for the use of import charges and export subsidies. In my own view, this might be useful. but the dangers of encouraging countries to resort to trade measures in moments of difficulty must be watched. What is needed is a closer working relationship between the IMF and the GATT, perhaps leading to new formal or informal understandings that a country may resort to special trade measures only when it had convinced the IMF that it had exhausted all possible borrowing, swap, domestic, and other financial alternatives, or that the trade measures contemplated were a necessary ingredient in a balance of payments package involv-

[4] Walter S. Salant, "International Reserves and Payments Adjustment," *Banca Nazionale del Lavoro Quarterly Review*, September, 1969.

ing an array of other financial measures. Even then, policing such a system will in part depend upon better coordination within governments. For example, Treasury would have to work intimately with State and the Trade Office in the United States Government, on what might at first appear to be essentially a Treasury matter alone. Supporting a currency in crisis does not necessitate throwing away trade policy, as has sometimes occurred in the past.

The flow of capital investment is also closely linked to trade. Clearly plant expansion abroad, in one country as against another, affects the pattern of trade and of employment internationally, and at home. Intra-company transactions are extremely large, not only in terms of financial operations, but in terms of transfers of goods, services, and technological know-how. It is already well known that about one-quarter of United States non-agricultural exports appear to have moved from American firms to their subsidiaries abroad. Intra-company transactions are of course difficult to evaluate from the outside; and a precise description of their relation to investment flows is analytically difficult to achieve. The placement of direct investments in one place versus another is a matter of internal corporate decision-making, yet the size of some of the major national companies often dwarfs whole industries in some countries. Government policies at borders, particularly regarding trade, do not reach, or control, these kinds of decisions.

Domestic government policies do, however, affect corporate decisions. It is these internal policies which must somehow be caught up in trying to balance the national trading and financial interests of all countries. The finding of solutions to many NTB problems will require opening up internal policies relating to large-scale production and marketing enterprises. In the tax field, national tax policies clearly influence investment flows and the location of new productive facilities. They also influence the flow of trade, both in price and quantity terms, as companies find room for maneuver in intra-company transfers. The basic corporate tax structure, whether it is internationally adjustable or not, must play a role, just as the tax-administrative practices must loom large in corporate decisions.

More broadly, the sovereignty of governments over productive economic enterprises within their national boundaries has become a relevant variable in trade and investment decisions. This question of who has authority over whom has also been the source of substantial friction between governments. These problems, of course, extend into many other areas of government-industry relations, including anti-trust and competition policy, regional development policy, and in the future, pollution policy. As Professors Cooper and Vernon pointed out in the December Hearings of this Committee, there is a pressing need to reconcile and regularize these international relationships, and to harmonize national supervision over them. Professor Cooper argued that:

"We need a much better process of cooperation and mutual accommodation to minimize intergovernmental conflict and to avoid placing efficient international firms in the impossible position of having to satisfy mutually inconsistent demands by both home and host governments."

Professor Vernon put the issue in terms of the disentanglement of overlapping national jurisdictions.

Looking down the road, as direct investment grows, as the multinational companies grow, and as the incentives to move into the developing countries grow, further proliferating the problems, it is clear that trade policy can become relatively meaningless without some meaningful international regularization of national treatment of business enterprise.

Putting order into these complex business and government relations will require, as in the case of complex trade barriers, a search for guidelines, principles, and consultative procedures which catch up and limit national policy decisions.

The need for world economic adjustment

The international changes already underway alter many of the basic assumptions upon which our economic theories of international trade were built. Today, individual economic decisions often reach out across the entire world. The geographical horizons of corporate managers are bounded by political decisions of governments, by environmental circumstances, by long-term trends. Indeed, the time horizons of international business decisions are also gradually stretching further and further into the future. It is not unusual for a Japanese company to build up a local enterprise in a foreign country, or seek negotiation of long-term sales contracts, with a view to requirements two or three decades hence. Even in the United States where the raw material base may not be as prime a consideration, corporate financial committees reach out very far into the future in their evaluations of new investments. It is only governments and small, inefficient businesses which build their plans on the near-term outlook.

Thus, multinational business is often ahead of government policy in looking to future world economic adjustment. Moreover, with freer flow of world labor internationally, and freer flow of services and know-how, the conception of trade based upon certain relatively fixed relationships within each national economy is slowly being eroded. Whatever one thinks of economic theory, the maldistribution of world resources and the stresses and strains ahead are becoming increasingly apparent.

Adjustment in world labor

Take the world labor situation. The population explosion leads inevitably to an increase in the available labor force. The developing countries today comprise two-thirds of the world's population; by the end of the century they will comprise five-sixths. Their labor force will grow faster than that in the developed countries. The only way to avoid massive unemployment in the largest cities, and widely in the rural areas of these countries, will be to accelerate labor-intensive industrialization and labor-intensive techniques in rural agricultural development. This in turn must inevitably require expanding international markets for labor-intensive exports. Employment plans and programs, and investment decisions in the developed countries must soon take into account this world-wide structural change. But because a too rapid adjustment in labor displacement in the wealthy countries cannot be socially tolerated, there will tend to be erected new trade restrictions unless there are also other avenues of expansion for the developing countries. This leads among other things to the need for expanding export opportunities in the trade between the developing countries themselves. But if some of the pressure of this rising labor force in developing nations is to be shunted off in this way, it will require conscious international financial assistance, both to indivdual developing nations, and to regional intra-developing nation trading groups. Thus there must be a conscious link in our policy between our own trade policy objectives, and the evolution of third-country trade patterns and financial payments.

Adjustment in agriculture

The same kinds of problems arise in agriculture. Some developing countries formerly net importers are becoming surplus producers, as a consequence of the Green Revolution. Many developed countries, as we have seen are cumulating surpluses. World commodity prices are trending downwards, and this will leave some of the developing countries high and dry with price supports well above the new depressed world market levels. This will discourage those who are just beginning to find hope, or leave them saddled with costly government support programs of the type which have become such monstrous burdens to some of the developed countries. All of this is taking place while many other developing countries are suffering shortages of food, or at least extremely low nutritional standards. Some reorganization of the world market is needed which will allow utilization of the world's food production capacity efficiently, while providing food and decent nutritional standards for *all* of the people of the world. To do this requires a conscious international effort to relate national production policies, trade policies, food aid policies, and development assistance policies.

Socially, in each country, règional developmen programs will continue, special groups will coninue to have special income supports, certain industries will be singled out for government subsidies, others will be protected by their national security status. At the heart of the many inerventionist programs in each country is the notion that something must be maintained that otherwise would vanish wih dire economic and social adjustment effects. It is a short-run notion, since in the long-run the full resources of whole economies, together with resources flowing in from other nations, are bound to fill any economic vacuums. But as Lord Keynes said, in the long run we are all dead.

Two kinds of domestic adjustmen problems stand out concepually: One is the case of high labor content production (labor-intensive manufacturing, and, decreasingly, farming). Here sudden and disruptive economic pressures, especially from outside the country, are socially and politically intolerable. The other case is the heavy fixed capital industry, where change in production and employment is not easy, and where changed market circumstances have limited effect, since businesses in such an industry will sell at any price which covers the day to day extra costs, the fixed capital costs already having become a regular burden whether one sells or not. If highly skilled career technicians are needed in conjunction with the capital investment, as in oil refining and petrochemicals, it is not surprising that a justification is found for protecting such an industry from the ups and downs of foreign economic forces. That justification is often called "national security." Sometimes it is invoked formally, as in the case of United States oil import quotas; sometimes it is simply part of the informal arsenal of arguments drawn upon by countries to defend their protectionist practices, as in the case of the Japanese computer industry. Whatever the justification, however, there ought to be built in to any such interventionist measures some policy principles that are multilaterally accepted. Without this, there simply will not be any largescale adjustments on a world basis for many industries.

Regional adjustments: The East Asian example

Another kind of structural adjustment required is to adapt our policies and practices to the basic thrust of economic forces already at work, or those we can soon expect to be at work. For example, the rapidly growing economies of the Pacific Basin, including the East Asian rim of developing countries, will be the major commercial market for North America in many product areas. Japan is of course a leading force in the change, with its real GNP growth over 11 percent per year, and its enormous appetite for trade. U.S. military security expenditures in the area have, of course, played an important role. However, there has been extremely high export performance on the part of certain countries in the area: Korea's current rate of export growth is over 40 percent per year; Taiwan's is 20 to 25 percent; Hong Kong's is over 15 percent; Malaysia's is 8 to 10. The rate of growth of imports, increasingly on a competitive, commercial basis has also been extremely high: Korea at 40 to 50 percent; Taiwan fluctuating between 10 to 39 percent; Thailand at 20 percent. The growh in gross domestic product is higher in this area than in any other group of countries, even if we leave out Japan's growth.

New developments are taking place which will alter significantly the form and direction of East Asian economic growth, and the U.S. share in it. At the moment, Japan is taking, and providing, an increasing share of the rapidly growing commercial trade of Eastern Asia. Japan will in the near term be doubling her foreign aid. This will further promote growth, but it will also tend to mean increasing commercial dominance for Japan, since her aid has been commercially oriented. New patterns of international investment are emerging. Some joint ventures between Japan, the United States, and others are taking place. In some cases, multinational investment follows Japanese guarantees of multiyear (e.g., 20 year) purchases of minerals. Some domestic American producers are already seriously considering or implementing, as are the Japanese, a shift of future labor-intensive activity to East Asia.

This dramatic shift is of benefit to the United States. It is, however, a source of economic adjustment difficulty. It will be an increasingly difficult problem for all of Europe and Canada. A new patchwork of trade restrictions can easily arise on top of the already existing patchwork, unless the developed countries now start to lay out multilateral guidelines under which they will practice their respective domestic and trade adjustment policies.

For the United States all of this adjustment is critically related to our detachment or disengagement with military operations in East Asia. We shall have to have, from a foreign policy standpoint, a positive foreign economic policy towards the area as we reduce our direct security role. President Nixon pointed this out in his remarks at Guam.

For all of these, and many other reasons, it is increasingly evident that the world faces major economic adjustments in the next two or three decades. The adjustments can be shaped to encourage economic growth, equitable income distribution, and maximum human participation throughout the world in the opportunities and benefits. Or, by default, the adjustments can result in disruptions to trade and retardation of economic growth in many countries through government trade and domestic policies which are solely aimed at protecting the internal status quo.

VII. THE STRATEGY OF NEGOTIATIONS FOR THE 1970'S

The broad world adjustment problems I have pointed to, and their interaction with specific economic adjustment policies of governments, is essential background to laying out a strategy for international negotiations. In addition, the changing world politics of trade, the changing patterns of trade, the changing production capabilities of countries, the changing national social policies—all of these must be taken into account realistically.

We may have to reexamine the very fundamentals:

"The point is that the EEC, particularly an enlarged EEC, would be such a big fish in the world trade pond that if its very way of life is an exception to GATT rules there is a genuine question whether GATT rules should now be rethought. The EEC already accounts for over a third of the trade of the industrialized countries. With Britain in, this would be getting on for a half. Trade rules basically make a division between what is considered reasonable and what is considered unreasonable, and that ultimately comes down to the self-interest of those who make them. GATT was founded when the United States was on a pinnacle of pre-eminence. GATT's rules, of which the most important are reciprocity and non-discrimination, basically enshrined American preconceptions. Now, in trade terms, the balance of power has shifted. It would be surprising if the ground rules, or at least the interpretation of them, did not change."

This reassessment by the London *Economist* of February 28, 1970, must be sobering. But looking to the future, the same article points out, in relation to a new multilateral effort:

"It can be a success only if the United States realizes that the post-EEC world is different from the world of American hegemony—and if the EEC itself can bring itself to realize that it is Mr. Big who has to make the concessions."

The timing of new initiatives

A GATT Work Program is already underway, aiming at decisions about the future during the course of next year. It covers agriculture and NTB's, but many broader issues are left out, as well as some of the specific problems I have gone over. This work should be pressed ahead. Our conception of the task should however be gradually broadened.

One sometimese hears the argument that it would be preferable to move gradually, and with care, digesting the Kennedy Round before we reach for another bite. But it is doubtful whether the United States, or Europe, or Japan serve their best self-interest by moving as slowly as they have been doing up to now. In the case of the United States, it seems to me crucial to have underway a number of multilateral efforts during the process of negotiation of European integration. Only in this way can we ensure the sensible evolution and outward-looking character of Europe. Across the Atlantic, given the internal and external adjustment problems Europe faces, Europe ought to welcome more external pressure upon it to help it make the hard political decisions it must make, if rationalization of European agriculture and industry is to be brought about.

The Japanese have much to lose if there is no broad agreement of the major countries soon, into which their special problems can be folded. Without this, Japan will face a painful readjustment both on the import and export sides—an adjustment which would not have to be so painful with sound policies and an outward orientation towards multilateral adjustment principles.

I do not believe we should yet reexamine the GATT rules themselves. We may yet come to the day when "MFN on condition" will have to replace MFN without exception; we may yet have to take up the idea of a Pacific Basin area negotiation. First, however, we should try the multilateral approach on a world basis, within the existing rules, and try to convince our trading partners that we must do this soon, in the interest of all our respective national economies.

The modes of negotiation

Many of the remaining trade barriers, as we have seen, are difficult to measure. They cannot be represented with a simple percentage figure as we do with tariffs. They are also fundamentally, whether in agriculture or industry, related to national domestic policies and international adjustment policies. Moreover, changing the conditions under which world trade operates should be guided by our notions of how to adjust the world economy.

Taking these thoughts together, it becomes clear that simple notions of reciprocity in bargaining will not be sufficient. Sometimes we shall have to think of negotiations as the defining of rules which all nations can commit themselves to. In a sense, it is a return to fundamentals. In this regard, I wish to recall Professor Cooper's observation to this Committee in December:

"an improved mechanism for assuring payments adjustment would make it less necessary to define reciprocity in terms of trade equivalence; reciprocity could then appropriately focus on equivalence of the commitment by each of the negotiating parties."

Our negotiating approach should comprise three basic elements: *First,* a comprehensive approach which relates trade and investment, and which relates internal and external adjustment policies. *Second,* the definition and establishment of new consultative procedures, which will relate traditional bargaining to the need for harmonization of national policies. *Third,* the definition of principles and guidelines to which governments might commit themselves which go well beyond the present trading rules, both in terms of specific product and problem areas, and in terms of general economic adjustment policies.

I do not wish in this paper to examine the international institutions and their relative strengths and weaknesses. Rather, I wish to point out that no one method of approach, no one institution will be sufficient. The centerpiece at least initially should be the GATT, because in the GATT there are rules, there are obligations, and there are penalties. We should not throw away these, because they are in our economic interest. While using the GATT as a centerpiece, we should undertake active bilateral consultations with the major trading entities, especially the EEC, U.K., Canada, and Japan, and begin informally working up a grand design for the 1970's. We should insist on the gradual phasing of these informal talks into multilateral negotiations. The Europeans will say that it is "difficult" to undertake multilateral talks while carrying on bilateral discussions with the U.K., Ireland, Denmark, and Norway. It will be difficult. But the EEC is now a great power, with great responsibilities. It is reasonable for other countries to ask the EEC to take on what must, for it, be a most difficult undertaking. For the other countries, important issues are at stake. For the EEC, it is better now to cope with these issues, than to have them become disruptive later. If more people are needed, then they should be found. There is too much at stake for Europe to argue that it is all too difficult.

We should simultaneously utilize the OECD, stepping up the pace and level of its work, so as to gradually broaden the boundaries of our international economic discussions. Somewhere along the way in this intensive and persistent process we might consider Senator Javits' idea, put forward as a question in the December hearings:

"Has the time come," he asked, "for a new London Economic Conference, or some other basic large-scale approach to the new situation in the world, in a new framework or perhaps in one of the existing frameworks?"

This might become necessary, at least to set the high-level policy scene.

Turning to principles and guidelines, I have mentioned many in the course of this paper, ranging from health and safety standard procedures to guidelines for import quota and adjustment assistance use by national governments. We shall want to reduce uncertainty, whether it arises out of unreasonable administrative discretion, excessively complex rules, or excessive flexibility (as in the variable levy in Europe). We shall want to look for the most common international usages or approaches, and set up procedures under which countries justify deviations from these norms. We shall want to reach agreement that new impediments to trade, and new national policies directly affecting trade, be subject of consultation *prior* to implementation. We should also want to ensure reasonable delays in implementation in cases where an adjustment period for exporters will allow adaptation to new rules. We will want agreements that governments will instruct their government agencies and semi-government enterprises not to discriminate, so that the practices of individuals do not thwart the national and international understandings. We should welcome guidelines regarding special import protection schemes, whatever their justification, folding them into a broad philosophy of trade expansion, taking into account domestic and international adjustment needs.

A conclusion: Economics is powerful politics

I have stressed the theme that trade policy and trade negotiations in the 1970's should be considered in the context of required world economic adjustments. The policy and negotiating approach is consistent with the program laid out by President Nixon in his message to Congress transmitting the Trade Bill of 1969:

"Intense international competition, new and growing markets, changes in cost levels, technological developments in both agriculture and industry, and large-scale exports of capital are having profound and continuing effects on international production and trade patterns. We can no longer afford to think of our trade policies in the old, simple terms of liberalism vs. protectionism. Rather, we must learn to treat investment, production, employment and trade as interrelated and interdependent . . .

"As we look to the future, we must seek a continued expansion of world trade, even as we also seek the dismantling of those other barriers—political, social, and ideological—that have stood in the way of a freer exchange of people and ideas, as well as of goods and technology."

In aiming our policies in this way, we must remember to keep in mind our ultimate objectives. As I said earlier in this paper, free trade is not an end in itself, but rather a means toward trade expansion, growth in national economies, and growth in world employment opportunities. There have been times when we have had to deviate from the free trade means, but if we have our eyes firmly fixed upon these ultimate objectives, I am confident that we shall be able to find new guidelines to add to the old which will ensure and promote world economic growth, and which at the same time will take into account real national and international economic adjustment difficulties. And ultimately, looking after our economic interests, we will ensure that our foreign policies are politically viable. To those who will question the wisdom of putting economics first, I repeat what I said earlier: Economics is powerful politics. In the next two or three decades, I believe it will be the most powerful politics of all.

Chairman BOGGS. Our next witness is Mr. Jean Royer.

STATEMENT OF JEAN ROYER, CONSULTANT, INTERNATIONAL CHAMBER OF COMMERCE; FORMER DEPUTY EXECUTIVE SECRETARY OF GATT

Mr. ROYER. Thank you, Mr. Chairman.

I am particularly honored to have been invited to come here and testify before this subcommittee, and the more so since I am not a U.S. citizen. In extending your invitations also to non-U.S. experts you have recognized that not only production but economic expertise is becoming gradually multinational.

Chairman BOGGS. We are happy to have you.

Mr. ROYER. Mr. Chairman, I have handed in a short written statement as well as two pamphlets which indicate some of my views on the issues. These views have been approved or supported by the International Chamber of Commerce which includes representatives of business circles from all parts of the world.

I do not intend to read my written statement, but to concentrate on a few major issues and to submit a few remarks based on my experience of 40 years or more as an international civil servant on the following points:

Why should the United States and other trading nations launch a new initiative in the field of trade liberalization, what should be the objectives of that initiative, and how could these objectives be reached?

As regards the first point, I would like to stress that, as has been pointed out by the other speakers, we have been very successful in freeing trade from its shackles, thanks mainly to the initiatives taken by the U.S. Government, both at the end of the war, and in 1962. But at the present time one has the feeling that we are in a period of transition, in a state of flux. And we do not know exactly where we are heading to.

During the 19th century and the beginning of the 20th century, the expansion of world trade has been made possible by the gradual adoption by the trading nations of the most-favored-nation clause, in a conditional form in some countries, including the United States, or in an unconditional form in others.

This principle was accepted in 1947 as the condition precedent for further trade expansion. But during the last few years we have witnessed a different orientation in trade policies, which have moved away from multilateralism toward regionalism.

This tendency has not been opposed by the U.S. Government which, for political and other reasons, fully supported the integration movements, in Europe and elsewhere.

I am of the opinion that this support was justified, so long as regionalism does not degenerate into an end by itself. Regionalism should be considered as a transition toward a broader trading system and eventually emerge into a renewed multilateral system based on the observance of the most favored nation principle.

If we consider the EEC, there is no doubt that the type of integration provided for in the Rome Treaty does not differ from the model which we had in mind when we negotiated the GATT in 1947 and Havana Charter in 1948. But even in the case of the EEC, if you ask people in the States or in some other country what they think of the EEC today, they might answer perhaps as the polite curate did when he was offered a stale egg, it is half good, half bad. They would feel that the industry part of it is tasty, but that the agricultural part is less palatable, and particularly so for U.S. interest.

Again, if you look at the other integration movement in Europe, the EFTA, you may think that the United Kingdom and the other partner states have been probably more realistic, or, let us say, less ambitious, because they have not included agriculture at all, but they have moved away from the concept of total integration.

If you go to Latin America or other developing regions, you will find that integration movements are clearly designed as trade diverting operations and the governments concerned do not hide their intentions. They are not particularly interested in expanding the volume of their overall trade; what they want is to direct trade into regional channels to foster their economic development.

Finally, if you consider the recent developments of integration policies, such as the agreements concluded by the EEC with a number of peripheral countries, you will note that these trading arrangements are more and more departing from the pattern of integration which was accepted in 1948 because its trade-creating effects exceeded its trade-diverting implications.

At the present time, the trend of international trade is very disquieting, it moves toward a gradual disintegration of the type of trading community which had been dreamed of in 1948, and which led to the spectacular leap forward of the postwar period.

What is the answer to that problem? Is it likely that the tendency would be stopped by sheer opposition? I do not think that confrontation is a good policy either from an economic or a political point of view, or that it will be very effective in the near future. It is all very well to fire awe-inspiring broadsides onto the European community, but the law of diminishing returns is beginning to be operative in this respect.

On the other hand, experience has shown in the Dillon round a few years ago that the best and possibly the only effective answer to a tendency toward exaggerated regionalism and preferential arrangements is simply to reduce and eventually eliminate the preferential margin. When the preferential margin has been negotiated away there is very little practical difference between regionalism and multilateralism.

Progress has been made in the Dillon round, further progress has been made in the Kennedy round, and I am convinced that still further progress should be achieved in the near future.

The main reason why a new initiative should be launched is that we are witnessing a proliferation of preferential arrangements in this part of the world, than in another, between European countries, among developing countries, in favor of developing countries or the market of industrial countries or other developing countries. To avoid a complete disruption of the trading community, the only hope is to provide for an eventual return to multilateral trade through a gradual erosion of all the preferential arrangements which have sprouted during the last few years.

What can be done to restore multilateralism?

Before entering into negotiations, the governments will have to agree on what they want to achieve. So far, governments have negotiated agreements with a view to faster exports; but this is not the real objective of trade liberalization. The end result of trade negotiations is to bring about an optimum allocation of world resources which insures an efficient use of these resources.

The traditional negotiating techniques which have been used for several centuries by European countries, and from 1934 by the United States, have been extremely useful in encouraging a better reallocation of resources, but I am afraid that their usefulness is decreasing very rapidly.

It has been pointed out, and I fully agree with what has been said before that the traditional methods of negotiations are not as effective as they were before. In the past, the removal of trade obstacles—mainly tariffs—led automatically to more competition and a shift of resources from less to more efficient use.

We have learned already that the removal of a tariff may not improve allocation of resources, as it may be replaced by an import quota. Nowadays we have found that if an import quota is removed, more subtle techniques of protection can be resorted to. Commercial policy measures which were so far the only measures which could be negotiated internationally can be replaced by internal policy measures which are still considered as not negotiable. So long as governments are prepared to negotiate on commercial policy, their commitments are precarious, because they can, while remaining in the trading community, contract out of their commitment as they please by resorting to new-fangled methods of action.

The experience of the last decade has shown that today, in order to get a better world, to improve the quality of production, and to speed up economic growth, governments should be prepared to accept broader commitments than has been the case so far. Unless and until governments do not realize that such a change in policy is necessary, there is not much chance of starting meaningful trade liberalization negotiations. On the other hand, once the governments have reached agreement on the fundamental issues, it would be fairly easy to define the ground rules.

How should future negotiations organize? What I visualize is not a series of piecemeal fragmentary initiatives. There must be a comprehensive program, a package deal. However, the concept of successive negotiating rounds, such as the Dillon round, followed by the Kennedy round, et cetera, seems obsolete. The idea of working up to a climax every 5 or 10 years, of keeping dozens or hundreds of officials cooped up in Geneva for months until they come out with a compromise, and then to rest on one's oars for another period of 5 or 10 years does no longer meet the requirements.

It would be more appropriate to envisage a continuing type of operation. The problems to be faced in the near future will not be solved in 2 to 3 years, but will require a pedestrian, tedious process of adjustments in which Government and officials will be involved.

I submit that this program should cover the following points:

1. Nontariff barriers which, for the reasons I shall explain later will be separated from other trade distorting measures.

2. Agriculture.

3. Removal of tariffs on manufactured goods. In my opinion, these tariffs should be gradually eliminated over a reasonable period, the length of which period would have to be negotiated and could not be determined at the present time.

4. The relationship between these negotiations among developed countries and trade with the developing world. I shall be very brief on this subject which is not on the agenda this morning.

5. The problem of safeguards, including the need to work toward an harmonization of national policies in a number of sections.

As regards nontariff barriers and agriculture I would think that discussion should start without delay. But it is unlikely that speedy progress could be achieved unless and until the governments have hammered out an all-embracing program which would include, inter alia, a commitment to initiate tariff negotiations at some future date, say in 1972 or 1973. However, governments should aim at getting agreement on the aims of such negotiation before the end of next year.

How should governments tackle the problem of nontariff barriers? The term "nontariff barriers" covers a wide range of governmental measures to which a single negotiating formula cannot apply.

Negotiations with respect to nontariff barriers are particularly difficult to organize because. in most cases, it is not possible to match concessions as you can do in the case of tariffs. It is a practical proposition to reduce a tariff on an item by 20 percent, against the reduction, say, by 30 percent of a tariff as an item which you export. This quid pro quo has been the basis for negotiations for centuries in Western Europe. In the case of nontariff barriers, this technique applies in very few cases.

Of course, this can be done occasionally and it has been done, mainly in the case of quantitation restrictions. Some limited negotiations of this type have taken place during the Kennedy Round and further opportunities may open up in the future.

But for the other nontariff obstacles, another method of negotiations would have to be devised. As a legal basis for further action, it would be essential that the trading nations adopt a declaration of intent, which would clarify and supplement their present commitments. I sincerely hope that the U.S. Government and the governments of other leading trading nations will be in a position to negotiate such an agreement, which should include a standstill agreement, that is, an agreement not to introduce new nontariff barriers, or to make existing tariff barriers more restrictive and include consultation procedures. It should be agreed that, if a government finds it necessary to introduce some nontariff barrier which is not covered by the existing escape clause, it should consult with exporting countries and work out the least restrictive solution to overcome temporary difficulties. As regards existing barriers, which are adversely affecting the export interests of any given country, a more effective system of consultation should be devised.

The GATT offers consultation procedures which can be applied in those circumstances; these consultation procedures are supplemented by a procedure for the settlement of differences. These procedures have been tested and proved to be effective. But unfortunately, governments have not used them extensively. If the governments were prepared to revive these procedures, they would first and foremost obtain an objective assessment of the facts which are usually interpreted in a partisan manner by all concerned and then look at practical suggestions on which they may sometimes agree. In any case, it would avoid the bickreing which goes on whenever there is a trade dispute which transforms government officials into heroes of a Greek tragedy shouting at each other in angry tones.

It would be of major importance to see whether such a single suggestion could be put to the test as soon as possible. Apart from the declaration of intent, attempt should be made to identify certain categories of measures which would be recognized as nontariff barriers and for which codes of conduct would be negotiated, either to ban or to regulate them or to control their effects. A first step was taken during the Kennedy round with the Anti-dumping Code. and this technique should be applied to other types of commercial policy measures.

I think this is probably the best way in which you can deal effectively with nontariff barriers; this technique would usually be more appropriate than the system of selective product by product negotiations based on reciprocity. It is suggested that discussions should be initiated without delay to remove the so-called hard-core quantitative restrictions that industrial countries are still maintaining in the import of manufactured goods, inconsistently with GAAT provisions.

As regards agriculture, it is generally recognized by now that the basic problem in agriculture does not lie in the field of commercial policy. The commercial policy measures now in force are reflecting the internal agricultural policies of the governments which are inconsistent with the concept of price competition and the provisions of the GATT. This is a plain fact and we are all sinners in this respect.

Practically all the developed countries—and a growing number of developing countries—are supporting the prices paid to their farmers for a number of staple products. Farmers obtain the guarantee that they will be able to dispose of their entire crop at a given price on the home market, or if that is not the case, somebody else will dispose of the surplus through exports or otherwise.

Now, so long as this situation prevails—and it is likely to prevail for some time—you cannot expect that agricultural negotiations could be conducted along traditional lines. In order to reintroduce price competition in trade in major agricultural products, structural changes would have to be introduced in a number of countries, and these changes will take a number of years to be accepted and made effective. There are some encouraging signs that governments are now thinking in terms of a better way of supporting the income of their agricultural producers; but it is unlikely that the situation will improve significantly by the time trade negotiations are initiated.

One has therefore to live with the present systems of agricultural policies and to arrive at some sort of modus vivendi which would avoid any further deterioration of the situation of exporting countries and gradually improve their lot. Various techniques can be applied in this respect and others may be devised to accommodate the interests of the procedures and the interests of the exporting countries. Here again, the main problem is to bring the government to agree on a practical objective for the negotiation.

As regards tariffs, I submit that time has come to contemplate a breakthrough. We cannot just think in terms of eroding the existing tariffs a bit further. Governments could usefully contemplate a gradual elimination of the tariffs on manufactured products within a reasonable period.

This suggestion may seem far-fetched and very ambitious. But curiously enough, experience in Europe has shown that industrialists, who were violently opposing proposals to reduce tariffs by 10 or 20 percent on the most-favored-nation basis, fairly easily agreed to eliminate the tariffs protecting their goods, provided that they could hit back and enter the markets of their competitors in Europe on the same terms. Business people from the various countries from western countries which whom I discussed this problem last week agree that, at their present level, tariffs, in many cases, do not really influence terms of competition.

A study is in progress which shows that most of the tariffs of the industrial countries in 1972 will not exceed 10 percent. Now, a 10 percent tariff is either too little or too much. It is too little because it cannot compensate for any significant price differential. But it is too much because it is sufficient to give to the producer the impression that he is not under an obligation to adjust to the terms of competition because his government will come to his rescue if he gets hurt.

If, as I believe and as integration in Western Europe has shown, it is much easier than is usually believed for manufacturers to abandon tariff protection in a large number of cases. Governments should push forward in that particular direction.

I would like to say a few words, Mr. Chairman, about the question of the link between negotiations among developed countries and relations with the developing world. So far as the developing world is concerned, I think that the trade negotiations would have to be conducted on a different basis, but that the scheme for negotiations among developed countries should be dovetailed with the negotiations to be conducted with the developing world.

In the scheme which I submit all the concessions which would be negotiated, both as regards tariff and nontariff obstacles would be extended automatically to all the developing countries which are GATT members or are entitled to most-favored-nations treatment through bilateral agreement or otherwise. In addition, the parties to the agreement would be free to accelerate the elimination—or the reduction—of tariffs in the case of the developing countries which would thus enjoy a preference which would last during 10 or 15 years. This would be consistent with the preferential scheme which governments have accepted in principle at New Delhi.

The last point I would like to comment upon is the question of safeguards. It is quite clear that today many businessmen are afraid that if a further program of trade liberalization is adopted they will be subject to a number of hazards which they think they should not be asked to face.

Experience in Western Europe has shown that so far as normal competition is concerned, the producers can normally be asked to be able to adjust to the competition without relying on government assistance. But they should not be asked to adjust to competition which is not fair; and they cannot either be called upon to make the necessary adjustment if the changes in the terms of competition are due not to economic factors, but, let us say, to monetary factors.

Any trade liberalization program would therefore have to provide for effective safeguards against unfair competition and other noneconomic factors. It is difficult to define what is unfair competition, but the main aspects of such competition are already identified and agreement could be reached, I think, regarding the remaining aspects. In addition, some form of safeguard would be required against the price-distorting effects of balance-of-payments diffficulties; this safeguard should not apply to any specific industry but to the economy as a whole.

Apart from these specific safeguards, there is a more fundamental problem which has to be tackled. I would stress the point made by previous speakers, that further progress in trade liberalization would require a deeper involvement of the nation-states in the international trading communities. It is no longer possible to envisage a trading arrangement which would allow governments to come in and get out as they think profitable. National policies will have to be harmonized and become part and parcel of a general pattern which would exceed the limits of national jurisdictions. Unless national policies become more similar and take into account their probable effects on the economies of other countries, trade distortions—as opposed to nontariff barriers—will appear and become more and more intractable as commercial policy measures are abandoned. So long as governments are following different lines, so long as the national policies remain uncoordinated, terms of competition would be unwittingly out of joint and free movement of goods would be jeopardized.

This is the main objection lodged by businessmen against freer trade; they would obtain an assurance from governments that they will harmonize their policies in the industrial, financial, and monetary fields. No magic formula can be devised at the present juncture to solve this problem, but this should not prevent progress.

For the time being, we will have to be content with the existing national safeguards and escape clauses; at the same time, we should gradually build up a system of international safeguards leading toward a regular coordination of policies. If that can be done, in some 20 or 50 years, who knows? National policies would be harmonized and, by that time, obstacles to international trade would have completely disappeared and commercial policies would have become a thing of the past.

Thank you, very much.

Chairman BOGGS. Thank you very much.

(The prepared statement of Mr. Royer follows:)

PREPARED STATEMENT OF JEAN ROYER

The last installment of tariff concessions negotiated during the Kennedy Round will be put into force in 1972. There is a strong feeling in business circles that governments should be ready to initiate the carrying out of some additional programme of trade liberalization in 1973 or soon thereafter, so as not to lose the momentum. Businessmen are gratified to know that the United States Congress is giving a high degree of priority to a re-evaluation of the United States external economic policies, convinced as they are that no global programme of economic co-operation can be successful if it does not enjoy strong support from the United States Congress and Administration.

Since the 40's the United States has sponsored all the initiatives which released international trade from its shackles and which promoted fair competition. Now that the international system of payments is working more satisfactorily, and that its economy is gradually regaining its balance, the United States will be in a position to take the lead again.

The United States economy is far less dependent on external demand than that of other industrial countries, but its rate of growth is more and more influenced by the success achieved by American exporters. With perhaps more ingenuity than other producers, many United States corporations have succeeded in overcoming trade barriers by shifting part of their productive capacity to other countries. If remaining trade barriers could be dismantled, producers in the United States and elsewhere would be able to stick to the normal procedure of selling from their home base, when this is the more satisfactory economic position.

In the near future, a number of West European countries intend to negotiate with the European Economic Community with a view to become members of, or associated with, the EEC. This factor may play an important part in the general assessment of the present economic prospects. While, during the last ten years, the EEC and the EFTA have substantially increased their purchases from the United States, there has been a tendency for United States exports to the EEC to grow slightly less rapidly than exports to other destinations. Moreover, partly as a result of the large share of agricultural commodities in United States exports, the EEC purchases from the United States have been less dynamic than their purchases from other third countries.

If other European countries join the EEC in the near future or become associated with it on *ad hoc* terms, some trade-diverting may become apparent. The tariffs of the new EEC members will be reduced in some cases and increased in others. The tariff increases will have to be compensated for under Article XXIV of the GATT so as to restore the balance of advantages. But the experience gained at the time the EEC was set up showed that many of the problems which might arise could be solved more easily if these renegotiations under Article XXIV :6 could take place within the wider framework of a global negotiating round. The lowering of the average ad valorem incidence of tariffs, including the EEC Common Tariff, expected from such a negotiation reduces automatically the preferences enjoyed by the members of the group.

Apart from the stimulus which economic growth would gain from a series of even moderate reductions in the present level of protection, a new trade negotiating round would improve the trading position of the United States vis-a-vis the European economic group.

Another factor which has a bearing on the timeliness of a new initiative in the trade field is the acceptance by developed countries of a system of generalized preferences in favour of developing countries. For the time being, these countries enjoy a substantial competitive edge for a number of labour intensive consumer goods, but they have difficulties in exporting products whose production requires skilled labour or extensive capital outlays. The proposed generalized preference scheme would enable them to get the benefit of economies of scale if the markets of industrial countries are open to their products. This would encourage a substantial transfer of productive capacity in capital-intensive industries from industrial to developing areas. This development is what is expected from the scheme and will be sound in so far as it leads to a rational allocation of world resources and provided that the new industries can stand on their feet after a period of, say, ten years, without resorting to various forms of subsidization.

However, doubts have been expressed in some quarters that, at the time the preferences are to be terminated, the political pressures which have led governments to accept the scheme would remain so strong that the preferences would continue more or less indefinitely. If industrial countries agree to a new programme of trade liberalization, these doubts would be without foundation, since the preferential margins would gradually be reduced and disappear if duties are eliminated at the end of the exercise. This prospect may have a sobering effect on investors who would be more selective in building plants in developing countries.

On the assumption that the Governments of the United States and of other developed countries come to the conclusion that it is in the interest of their economies o discuss in the near future a concrete programme for further trade liberalization, I shall venture to offer a few practical considerations and suggestions concerning the basic aim of such a programme, the scope and the ground rules of negotiation. As my time is limited, I shall take the liberty of handing over to the Chairman two reports, respectively on *The Liberalization of International Trade during the Next Decade* and *Non-Tariff Obstacles to Trade*, where my suggestions are set forth in greater detail.

THE BASIC AIM OF THE PROPOSED ACTION

The ultimate object of any trade negotiation is to promote a rational allocation and an efficient use of the productive resources of the negotiating countries. Trade expansion is, so to speak, a by-product of the operation. This approach, which has inspired negotiators all the time, should be stressed again at a time when governments redefine their external economic policies. When trading nations began to negotiate trade agreements, their economic set-up was far from homogeneous; some of their producers were efficient, others were not. In the course of the negotiations, each party tried to secure outlets for the goods of the more efficient industries, and, in return, it agreed to buy more goods from the more efficient industries of the partner; to make room for such imports their less efficient producers had to slow down their expansion or to cut down their output. The net result was a better allocation of productive resources in each country.

This adjustment process, which was stopped after the Depression, was resumed after the war and encouraged by the successive rounds of negotiation. International trade increased more rapidly than world production, and living standards improved greatly. The question is whether we have now reached a point where, apart from a few pockets of resistance for which special treatment would be required, a slight push would be sufficient to break down the last barriers and to attain that optimum allocation of resources among industrial countries in the manufacturing sector which would guarantee steady economic growth.

The record of the EEC and of the EFTA shows that this was possible inside each group. The equanimity with which most of the European industrialists now view the prospect of an enlargement of the EEC shows that this will also be possible in a wider context. Would it be possible to do the same if non-European countries are involved? Businessmen on both sides of the Atlantic remain skeptical, although the Atlantic Free Trade Area finds many supporters in North America and in the United Kingdom. It may be in order to see whether the obstacles are unsurmountable.

In 1972, the ad valorem incidence of the tariffs of industrial countries on manufactured goods will seldom exceed 10 per cent. At that level, the protection enjoyed by the local producer is either too much or too little. A 10 per cent duty cannot neutralize any significant price differential between the local and the imported product. On the other hand, the symbolic existence of the duty prevents the producer from realizing that, from now on, he is on his own, and that he has to make his own adjustment, when facing normal competition from abroad.

In these circumstances the psychological obstacles to an acceptance of free competition over a wide range of manufactured products may prove to be less formidable than they appear, provided some time is allowed for adjusting to new conditions. The European experience may be interesting in this respect.

Industrialists who were violently opposed to moderate tariff cuts did not object to the idea of abandoning all protection against their most feared competitors, once they were assured that they would be able to hit back and to penetrate the markets of those competitors on equal terms. The elimination of tariff barriers inside the EEC and the EFTA went very smoothly; no exceptions were called for and little financial assistance was necessary except in the case of the Coal and Steel Community, where many structural changes were required.

Governments should seriously consider the possibility of accepting the principle of a gradual elimination of imported duties on manufactured goods originating in other industrial countries. The duration of the transitional period would have to be negotiated, but the operation might well be completed within ten to fifteen years. If that proposal were not acceptable as such, one might at least adopt it for all tariffs which do not exceed a given level, such as 10 per cent; for the higher tariffs, one might contemplate reductions spread over a period of (say) five years. At the end of the period the situation would be reviewed, and governments would decide what should be the target for the next period of five years, and so on.

Scope of the Negotiations

It is suggested that negotiations should take place only among industrial countries and other developed countries such as Australia and New Zealand. For the latter group of countries, special rules may be necessary in view of the dependence of these countries on the export of few commodities. Any benefit derived from the negotiations would of course be extended to other GATT Members through the most-favoured-nation clause and each country would remain free to extend them as it wished to non-GATT countries.

With respect to developing countries, two possibilities could be envisaged: either an agreement had been reached on a general preferential system and it would be easy to fit in with the present proposal; or no agreement would be in operation. In the latter case each participant would be entitled to accelerate the entry into force of the concessions negotiated to goods originating in developing countries and thus give them the benefit of preferences which will last until all concessions have been put into effect.

The main negotiation would be limited to manufactures, but negotiations on agricultural products will be conducted concurrently. Any participant would be entitled to make his acceptance of any agreement on manufactures dependent on a satisfactory outcome of the agricultural negotiations.

Negotiations on non-tariff obstacles would aim at matching concessions on a product-by-product basis wherever suitable, but efforts should also be made to draft one or more separate instruments which would contain recommendations on the elimination of certain types of obstacles, codes of conduct for the administration of certain regulations, norms or standards affecting trade, as well as an all-embracing Declaration of Intent which would constitute the legal framework for further action.

Ground Rules of Negotiation

The across-the-board method of negotiation, though imperfect, has proved to have more advantages than the traditional product-by-product bargaining technique. It is recommended that it be adopted in future negotiations.

One of the major defects of that method is the need to provide a special treatment for "sensitive industries" to which the normal linear cuts are not politically applicable. The solution adopted at the Geneva Conference was to exclude the relevant items from the negotiation altogether or to agree on a lower rate of reduction. The procedure of submitting lists and of holding consultation with exporting countries concerned was moderately successful, and did not prevent resort to bilateral bargaining along time-honoured lines.

Negotiators at any future conference might adopt a tough line and refuse to consider any exception; on the other hand, they may find it necessary to provide a set of rules to meet exceptional circumstances. One might envisage that if a negotiating partner proves, to the satisfaction of some neutral body, that it is essential, for reasons of national security, to maintain a line of production which cannot face normal competition, the normal rules for reducing or eliminating the protection granted through a tariff or otherwise would still apply, but the government concerned would be free to grant to the producer a direct subsidy of the same magnitude. This would have at least the advantage of reducing the price of the product to the consumer and of discouraging an expansion of the production beyond what is strictly required to safeguard national security.

If the rate of tariff reduction is fairly steep, it might also be necessary to contemplate other deviations from the normal rate of reduction. If, for instance, a negotiating partner was able to prove, to the satisfaction of the neutral body referred to earlier, that the rate of reduction is so rapid that the cost of adjustment for the producer or the economy at large would be unbearable, two alternative solutions might be envisaged:

(*a*) The reductions might be staggered over a longer period, e.g. over twenty years instead of ten, or

(*b*) A specific rate of reduction would be fixed for an initial period of, say, five years; a review would be held before the end of the period to decide whether during the following period the rate should be maintained, slowed down or brought up to the normal level.

Of course, these special rules would only be considered if the governments agreed on a fairly rapid process of tariff reduction and/or elimination. They would prove more satisfactory than the exclusion procedure adopted at the last Conference.

Non-tariff Barriers

International action by the OEEC and the GATT has led to the dismantling of most of the quantitative restriction on manufactured goods which industrial countries maintained immediately after the war for balance-of-payment or other reasons. Some restrictions are still in force, especially in the textile sector, but progress has been made lately, complaints from exporters in industrial countries are becoming less frequent. It may therefore not be unduly optimistic to hope that it would be possible to clear the decks at last if a new negotiating conference is convened in the near future. So far as restrictions affect agricultural products, they would have to be dealth with in the negotiations on agriculture.

However, quantitative restrictions do not represent the only non-tariff obstacles in force; a detailed classification of such obstacles is contained in formal or informal documents such as the ICI report. For some of them, governments agree that they constitute a real obstacle; in other cases, opinions differ widely, especially in the case of border tax adjustments and norms. In my opinion, it is essential first to strengthen the present legal basis for action. If that is not done before, the negotiating conference should adopt a declaration of intent, along the lines suggested on page 32 of the ICC report; this declaration should include a firm standstill provision and a commitment to consult bilaterally and through the GATT machinery in case of serious damage; it should record the readiness of governments to accept recommendations on specific classes of obstacles and to take the necessary action to supplement the existing commitments where appropriate.

In addition, negotiations should be staged to eliminate or control specific practices, and recommendations or supplementary provisions relating to non-tariff obstacles should be adopted during the conference.

Negotiations on Agricultural Products

In the opinion of exporting countries, the results achieved with respect to agricultural products during the Kennedy Round have not been very satisfactory. This was due to the basic disagreements which persisted concerning both the aims of the exercise and the means to attain these objectives.

The plain fact is that many governments, for political, social and economic reasons, are not prepared today to submit the producers of a number of staple agricultural products to any form of price competition from abroad. To achieve that result, governments resort to different techniques which have one thing in common. They give to the local producer the assurance that he will be able to dispose of all his crop—or, in certain cases—of quantities not in excess of a predetermined maximum, at a predetermined price, which is usually above world price; if the market does not absorb the products offered at that price, a governmental body takes the surplus off the hands of the producer and disposes of it, mainly abroad, at subsidized prices. For the foreign supplier, the nature of technique applied to achieve that result is immaterial; he tends to become a residual supplier and no marketing effort will enable him to get in unless and until the local supply is absorbed. Since tariffs do not determine access to the market, no tariff negotiations is meaningful. This is also true of other commercial policy measures as they simply reflect the basic domestic policies; in the case of quotas, however, supplying countries may negotiate for a bigger share of the cake, but total imports, if any, will remain at the same level; the bilateral agreements reflect a beggar-my-neighbour policy.

It was only at the time of the Kennedy Round that it was clearly realized that negotiations would have to bring in the domestic policies themselves. This new move met with strong objections as governments are not accustomed to discuss their domestic policies with their trading partners. In the course of the discussion one thing became clear, namely that products had to be considered separately and agreement should cover many aspects of the trading operations. The only agreement which was successfully concluded at that time concerned wheat. The new wheat agreement takes the form of a traditional commodity agreement which deals with price stabilization, but it contains, in addition, an arrangement for the delivery of wheat to developing countries on non-commercial terms. This addition was important, as it had the effect of ensuring to foreign suppliers a certain degree of access in some markets, especially that of the EEC.

Originally a more ambitious scheme had been envisaged. It was hoped that producing countries would accept some limitation in their freedom to operate their domestic agricultural policies; ingenious devices were suggested which unfortunately were not acceptable to a number of negotiators. Apart from the wheat agreement, some *ad hoc* arrangements were concluded on specific items at the Kennedy Round. Since that time some progress has been made in the case of powdered milk, but no other result has been announced.

Before resuming actual negotiations, the major governments concerned would have to reconcile their basic differences and agree on what they wish to achieve. There is little hope of making headway so long as attempts are made to ban this or that technique of protection, or to impose commitments on some producing countries while others are not required to assume similar obligations. No agreement is likely unless equality of treatment is accepted, both for governments and for techniques.

To be workable, any agreement would have to take into account the following factors: the level of the support price (or the difference between that price and the corresponding world price), the maximum quantities which can be produced (or the maximum quantities for which the support price will be paid) and a guarantee given to foreign suppliers that a minimum part of the market would be open to them (or that exports would not exceed a certain level). If a workable compromise on such a basis can be reached, export interests of countries concerned would be protected in a round-about manner and the problem of commerical policy measures as such would be of marginal importance.

On the other hand, if agreement on such a basis is not possible, there would be little change of a multilateral settlement; producers would conclude cartel-like arrangements to share the world markets. Some bilateral agreements could ease the situation, but it would be necessary to wait until a break-through becomes possible.

The only ray of hope is that over-production caused by excessive support prices is beginning to worry public opinion in a number of countries. The financial burden of disposing of surpluses is becoming excessive even for the Six. If support prices are revised downwards, the chances of resuming discussions would be greater.

Another problem which has cropped up in the course of negotiations is that of processed foodstuffs. A complicated system of levies is applied in the Community in order to compensate the processor for the higher cost of his raw material; the imported product has to pay a tax which varies continuously and may be changed at short notice. It should be possible to convince the Community to adopt a simpler formula, such as an ordinary duty, which would only be adjusted when the world price for the material has gone down (or up) by an agreed percentage.

Safeguards and Escape Clauses

If the general scheme which I outlined earlier is found acceptable, the level of protection (or, alternatively, the duty-free treatment) would not be modified so long as competition remains normal. However, producers could rely on prompt and effective assistance from their governments when they face unfair competition. Nor should they be expected to bear the brunt of increased competition if the price relationship between their products and those from abroad is distorted by balance-of-payment factors.

The present international rules allow governments to neutralize the effects of dumping practices and export subsidies on their domestic markets, and, subject to certain safeguards, to protect the interests of their suppliers in other markets in similar circumstances. They also provide an escape clause (familiar to the United States authorities) which enters into play when material injury is caused or threatened to local producers. Finally, remedial action is provided in the Cotton Textiles Agreement. The wording of these provisions is broad enough to enable governments to protect their producers against unfair competition on their own markets, although the system is less satisfactory when such competition takes place on other markets. In addition, no real solution has been provided to correct the effects of over-valuation caused by balance-of-payment difficulties, apart from waivers.

Apart from these unilateral measures, governments may recourse to conciliation and arbitration procedures if their expectations have been frustrated or the benefits negotiated have been nullified. These procedures are broad enough to meet all the circumstances which would arise; however, they have been resorted to only in a few cases. It would be useful to review the machinery which is far from perfect to give it more flexibility and to allow it to take preventive, rather than curative, measures. In the course of such review, it will be appropriate to redefine a number of concepts such as subsidies and market disruption.

Chairman Boggs. Mr. Slater; we will hear from you, now, sir.

STATEMENT OF DAVID W. SLATER, DEAN, SCHOOL OF GRADUATE STUDIES, QUEEN'S UNIVERSITY, KINGSTON, ONTARIO, CANADA

Mr. Slater. Thank you, Mr. Chairman and gentlemen of the subcommittee.

In your baseball teams, Mr. Chairman, you put the best part of the batting on in the first four places. I wish I had the skill of Ted Williams of old in batting fifth.

It is a pleasure to be here, and a privilege. Canadians have long admired—in fact, many of us have educated some nearly two decades' worth of students on the studies of the Joint Economic Committee and its subcommittees. So the work of the committee is well known.

The postwar record of economic growth, particularly of the OECD countries, has been very god indeed when set against the record of growth of the last century and a half. I believe that a major contributing factor to that growth has been the tremendous expansion of international trade and exchange in goods, services, people, ideas, technology, and organizational skills. World trade has grown, particularly in manufactured goods among the industrial countries, more rapidly than world output— reversing the longrun trend of decline in world trade compared with output which characterized the first half of this century. The rapid growth of world trade since the war has been facilitated enormously by the reductions of the barriers to international trade and finance and by the postwar international economic cooperation in monetary affairs, in trade policy, and so on. Of course, the prosperity itself has provided a favorable environment for an outward-looking expansive approach to international trade policy. But we should emphasize the contribution which the restoration of convertibility for current and capital purposes, the international monetary cooperation, and the reductions of trade barriers have made to our favorable growth experience.

While much has been accomplished in promoting international specialization and mobility of goods, ideas, people, and services, much yet remains to be done. In my view the area of trade policy in which very little has been accomplished is with respect to agriculture. It is quite notable that the growth of trade in agricultural products in relationship to world trade as a whole, and in relation to output or output of agricultural products has been notoriously slower than for manufactured goods. And while this is to some extent explained by the patterns of growth in consumption, demand, and technology, I think there is no doubt but what the continued very high level and complex structure of agricultural protectionism in many parts of the world—especially among the OECD countries—has been a major factor in the low level of agricultural specialization and trade. This has imposed colossal burdens on the developed world, with some incidence on all of the countries. Nowhere is this more clearly seen than in the estimates of the costs of Britain's joining the Common Market. The cost elements which stick out most clearly are that Britain would have to find a much larger proportion of its agricultural products for consumption from very highly protected areas within the then-expanded Common Market and a lower proportion from the rest of the world, with a notable increase in the real costs of agricultural products for Britain. I admit that my own country is by no means entirely free of agricultural protectionism. But I think that one of Canada's greatest disappointments in the postwar trade policy has been failure to reduce, indeed in some respects the actual increase, in the overall levels of agricultural protectionism throughout the world.

It is often contended that not much remains to be done in reducing tariffs and the protective elements, such as administration, valuation, and dumping duties, arising in the tariff area. I am personally convinced that much more remains to be done than is generally appreciated. First, our usual measures of height or tariff protection, refer to nominal rates and they tend to be biased notoriously in a downward direction by the schemes of weighting that are used to construct the overall averages. Second, the lesson of the effective protection concept has not yet been fully learned but it is clear that the protection of certain kinds of activities or stages of production is far in excess of that indicated by the nominal level of protection on the final products to which the sectors contribute. Third, there are some countries, including my own, which still have quite a large number of important rates of tariff which are at quite high levels. I believe that some efforts to systematically reduce the remaining elements of the older fashioned tariff and tariff-based protection ought to be part of any strategy or any agenda for future trade negotiations. It may well be that for some countries tariff reductions would be a substantial part of the package of bargains that they offer while for other countries tariff concessions might be a smaller part of the package.

I think a good deal of attention in future trade negotiations must be given to the detailed interventions by governments in their industrial and economic development strategies, and the mixtures of private and public interests, structures, and policies that are emerging in most national economic policy patterns.

In many countries governments are concerned with the attainment simultaneously, of an enlarged shopping list of economic objectives. They want not only high and stable levels of employment and ultization of output potentials and reasonable equilibrium in their balance of payments but also a series of objectives such as satisfactory growth rates, reduction in inequalities of opportunity, poverty programs, and so on. In addition, governments now have objectives with respect to regional economic disparities, limits on foreign ownership and foreign control in their economies, desirable patterns of industrial growth, et cetera. In attempting to attain these goals, governments are driven more and more to detailed programs of interventions with respect to specific objectives and specific means by which these may be attained, involving: for example joint public-private ventures, patterns of subsidization of particular private ventures, operations of state enterprises, adjustments in the patterns of regulations of industry and commerce, detailed work on the environment affecting the operations by private decisionmakers. It may well be that these interventions are mainly directed to finding policy means toward broad goals, but there is also the possibility that governments have very detailed objectives regarding economic structure in which the private sectors also have very considerable interests. Use of government purchasing policies, structuring of government credit policies, structuring of government taxation policies, development of government investment development corporations, the restructuring of patterns of support of research and development—all of these are becoming more commonplace. Almost inevitably these approaches to economic and social problems involve the government taking positions in relation to the structure of the foreign trade of a country. Governments are interested in promoting particular kinds of industry, in the face of foreign competition. It is very tempting for governments to use their policies of support to try and promote the enterprise or activity in which they have an interest. If governments become involved with arrangements to promote good business citizenship—of foreign-owned and controlled enterprises—and rules to govern the behavior of international companies, then almost inevitably a very considerable network of intervention and barriers will arise.

High on the agenda of future trade negotiations must be a very careful analysis of: (1) the way in which Government policies of industrial development are changing; (2) consideration of the implications of these for future trade developments and (3) the possibility of developing some sort of codes of behavior (and perhaps agreement on specifics) with respect to problems of detailed governmental development programs.

There is, of course, the problem of tackling the nontariff barriers of the more traditional type and of considering the discriminatory aspects of the tariff and nontariff barriers with respect to the economically poorer countries of the world. In Canada we are particularly concerned about the continued high level of barriers of a nontariff type which we encounter. It is not just that they are high but that they seem to get shifted around more frequently and perhaps somewhat more arbitrarily or somewhat more in response to the momentary squalls in economic conditions than tariffs or tariff barriers. One of the things that our people have argued for over and over again is that whatever is to be the set of trade barriers there is a lot to be said for there being some definiteness about them. We have argued for participation in programs in which we might go all the way to free access on many items. But we do so with an insistence that free access, if it is created, must have some certainty.

On trade discrimination against the poorer countries, one of my students has recently completed an interesting study. He shows that we have very little of the cruder forms of discrimination nowadays, whereby one set of tariff rates is applied to goods from a particular country and different tariff rates for the same goods from other countries, except for the EEC and remains of the BP system. But there is a possibility of considerable de facto discrimination. Some areas might be the major sources of particular commodities and other areas of other commodities. If the structure of tariff rates is different among commodities, it's possible that this will have an uneven incidence among the areas. The same points apply with respect to nontariff barriers. As far as the significance of these differences is concerned one has to go beyond the measures of height of tariff—to consideration of the effects. This in turn leads one to the consideration of the factors that determine whether the effect of a particular item will be large or small, seriously dilatorious or not. All I can say at this time is that there are indications of uneven burdens, some of which are too heavy and the effects of which are rather onerous on the poorer developing countries. There clearly is room for us to try to make some improvement in this respect, even if we didn't go all the way toward a substantial preference system.

I have read part 1 of your hearings, covering December 2, 3, and 4. At the risk of being utopian, I would like to add my mite of weight on the side of the multilateral freer trade angels, especially Prof. Dick Cooper, Sir Eric Wyndham-White, and Secretary Dillon. First, I regard as a most important item or precursor for the agenda of tomorrow on commercial policy to be the improved correction and the improved mechanisms for correcting balance-of-payments disequilibria. I strongly endorse efforts to provide increased availability and more appropriate use of the instruments of exchange rate flexibility. Second, I strongly endorse the slightly idealistic alternatives of major multilateral unconditioned MFN efforts to reduce trade barriers. I would hope that we could go to free entry for a larger part of world trade.

Regionalism, together with extensions of preferences to less developed areas which are contiguous—geographically, economically, linguistically, culturally, is rather tempting. It appears to be simpler to accomplish because it is direct and involves less diverse interests. It appears to be or may be made into a pattern by which trade policy "concessions" may be made among friends without either the clutter or "unfairness" of extending them to those who were not prepared to be friendly. It offers possibilities of promoting regional political interests. We all recall the early postwar arguments for bilateralism in trade arrangements. But we have to be firm in recognizing that regionalism is distinctly inferior economically to multilateralism economically; for the industrial countries and those which are less well developed, if good standards of efficiency, stability, rational economic flows of capital and goods and adjustment assistance can be obtained. And I suspect that it is inferior politically too.

Certain patterns of regionalism may be stepping stones to good multilateral achievement. But the latter will not be achieved without a powerful watchdog pointing to long-run international best interest in the multilateral alternative. GATT mainly supported in this work by the IMF, RIS, OECD, EEC, and EFTA and complemented (somewhat disappointingly) by UNCTAD is all we have. I would strongly urge that we build on this base of institutions, codes and relations—aiming for an ambitious, comprehensive trend of new commercial and industrial negotiations. While not having any doubt of the first best course, I share with Dick Cooper the view that NAFTA or AFTA, or OECD, FTA or some open-ended FTA approach is at least a second best negotiating route.

One final remark—one of my main worries is the intertwining of the forces of the neonationalism in many countries (especially concern over foreign ownership and control, multinational or international companies, extraterritorial application of the laws of countries) and older fashioned protectionism in times of economic overstrain. Some attention must be given to the direct investment question.

Thank you.

Chairman BOGGS. Thank you very much.

And I thank all the other members of the panel.

We will have a few minutes for discussion.

Mr. Rashish, do you have a question?

Mr. RASHISH. I would like to ask a question relating to an observation that Mr. Casserini made about the problems attendant upon the development of multinational corporations. I notice that none of the other panelists addressed themselves to this subject. Is this uniquely a preoccupation of the labor movement both domestically and internationally? Is is a phenomenon that challenges public policy with new issues and new problems, or is it an old story in new clothes? What is the nature of the subject, and what should we be doing about it?

Do you want to start, Mr. Casserini?

Mr. CASSERINI. Thank you very much for this question on the multinational corporations, which, of course, is getting special attention from the labor movement.

I mentioned in my statement that my organization, the IMF, has set up world councils for these international companies, for American corporations. Some of our efforts go along the lines of fair labor standards, which I have mentined here, and which we wish to see included in some trade negotiations and trade agreements. But we as trade unions can lead our own action, particularly with regard to multinational companies who have subsidiaries all over the continents and from one continent to the other. The world trade union councils on IMF have, therefore, designed programs of action within this structure of multinational corporations.

One aim is for us more than ever to coordinate collective bargaining policies, and to give emphasis to some specific claims, with the aim, of course, of bringing about some harmonization along the ideas I explained within the concept of the international fair labor standards.

The second line is to be taken is that we make efforts to coordinate the expiration dates of contracts which would permit us in negotiations with such companies to give greater weight to each other across the borders in collective bargaining.

A third solution would be, on a regional basis, to try to come to some international or regional contracts, collective bargaining contracts, which would in the beginning stipulate certain basic social conditions, embrace working hours, and provide safeguards on rationalization and the impact of international trade. These contracts could harmonize these social safeguards for the workers in the various subsidiaries belonging to the same multinational corporations. These are some of the things in regard to our own action that we could do as trade unions.

In your question you raise the problem whether this was a concern in other circles apart from trade unions. And I would stress that it is, and ought to be, one of the main concerns of government. Therefore in my statement I drew attention to the fact that today we know the development, where one government is practically outbidding another government by offering certain subsidies or other facilities to multinational corporations.

I think that more than ever there is a great necessity for governments to sit together. I would think, for instance, in the framework of the OECD, they should consult each other to investigate some of the investment currents and trends in sectors which are characterized by multinational companies. My organization went as far as to suggest in a resolution at our conference in Belgium for the steel industry, and also for the copper and aluminum industries, that OECD set up a group, a technical committee, and that such consultation would start at least in one sector of the multinational companies.

Thank you very much.

Mr. DIEBOLD. I do not think I used the term "multinational corporation," but I did speak a bit of how extensive foreign investment bears on trade policies and the development of what Judd Polk has called "international production," and touched on one or two of the questions, to which I have no answers, these raise about trade policies.

There are, of course, many other such questions. You asked whether the issues are old or new. I think it is a combination of both. After all, one of the old problems is that investment is responsive to trade barriers. The development of some industry abroad has followed that pattern, You want to jump over a barrier. It may be argued that if that was the dominant motive, the degree of liberalization that perhaps could be achieved in the next decade would all but eliminate that particular incentive.

We then come to the set of questions that Mr. Casserini touched on, that governments with industrial policies are also anxious to encourage one kind of industrialization or another, to see one kind of industry in certain places, and they therefore find themselves engaged through tax favors and through subsidies in some kind of trade-distorting arrangement.

Another one of the old problems is, of course, the conflict between trade legislation of different countries that affects American companies abroad, notably in trade with Communist countries and especially trade with China. There was, if I recall correctly, in your first set of hearings some discussion of this by Ray Vernon and Dick Cooper. And I think they made a great deal of sense on the problem.

And then there is the fact that we all talked about, the aim of trade liberalization not being simply to generate more trade, but to insure a better allocation of resources over as wide an area of the world as possible. To an important degree that is what the movement of capital and enterprise is about. I think one of the things we have learned is that direct investment is not just a capital movement, it is a movement of enterprise and any expansion and restructuring of production on an international basis.

The question arises, when you have relative freedom of trade, but various kinds of restrictions on investment, does this have to be considered along with your trade policy? I think the most obvious example before us is that in dealing with Japan, where automobile companies have felt that they wanted not just lower barriers to importers, but a greater ability to produce or assemble automobiles in Japan.

Another question concerns the ability—conceivable ability—of a very large multinational corporation to escape from national controls, because of its great flexibility and resources. Or is the real danger that of running up against national controls that make it less efficient in allocating resources than if it could operate with a world horizon?

I do not see how we are going to escape a whole range of those problems and I do not see simple solutions I would nail to the mast at this point.

Mr. Malmgren. Mr. Chairman, this question was dealt with somewhat in a number of places in my prepared statement. But with regard to the first point, the question of who is interested in this matter, I think it is quite clear that not only do we have labor interested in it—and I think that is evident in the Economic Policy Committee report of the AFL–CIO in the last 2 weeks—but also businesses.

For example, I recall in the meetings of the Presidential Advisory Committee drafting the Roth report which was submitted to the President in January of 1969, before the change of administration, that the group of businessmen—very distinguished corporate board chairmen and others—placed heavy stress themselves on this problem of sorting out the multinational business problems and relating them somehow to our national trade policy. Indeed, some of them felt that the whole manner of coordinating policy in the U.S. Government ought to be changed because of this one issue.

It is clear also that developing countries are getting quite exercised by this, because it seems to be out of their reach, the multinational corporations being many times the size of their whole economies.

Now, it is clear that plant expansion abroad in one place or another affects the pattern of trade. It affects the pattern of employment. The intra-company transactions are extremely large.

It is already well known that about one-quarter of the U.S. nonagricultural exports appear to move from American firms to their own subsidiaries. The placement of direct investments is a matter of internal decisionmaking. Yet the size of some of the major national companies dwarfs whole industries in other countries. The Government policies simply do not reach or control these kinds of decisions.

Now, it seems to me that the solution to many of the non-tariff-barrier problems will require opening up internal policies relating to large-scole production and marketing.

In the tax field the national tax policies clearly influence these goods. They also influence the flow of trade in prices and in quantity as the company finds room for maneuver in intercompany transfer. The basic corporate tax structure, and the adjustability of taxes at the border, all of these things are really part and parcel of the same problems.

This looks then to the kind of issues raised by Professor Vernon and Professor Cooper in the hearing in December. I think they put their finger on some key problems. Professor Vernon said at that point, I believe, that the issue is one of disentangling overlapping national jurisdictions, while at the same time finding some way to get some international understanding about reasonable regulations on the part of governments regarding their companies.

I call the subcommittee's attention to President Nixon's comment on this in the transmittal of the Trade Act of 1969, in which he said:

> Intense international competition, new and growing markets, changes in cost levels, technological developments in both agriculture and industry, and large-scale export of capital, are having profound and continuing effects on international production and trade patterns. * * * we must learn to treat investment, production, employment, and trade as interrelated and interdependent.

Mr. ROYER. Mr. Chairman, I would agree that if it is possible to liberalize trade further, the risk of artificial shifts of production from one efficient to a less efficient location would be greatly reduced, and this is one of the reasons why further action is required. So long as there are significant trade barriers, transfer of productive capacity often takes place simply in order to get around the trade barriers, but does not necessarily lead to a better allocation of resources.

Negotiations among developed countries would reduce and eventually eliminate this tendency and increase the positive influence of the multinational corporation. But I am not so sanguine about the position in developing countries. At the present time, governments of developing countries compete to attract investors, and particularly multinational corporations, leading to uneconomic shifts in production. In my opinion, this phenomenon is not limited to the activities of the multinational corporation; it is even more conspicuous in the case of state-owned or state-managed corporations in many developing countries. The interference of governments in the activities of major producing units may have as much relevance regarding the shifts in production as decisions taken by multinational corporations and have the same implications from the economies of traditional producers.

In many developing countries, producers as well as officials regard as dogmatic the principle that exporting at marginal cost is normal and that exporters are entitled to recoup their losses from the government as a matter of course. The methods applied are varied and subtle. For instance, in the case of a state steelmill, which had excess capacity, exports were made on the basis of marginal cost. The mill met its loss, partly by means of a direct state subsidy, partly by obtaining from the government exclusive rights to import steel products. By charging for those products what the traffic could bear, the local producer was able to continue its uneconomic export.

The legal status of the multinational corporation is also a very important question. As a result of conflicts between the legislations of the countries where the corporation is operating, difficulties arise which could hardly be eliminated in present circumstances. It may be necessary to work out a system which would grant an international status to such corporations, as is contemplated for the European corporations, define the rights and obligations vis-a-vis the host countries and divide the controlling responsibilities of these countries, that is, the country where the corporation is incorporated, as well as the countries where the corporation is operating.

Chairman BOGGS. Mr. Slater?

Mr. SLATER. Mr. Chairman, speaking from the point of view of a country which has the reputation or ill repute of having more foreign direct investment than any other country, I would just make two or three points.

First, it is very clear that there has been a distinct rise, a great strengthening of the concern about foreign ownership and control. And this has been partly a matter of, is the country getting a good bargain, does it have a sufficient control over the parameters of its own economic destiny, does this involve directly or indirectly breaches of the country's sovereignty. And this seems to build up and up and up.

Secondly, that the steps that seem to have been taken in many countries are, first of all, to regard certain segments of industry or commerce as crucial, in this case, financial institutions, and such like, so that limitations on foreign ownership control, banking, insurance companies, trust companies, financial companies, et cetera, are something which have been introduced.

Only recently have very substantial steps been taken in the direction of actively limiting the foreign ownership and control in various sectors.

The first thing I would say is, there is a love-hate relationship here. You have that investment and plant, et cetera, but you have some of the involvements.

Finally, to put this in connection with the general question of trade policy and perhaps to tie in with Mr. Royer's remarks, the problem of a country like Canada is that if it is going to have a decent level of productivity in relationship to the United States, we must have that because of the mobility of our people, and so on. Indeed, if we do happen to achieve levels of efficiency and large scales in some things, the only way we are going to do it is, in fact, by having external markets in which Canadian-based activity, where whoever owns it is participating effectively. So that if indeed what we want to promote is really good Canadian initiative in Canadian industry in a competitive world, the framework of favored trading environment, specially free access on a certain basis, is a slightly vital thing for many of the lines of economic development that we want to pursue.

Chairman BOGGS. Thank you very much, gentlemen. Unfortunately our time has run out. We will be very happy to have any supplemental statement you may care to submit for the record. And your full statements plus the additional material you left for the subcommittee will be included in the printed document.

The subcommittee will meet at 10 o'clock tomorrow morning in this room.

Thank you very much.

(Whereupon, at 12:20 p.m., the subcommittee recessed, to reconvene at 10 a.m., Wednesday, March 18, 1970.)

APPENDIX

(The following additional question asked by Representative Conable and answer thereto was subsequently supplied for the record by Mr. Royer:)

Question. You paint a rather complicated and not too sanguine picture of the prospects for agreement on further liberalization of trade barriers to agriculture, but you note (p. 7) that "the only ray of hope is that over-production caused by excessive support rices is beginning to worry public opinion in a number of countries." This would eventually lead, you suggest, to downward revision of support prices and the chances of resuming discussions on agriculture.

Could you comment on the extent to which our agricultural problems vis-a-vis the Common Market result from political, and not economic factors? Agriculture forms approximately 15% of the labor force of EEC countries, and such a segment can have considerable political power in those countries where the dominant political parties are fairly evenly matched. So long as the agricultural bloc remains strong, there is some reason for continuing high support prices and other measures which injure our ability to compete in EEC agricultural markets. This being the case, do you really believe there is any hope for any downward revision of support prices in the EEC?

Answer. The problems facing the U.S. as a result of the EEC common agricultural policy are political in so far as the agricultural policies of the EEC members, as well as those of other governments, are dictated by political and social considerations. It is mainly for political reasons that governments decide to maintain the average income of their farmers at a level which is not too strikingly lower than that of other citizens. As the present structure of production in practically all—if not all—industrial countries, and many developing countries would not allow this objective to be achieved if foreign price competition is allowed, governments simply do not allow such competition.

Farmers in the EEC as in other industrial countries exert a political influence which is out of proportion with their numbers. In addition, all parties in Europe support demands by farmers or, rather, would not dare to oppose such demands; this is true even of parties which should normally support the views of consumers.

Finally, public opinion generally considers that farmers are entitled to a decent income and that their plight is not due to any fault of theirs and is sentimentally attached to the country way of life which, in their view, should be preserved.

For these reasons, it seems unlikely that, so long as the structure of production remains as it is, farmers' demands would be ignored or resisted, so far as prices are concerned. When the French franc was devalued, the agricultural prices in the EEC were not reduced, but the increases in Francs were staggered over a short period. When the Deutsche Mark was revalued, the German farmers resisted any reduction in their prices, so that, in dollar terms, these prices were raised. The U.K. Government has accepted a policy of selective expansion of production which will lead to price increases.

On the other hand, the cost of the EEC common agricultural policy is becoming very burdensome. From about 2 billion dollars in 1968/69, the annual cost of the guarantees (half for export subsidies and half for purchases on the home market) is expected to exceed 3 billions and a quater in 1975 if nothing is done about it in 1975. Because of the huge expenditure involved and because the interests of the individual EEC members are far from similar, I would think that governments will be obliged eventually to revise their support prices downward, Politically, the national governments would be in a position to invoke the Community authorities to justify decisions which would be unpopular, but which are necessary to keep the EEC together.

Finally, the EEC is committed to a policy of structural change which would make European agriculture more competitive. This would enable governments to bring down their support prices. Whether a competitive agriculture in the EEC would improve the chances of bigger exports from the U.S. is a moot point, but in any case the progress would be slow as the new structure would maintain a very small proportion of producers on the farm and possibly 80 to 90% of them would have to be absorbed by other economic sectors.

A FOREIGN ECONOMIC POLICY FOR THE 1970'S

WEDNESDAY, MARCH 18, 1970

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

The Subcommittee on Foreign Economic Policy met, pursuant to recess, at 10:05 a.m., in room G-308, New Senate Office Building, Hon. Jacob K. Javits (member of the subcommittee) presiding.

Present: Senators Javits and Percy; and Representative Conable.

Also present: John R. Stark, executive director; John R. Karlik, economist; Myer Rashish, consultant; George D. Krumbhaar, economist for the minority; and Thomas B. Curtis, vice president and general counsel, Encyclopaedia Britannica, Inc., and former Member of Congress.

Senator JAVITS (presiding). The Subcommittee on Foreign Economic Policy will come to order.

The Chair wishes to make a brief opening statement.

This is the third session in the hearings currently being conducted by this subcommittee to investigate and inquire into the U.S. trade policy toward the developed countries. In the first 2 days we dealt with economic regionalism, and the forecast for future trade negotiations. We have now heard testimony on the implications of the enlargement of the European Economic Community and what should be fundamental objectives of the United States in future trade negotiations.

Today we will be concentrating more specifically on major issues in U.S. trade policy.

Our panel today is very thoroughly oriented into the details of these issues. And we are very grateful to you gentlemen—I know I speak for our chairman—for your presence here today.

He has asked me to preside only because of his problems at the time.

Our witnesses are Mr. Nathaniel Goldfinger, an economist and director of research for the AFL-CIO; Prof. Irving B. Kravis of the University of Pennsylvania; Mr. Lawrence C. McQuade, president of Procon, Inc., and formerly Assistant Secretary of Commerce for Domestic and International Business; Mr. Eugene L. Stewart, general counsel of the Trade Relations Council of the United States, Inc.; and Mr. Charles E. Swanson, president, Encyclopaedia Britannica, Inc., and member, Emergency Committee for American Trade.

Representative Hale Boggs, who should have presided today, has been required to participate in an urgent caucus of the Democratic

Members of the House, and bids me on his behalf, as I am the ranking member, to make you welcome.

Now, I will call on Senator Percy who wishes to introduce one of the witnesses.

Senator PERCY. Mr. Chairman, I appreciate very much the opportunity to introduce the only constituent that I have on the panel today. But we have a very distinguished panel, and they will speak on a subject of great importance to the economy of this country and our position in the world today.

I ask for the privilege of introducing Charles Swanson, not only because he represents a company, the Encyclopaedia Britannica, whose world headquarters is in Chicago, but also because of the spirit behind that company for years. The head of Britannica has been former Senator Benton, who was a Member of this body, and who is also a trustee of the University of Chicago.

The university has had a unique relationship with the Encyclopaedia Britannica. Without their income I do not know how we could have survived as a university and maintained the standard of excellence that we try to achieve. But as president of the Encyclopaedia Britannica and representing the Emergency Committee for American Trade, I think it will be very important for Mr. Swanson to point out the nature of trade in the world today as this worldwide organization sees it and America's role in that trade.

And to the members of this panel I would not have to introduce our chairman, other than to say that from my own standpoint, equally believing in the liberal trade policy of this country as being a measure of national security, we could not have a more knowledgeable, enlightened, and tenacious fighter for enlightened trade policy than we have in the chairman.

So with the combination of a fine panel and a distinguished chairman, I look forward to reading the proceedings. But my duty calls me to be with Arthur Burns upstairs at this point. So I am very happy to have a chance to introduce Mr. Charles Swanson.

Senator JAVITS (presiding). Thank you very much.

Senator PERCY. Mr. Chairman, may I have consent to introduce Mr. Swanson's biography in the record?

Senator JAVITS (presiding). Without objection it is so ordered. The biography is received.

(The biography of Mr. Swanson, referred to for inclusion in the record, follows:)

BIOGRAPHY OF CHARLES E. SWANSON

Charles E. Swanson became President of Encyclopaedia Britannica, Inc., in 1967 at the age of 39 after serving in various executive positions within that company.

He joined the company in 1962 at its Chicago headquarters as Director of Administration/International Operations with responsibility for the company's worldwide operations.

In early 1964 Swanson was elected Vice President/International. Later that year he was elected Managing Director of Encyclopaedia Britannica of Canada Ltd. at which time he assumed full responsibility for Canadian operations. He developed a management team which successfully turned the operation around to where it now contributes significantly to the total Britannica profitably.

He was elected Executive Vice President of Encyclopaedia Britannica, Inc., in 1966.

Swanson is an engineering graduate of Northwestern University and holds a master's degree in business administration from The University of Chicago.

Prior to joining Encyclopaedia Britannica, Mr. Swanson was a principal with Arthur Young & Company, and was with the Curtiss-Wright Corporation and the Elgin National Watch Company.

Senator JAVITS (presiding). Gentlemen, each of the statements you have submitted will be incorporated in the record in full without objection.

I would greatly appreciate it, and it would facilitate our work tremendously, if we could have a presentation of the essential elements of your statement from each of you in 10 minutes. We do not have to strictly adhere to that, but I would greatly appreciate it, as there are five members of the panel, and our time this morning is not as long as we would like.

If there is anything left undone after that, and the questioning, we will worry about that at the end of the time. And so we will start with Mr. Swanson.

STATEMENT OF CHARLES E. SWANSON, PRESIDENT, ENCYCLOPAEDIA BRITANNICA, INC.; MEMBER, EMERGENCY COMMITTEE FOR AMERICAN TRADE

Mr. SWANSON. Thank you, Chairman Javits, and members of the subcommittee. I am pleased to have this opportunity to testify during your hearings.

Chairman Boggs has indicated that today the subcommittee plans to discuss the question of what kind of trade policy the United States should pursue in the decade of the 1970's according to its own national interest.

As an educational publisher, a businessman, and as a member of ECAT—the Emergency Committee for American Trade—I have a deep interest in the question posed by the chairman, because its resolution will have an important impact on the free flow of trade, and of ideas.

I do want to point out that I am not testifying as an authority on international trade or economics. Other representatives on the panel are far more qualified in those areas. In addition, Mr. Arthur K. Watson, chairman of the board, IBM World Trade Corp., and also the founder and first chairman of ECAT, previously testified before this subcommittee and strongly supported the concept of freer trade.

Thus, I shall try to provide some insights to the effect of free trade on the Britannica and the publishing industry, and shall comment on some of the trade problems that I envision for the 1970's.

The Britannica, which was founded in 1768 in Edinburgh, Scotland, has been American-owned since 1901 and has a long tradition of participation in world trade. You might look on the Encyclopaedia Britannica as an "early import."

Free trade has been a dynamic force in the development of our company. Britannica and other publishers of educational material have experienced firsthand the benefits of free trade. We have benefited from the Florence Agreement, which was originated in UNESCO and opened for signature in 1950. This agreement is adhered to by more than 59 contracting states and provides duty-free regulations for educational, scientific and cultural materials, primarily printed matter and scientific instruments.

Other companies engaged in the export of educational products have benefited by the Beirut agreement, which provides duty-free regulations for audio-visual material for educational purposes—primarily, films, filmstrips, cassettes, electronic tapes, sound recordings, and the like.

Although the necessary enabling legislation was not enacted by Congress until the late 1960's, our adherence to the rationale of these agreements contributed greatly to the increased flow of educational materials between the United States and other countries. The implementation of these agreements has given an additional impetus to the flow of these materials.

I am pleased to point out that former Senator William Benton, chairman and publisher of Encyclopaedia Britannica, and former Congressman Thomas Curtis, now our vice president and general counsel—who is here today—both played important roles in the passage and implementation of the Florence and Beirut agreements.

In the last 12 years the imports of books have risen from $15 million to more than $70 million. Exports from the United States in this same time period increased from $36 million to more than $165 million. Although the gross dollar figures in the audiovisual field are much less than those for books and printed materials, the ratio of our exports of these materials to our imports is even more dramatic. It is in the order of 10 to 1.

Just as the free flow of ideas in the 18th century led to the spread of the industrial revolution, the free flow of educational materials in the 20th century is contributing to another worldwide change, the economic improvement and social development of numerous nations.

There is a strong, close bond between education and economic development. Education is a catalyst for development, a key to progress. It helps prepare people for the complicated and sophisticated roles they must play in the more industrialized society of a developing country. Illiteracy, as we all know, is a brake on such economic and social progress. The free flow of books, like many other products of free trade, is helping developing nations become sustaining nations.

Britannica has subsidiaries in 39 countries. In another 116 countries we are represented by distributors. The sale of our publications outside the United States, in these 155 countries, represents approximately 50 percent of our volume.

In all of these nations Britannica publications are sold in the English language, even where English is not the spoken language. The free flow of our English language publications to other countries has encouraged us to enter new areas of publishing. Where the economy has permitted and the government has encouraged, we have expanded within the educational publishing market.

We have entered into cooperative publishing agreements, translated publications, developed learning programs, and reprinted books. These activities have helped to improve the educational standards in these various countries and have provided an impetus to developing nations to expand their roles in the free trade marketplace.

In conjunction with our Latin American distributor we developed and published a Portuguese language encyclopedia in Brazil in 1964.

This set of reference books was prepared, edited, manufactured and sold in Brazil.

We exported certain "know-how" and expertise in publishing encyclopedias and we provided overall guidance and financial support to the project.

Most importantly, this joint effort is now providing employment to some 1,500 Brazilians. Equally important, these people are now in a better position to acquire U.S. exports.

While in Brazil last year I had the opportunity to discuss trends in education with leading Brazilians. I was impressed, as I have been in other countries, that many foreign leaders look to the United States to set future patterns in education.

Dr. Emil Farhat, a noted Brazilian author who criticized previous Brazilian Governments for failing to take action where needed to improve education, indicated that Brazil is now adopting many of the recent educational developments in the United States. He was highly optimistic regarding the future of Brazil, because the Government has taken action and is pouring funds into education.

The Brazilian Minister of Education, Mr. Tarso Dutra, confirmed that the Government is putting tremendous sums into their educational program. He said that in some areas, as much as 30 percent of the budget is going for education.

Both of these men were high in their praise of our Portuguese encyclopedia and were appreciative of the contributions this new publication has made, and is making to their country. We consider this another example of trade partnership.

It is impossible to measure in tangible terms the contributions that our Portuguese encyclopedia has made to Brazil. Yet I returned from that country with a very warm, satisfying feeling—pleased that we had in some small way made a genuine contribution to the education and future well-being of an untold number of Brazilian children.

I do want to add that this entire activity is a viable business. We and our distributor are earning profits and consider the venture a commercial success.

In Japan we have experienced a spectacular sales growth in recent years. Many factors have undoubtedly contributed to this succcess. The economy in Japan has been booming. The Japanese have a tremendous desire to expand their knowledge. Thanks to a practice instituted during the occupation following World War II, most Japanese students take English as a basic course of study for 6 years. Add to this American experience in management and marketing, and the result is a significant increase in sales. We now sell more sets of Encyclopedia Britannica (in English) in Japan, than in any other country outside the United States.

In addition, we have translated some of our other works into Japanese. For example, our Science Yearbok is now being translated into Japanese and will soon be available for sale in that country. The basic effort of producing these educational materials is undertaken in the United States, and jobs are created here for that purpose. Unfortunately our export statistics do not fully measure the value of this export of "intellectual input." We do the editorial work in this country and send the manuscripts to Japan where they are translated into Japanese, printed and sold to people who are most anxious to learn from American experience.

This experience has led us into a joint venture with the Tokyo Broadcasting System to publish a new international Japanese language encyclopedia. Again, we are exporting intellectual input, which is the base for preparing this new encyclopedia. We believe this will prove to be a most rewarding project—beneficial to both companies and both countries—and that there will be even more areas for cooperation and growth.

At the same time, our English language publications are strengthened, as a result of these new relationships developed in Japan. The feedback of information from Japan has increased and permits us to improve and increase the coverage of subjects on that part of the world, in the Encyclopedia Britannica.

We have learned that as the economy in Japan has been rising, the living standards of the Japanese have risen, and the average family in Japan has become more of a consumer of U.S. exports.

I believe these examples serve to illustrate the importance of international trade to our company. Similar results can be cited by other American publishers, who have ventured outside the United States, too.

Through all of this, we, in the United States, have not lost jobs, nor have we exported them—instead we have opened new jobs in our country and abroad. In addition, we have given other nations encouragement and assistance in broadening their educational, economic, and social horizons. In a world which is hungry for more education, in a world in which understanding is needed for peace, the free flow of ideas, and the free flow of goods and services, tend to benefit all over the long pull.

It is clear to me that the benefits derived from free trade have been of great importance to our company and industry—and our national interests. I believe such freedom would benefit other sectors of the economy were tariffs and other obstacles removed.

Before looking to the 1970's, I want to point out that the members of ECAT are practical businessmen. They are not free trade theorists. They believe in expanding trade—under fair rules of competition—but not in a visionary policy of totally free trade.

They believe that the reciprocal trade program of the United States is entirely consistent with the principles of the free enterprise market economy.

They believe that trade expansion means increased sales and profits and lower unit costs, that it means job opportunities for all American workers, that it fights inflation and that it is an essential spur to the technological advancement upon which America's economic progress so heavily depends.

The members of ECAT realize that the peaceful expansion of world trade is threatened from many sources. They have called for international agreements to deal with unfair trade practices. They have encouraged businessmen overseas to support policies that assure fairer treatment of American goods in foreign markets.

In trying to look to the 1970's I anticipate that there will be at least three significant trade areas which will deserve action:

1. We will need to find ways to reduce restrictions on capital flows to foreign countries. Our exports, particularly our services, which in an advanced economy become increasingly a bigger factor than goods, are tied with our foreign investments. Capital investment, financing, and

a developing international monetary system will be an important focus point of international trade and development.

2. The interplay of foreign trade with foreign aid will need to be accentuated. It would appear that the developing nations will increasingly replace aid with trade. I am hopeful that this will hold down or reduce our foreign aid budgets. At the same time, this transition may create adjustment problems for our domestic economy. These adjustment problems, however, are no different from those created by our own technological advancement and will be with us under any circumstances.

3. I anticipate that "fair trade" will become a more significant term than "free trade" in the 1970's. Now that tariff schedules are relatively low, nontariff trade barriers loom more menacingly. We will need to bring about international harmonization of health, safety, conservation, antitrust, patent, copyright, Government procurement laws and practices, et cetera. In these areas and that of Government subsidies lie the origin of unfair nontariff trade barriers, which will pose new and different problems. It is likely that new governmental machinery, both in Washington, D.C. and in international agencies (such as OECD, GATT, UNCTAD, the World Bank group, and the IMF), will be needed to cope with these problems.

Mr. Chairman, I hope these comments will be of assistance to your committee in formulating new trade policy for the 1970's. The United States has been the leader in free trade, and future initiative most likely must come from our country. I thank you for this opportunity to testify and wish you success in achieving your objectives.

That completes my statement, Mr. Chairman.

Senator JAVITS (presiding). Thank you very much, Mr. Swanson.

The Chair recognizes on behalf of the subcommittee the presence of former Congressman Tom Curtis, now a high official of Encyclopaedia Britannica, who was a ranking member of the House Ways and Means Committee, and one of the most distinguished authorities ever to serve here in the Congress on trade.

Congressman Curtis, is there anything that you wish to add to that?

Mr. CURTIS. Yes. I want to thank you, Mr. Chairman, for being permitted to sit up here. It is a pleasure to be back. And I am most anxious to hear this distinguished panel, some of whom I recognize.

Senator JAVITS (presiding). Thank you very much, Mr. Curtis.

Before calling our next witness we will place in the record at this point the prepared statement of Mr. Charles E. Swanson for inclusion in the transcript.

(The prepared statement of Mr. Swanson follows:)

PREPARED STATEMENT OF CHARLES E. SWANSON

FREER TRADE: PARTNERSHIP FOR PROGRESS

I. WHY FREER TRADE

History affords us some insight into the question of whether the United States benefits from a freer trade policy.

The Smoot-Hawley Tariff Act of 1930 established the highest tariff in our history, averaging 60% of the value of dutiable imports. Its avowed purpose was to protect our industries. Other nations, equally anxious to protect their industries, retaliated with tariffs and other trade restrictions in self-defense. By 1932 the volume of our exports had dropped to 53% of their 1929 level. According to a League of Nations study, the United States experienced a greater decrease in exports than that of any other major trading country.

As a reaction to this situation, the Congress re-embarked in 1934, with the passage of the Trade Agreement Act, on a freer trade policy. Since that time, the United States has successfully and profitably pursued an international trade expansion program in which it buys from and sells to the rest of the world—to the benefit of everyone in this nation. It has been a true non-partisan policy, supported by every administration—Democratic and Republican alike.

Since 1938, the value of free world trade has increased from $20.8 billion to an estimated total of $237 billion in 1969. In the last decade alone there has been an increase of $135 billion in worldwide trade. In the fourth quarter of 1968, the seasonally adjusted annual rate of total exports and imports, including services, exceeded $100 billion for the first time in our history. (See Exhibit A, p. 324.)

We in this country can trace more than 3½ million jobs to exports. In some industries exports account for more than one of every ten jobs. In industries such as construction and mining machinery, they account for one of every four jobs.

Our best records indicate that there are between 14,000 and 16,000 U.S. companies actively engaged in exports alone. About 700,000 export declarations go through the Commerce Department each month, indicating plans to export.

Recently, the Research Institute of America surveyed 1,000 of its members doing business abroad. Three out of five members reported they are engaged in exporting or selling goods for export. One out of five firms derives some income from foreign licensing or patents, trade names or copyrights. Nearly as many companies receive income from owned or affiliated corporations abroad.

According to Nation's Business, these findings also show that: (1) a very substantial segment of the increase in U.S. operations abroad represents entry of medium and smaller companies into the foreign market, and (2) companies operating successfully in foreign markets gain a competitive edge at home.

Freer trade has also had another important aspect—the direct investment abroad by multinational companies and the development of new business in these countries. The book value of these investments at the end of 1969 was more than $65 billion and sales developed by these foreign subsidiaries were approximately $100 billion. In 1969 more than $5 billion was returned to this country as earnings on these investments. These receipts have increased over 50% in the last five years, and by 1975 are estimated to reach $11 billion. The total sales volume of these foreign subsidiaries, according to the Census Bureau, already exceeds the volume of U.S. exports, and, in fact, is growing at a much faster rate. This is where free trade partnership takes on even greater meaning for progress.

Unfortunately, the surplus of our traditional balance of trade in goods and services has diminished despite these increases, a fact that was recognized by President Nixon in his recent foreign trade message to Congress.

He warned that if we try to restore our surplus by cutting imports, we would be inviting foreign reaction against our exports. Both sides then would begin losing the benefits of freer trade which have developed during the past thirty-five years.

Freer trade is also important because it fosters competition, the key to efficiency and better products and lower prices for the U.S. consumer. Competition increases incentives to modernize, to cut costs, to increase productivity and output—the essential underpinnings for our high standard of living and wages.

For highly technological companies and industries, world markets are needed to help them remain competitive. World market sales frequently make the difference between high cost production and production sufficient to achieve certain economies and, therefore, markedly lower costs.

The answer is to aggressively open markets to industries where we have the advantage—to trade upwards. We can do it, for there is not an industrial system anywhere that matches our efficiency and sophistication. No other nation has workers with the training, education, and productivity of the American worker.

The President, in his Economic Report to Congress, explained how a policy of trade restriction would add to domestic inflation and jeopardize our competitive position in world markets at the very time that increased world competition makes it imperative that we heighten our competitive capabilities.

"Imports," he said, "are the fruits of international trade and exports are what must be given up to obtain them."

He went on to say that "Our goal is an open world. Trade is one of the doors to that open world. Its continued expansion requires that others move with us and that we achieve reciprocity in fact as well as in spirit."

Freer trade is an integral part of our resource conservation goal, and we in the United States must continue to take the lead, as we did in the Kennedy Round, in establishing the reality of lowered trade barriers.

Freer trade works in the direction of allowing nations to exchange those products for which they have relative producing advantages, thereby allowing the more efficient use of domestic resources, With world economic resources becoming increasingly scarce, their efficient use through international trade becomes all the more necessary and a matter of both world and economic policy.

II. FREE FLOW OF IDEAS

The Britannica, which was founded in 1768, in Edinburgh, Scotland, has been American-owned since 1901 and has a long tradition of participation in world trade. You might look on the Encyclopaedia Britannica as an "early import".

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Just as the free flow of ideas in the 18th century led to the spread of the industrial revolution, the free flow of educational materials in the 20th century is contributing to another worldwide change, the economic improvement and social development of numerous nations.

There is a strong, close bond between education and economic development. Education is a catalyst for development, a key to progress. It helps prepare people for the complicated and sophisticated roles they must play in the more industrialized society of a developing country. Illiteracy, as we all know, is a brake on such economic and social progress. The free flow of books, like many other products of free trade, is helping developing nations become sustaining nations.

We all know the importance of English as a language of free trade. English, one of the languages of the United Nations, is becoming the language of scholars, the language of scientists, the language of medicine, and, in effect, the secondary language of many people around the world.

Former Senator William Benton, our chairman and publisher for the past 27 years, has been largely responsible for our international growth and development. As a Senator, as Assistant Secretary of State, and still today, he is a free trade advocate.

Britannica has subsidiaries in 39 countries. In another 116 countries we are represented by distributors. The sale of our publications outside the United States, in these 155 countries, represents approximately 50% of our volume.

In all of these nations Britannica publications are sold in the English language, even where English is not the spoken language. The free flow of our English language publications to other countries have encouraged us to enter new areas of publishing. Where the economy has permitted and the government has encouraged, we have expanded within the educational publishing market.

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Dr. Emil Farhat, a noted Brazilian author who criticized previous Brazilian Governments for failing to take action where needed to improve education, indicated that Brazil is now adopting many of the recent educational developments in the U.S. He was highly optimistic regarding the future of Brazil, because the Government has taken action and is pouring funds into education.

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We also publish a Spanish-language encyclopaedia, which is distributed in Mexico and Spanish-speaking countries of Latin America.

We are also in the process of publishing an entirely new French-language encyclopaedia on a joint venture basis with a French company.

In Japan we have experienced a spectacular sales growth in recent years. Many factors have undoubtedly contributed to this success. The economy in Japan has been booming. The Japanese have a tremendous desire to expand their knowledge. Thanks to a practice instituted during the occupation following World War II, most Japanese students take English as a basic course of study for six years. Add to this our American experience in management and marketing, and the result is a significant increase in sales. We now sell more sets of the *Encyclopaedia Britannica* (in English) in Japan than in any other country outside the United States.

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We have learned that as the economy in Japan has been rising, the living standards of the Japanese have risen, and the average family in Japan has become more of a consumer of U.S. exports.

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It is clear to me that the benefits derived from free trade have been of great importance to our company and industry—and our national interests. I believe such freedom would benefit other sectors of the economy were tariffs and other obstacles removed.

III. FREER TRADE IN THE 1970S

Before looking to the 1970s, I want to point out that the members of ECAT are practical businessmen. They are not free trade theorists. They believe in expanding trade—under fair rules of competition—but not in a visionary policy of totally free trade.

They believe that the reciprocal trade program of the United States is entirely consistent with the principles of the free enterprise market economy.

They believe that trade expansion means increased sales and profits and lower unit costs, that it means job opportunities for all American workers, that it fights inflation and that it is an essential spur to the technological advancement upon which America's economic progress so heavily depends.

The members of ECAT realize that the peaceful expansion of world trade is threatened from many sources. They have called for international agreements to deal with unfair trade practices. They have encouraged businessmen overseas to support policies that assure fairer treatment of American goods in foreign markets.

I anticipate that there will be at least three significant trade areas that will deserve action in the 1970s:

1. We will need to find ways to reduce restrictions on capital flows to foreign countries. Our exports, particularly our services, which in an advanced economy become increasingly a bigger factor than goods, are tied wtih our foreign investments. Capital investment, financing, and a developing international monetary system will be an important focal point of international trade and development.

2. The interplay of foreign trade with foreign aid will need to be accentuated. It would appear that the developing nations will increasingly replace aid with trade. I am hopeful that this will hold down or reduce our foreign aid budgets. At the same time, this transition may create adjustment problems for our domestic economy. These adjustment problems, however, are no different from those created by our own technological advancement and will be with us under any circumstances.

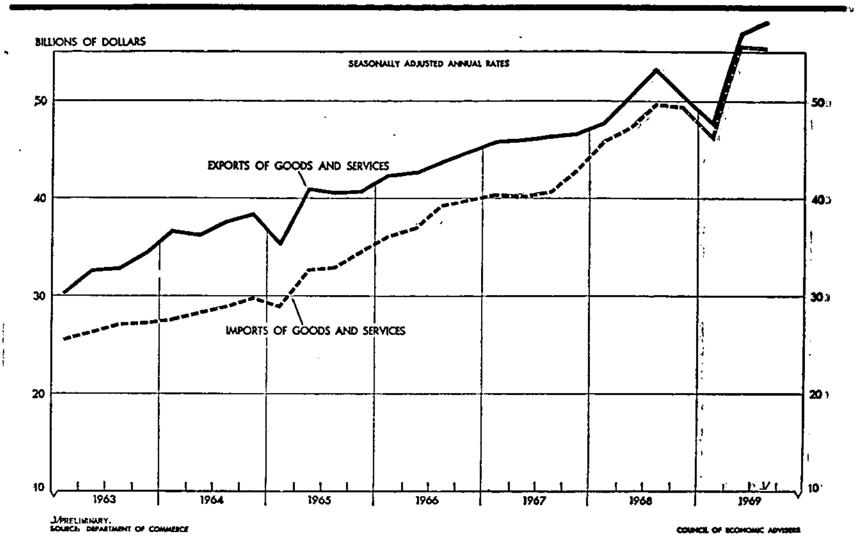
3. I anticipate that '"fair trade" will become a more significant term than "free trade" in the 1970s. Now that tariff schedules are relatively low, non-tariff trade barriers loom more menacingly. We will need to bring about international harmonization of health, safety, conservation, antitrust, patent, copyright, government procurement laws and practices, etc. In these areas and that of government subsidies lies the origin of unfair non-tariff trade barriers, which will pose new and different problems. It is likely that new governmental machinery, both in Washington, D.C., and in international agencies (such as OECD, GATT, UNCTAD, the World Bank Group, and the IMF), will be needed to cope with these problems.

Mr. Chairman, I hope these comments will be of assistance to your Subcommittee in formulating new trade policy for the '70s. The United States has been the leader in free trade, and future initiative most likely must come from our country. I thank you for this opportunity to testify and wish you success in achieving your objectives.

(EXHIBIT A)

U.S. EXPORTS AND IMPORTS OF GOODS AND SERVICES

There was a merchandise surplus of $1.8 billion (seasonally adjusted annual rate) in the fourth quarter, as exports grew more rapidly than imports.



[Millions of dollars]

Period	Exports of goods and services: Total	Exports: Merchandise [1]	Exports: Military sales	Exports: Income on investments: Private	Exports: Income on investments: Government	Exports: Other services	Imports of goods and services: Total	Imports: Merchandise [1]	Imports: Military expenditures	Imports: Other services	Balance on goods and services
1964	37, 271	25, 478	747	4, 930	456	5, 659	28, 691	18, 647	2, 880	7, 164	8, 580
1965	39, 399	26, 447	830	5, 384	509	6, 230	32, 278	21, 496	2, 952	7, 831	7, 121
1966	43, 360	29, 389	829	5, 659	593	6, 891	38, 081	25, 463	3, 764	8, 854	5, 279
1967	46, 188	30, 681	1, 240	6, 234	638	7, 394	41, 011	26, 821	4, 378	9, 813	5, 177
1968	50, 594	33, 598	1, 427	6, 934	765	7, 871	48, 078	32, 972	4, 530	10, 577	2, 516
1969 p	-------	36, 484	------	------	------	------	-------	35, 810	------	------	------
	Seasonally adjusted annual rates										
1968: II	50, 672	33, 580	1, 412	7, 072	820	7, 788	47, 308	32, 524	4, 464	10,320	3, 364
III	53, 376	35, 516	1, 624	7, 312	848	8, 076	49, 740	34, 264	4, 572	10,904	3, 636
IV	50, 612	33, 532	1, 456	7, 108	560	7, 956	49, 408	33, 832	4, 676	10,900	1, 204
1969: I	47, 652	29, 912	1, 672	7, 544	936	7, 624	46, 200	30, 316	4, 816	11, 096	1, 452
II	56, 980	38, 396	1, 336	7, 672	932	8, 688	55, 768	38, 396	4, 832	12, 572	1, 212
III	58, 192	38, 320	1, 684	8, 444	984	8, 840	55, 248	36, 972	4, 792	13, 528	2, 944
IV p	-------	39, 308	------	------	------	------	-------	37, 556	------	------	------

[1] Adjusted from customs data for differences in timing and coverage.

NOTE.—Merchandise exports and imports (p. 24) have been revised beginning with 1969, first quarter, and balances (p. 25) for 1969, third quarter. Other detail on these two pages for 1969 will be revised in the *Survey of Current Business*, March 1970.

Source: Department of Commerce.

Source: Economic Indicators, February, 1970, prepared for the Joint Economic Committee by the Council of Economic Advisers.

Senator JAVITS (presiding). Our next witness is Eugene L. Stewart, general counsel of the Trade Relations Council of the United States, Inc.

The Chair wishes to state that, if the witnesses do not mind, I will tell them when the 10 minutes have expired, with the hope that they will bring their testimony to a close as quickly as possible thereafter. And questions will be reserved until the panel is finished.

STATEMENT OF EUGENE L. STEWART, GENERAL COUNSEL, TRADE RELATIONS COUNCIL OF THE UNITED STATES, INC.

Mr. STEWART. Thank you, Mr. Chairman and members of the committee.

I am Eugene Stewart, the general counsel of the Trade Relations Council of the United States. This is a trade association that broadly represents U.S. manufacturing industries.

In recent years the council's activities have been directed primarily to constructing a computerized data bank into which all of our Government statistics on U.S. employment, output and foreign trade of manufacturing industries is inserted, so that an attempt can be made to balance the employment effects of foreign trade to see what they are, and to entertain the hope that with this knowledge thus made available the policymakers in and out of Government can arrive at sounder conclusions.

I have with me today, Mr. Chairman, a copy of our latest study which was published a year ago. I do not expect it, of course, to be published in the record of the hearings. It is too voluminous. But I do wish to file a copy with the subcommittee to be retained in the record of this particular hearing.

Senator JAVITS (presiding). The subcommittee will be glad to receive a copy of this study which you have made. Thank you, sir.

Mr. STEWART. Mr. Chairman, one of the constructive things your subcommittee could do would be to lend its great prestige to an acceleration of the collection and publication of the statistics on U.S. manufacturing industries. It is somewhat shocking to realize that in 1970 the latest data concerning the activities of U.S. manufacturing industries from the Census of Manufactures, or the Annual Survey, pertains to the year 1967.

I submit that a 3-year lag in the availability of data for study is too great. One of the recommendations I urge upon your committee is that you interest yourselves in the possibility of streamlining the procedures and expediting the collection and publication of the Annual Survey of Manufactures and the periodic Census of Manufactures.

One of the key points I wish to make today is that foreign economic policy as represented by our trade agreements legislation is now essentially out of date and outmoded, and incapable of being an appropriate tool to cope with the foreign trade problems of the seventies.

Mr. Hull's original idea of the United States negotiating in a hard-headed way with other countries for a selective exchange of tariff concessions that would open up the markets of each country to the other for products that each country was capable of exporting has long since gone by the board.

During the 1950's and the 1960's the United States chose to use its trade agreement authority as a species of economic foreign aid for the benefit of the economies of the countries of Europe and of Asia that were being restored. We made profligate use of our trade agreement power during those two decades, and substantially reduced our tariffs and opened wide our markets, while at the same time allowing other nations to retain effective means of controlling imports into their countries, to the detriment of U.S. exports.

If you would briefly turn to my prepared statement, where I have summarized data pertaining to exports and imports and the manufactured content of GNP, you will notice that during the sixties the average rate of growth of our exports has been 8.8 percent, but of our imports, 14.9 percent, while the average annual rate of growth of the manufactured product sector of GNP has been only 5.6 percent.

It is a hard fact that our imports today consist in significant part of the products of labor-intensive industries whose displacement effect on American jobs is proportionately greater than the job-generating benefit accruing to our export industries from their exporting activity.

In my prepared statement I summarize for you the findings of this voluminous study based upon the data through the year 1966, which indicates that there are 128 U.S. manufacturing industries whose net balance of trade deficit represented a loss of 367,552 jobs. There were a larger number of industries, 185, that had a balance of trade surplus, and their trade surplus represented a net generation of 201,532 jobs.

Even though our exports during that period in manufactured products created a surplus in our balance of trade, the hard fact was that the nature of the imports compared to the nature of our exports created a substantial deficit in jobs on net balance.

I have provided in my prepared statement an examination of selected basic manufacturing industries through the year 1969 to make the point, Mr. Chairman, that as a result of past tariff concessions and the maintenance by other countries of restrictions on our exports, our basic manufacturing industries are suffering a serious erosion of their trade position and of employment. This tendency will accelerate during the 1970's.

Turning briefly to the steel industry, import growth has averaged 18 percent a year during the past 5-year period. I used the 1964 to 1965 average as the base period, and compared that with 1969.

The steel industry had an unfavorable balance of trade of more than $800 million in 1969.

I demonstrate the inequity of our tariff negotiating policy in my prepared statement by pointing out that the average ad valorem equivalent post-Kennedy round of the U.S. tariff on steel is 6.9 percent, compared to 7.2 for the Common Market and 9.6 for Japan. But our tariff is based upon the value of f.o.b. origin, and theirs is based on the value c.i.f.

Further, the Europeans have border taxes which are imposed on the total landed-duty paid cost. When you adjust the incidence of their duty to a c.i.f. basis with the charges that they collect at the border on U.S. exports, the effective rate in Europe on the f.o.b. origin value is 19.4 percent compared with the duty that we collect on German steel coming into this country of 6.9 percent.

I refer to the textile industry in my prepared statement and point out that import growth there has averaged 26 percent per year during this particular period that I have identified. We had in 1969 an unfavorable balance of trade in textile articles of $1.3 billion.

We see again that the effective rate of the dutiable charges collected on textiles going into Europe from the United States is 23 percent, compared to the duty that we impose of 18.8 percent on textiles coming into this country.

In the case of the footwear industry, another basic industry seriously and adversely affected by import competition, import growth has averaged 18 percent a year, and in 1969 we had a balance of trade deficit of nearly a half a billion dollars. The U.S. tariff on footwear is 11 percent, compared to 8 percent for the Common Market and 10 percent for Japan, but when the European rate is adjusted in the manner previously described, the EEC effective rate is 20 percent compared with our 11 percent.

Imports of footwear in 1969 accounted for 28 percent of U.S. consumption, up sharply from 17 percent in the base period.

As to consumer electronic products and components, it is now well known—and I am now referring to data in the section of my prepared statement—that television manufacturing and components plants have been shifted from the United States to Asian countries in an attempt to compete with the Japanese.

It is extraordinary that our increase in imports of radio sets has averaged 32 percent per year during this past period, 89 percent per year for television sets, and 54 percent per year for electronic components. We had a total trade deficit in those products in 1969 of nearly $400 million.

I can think of no product category where the inequity and vapidness of our past trade negotiating criteria are more sharply demonstrated than in electronics.

The average ad valorem equivalent of the post-Kennedy-round U.S. tariff on these products is 7.6 percent compared to 14 percent for the Common Market, and 12.4 percent for Japan, prior to adjustment for the fact that their rates are based on c.i.f. value, and our exports going into those countries are also subject to border taxes and commodity taxes.

In 1969, imports of radios accounted for 73 percent of U.S. consumption, and of television sets for 31 percent. The situation has been characterized by a rapid fall off in employment in the last few years in that particular industry.

The electronic components industry has sought to secure relief through the filing of antidumping complaints on TV sets and electronic components imported from Japan. The Treasury Department, however, has stultified the administration of the Antidumping Act in regard to such articles. The Bureau of Customs staff has found dumping in each one of these cases and has promptly accepted assurances from the Japanese manufacturers that they will not do it in the future. On that basis the Bureau proposes to exonerate the Japanese from penalty of antidumping duties for their past dumping.

Our Treasury Department and other officials in the Government seem not to realize that Japan uses its financial resources to support expanded production by penetrating the export market on an incremental pricing basis, and by that practice to purchase increased shares of the export market; that the use of Japan's financial resources in this way accepts low export prices, even below cost, as a justification for enhancing profit margins on the theory that increased export market penetration will support ever larger economies of scale in manufacture. This debt-levered pricing by the Japanese constitutes dumping which is exonerated by Treasury Department practices.

I will skip over the balance of my statement, Mr. Chairman, sensitive to the fact that I have already consumed the 10 minutes allowed me. I shall go to the section of my prepared statement, where I would like to refer to some conclusions.

The foreign economic policy issues which have been exposed by the discussion and analysis presented in this paper are as follows:

1. The selective exchange of well-defined market opportunities, in the United States and foreign countries, which was the essence of Cordell Hull's reciprocal trade agreements proposal, has not been realized.

2. Because the trade agreement authority conferred upon the President was used as a species of foreign economic aid rather than as a commercial instrument to benefit American industries pari passu with foreign industries, the U.S. share of world exports of manufactures has declined, while foreign industries' share of U.S. consumption of manufactured article has increased.

3. With the currency for bargaining reciprocal trade advantage on behalf of the United States substantially dissipated by the essentially unilateral nature of past tariff negotiations, the United States is in a very difficult position to advance its own commercial interests in the 1970's because it has little in the way of bargaining power left to use for such purposes.

4. The U.S. leadership/economic foreign aid/invincibility of U.S. export industries syndrome that has dominated the judgment of U.S. negotiators throughout the postwar era is still manifest in the attitude of personnel who occupy the interlocking network of foreign economic policy positions in the executive department.

5. Contrary to the "holdover" philosophy of foreign-aid-oriented trade agreement negotiating experts of the past two decades, the realities of international commercial life are that U.S. industry does not possess any significant technological advantage translatable into competitive cost advantages in comparison with its foreign counterparts. The outlook for the 1970's is that technologically dynamic, large-scale manufacturing enterprises in the foreign countries, substantially financed and enriched by the technological know-how of U.S. companies, will reap the economic advantage of the cost bias of the lower standard of living of foreign countries and dominate world trade in manufactured products, with consequent continued and more rapid invasion of the U.S. market by foreign industries. This process is already well advanced.

6. There has been no coherent and consistent policy for the support of domestic manufacturing industries in this type of a contest comparable to the close liaison and effective support which Japan and the developed nations of Europe give their industries in competing for export markets. In the United States, domestic policy is developed on an ad hoc basis influenced primarily by political considerations in favor of the few large industries whose work force and investment fertilize

political interests in sufficient States and congressional districts to yield strong interest in their foreign trade problems. The rank and file of American industries are unable to muster this type of political support and have become the children of neglect and abuse under a foreign trade policy administration dominated by the diplomatic imperative of foreign interests effectively represented in the councils of the U.S. Government by the State Department and the special representative for trade negotiations.

I will cease at this point, Mr. Chairman.

I would like to read the balance, but I do want to cooperate with the strictures on time that you have mentioned.

Thank you, sir.

Senator JAVITS (presiding). Thank you very much, Mr. Stewart, for your cooperation, and for your statement, which is very interesting, and presents a point of view which we certainly should study very carefully.

(The prepared statement of Mr. Stewart follows:)

PREPARED STATEMENT OF EUGENE L. STEWART

ISSUES IN U.S. TRADE POLICY

Mr. Chairman and members of the Subcommittee, I am Eugene L. Stewart, General Counsel of the Trade Relations Council of the United States. That is a national organization broadly representative of our Nation's manufacturing industries.

The Council is specifically interested in the foreign economic policy of the United States. In recent years, it has concentrated its activities in the development and maintenance of a data bank containing Government statistics on employment, output, and foreign trade of U.S. manufacturing industries.

As you are aware, our Government has different statistical systems for collecting and reporting data on U.S. employment and output, under the Standard Industrial Classification, and foreign trade statistics, which are themselves separately handled by somewhat different classification systems for imports and exports.

Drawing upon the basic work accomplished by the Department of Commerce in correlating foreign trade classifications with the Standard Industrial Classification, the Council arranges for an independent organization to insert all relevant Government data from these three statistical systems into a computer data bank programmed to correlate these data by industry.

From time to time, the Council publishes a print-out of the data in its data bank arranged by industry. Our most recent study of this type was published a year ago. I am submitting a copy to the Committee for retention in its files as a part of the record of these proceedings. Currently the data bank is being updated with the latest available Government statistics but, regrettably, that work is not sufficiently advanced to permit our use of the updated data in today's testimony.

An examination of the domestic employment, output, and foreign trade trends of U.S. manufacturing industries, as set forth in our most recent study, provides some insight for our consideration of today's topic. In a moment I shall refer to conclusions which we have drawn from a study of these data as a foundation for the suggestions which I have to make concerning issues in U.S. trade policy and the manner in which they should be resolved in developing a foreign economic policy for the 1970s. Before doing so, however, allow me briefly to sketch the background of your Committee's study.

Until the adoption by President Johnson of the unwelcome and much-lamented restraints on direct foreign investment, our Nation's foreign economic policy in operation consisted primarily of the use by the President of his authority to reduce tariffs in trade agreement negotiations. The original concept of Cordell Hull's Reciprocal Trade Agreements Act enacted in 1934 was that a highly selective exchange of tariff concessions would be made on a bilateral basis with nations willing to open their markets for U.S. products in exchange for a commensurate widening of the U.S. market for their products.

Taking their cue from the spirit of the Four Freedoms Declaration late in World War II, the nations of the Atlantic community, led by the United States, developed the concept of multilateral trade agreement negotiations under the aegis of a somewhat permanent international body. After an unsuccessful attempt to establish a comprehensive international organization, these efforts culminated in the negotiation of the General Agreement on Tariffs and Trade in 1947. Under the auspices of GATT driven by U.S. leadership, six massive rounds of tariff negotiations have been carried out in the post-World War II era.

From the beginning, it has been a well-understood purpose of U.S. leadership in this effort to develop an open international trading system where freedom for the operation of the law of comparative advantage in trade between nations could redound to everyone's benefit under President Kennedy's axiom that "a rising tide lifts all the boats."

The United States has had changing concepts about the immediate objectives to be attained in these trade agreement negotiations. From the late 1940s and into the decade of the 1950s, the dominant objective was "trade, not aid" and "close the dollar gap." U.S. markets were opened wide for the benefit of the reconstructed industries of Europe and Japan as a form of economic aid.

In that period, the negotiations were reciprocal in form, but unilateral in substance. As the Committee for Economic Development has noted, the United States made very real reductions in its tariffs in exchange for nominal commitments by its trading partners.

In the mid-1950s, the dominant purpose of U.S. negotiations was to open the markets of Europe for the products of Japan. In a remarkable display of good will toward a foreign nation at the expense of its own domestic interests, the United States opened wider its markets for the products of Europe through tariff concessions in exchange for commitments by European countries to confer trade concessions upon Japan.

While the further liberalization of our import trade from Europe and from Japan proved to be permanent, the intended concessions from Europe to Japan proved to be highly transitory. European nations reserved the right to impose quotas on imports from Japan to safeguard European industry and balance of payments. This reservation under Article XXXV of GATT has been systematically used by European nations to hold Japanese imports at bay, preventing the degree of inundation of European markets which has become commonplace in the United States.

The decade of the 1960s was opened with the Dillon Round of trade agreement negotiations which focused primarily, though not exclusively, on bargaining with the Common Market. These were the last negotiations in which the peril point procedure was observed under which the Tariff Commission identified the extent, if any, to which U.S. tariffs could be reduced in the negotiations without causing injury to domestic industries.

As a result of the Commission's peril point findings, U.S. concessions were quite selective. U.S. tariff cuts went into effect in two years' time, while those granted by the Common Market were staged over the full period in which it was adjusting individual country tariffs to the Common External Tariff, finally achieved in 1967.

Thus, the full benefit of the EEC tariff concessions for U.S. exports was long delayed in contrast to the prompt availability of the U.S. duty reductions. Further, a portent of things to come, as it turned out, the EEC declined to negotiate on agricultural commodities in the Dillon Round but gave assurances that the position of U.S. exports would not be detrimentally changed by the implementation of the common agricultural policy of the Common Market. These assurances were dishonored by the imposition of variable import levies on agricultural commodities.

Under the impact of the proud boasts of the U.S. officials involved, it has been fashionable to describe the Kennedy Round as a great success, the finest example of the initiative of the United States in liberalizing world trade. Regrettably, the first hurrah has turned into a wry grimace. The Kennedy Round was, in fact, a failure. In its aftermath, instead of significantly enlarged market opportunities for U.S. exports, we find four major roadblocks to a liberalization of world trade:

1. The variable import levies imposed by the EEC on agricultural imports.

2. The harmonization of the value added tax and the related adjustment of the border taxes imposed by Common Market countries on imports. A fair description of the consequences to U.S. trade of the border tax adjustments is con-

tained in a research report of the National Industrial Conference Board, as follows:

"First, it is clear that the cost of entry of products moving from the United States to Europe are generally higher than the comparable cost of the same items shipped to the United States. The imposition or the rebate of compensatory taxes at the border were generally responsible for this disparity.

"Generally, the lowest cost of entry was encountered in Belgium and the highest in France, among the European countries. But there is no uniformity with respect to which products in an individual country encountered the highest combined cost of entry: in France, for example, it was a chemical product; in Belgium, a steel product.

"For shipments to a common third country, it can be concluded that the operation of the border-tax adjustment of a country with turnover taxes will enhance its competitive position over that of the United States, a country with no turnover taxes. The rebate of taxes for exports results in a widening of any price advantage of the country with commodity taxes or a narrowing of the original advantage of the United States.

"The practical operation of the border-tax adjustment serves to increase its burden for imports over that suggested by the level of the statutory rates. The general practice in European countries is to assess duties on c.i.f. values. Compensatory taxes are then assessed upon the combined c.i.f. values and duties. By contrast, the United States, which has no general border-tax adjustment, assesses duties on f.o.b. values.

"The combined effect of the tariff reductions arrived at through the Kennedy Round negotiations and the adoption by Germany of a value-added tax was a higher cost of entry for the shipment of American products to that country than existed prior to the adoption of these new measures. The higher rate of border adjustment, involved in the adoption of value added taxes, more than offset the lower duty rates."

[*Border Taxes and International Economic Competition*, pp. xv, xvi.]

3. The retention by Japan of its highly restrictive nontariff barriers to U.S. exports, and the development by European nations of a new restrictive practice based upon standards and product certification procedures for industrial products from which the United States is excluded.

4. The proliferation of regional and preferential trading bloc areas which exclude the United States.

In short, notwithstanding twenty years of effort by the United States and the tremendous price which has been paid by its substantially one-sided tariff concessions in the GATT trading rounds, the world trade apparatus is in greater disarray today than at any time in our postwar history. In this connection, I concur in the following points made by Assistant Secretary of Commerce Kenneth N. Davis last week:

"The U.S. considers European border taxes a major nontariff barrier, particularly with respect to export rebates in sales to third countries in competition with U.S. suppliers."

"Common Market preoccupation with enlargement of the European trading area through agreements with other European and Middle Eastern countries on a basis which discriminates against the U.S. is a matter of grave concern."

"The Tripartite Electronic Components Agreement now being finalized by France, Germany, and Britain would be a major new non-tariff barrier. It would impose discriminatory inspection standards against U.S. electronic components. Congress is not likely to repeal the American Selling Price System for chemicals just as Europe sets up a new non-tariff barrier against the American electronics industry. Although the Tripartite Accord is technically not a Common Market proposal, we could not understand why Common Market officials appeared unwilling to intercede to stop the setting up of this new barrier to free trade."

"The European Common Agricultural Policy continues to discriminate against U.S. exports and is therefore a major obstacle to better trade relations."

As Mr. Davis declared,

"For the benefit of all the world's trade it is time for Japan and Europe to respond more fairly than heretofore to the 20 years of U.S. leadership in expansionist world trade policy!"

[Address before the Electronic Industries Association, Washington, D.C., March 9, 1970.]

The original concept of the Kennedy Round negotiations included specifically the Common Market's variable import levies on agricultural products; the violation of U.S. rights under GATT implicit in the manner in which the border tax was being administered by Common Market countries in relation to U.S. exports; the separate violation of U.S. rights under GATT represented by the use by Japan and the Common Market of nontariff measures such as Japan's "administrative guidance" systems for controlling the allocation of exchange for use in purchasing imported products; and the effect on the foreign trade of the United States produced by the diversion of Japanese exports resulting from the Common Market's quantitative limitations against such exports.

Prior to the consummation of the negotiations, responsible U.S. negotiating officials gave assurances to members of Congress that such items would be included in the negotiations; indeed, that the United States was prepared not to execute the Kennedy Round trade agreement if it did not receive satisfaction on these items. Regrettably, this promise was not kept. The U.S. negotiators capitulated to the harsh negotiating posture of the other developed nations in the negotiations.

The result is that the U.S. market was opened wider to imports of manufactured products from Japan and Europe, while U.S. agricultural interests were penalized by the failure to improve access for exports of agricultural products subject to the Common Market's variable import levies system.

As a trading nation whose exports are of great importance to our commerce and industry and to our balance of payments position, we are confronted with the situation in which we have less favorable access to the principal markets for our goods than prior to the Kennedy Round, while our competitors have greatly increased access for their products to the United States market.

The significance of this position is underscored by the major change in the competitive position of United States products in the U.S. and export markets which has resulted from the great progress made by our foreign competitors in "catching up" with our technology while retaining from the point of view of market costs the economic advantage of the lower wages inherent in their lower standards of living. This point has been underscored by several Government officials.

Deputy Under Secretary of Labor George Hildebrand put it in the following manner in an address in September 1969:

"It has often been assumed that high U.S. wages and better working conditions were largely offset by high U.S. productivity and a strong internal market. Increasingly, however, the spread of skills and technology, licensing arrangements and heavy investment in new and efficient facilities in foreign lands have all served to increase foreign productivity without comparable increases in wages. The problem we have is to assure that the social and economic gains of the American worker and the purchasing power that goes with it are not undermined by competitive goods produced and exported on the basis of much lower standards which some may view as an exploitation of human resources."

This theme was also developed by Deputy Assistant Secretary of Commerce Robert McLellan in an address delivered last week. He stated as follows:

"As you all know, international trade is becoming increasingly competitive and American industry's former technological advantages compared to our European and Asiatic competitors are fast disappearing. Advanced technology spreads quickly around the world, and many technical products now are offered in world markets by businessmen of many different countries. Our technological lead used to serve as insulation for our higher labor costs, but as the lead diminishes we are more and more exposed to lower prices and more effective marketing from abroad. These lower prices in turn have caused sudden increases in U.S. imports with serious impact on the welfare of large numbers of U.S. companies, their employees, and their shareholders. Additionally, we find that 'free trade' generally has one meaning in this country, but frequently is given quite a different meaning by some of our competitor countries. 'Free' to some of them seems to mean free access to our market while U.S. firms are denied the same access to theirs."

[Address before the California Council for International Trade, San Francisco, California, March 9, 1970.]

Against this background, it is difficult to place faith in the assumption which underlies the position of advocates of a "free trade" foreign economic policy for the United States. That assumption is that the increased exports of the capital-intensive, technologically oriented export industries of the United States will create more jobs for American workers than are lost under the impact of increased imports of labor-intensive products.

The Trade Relations Council's study released last year is responsive to that point. At the time that report went to press, our data bank included reasonably complete data for 313 industries as defined at the 4-digit level of the Standard Industrial Classification. These 313 industries account in 1966 for 64% of total employment in all U.S. manufacturing industries. The 313 industries supplied 85% of the value of shipments of manufactured goods in 1966. Products like or competitive with the output of these 313 industries accounted for 99% of total U.S. imports of manufactured goods in 1966, and of 85% of U.S. exports.

Within this group of 313 4-digit industries, there were 128 which experienced a balance of trade deficit in 1967, even when imports are taken at the value reported by the Department of Commerce (f.o.b. origin) and exports at their reported value (f.a.s.). These 128 4-digit industries accounted for 25% of total employment in all manufacturing industries in 1966, and for 29% of the value of shipments. Most significantly, however, imports of articles like or competitive with the output of these 128 industries accounted for 65% of total imports of manufactured products in that year, while the exports of these industries accounted for only 12% of total U.S. exports of manufactures.

The balance of trade deficit of these industries in 1966 was equivalent, at the value of shipments per worker in these 128 industries, to a net loss of 367,552 jobs. This figure does not represent an absolute loss of jobs in the sense of a one-for-one decline in total employment in these industries; however, the negative figure derived from the redport of the job equivalent of foreign trade in these industries, of 367,552, does reasonably represent the aggregate of jobs lost and employment opportunities lost in these industries. Since the 128 industries preponderantly have comparatively high labor-intensive ratios, it may also be said that the lost job opportunities represented lost employment opportunities for comparatively unskilled workers who, in manufacturing, are chiefly employed by such industries.

The effect of foreign trade in the product categories of these 128 industries on the U.S. balance of payments was even more dramatic than the adverse employment effects described above. Taking imports and exports at the values reported by the Department of Commerce, foreign trade in products like or competitive with the output of these 128 industries results in a foreign trade deficit of $9 billion in 1967.

In marked contrast with the position of the 128 industries referred to above, analysis of the data in the report indicates that there is a separate group of 185 industries for whom foreign trade has had the opposite effect of that described for the 128 industries. This separate group of 185 industries accounted in 1966 for 39% of the total employment in all manufacturing industries, and for 56% of the value of shipments. Imports of products like or competitive with the output of these 185 industries accounted for only 34% of total imports of manufactured articles in 1967, whereas these industries supplied 73% of total exports of manufactures in that year.

Calculated at the Department of Commerce reported values, foreign trade in the product categories of these 185 industries resulted in a foreign trade surplus of $10.4 billion in 1967. Because the 185 industries are, in general, less labor intensive than the separate group of 128 industries previously described, the job equivalent of the foreign trade surplus in the product categories of the 185 industries was equivalent in 1966 to 201,532 jobs, considerably smaller than the job loss represented by the job equivalent of the foreign trade deficit resulting in the product areas of the 128 industries.

Since that report was published, the employment and output data for the year 1967 have become available through the publication of preliminanry data for the 1967 Census of Manufactures. Foreign trade data for the year 1968 have become available since then, and we now expect to be able to purchase the 1969 foreign trade data on a computer tape. Our data bank will be updated with these additional statistics. Since your Committee's investigation is a continuing one, we look forward to presenting you the results of our updated study when it becomes available.

Meanwhile, to illustrate the points which I believe pertinent to my recommendations, I have selected a group of basic manufacturing industries which have been adversely affected by foreign trade developments in recent years, and we have updated the employment, output, and foreign trade data for these industries.

These cases illustrate the basic fact that the United States' favorable balance of trade in manufactured products, which exceeded $5 billion as the decade of the 1960s opened, has been sharply eroded by an average annual rate of growth of imports of manufactures nearly twice that of our exports. Under the impact of the rapid rise of imports of manufactured products, some of our basic manufacturing industries are suffering such a serious degree of import penetration into the domestic market that rising unemployment and financial instability for many firms in these industries are the consequences.

The overall trend in manufactures can quickly be glimpsed by a consideration of the following facts:

DATA PERTINENT TO MANUFACTURED PRODUCTS

[Dollar amounts in billions]

	1960	1969	Average annual rate of growth, 1960–69 (in percent)
U.S. exports (f.a.s.)	$12.6	$26.8	8.8
U.S. imports (f.o.b., origin)	$6.9	$23.0	14.9
Manufactured product content of GNP	$140.9	$228.9	5.6
Ratio, exports to domestic product (in percent)	8.9	11.7	
Ratio, imports to domestic product (in percent)	4.9	10.0	

Source: Derived from data in tables C-9 and C-86, appendix C, Annual Report of the Council of Economic Advisers to the President, 1970; U.S. Department of Commerce, Survey of Current Business, February 1970, table 7, p. 9.

As shown by these data, U.S. imports of manufactures are growing at an average annual rate nearly three times that of the growth of manufactured products in the Nation's GNP. Furthermore, the import penetration of manufactured products has doubled during the decade of the 1960s while U.S. exports of manufacturers increased by less than one-third.

If U.S. imports were valued in accordance with the practice of virtually all other developed countries, on their c.i.f. value, it would be seen that the value of imports in 1969 equaled or exceeded that of U.S. exports. A favorable trade balance of more than $5 billion in manufactured products has been virtually erased during the decade of the 1960s.

Our foreign trade during the decade of the 1960s was affected by the accumulation of tariff concessions given and received in the multilateral trade agreement negotiations under GATT during the entire postwar period. The data in the above table demonstrate that so far as U.S. manufacturers are concerned, the rising tide of foreign trade has not lifted all of the boats. Those of the U.S. have been left behind.

The dominant characteristic of U.S. foreign economic policy as shown by this experience is that it is underbalanced and operates unfairly on U.S. manufacturing industries by exposing them disproportionately to rising import competition while retarding them disproportionately in their access to world markets.

Allow me to illustrate the effects of this inequity now by sketching briefly the situation of selected basic U.S. manufacturing industries.

THE STEEL INDUSTRY

U.S. imports of steel averaged 7.99 million tons during the years 1964–1965. Imports rose to 13.62 million tons in 1969, a 71% increase. Imports from Japan rose by 87% and Japan accounted for 45% of total steel imports in 1969, up from 41% in the base period. Imports from the Common Market rose 62% and it accounted for 38% of total imports, down from 40% in the base period.

Total imports' growth averaged 18% per year, exceeding the average rise in imports of all manufacturers. In 1969, we had an unfavorable balance of trade in steel of $843.5 million.

The inequity of our tariff negotiating policy as it affects the steel industry is further demonstrated by the fact that the average ad valorem equivalent of the post-Kennedy Round U.S. tariff is 6.9%, compared to 7.2% for the EEC and 9.6% for Japan. Further, the U.S. rate is applied to the f.o.b. origin value, whereas the EEC and Japanese tariffs are applied to the c.i.f. value.

The inequity is compounded further by the fact that U.S. exports entering the EEC are subject to a border tax. U.S. steel going into Germany, as an example, pays a 10% border tax. When the double effect of the imposition of the duty rate to the c.i.f. value and the imposition of the border tax to the c.i.f. duty-paid value of U.S. exports is taken into account, the ad valorem equivalent of these aggregate border fees is found to be 19.4%, in comparison with the total entry fees on German steel coming into the United States of 6.9%.

In 1969, U.S. imports of steel accounted for 13.3% of U.S. consumption, up from 8.5% in the base period. The average labor-intensive ratio [(total payroll÷ value added by manufacture)×100] for the steel industry during the period 1964–1966 (the latest such index available) was 47.6% compared with 49.4% for the average of all manufacturing industries during that period. Under the impact of the import rise, employment in the steel industry declined from an average of 657.3 thousand workers in 1965 to 643.4 thousand in 1969.

In the closing days of the Johnson Administration, strong Congressional interest in a solution to the steel import problem produced a State Department initiative which resulted in an agreement by Japanese and European Common Market steel producers voluntarily to limit their exports to the United States in 1969 to 5.75 million tons each, and a limitation on growth of exports to 5% annually for 1970 and 1971.

THE TEXTILE INDUSTRY

U.S. imports of textile articles in the yarn, fabric, and finished product stages averaged 1.8 billion equivalent square yards during the years 1964–1965. Imports rose to 3.6 billion equivalent square yards in 1969, a 102% increase. Imports from Japan rose by 61% and Japan accounted for 29% of total imports in 1969, down from 36% in the base period. Imports from the Common Market rose 147% and it accounted for 14% of total imports, up from 11% in the base period.

Total imports' growth averaged 26% per year, far exceeding the average rise in imports of all manufacturers. In 1969, the United States had an unfavorable trade balance in textile articles of $1.3 billion.

U.S. imports of man-made fiber textiles less advanced than the yarn stage (not included in the above data) averaged 146 million pounds during the years 1964–1965. Imports rose to 179 million pounds in 1969, a 23% increase.

The average ad valorem equivalent of the post-Kennedy Round U.S. tariff on textile products is 18.8%, compared to 10.6% for the EEC and 11.4% for Japan. When the double effect of the application of the duty rate to the c.i.f. value and of the application of the border tax to the c.i.f. duty-paid value of U.S. exports into the Common Market is taken into account, using Germany as an example, the ad valorem equivalent of these aggregate border fees is found to be 23.3%, in comparison with the total entry fees on EEC textiles coming into the United States of 18.8%.

There is little point in making a similar calculation in respect to Japan because U.S. textile products are virtually excluded from importation into that country under its administrative guidance system for allocating foreign exchange.

When *all* textile articles are included (*viz*, adding man-made fiber primary products to the yarn-fabric-apparel-other finished products group), imports in 1969 totaling 1,090.6 million equivalent *pounds* accounted for 10.6% of domestic consumption of textile articles, measured in equivalent pounds of fiber rather than equivalent square yards of fabric. This import penetration ratio should be compared with the average 7.1% ratio for 1961–1962, the first years of the application of the International Cotton Textile Arrangements.

During this time imports of cotton textiles have been subject to bilateral agreements and restraint orders issued by the United States under the provisions of the Long-Term Cotton Textile Arrangement. Employment in the textile industry increased from 2,329.2 thousand workers during the base period to 2,520.2 thousand workers in 1969. During the latter part of the period, however, there has been a sharp upturn in the trend of increased imports of textile articles.

The average labor-intensive ratio for the textile industry during the period 1964–1966 was 53.0%. Under the impact of the heightened import rise, employment in textile mills and apparel plants declined from 2,408 thousand workers in February 1969 to 2,374 thousand workers in February 1970.

Pursuant to a commitment made by President Kennedy during the Presidential election campaign in 1960, the State Department carried out an initiative which resulted in the execution of the Long-Term Cotton Textile Arrangement under the auspices of GATT by the principal nations exporting and importing cotton textiles. The life of this agreement has been renewed pursuant to a similar commitment made by President Johnson.

Pursuant to a commitment made by President Nixon during the Presidential campaign in 1968, the Secretary of Commerce has been carrying out an initiative looking toward one or more international arrangements which would provide for a limitation on U.S. imports of wool and man-made fiber textile articles. To date these negotiations have been unsuccessful, and a majority of the members of the Congress have indicated through the sponsorship of legislation their determination to effect some limitation on the future of rate of growth of these textile articles.

Meanwhile, the long delay in securing a solution to the man-made fiber textile import problem comparable to that achieved by President Kennedy on cotton textile imports is driving the American textile industry offshore. Apparel manufacturers have established operations in low-wage countries relying in part on a continuation of the "American goods returned" tariff policy which is now under attack by American labor. More ominous is the fact disclosed in the *Japan Economic Journal* on March 10 that Mitsubishi Rayon Company, Ltd., has signed a contract with Burlington Industries, Inc., America's largest manufacturer of textile mill products, to establish a joint venture in Japan for the manufacture of carpets. The *Journal* indicates that while carpets are the beginning product, it is anticipated that the scope of production of the joint venture will be expanded in the future to other textile products.

THE FOOTWEAR INDUSTRY

U.S. imports of footwear averaged 164.9 million pairs during the years 1964–1965. Imports rose to 283.5 million pairs in 1969, a 72% increase. Imports from Japan remained virtually unchanged during this period, while those from the Common Market increased by 158%. Japan's share of U.S. imports dropped from 70% to 40%, while that of the Common Market rose from 16% to 24%.

Total imports' growth averaged 18% per year, exceeding the growth rate for imports of all manufactures. In 1969, we had an unfavorable balance of trade in footwear of $480.6 million.

The average ad valorem equivalent of the post-Kennedy Round U.S. tariff on footwear is 11.1%, compared to 8.4% for the EEC and 10% for Japan. Exports to Japan are impracticable for the reason previously stated. When the combined effect of the use of the c.i.f. value and the imposition of border taxes to the c.i.f. duty-paid value of U.S. exports to the EEC is taken into account, the ad valorem equivalent of the EEC border charges is found to be 20.2%, in comparison with the total entry fees on European footwear coming into the United States of 11.1%.

In 1969, U.S. imports of footwear accounted for 28% of U.S. consumption, up from 16.9% in the base period. The average labor-intensive ratio for the leather footwear industry during the period 1964–1966 was 57.2%. Under the impact of the import rise, employment in the footwear industry declined from an average of 260.5 thousand workers during the base period to 252.5 thousand workers in 1969.

In 1969, a petition signed by 30 members of the House and 73 members of the Senate was presented to the President requesting relief from excessive imports of footwear. The Nixon Administration appears to have decided as a matter of policy to attempt to secure through negotiation an international agreement for the limitation of footwear imports. This is reflected by an address delivered in January by Deputy Under Secretary of State for Economic Affairs Nathaniel Samuels,[1] who referred to "a few manufactured items for which we have already, for strong internal reasons, embarked on a policy of import restraint would be excluded from the preferential system" which President Nixon has indicated he intends to pursue for the benefit of less developed countries.

The U.S. position paper in that matter indicated that the United States was prepared to enter into a system of tariff preferences for developing countries which would set preferential duties at zero but exclude from that preferential system textiles, shoes, petroleum, and petroleum products.[2]

THE CONSUMER ELECTRONIC PRODUCTS AND COMPONENTS INDUSTRIES

U.S. imports of radios averaged 16.7 million receiving sets during the years 1964–1965. Imports rose to 38.1 million sets in 1969, a 128.4% increase. U.S. im-

[1] See February 16, 1970, *Department of State Bulletin*, p. 181.
[2] "U.S. Illustrative Submission to the OECD on Generalized Tariff Preferences for Developing Countries (Revised November 3, 1969)."

ports of TV receiving sets averaged 881.5 thousand units in 1964–65, and increased to 4.0 million sets in 1969, a 358% increase. In 1969, 49% of the radios and 77% of the TV sets imported into the United States were received from Japan.

Radio and TV sets represent one of the principal forms in which electronic components such as receiving tubes, transistors, resistors, capacitors, transformers, loudspeakers, and other component parts are received into the United States. In addition, a large and rapidly growing volume of the discrete components are imported in their condition as components. In the base period 1964–1965, U.S. imports of electronic components averaged $96.4 million in value. The value of imports of electronic components increased to $304.7 million in 1969, a 216% increase.

Thus, the increase in imports of radio sets averaged 32% per year, of TV sets 89% per year, and of components 54% per year—all vastly in excess of the average rise in imports of all manufactures. In 1969, we had an unfavorable balance of trade in radio and TV receiving sets and in electronic components of $394.7 million.

The inequity of our tariff negotiating policy as it affects the electronic products industry is strikingly illustrated by the fact that the average ad valorem equivalent of the post-Kennedy Round U.S. tariff is 7.6%, compared to 14% for the EEC and 12.4% for Japan, before any adjustment is made in the foreign rates for the fact that they are applied to the c.i.f. value and that, in addition, U.S. exports to the EEC are subject to the border tax, and to Japan, to a commodity tax.

In 1969, U.S. imports of radios accounted for 73% of U.S. consumption, up from 44% in the base period. U.S. imports of TV sets in 1969 accounted for 31% of U.S. consumption, up from 8% in the base period. The average labor-intensive ratio for the industry producing consumer electronic products and components during the period 1964–1966 was 57.4%. Under the impact of the import rise, employment in the industry producing radio and television receiving sets fell from an average of 161.7 thousand workers in 1966 to 153.2 thousand workers in 1969. Further, as the import rise has intensified steadily through 1969, employment dropped in January 1970 to 137.7 thousand workers, compared with the peak January employment in recent years of 175.2 thousand workers in January 1967.

This intensification of the recent trend in imports has also affected employment in the components industry, with the total number of jobs dropping to 410.5 thousand in December 1969, compared with 413.2 thousand in December 1966.

In contrast to the consideration which has been shown by the Executive Branch to the steel, textile, and footwear industries, the electronic products industry has received short shrift. Its application for a partial withdrawal of past tariff concessions so as to restore the tariff level to 20% ad valorem in connection with the "open season" permitting such action in the latter half of 1969 under the provisions of Article XXVIII of GATT, was summarily rejected by the Special Representative for Trade Negotiations.

Antidumping complaints covering TV receiving sets and the major classes of electronic components, filed in late 1967 and early 1968, have not received a final determination as of this date. In each of these cases, one or more of the Japanese manufacturers have been found at the staff level of the Bureau of Customs to have dumped electronic products exported to the United States. As promptly as such determinations were made by the staff, the Bureau of Customs accepted written assurances from the Japanese manufacturers that dumping would not be practiced in the future. Should these assurances be validated by the Treasury Department upon final review of the Bureau's proposed action in these cases, the Japanese manufacturers will have been exonerated from long-continued dumping practices and relieved of the obligation to pay antidumping duties.

The Treasury Department seems not to understand, or if understanding, nevertheless to lack the will to focus its administration of the Antidumping Act to the realities of the Japanese marketing strategy for the U.S. market. This strategy encompasses the following facts:

a. Japan uses its financial resources to support expanded production on an incremental pricing basis with the objective of buying increased shares of the export market;

b. This use of Japan's financial resources accepts low export prices, even below cost, as a justification for enhancing future profit margins as increased export market penetration supports ever-larger economies of scale in manufacture; and

c. Japan's debt-levered pricing for exports constitutes "dumping" which is exonerated by Treasury Department practices.

The gross inequity of U.S. tariff rates compared with those of Japan and the EEC and the total ineffectiveness of existing U.S. tariffs to regulate the rate of increase of imports of consumer electronic products and components which come primarily from Asian nations have caused the majority of the principal U.S. producers of these products to shift their production overseas to low-wage nations in an effort to compete with Japan and other Asian competitors.

These offshore operations have been facilitated to a degree by the duty-free treatment accorded "American goods returned" in the form of products assembled abroad from U.S. manufactured components. This tariff policy has encouraged some residual amount of manufacturing of component materials for consumer electronic products marketed in the United States to be made in this country.

Now, at the request of labor unions who strangely feel that the tariff policy for "American goods returned" rather than the basic tariff inequity which I have described is chiefly accountable for the transfer of production and jobs to foreign shores, the President has requested the Tariff Commission to investigate the effect of the operation of this policy. The ranking members of the Committee on Ways and Means have introduced legislation to repeal these tariff provisions. The effect on U.S. electronic product producers of these developments is described by Standard & Poor's survey of the electronics industry as follows:

"* * * The * * * rapid growth in imports reflects the rising technical competence of foreign industry, pricing advantages resulting from lower costs of labor, and the growing number of U.S. firms that either make products abroad or buy foreign goods to sell under their own labels.

"Heavily weighted in imports of electronics products are such consumer items as radios, television sets, tape and cassette recorders, and players. During 1969, the total value of television set imports exceeded the value of total radio imports. Boosting the television sales total was the rising penetration of foreign-made sets in the lower end of the market (i.e. low priced, small screen models).

"Japanese electronics firms have become heavily entrenched in the U.S. consumer electronics market, selling under their own labels and those of U.S. manufacturers. SONY has established a good reputation, as has PANASONIC (MATSUSHITA). With growing impetus from tape and cassette products and video tape recorders, Japanese firms are likely to continue to garner a large portion of the market.

* * * * * * *

"To benefit from the advantages of foreign manufacture, many U.S. companies ship electronic parts to foreign assembly plants where assembly is done with substantially less labor costs. Presently, the companies pay tariffs on imports according to a 'valued added' concept (i.e. the products returned to the U.S. market are taxed only on the value added, not on the value of the entire unit). Thus, firms with foreign assembly operations have been able to compete more effectively with foreign manufacturers, particularly the Japanese.

"**However, the Federal Tariff Commission is considering the equity of the 'value added' concept and could possibly modify present rules. Were the present** guidelines to be altered significantly to protect domestic manufacturers without foreign operations, the domestic electronics industry as a whole could be placed in a noncompetitive position. For example, the integrated circuit market could follow a path similar to that of the transistor radio market which has been almost totally captured by Japanese manufacturers."

[Standard & Poor's Industry Survey on Electronics-Electrical, February 5, 1970, p. E3.]

THE AUTOMOBILE INDUSTRY

U.S. imports of automobiles averaged 548,000 cars during the years 1964–1965. Imports rose to 1,847 thousand automobiles in 1969, a 237% increase. Imports from Japan increased by 1,151%, and Japan accounted for 14% of total automobile imports in 1969, up from 4% in the base period. Imports from the Common Market rose by 81%, and it accounted for 41% of total imports, down from 76% in the base period.

Total imports' growth averaged 59% per year, far exceeding the average rise in imports of all manufactures. In 1969, we had an unfavorable balance of trade in automobiles of $2.4 billion.

The bankruptcy of our foreign economic policy is vividly illustrated by the fact that as a result of trade agreement negotiations, the average ad valorem equivalent of the post-Kennedy Round U.S. tariff on automobiles is 3%, compared with 11% for the EEC and 17.5% and 30% (depending on wheel base) for Japan.

Under the 1965 United States-Canadian Automotive Products Agreement, motor vehicles and parts move across the Canadian border free of duty. The rationalization of Canadian production promoted by this agreement is near completion, and there are no plans for further expansion of Canadian plant capacity. Imports from Canada are expected to stabilize at about 700,000 units per year. The principal growth in imports will come from Europe and Japan.

U.S. exports of automobiles to the EEC are further inhibited by the effect of the unfair road taxes as well as the application of the tariff rate to the c.i.f. value and of the addition of a border tax based upon the c.i.f. duty-paid value. Access for U.S. automobiles to Japan is effectively denied not only by the high tariffs but also by the imposition of a commodity tax, the application of the tariff rates to the c.i.f. value, and the strict control of the use of foreign exchange through the administrative guidance system.

In 1969, U.S. imports of automobiles accounted for 13% of U.S. consumption, up from 6% in the base period. The average labor-intensive ratio for the motor vehicle industry during the period 1964–1966 was 41.6%.

Employment in the industry producing motor vehicles increased by 13% between the base period (1964–1965) and 1969. As domestically produced new car sales declined in the latter half of 1969, influenced in part by the anti-inflation program of the Administration, automobile imports continued to rise, contributing in major part to the loss of 150,000 jobs in the transportation equipment industry in February 1970.

THE CERAMIC TILE INDUSTRY

Ceramic tile is one of the comparatively rare industrial products to be spared reductions in duty in the Kennedy Round. The ad valorem equivalent of the U.S. tariff on ceramic tile is 23.5%, in comparison with an average rate of 8% in the EEC and 5% in Japan. Notwithstanding the maintenance of the pre-Kennedy Round level of tariff protection, U.S. imports continue to rise. U.S. imports of ceramic tile increased from an average of 136 million square feet in 1964–1965 to 168.6 million square feet in 1969, a 24% rise. Imports from the EEC rose by 116%, increasing its share of U.S. imports to 7%.

In 1969, the United States had an unfavorable balance of trade of $38.1 million in ceramic tile. In that year, imports accounted for 34.3% of U.S. consumption, up from 30.7% in the base period. The average labor-intensive ratio for the ceramic tile industry during the period 1964–1966 was 58.2%.

Demand for ceramic tile originates in the housing industry. Notwithstanding the impact on domestic shipments of the housing recession brought on by anti-inflationary measures, imports have continued to rise and employment in the ceramic tile industry has declined. This is reflected in the data for the structural clay products industry, of which the ceramic tile industry is a part, where employment fell from an average of 69.5 thousand workers in 1964–1965 to 64.6 thousand workers in 1969. By January 1970, employment had declined to 59.8 thousand workers.

THE INDUSTRY PRODUCING FLAT GLASS

Another sector of the stone, clay, and glass group of basic manufacturing industries suffering from excessive import competition is comprised of the industries producing flat glass.

U.S. imports of flat glass averaged 467.2 million square feet during the years 1964–1965. Imports rose to 554.7 million square feet in 1969, a 19% increase. About one-half of the imports originated in the EEC and 13% in Japan.

Glass manufacturing is a labor-intensive industry. Notwithstanding this fact, tariff concessions granted by the United States have reduced the average ad valorem equivalent of U.S. import duties on flat glass to 7%. This rate compares with an average rate of 5.6% in the EEC and rates ranging from 5% to 18% in Japan. Due to the c.i.f. basis for application of the foreign rates, and the addition of border taxes, the effective ad valorem equivalent of the EEC import charges is 20% of the f.o.b. origin value of U.S. exports, compared with the 7% f.o.b. origin border imposts levied by the U.S. on European glass.

In 1969, the United States had an unfavorable balance of trade of $60 million in flat glass products. Imports in that year accounted for 23.3% of domestic consumption, up from 21.3% in the base period. In the sheet glass sector of the flat glass market, U.S. imports in 1969 accounted for 28.1% of domestic consumption, up from 24.4% in the base period.

The average labor-intensive ratio for the flat glass industries during the period 1964–1966 was 46.3%. Under the impact of the import rise, employment in the domestic industries producting flat glass dropped in 1969 to 26.8 thousand, down from an average of 31.6 thousand workers for the base period. By December 1969, employment had fallen to 25.7 thousand.

President Kennedy recognized that the U.S. tariff was too low to provide effective protection for the domestic sheet glass industry. Following an escape clause finding of serious injury by the Tariff Commission in 1961, the President increased the tariff in 1962. The effect was to restore relative stability for domestic production vis-a-vis import growth until January 1967 when President Johnson eliminated the escape clause duties on two of the three basic categories of sheet glass, and reduced the level of the escape clause rates on the remaining category.

The domestic industry invoked the tariff adjustment provisions of the Trade Expansion Act in 1969, and in December the Tariff Commission issued a report in which three Commissioners found that the industry was being seriously injured at the modified level of escape clause duties. These three Commissioners made a finding as to the extent of tariff increase necessary to remedy the serious injury caused by imports. This finding was that the tariff should be restored to the pre-trade agreement level. The pre-trade agreement rate is equivalent to 29.5% ad valorem on 1969 imports of sheet glass.

The disposition of the sheet glass case is an object lesson concerning one of the basic issues in U.S. foreign economic policy. The statute requires the U.S. Tariff Commission in its investigation to determine whether increased imports due in major part to tariff concessions have become the major factor in causing or threatening serious injury to the domestic industry. If the Commission makes an affirmative finding on that issue, the statute then places a mandatory duty on it to "find the amount of the increase in, or imposition of, any duty or other import restriction on such article which is necessary to prevent or remedy such injury."

In the sheet glass case, three Commissioners made an affirmative finding and complied with the mandate of the statute by finding the amount of tariff increase required to remedy such injury. Under the statute the President may accept the unanimous findings of one-half of the Commissioners as being the findings of the entire Commission. In the sheet glass case, he elected to accept the findings of the three Commissioners who found that the industry had been injured, but he rejected their companion finding that an increase in the tariff to the pre-trade agreement concession rate is required to remedy that injury.

One of the three Commissioners stated in separate views that notwithstanding his concurrence in the finding that the tariff would need to be raised to the preconcession level to remedy the serious injury caused by imports, it was his personal view that adjustment assistance might be used rather than an increase in duty. In support of this conjecture, he assumed that higher tariffs would raise the price of domestic and imported sheet glass, overlooking the more likely result that the reduction in the margin of profit for U.S. importers caused by the payment of higher duties would make foreign glass less competitive at the existing price structure with domestic glass. Increased sales of domestic glass would increase the capacity utilization of the domestic plants whose economics were burdened by 56% idle capacity. The increased utilization would lower domestic costs and increase domestic profits, heretofore at a marginal level, without occasioning a price rise.

He added the further speculation that, if the tariff were increased, the most efficient plants in the industry would benefit rather than the least efficient since the former presumably are more competitive. Overlooked in this speculation is the logical corollary of his postulate that the more efficient plants would likely have a higher capacity utilization rate than the least efficient, so that the increased demand for domestic glass generated by the effects of the tariff increase increase on foreign glass would yield benefits proportionately higher for the most idled plants than for the least idled plants in the industry.

In any event, the Commission did not specifically include in its investigation the development of facts requisite for an evaluation by the Tariff Commissioners of the relative benefits to the industry of adjustment assistance versus tariff increase. The statute charges the Commissioners only with the duty of finding the amount of tariff increase. Therefore, the remarks of the Commissioner who speculated about the possible benefits of adjustment assistance were equivalent to mere obiter dicta.

The White House staff in their preparation of the case for the President's consideration emphasized the lone Commissioner's conjecture about adjustment assistance rather than his participation in the finding that the restoration of the pre-trade agreement concession rates was necessary to remedy the serious injury. The President evidently concluded that only two Commissioners had "recommended" a tariff increase.

His action in rejecting the tariff increase seems to reflect an unawareness of the policy of the law that the Commissioner's expertise be directed to finding the amuont of increase requisite to remedy the injury and the plain fact that in the sheet glass case the three Commissioners whose findings he chose to accept included in their findings the specific determination that the restoration of the pre-trade agreement rate was necessary to remedy the serious injury.

In the development of interdepartmental views in the Executive Branch, similar emphasis is understood to have been given to the individual Commissioner's obiter dicta regarding adjustment assistance in a concerted show of disinterest for the policy of the law in regard to the Commission's findings of the tariff increase required to remedy serious injury.

Another issue laid bare by the Executive's handling of the sheet glass case is the ease with which foreign interests can press self-serving statements upon the Executive without those interests being required to subject their assertions to the fact-finding procedures of the Tariff Commission's investigation or to an opportunity for rebuttal by the domestic industry. Whereas the domestic industry is required and accepts the obligation to submit complete data to the Tariff Commission in the context of the investigation, and subjects itself to the discipline of a public hearing and cross-examination by foreign interests, the foreign interests reserve the presentation of their arguments to the star chamber sanctuary of unilateral presentation through diplomatic channels and otherwise in an ex parte manner within the Executive Branch.

It is understood that action at the White House was premised upon concern for the allegation by Belgian interests that if the tariff were to be increased, the Belgian glass industry would withdraw from the American market, causing a loss of employment to 10,000 workers in Belgium. In point of fact, those allegations would be considered by informed persons as absurd. In 1969, 7,000 workers in the domestic industry produced the glass which supplied 72% of domestic consumption. Of the 28% supplied by imports, Belgium supplied the largest proportion—but this was somewhat less than half of total imports. The Belgian proposition is therefore reduced to the assertion that the total loss of Belgium's sheet glass imports to the United States, accounting for less than 14% of domestic consumption, would involve the loss of 10,000 jobs in Belgium compared to the total of 7,000 jobs in the domestic production of 72% of domestic consumption.

That such fanciful assertions as those pressed upon the Executive by the Belgian interests could be dignified to the point that they actually would become involved in the exercise of the President's judgment provides a sad commentary on the unfairness and the inadequacy of our domestic procedures. If the President's judgment is to be influenced by the balancing of losses in foreign employment against losses in domestic employment, then the procedures for ascertaining the facts in regard to alleged foreign losses should be equal to those now used in determining the impact of imports on domestic employment. Since the existing statute makes no provision for such foreign claims to be presented to a fact-finding body for evaluation, there is a strong inference that Congress did not intend that such allegations of economic injury would be entertained by the Executive as a basis for denying the relief found to be necessary by the Tariff Commission under the Congressional guidelines for the protection of domestic employment.

What the Executive Branch of the Government was willing to do by way of forbearance for the ceramic tile industry in maintaining an effective level of duties in excess of 20%, and what it has vigorously sought to do on behalf of the steel, textile, and footwear industries through the negotiation of restraints on imports, it has declined to do on behalf of the sheet glass industry. There is no justification in the economics for the difference in treatment; one can only surmise that the difference rests in the politics involved. This is not a proper basis for Governmental action in a constitutional tradition which prides itself in the characterization, "a government of laws and not of men."

THE TEXTILE MACHINERY INDUSTRY

U.S. imports of textile machinery had an average value of $43.6 million during the years 1964–1965: Imports rose to $152.8 million in 1969, a 251% increase. Imports from Japan rose by 650%, and its share of U.S. imports doubled. Imports from the EEC increased by 256%. In 1969, the EEC accounted for 58% of U.S. imports.

Total imports' growth averaged 63% per year, far in excess of the average rise in imports of all manufactures. In 1969, we had an unfavorable balance of trade in textile machinery of $29 million.

The average ad valorem equivalent of the post-Kennedy Round U.S. tariff on textiles machinery is 7.3%, compared with 5.2% for the EEC and 7.5% for Japan. The foreign rates are based on c.i.f. value. When the EEC tariff is adjusted to that basis and the weight of the border tax is added, the average ad valorem equivalent of the import charges imposed on textile machinery exported from the United States to the EEC is found to be 16.3% of the f.o.b. origin value, in contrast to the U.S. duty rate of 7.3% based on f.o.b. origin value.

In 1969. U.S. imports of textile machinery, on a value basis, accounted for 21.4% of U.S. consumption, up from 7.6% in the base period. The average labor-intensive ratio for the textile machinery industry during the period 1964–1966 was 59.5%. Under the impact of the import rise, employment in the textile machinery industry declined from an average of 44.2 thousand workers in 1965 to 41.7 thousand workers in 1969. By December 1969, employment had declined to 40.8 thousand workers.

THE BICYCLE INDUSTRY

The United States imported an average of 1.0 million bicycles in the years 1964–1965. By 1969, the import volume had increased to 2.0 million bicycles, up nearly 100%. Imports from Japan increased by 108%, and in 1969 that country accounted for 27% of total U.S. bicycle imports. Imports from the EEC increased by 215%, and bicycles originating there accounted for 31% of U.S. bicycle imports.

Total imports' growth averaged nearly 25% per year, substantially in excess of the average rise in imports of all manufactures. In 1969, the United States had an unfavorable balance of trade in bicycles of $36.5 million.

The domestic bicycle industry has also been the victim of inequitable tariff bargaining. This is shown by the fact that the average ad valorem equivalent of the post-Kennedy Round U.S. tariff on bicycles is 10.3%, compared to 17% for the EEC and 10% for Japan, the latter rates being understated because they are based upon the c.i.f. value. U.S. exports of bicycles to Europe are subject to import charges averaging 30.9% ad valorem when the c.i.f. basis and the border tax are taken into account, compared with the 10.3% U.S. rate.

In 1969, U.S. imports of bicycles accounted for 27.7% of U.S. consumption, up from 19.1% in the base period. The average labor-intensive ratio for the bicycle industry during the period 1964–1966 was 56.3%. Statistics concerning employment in the bicycle industry appear not to be available.

THE HARDWOOD PLYWOOD INDUSTRY

U.S. imports of hardwood plywood increased from an average of 2.0 billion square feet in 1964–1965 to 4.3 billion square feet in 1969. a 110% increase. Total imports' growth averaged 28% per year, considerably in excess of the average rise in imports of all manufactures. In 1969, we had an unfavorable balance of trade in hardwood plywood of $245.9 million.

The average ad valorem equivalent of the post-Kennedy Round U.S. tariff on hardwood plywood is 12.9%, compared with 13% for the EEC and 15% for Japan. Taking into account the c.i.f. basis for import duties in the EEC and the application of the border tax, the ad valorem equivalent of import charges applicable to U.S. exports of hardwood plywood into the EEC is 29.2% of the f.o.b. origin value compared with the U.S. tariff of 12.9%.

In 1969, U.S. imports of hardwood plywood accounted for 72.2% of U.S. consumption, up from 53.4% in the base period. The average labor-intensive ratio for the hardwood plywood industry for the period 1964–1966 was 60.8%, among the highest of American manufacturing industries. Under the impact of the very high and rising level of imports, employment in the veneer and plywood industry, of which the hardwood plywood industry is a part, declined from 75.5 thousand workers in 1965 to 73.6 thousand in 1969. Employment dropped rapidly during the year 1969, reaching 70.7 thousand workers in December, down from 75.3 thousand workers in December 1968.

The above industries have been selected for discussion to illustrate the dilemma of U.S. manufacturing industries which find that their domestic market has been opened up for unlimited access to foreign competitors while the markets of those competitors have been substantially denied to U.S. exports.

The foreign economic policy issues which have been exposed by the discussion and analysis presented in this paper are as follows:

1. The selective exchange of well-defined market opportunities in the U.S. and foreign countries, which was the essence of Cordell Hull's reciprocal trade agreements proposal, has not been realized.

2. Because the trade agreement authority conferred upon the President was used as a species of foreign economic aid rather than as a commercial instrument to benefit American industries *pari passu* with foreign industries, the U.S. share of world exports of manufactures has declined, while foreign industries' share of U.S. consumption of manufactured articles has increased.

3. With the currency for bargaining reciprocal trade advantage on behalf of the United States substantially dissipated by the essentially unilateral nature of past tariff negotiations, the United States is in a very difficult position to advance its own commercial interests in the 1970s because it has little in the way of bargaining power left to use for such purposes.

4. The U.S. leadership/economic foreign aid/invincibility of U.S. export industries syndrome that has dominated the judgment of U.S. negotiators throughout the postwar era is still manifest in the attitude of Executive Department personnel who occupy the interlocking network of foreign economic policy positions in the Executive Department.

5. Contrary to the "holdover" philosophy of foreign aid-oriented trade agreement negotiating experts of the past two decades, the realities of international commercial life are that U.S. industry does not possess any significant technological advantage translatable into competitive cost advantages in comparison with its foreign counterparts. The outlook for the 1970s is that technologically dynamic, large-scale manufacturing enterprises in foreign countries, substantially financed and enriched by technological know-how by U.S. companies, will reap the economic advantage of the cost bias of the lower standard of living of foreign countries and dominate world trade in manufactured products. This dominance will extend to the progressive diminution of the U.S. share of world trade in manufactured products, and the continued and more rapid invasion of the U.S. market by foreign industries. This process is already well advanced.

6. There has been no coherent and consistent policy for the support of domestic manufacturing industries in this type of a contest comparable to the close liaison and effective support which Japan and the developed nations of Europe give their industries in competing for export markets. In the United States, domestic policy is developed on an ad hoc basis influenced primarily by dominant political considerations in favor of the few large industries whose work force and investment fertilize political interests in sufficient States and Congressional Districts to yield commanding political interest in their foreign trade problems. The rank and file of American industries are unable to muster this type of political support and have become the children of neglect and abuse under foreign trade policy administration dominated by the diplomatic imperatives of foreign interests effectively represented in the councils of the U.S. Government by the State Department and the Special Representative for Trade Negotiations.

In a word, the outlook for foreign economic policy in the 1970s is grim and forbidding. The aggregate expression of the above-described issues in foreign economic policy is that of a serious and pervading imbalance in our foreign economic policy concepts and administration which obscures or ignores the valid interests of domestic manufacturing enterprises and their employees for the benefit of the foreign investment of U.S. multinational corporations and the diplomatic ease of the State Department.

My recommendation is that foreign economic policy for the 1970s be significantly restructured and the agencies charged with its administration substantially restaffed with the objective of securing a balanced consideration of domestic with foreign economic interests suitable for advancement in a strong and sustained way of the general welfare of the people of the United States.

This advancement necessarily includes the creation of an economic climate for the strengthened operation of a broad diversity of U.S. manufacturing enterprises within the United States; the protection and advancement of the interests of American workingmen, allowing them reasonable opportunities for the gainful utilization of the broad range of native aptitudes and skills which are characteristic of the American workingmen; and a due regard for the continued fostering of the economic well-being of local manufacturing establishment throughout the United States.

The erosion of the economic vitality, social institutions, and tax base of innumerable small communities in the United States has been the direct consequence of U.S. foreign economic policies in the 1950s and the 1960s. This has had counterproductive social results, by adding to the forces impelling workingmen of manufacturing plants whose present and future have been blighted by excessive import competition to swell the exodus of Americans moving from rural America and small towns to the squalor and congestion of America's teeming and overcrowded big cities.

Senator JAVITS (presiding). Our next witness is Mr. McQuade, President of Procon, Inc., and formerly Assistant Secretary of Commerce for Domestic and International Business.

Would you proceed, Mr. McQuade, bearing in mind also the time limitation?

Your prepared statement, of course, will be put into the record.

STATEMENT OF LAWRENCE C. McQUADE, PRESIDENT, PROCON, INC.; FORMER ASSISTANT SECRETARY OF COMMERCE FOR DOMESTIC AND INTERNATIONAL BUSINESS

Mr. McQUADE. First let me thank you for giving me a chance to appear. I realize that this subcommittee does have a great tradition of making a congressional impact upon the course of foreign economic policy of the United States.

I will begin perhaps by reciting the obvious, that our international trade is useful on the import side. We get raw materials, some of them critical, like chrome and nickel. We get a great variety of goods and services which make America a better place to live in. We have a competitive check on the price and on the quality of American goods and services, to the benefit of the American consumer. And imports provide a peak-shaving function by absorbing some of the excess demand in the United States when we are in an inflationary period.

On the export side, of course, we want to see a continuation in growth of the $37.3 billion overseas market for American goods and services. We want greater employment in the United States, and the Commerce Department has estimated that there are 127,000 jobs associated with each billion dollars of exports. And, of course, we want an important contribution to the U.S. balance of payments.

For the United States it is really important to have a trade surplus, because, after all, we are a capital-exporting country, and we have to look for a trade surplus to help us earn the wherewithal to play financier to the world. It is disappointing to find that our surplus, which used to be running at the level of about $5 billion on an average over the first 6 years of the last decade, fell to $837 million in 1968, and to $1.2 billion in 1969. And as I think you are aware, if you exclude AID and Public Law 480 exports, you end up not in surplus at all.

Now, the most important step we need to take to deal with that problem, I believe, lies in the stabilizing and achieving of a noninflationary domestic economy, because imports performing their peak-shaving function grow very fast when the U.S. economy is overheated. They grew 24 percent in 1968 when we did have inflation, and from mid-1966 to mid-1967 when the economy was stable. They only grew at the rate of 3 percent.

Now, I will try to be terse. The basic formula that I think the United States should follow should be relatively free world trade based on a multilateral basis and not discriminatory. I think we should avoid protectionism. I do not want to build up in the United States a series of relatively less efficient industries. I prefer a dynamic economy where we shift our resources into those activities where we have a competitive advantage. And I think if we hide behind protectionism—a term I don't really like very much—but if we hide behind that we are going to end up by being left behind.

Now, I know that imports can cause real live problems to people. You lose your job sometimes, or your community gets isolated and is in bad straits. And the problem can arise in several ways.

First, in some cases foreign governments subsidize a particular industry. To deal with this situation, we have antidumping, countervailing duties—I agree with Mr. Stewart, they do not always work perfectly—and we have the GATT and the bilateral negotiations which have to be applied as hard as we can to try to overcome these sorts of things.

Second, foreigners have superior competitive circumstances.

And third, we may have a national security rationale, for which we have section 232 of the Tariff Act to deal with. My own feeling is that the ideal of free trade is going to have to give a little in some of these areas, because they create real live problems for American individuals and industry and communities.

But I have three biases. My first is that we ought to be very stingy indeed about extending any of these protections.

Second, I do not think we should establish any special protective measure, with the possible exception of a security one, without concurrently establishing a step-by-step timetable for phasing it out.

I would think 3 to 5 years, maybe longer in some exceptional cases, would be appropriate.

Third, I think that when the Government does change the rules applying to an industry, or to a group of people working in an industry, that we ought to have something in the nature of adjustment assistance, certainly for the people, and in some cases for the communities. I am not fully convinced that industry needs to have special adjustment assistance other than perhaps the time for phasing out which I talked about before.

I am somewhat openminded on the last issue.

The second area I would like to touch on briefly is nontariff barriers. You know the basic problem. And you know that it gets confused with domestic measures, which we really believe have a genuine justification in domestic terms.

I think the Congress should give the administration a blessing in the form of either a statute or resolution which tells the President to go ahead and undertake negotiations in this area.

Tell the executive branch, "We know you are going to scare people by talking about things which they hold dear, but go ahead and negotiate."

With that blessing I think we can make an effort to talk about other people's nontariff barriers, and also talk about our own, somewhat free from political inhibitions which would otherwise, I think, deter the Executive from being successful in his task.

And second, I think in this respect the Congress should designate a group of people to work with the administration in the course of the development of their negotiations, because unless the negotiators have some feeling for what the Congress knows better than they about the temper of (*a*) the people, (*b*) the industries, and (*c*) the Congress, I think these negotiations might come to naught.

The third thing I want to touch on is export incentives. By definition they alter the natural equilibrium. Some are sanctioned, and we more or less accept them—export promotion and credit, for examples. Others are forbidden as forms of subsidies.

It seems to me we ought to do three things. First, fight to minimize unfair incentives of others.

Second, give up plans to adopt subsidies or other unfair incentives on our own side which are likely to trigger retaliation.

And third, get the very best quality of the permitted incentives for ourselves. This includes promotion and credit.

I think the Congress ought to remove the Export-Import Bank's operations from the budget. I think this inhibits our credit without really advancing the budgetary concept very much. My company, Procon, Inc., put $90 million of work into our overseas subsidiaries last year because foreign governments provided better credit facilities. So that is a real live thing.

I would mention briefly something which will be coming up in the Congress from the Treasury and the Commerce Department. It is called Domestic International Sales Corp. It is a proposal for special tax rules to be applied to a domestic international sales corporation.

In order to qualify as this, which has the title of DISC, most of the gross income, say about 95 percent, has to be derived from export sales or services and other activities ancillary to export sales. Most of the assets, again perhaps 95 percent, have to be export-related, including working capital, plant machinery and equipment, and various other items, such as financing, and so forth.

The idea is that as long as the domestic corporation continues to qualify as a DISC, its retained earnings would be exempt from U.S. income tax. Then upon the dividend distribution, the earnings would be taxed to the shareholders as ordinary income tax.

I have not analyzed this to be sure it is right, but I think it is something which certainly will merit full attention of the Congress as an effort to stay within the rules, and also do something to help promote the maximum export effort by American industry.

Now, I have a deep feeling of caution over my fourth point, about the currently popular proposal to use trade measures to affect the balance-of-payments adjustment process. I am not sure it is right, and I am not sure it is wrong. But the idea is that we change the GATT to permit the IMF to authorize the country in deep balance-of-payments difficulty to impose an import surcharge on all imports, coupled, perhaps, with an equivalent export subsidy on all exports. It would have the net effect of an exchange rate devaluation limited to the trade account. This is what Germany did in reverse in November 1969 and in May 1969 as a partial substitute for refusal to revalue the mark at that time.

The object, of course, was to diminish the payment surpluses and to encourage imports and limit the incentive to export by these switches.

The trouble is that it distorts the basic structure of international trade on an expedient ad hoc basis. The norms of good conduct in trade relations get eaten away by exceptions to permit domestic economic indiscipline.

My only feeling is that the international monetary system should better be geared to deal with short-term imbalances of payments by loan and swap arrangements, and longer term imbalances by exchange rate adjustments. I do not think the Johnson administration ever quite decided whether it should try to do this or not.

Other countries have in effect done it, so it may be an inevitable thing.

I really do not know whether this administration has veered very much more one way or the other on this issue than its predecessor. The trouble with accepting the tie between the two is that trade subsidies and the border levies by the United States, which is the world's biggest trading nation, are less practical and more subject to offsetting actions than similar practices by other countries. Because we are such a big elephant in the economic world, we do not have as much flexibility as others. So I am a little leery—without being dead certain that it is wrong—of going along with this current proposal, because I worry about the impact upon the United States and our ability to use it.

The last thing I want to touch on is a special problem. I have spoken about the merits of a multilateral, nondiscriminatory, worldwide system of trade. We are all aware that there is a proposal for less-developed-country preferences.

By definition such preferences are incompatible with the general format I have described.

Now, I think that we could absorb the generalized preference scheme. However, I also think that the world would be better off, at least the trading world would be better off, if we accomplished that by reaffirmation of our traditional most-favored-nation policy, coupled with general tariff reductions on products of most concern to the less developed world, perhaps with commodity agreements and other actions, in order to skin the cat without upsetting what I believe to be a sensible overall international trade posture.

Briefly, I think the preference scheme is not likely to have enough significant real benefits to justify the detriment to sound international practice, and I have my doubts about whether it is a political imperative. However, if it politically must come, I think it is something which would be tolerable in the world structure.

Thank you.

Senator JAVITS (presiding). Thank you very much, Mr. McQuade. That was a very informative statement.

(The prepared statement of Mr. McQuade follows:)

PREPARED STATEMENT OF LAWRENCE C. McQUADE

UNITED STATES FOREIGN TRADE POLICIES FOR THE 1970'S

First, let me thank you, Mr. Chairman, and the other members of the Committee for the opportunity to appear before you today in connection with your consideration of appropriate trade policies for the United States in the decade of the '70s.

This Committee has an impressive tradition of leadership in helping the United States define and implement sensible strategies and programs of the kind the country is seeking in its foreign economic policy.

I propose to comment on eight of the major foreign trade policy choices which the President and the Congress will face over the next few years. Each is a complex mixture of international political relations, of economic policy, and of domestic political pressures. The aspirations and apprehensions of our trading partners, and of our domestic interest groups, over these issues are naturally at their peak in the early stages of a new Administration, when we expect all national policies to be subjected to new scrutiny, new creativity, and new judgments. The President's task and the Congress' task is to steer a course among competing, often inconsistent, yet valid national objectives and to seek a sensible overall balance in the interests of the United States as a whole.

THE U.S. TRADE PICTURE AND A TRADE GOAL

Let me briefly comment on the general background. For over 75 consecutive years, the United States has enjoyed a trade surplus. Between 1961 and 1967, the surplus averaged over $5 billion a year, with a peak of $7 billion in 1964. In 1968 and 1969 we barely eked out surpluses—$837 million and $1,262 billion, respectively. And these numbers would not be in surplus if we excluded exports attributable to AID and PL–480 shipments.

The single most important aspect of the decline in the trade surplus has been the overheated domestic economy. In 1968, with inflation a powerful force in the economy, imports grew at the rate of 24% to $33.1 billion. Contrast this with a 3% growth in imports between mid-1966 and mid-1967, when the pace of the U.S. economy was in balance. Imports are, of course, helpful in stemming price rises when domestic demand is outrunning normal supply. But, it hurts the balance of trade and the balance of payments.

The importance of the import variable shows up when we appreciate that the *export* performance of the United States has been quite good. Between 1961 and 1967 U.S. exports grew at a compound annual rate of 7.4% and, in 1968, they grew by 10% to $34.1 billion. In 1969, they grew by another 9.5% to $37.3 billion. This is a healthy tribute to American business. Yet, unless the export growth rate is a couple of percentage points *ahead* of the import growth rate, we will not regain a substantial trade surplus within the foreseeable future.

An interesting aspect of the trade turnaround is the sharp decline in the U.S. trade relationship with a few key countries while our relative trade balance improved with the rest of the world in the aggregate.

As Paul Porter of the U.S. Department of Commerce describes it:

"In 1961 four countries—Canada, Japan, Germany, and Italy—by their trade with the United States contributed $2.4 billion to the U.S. trade surplus of $5.5 billion that year. By 1968 a half billion dollar trade surplus with Italy had fallen to zero and trade with the other three resulted in a combined deficit of $3 billion. In the meantime, trade with Hong Kong, which had yielded a modest $10 million surplus in 1961, resulted in the fourth largest deficit in 1968, a sum of $333 million. In the same seven year period, the U.S. trade surplus with all other countries as a whole rose from $3.1 to $4.2 billion."

During this period, these radical switches could be attributed to a combination of U.S. inflation and increasing competitiveness by Japan, Germany, and Italy and under-valuation of their currencies in relation to the rest of the world.

(Italy's economic troubles and Germany's revaluation change the current outlook.) The Hong Kong phenomenon obviously stems from Hong Kong's growing role as a low-wage processing center for internationally integrated manufacturing.

Other factors to take into account in reviewing the decline in the U.S.trade surplus, include the heavy cost of dock strikes, which seem to hit exports harder than imports; less successful export incentive and promotion programs in the U.S. than in some other countries; relatively greater non-tariff trade impediments in other countries than here; a decline in growth of U.S. agricultural exports; and the spread of technical competence and economic capability more broadly in the world. Some of these can be transitory; others, basic to the longer-term outlook.

The sharp decline in the ability of the United States to earn a trade surplus is a matter of grave concern.

(a) The trade surplus has historically been the source of the earnings of foreign exchange which enabled us to pay for imports of goods and services, overseas travel by Americans, the cost of our international security activities overseas, and the export of capital in the form of loans and investments overseas.

These outflows from the United States have been a generating force for the world economy, an imperative to the international financial system, and a stimulant to the growth of our own economy.

(b) Without a healthy trade surplus, we cannot reasonably hope for a satisfactory equilibrium in the U.S. balance of international payments. Such an equilibrium—at least over time—is essential to the strength and stability of the U.S. dollar. And, the $7 billion payments deficit in 1969 is staggering.

As I see it, a reasonable goal for the United States to set itself is to regain within the next several years a trade surplus of the rough magnitude of $5 billion.

Re-establishing a stable, non-inflationary domestic economy is a prerequisite to this goal.

A more complicated set of choices lie in the trade policy area, where we should adopt courses both likely to help us on the trade front and also compatible with responsible pursuit of broad U.S. interests in this interdependent world.

Turning now to these policy issues.

BASIC THRUST

By far the most important issue is the choice of a basic norm. What international trading rules make most sense for the overall national interest of the United States?

For the past 36 years, the United States has seen this advantage in a worldwide reduction of restrictions on the flow of goods and services across national boundaries.

We have made substantial progress toward a freer trading system. Since 1934, U.S. tariffs have dropped from an average of 47 percent to 11 percent today. Other major trading nations have made similar adjustments. Moreover, since Bretton Woods, the basic format of the non-Communist trading world has been multilateral and non-discriminatory with reliance on most-favored-nation tariffs.

It is no mere coincidence that free world trade has doubled in the past 7 years to over $250 billion. If the trade of the free world moves ahead between now and the year 2000 at just half this rate, it will still rise to more than half a trillion dollars. Of course, the population explosion and accelerated economic development generate rising levels of international trade. But, an expansion of this scope would have been impossible under the restrictive trade policies abandoned in the 1930's.

This recital of the overall virtue of a liberal international trading system may not persuade the individual, the company, the industry, or the community dependent upon a plant in an industry which is losing sales and jobs to import competition. For them, the real-life issue is whether they will lose their jobs and economic well-being. Most can, and will, adjust to competitive realities; but many will view an adjustment forced by imports as impossible, unwise, or unfair and will seek the shelter of trade restrictions.

Since completion of the Kennedy Round in mid-1967, the Congress and the Federal Government have been continuously bombarded by powerful pressures for a variety of restrictive trade measures, especially import quotas. In the last Congress, quota bills were introduced to protect products ranging from mink to zinc, from consumer electronic items, dairy products, and meat to steel. The proposed quotas would have covered about $7 billion in U.S. imports—close to half of all dutiable products. Across-the-board quota bills, also introduced into the last Congress, would have affected about 80 percent of dutiable U.S. imports. A panoply of quotas on this scale would shatter world trading arrangements as they now exist.

It would evoke major retaliation by other countries against our most successful and industrial exports.

It would effectively limit the overall level of world trade, for others need to earn in order to buy.

It would freeze relative shares of the U.S. import market among other countries.

It would protect and promote inefficiency in the U.S. domestic economy, insulating a protected industry from one of the competitive incentives to resist rising costs.

It would impose higher product prices and a more limited product choice upon the American consumer.

It would deeply scar U.S. political relationships with its trading partners, including Japan, Canada, and Western Europe.

Of course, this apocalyptic vision of the quota bills *en masse* should not obscure the genuine problems of the business or industry that seeks protection.

In some cases this arises from "unfair" competition, a term subject to misuse. But where another country subsidizes or otherwise provides special advantages to an industry, as alleged in the case of steel exported to the United States, the U.S. industry understandably wants to strike back. Anti-dumping and countervailing duty legislation, the GATT treaty and direct bilateral negotiations are among the respectable methods for offsetting or overcoming this kind of disadvantage. Quotas and tariffs and direct subsidies to U.S. producers are among the more drastic possibilities.

It is hard to sort out the extent to which an import which out-competes its U.S. produced counterpart (a) is simply better in quality or in economic efficiency measured by price or (b) is more competitive because of Government assistance. In economic terms, I'm not sure it matters—at least not to the U.S. consumer.

Another set of cases consists of industries in which a large element of unskilled labor content or some other generic factor makes the U.S. firm or industry uncompetitive. If some U.S. Government action, such as a downward adjustment of a tariff, precipitates the uncompetitive circumstances, some ameliorating Government actions *limited to a fixed period of adjustment* seem appropriate. It might be direct assistance, as applied during the phasing in or the "free trade" arrangement for auto parts between Canada and the United States. Or, it might be a more liberal "escape clause" arrangement. The important point is that we must expect a dynamic, healthy American economy to change its mix of goods and services constantly in response to market forces. Ameliorating actions should not become permanent protection.

Still another possible category in which special circumstances may justify interfering with the international market mechanisms relates to our national security. All nations recognize this exception. The issue is how to make sure the cases are genuine. Section 232 of the Tariff Act has a procedure for making this determination. Unfortunately, the steel industry and others have chosen the less professional medium of political action to argue their "national security" relationship rather than the Section 232 procedure.

The exceptional categories I have described must be kept to the very minimum if the broad liberal trade policy, which has done well for us over the decades, is to prevail.

President Nixon has said he proposes to continue the long-standing liberal trade policy of the United States.

He makes an exception for textiles, where he is pledged to negotiate for extension of the International Arrangement for Cotton Textiles (under which bilaterally agreed limits on exports to the U.S. are negotiated) to include wool and man-made fibers.

He has also acquiesced in the voluntary quotas adopted by European and Japanese steel companies limiting their exports to the U.S. to 14 million tons in 1969. This arrangement, of course, will look and function like the traditional international cartel. It came into existence under the spur of the U.S. State Department and fear of Congressional quota legislation. While the U.S. Government will presumably not attack it under the antitrust laws, private plaintiffs may.

In short, President Nixon is prepared to mix some selected protective measures into the long-standing liberal trade posture of the country. No President and no nation has ever been an utter purist, or should be.

I would, nevertheless, urge three things:

(1) that exceptions to the liberal approach to international trade by very limited indeed;

(2) that no special protective measure (except possibly one based on the national security) be established without also establishing a phased period of time over which its benefits would be reduced on a step-by-step basis; and

(3) that adjustment assistance be made available for employees and (in some instances) for communities where they are hurt by import competition stemming from a Government action changing the trade rules in their disfavor. (I am much less certain that I would support such adjustment assistance for business.)

U.S. trade policy goal should be a satisfactory international trading environment. It's method should be working with other countries toward a generally more liberal, non-discriminatory multilateral system of international trade.

NTBS—A TRADE INITIATIVE

A second basic issue is what initiative, if any, the United States might undertake as a next step in pursuit of a liberal trade policy. A general round of tariff negotiations does not seem in the cards for the next year or two. The world will be implementing and digesting the Kennedy Round concessions at least through 1972. Moreover, the general level of world tariffs is now reasonably low. Those tariffs which remain high tend to be tariffs with particularly prickly, specialized aspects not easily dealt with in a broad front negotiation.

An insidious, complicated, and difficult set of trade impediments collectively termed "non-tariff barriers" does, however, present an area where an imaginative U.S. initiative seems appropriate.

In this area, every nation sins. Many of these barriers have an innocent important domestic purpose or appearance, yet have an impeding and discriminatory effect on trade. For example, safety regulations, marking and labeling requirements, food and drug standards, border taxes, health and sanitary regulations. Others are difficult to detect, such as arbitrary or dilatory customs practices and unpublished but effective restrictiveness in government procurement.

The American Selling Price method for determining the tariff on benzenoid chemicals and a limited number of other products results in effective rates well over 100 percent in some instances. Although this represents only about 1.5 percent of domestic sales of similar products, the Europeans offered (a) cuts in their chemical tariffs beyond the Kennedy Round cuts, (b) liberalization of road taxes in Belgium, France, and Italy which hurt U.S. auto sales to those countries, and (c) other concessions if the U.S. would eliminate ASP. The chemical industry, however, has stood staunchly against such elimination. Neither President Johnson nor President Nixon nor the Congress has fought a full battle to effect removal.

We are also accused of imposing NTBs by such things as our auto safety regulations, our Food and Drug Administration procedures, and other things which we regard as valid domestic actions. In brief, the non-tariff barrier situations in our country, as in others, will pose difficult political issues even when the "package" to be gained contains benefits related to the industry asked to forego the protective barrier.

Given the lack of uniformity in the non-tariff barriers used by different nations and the difficulty of identifying and evaluating the unjustified practice, an orderly negotiation of *quid pro quos* on a multilateral scale presents extraordinary complex problems. These are enhanced rather than diminished by the domestic political consideration facing each country as it weighs the elimination of laws or practices affecting interest groups.

Take the European system of border taxes-tax rebates. As part of the tax harmonization bringing the Common Market countries into closer institutional alignment, all six members of the EEC will ultimately adopt this tax system. The U.S. and others view it as unfairly discriminating against our trade. Its legitimacy in the eyes of the Europeans (and the desirability in U.S. eyes of tax harmonization as an element in European integration) make our diplomatic offensive against it difficult.

I see at least three approaches to the non-tariff barrier problem.

First, direct negotiations with the particular foreign country over specific non-tariff barriers of prime concern to the United States.

Second, use of multilateral forums, such as OECD, GATT, etc. to develop guidelines on issues of more general interest, e.g., greater fair-play in government procurement practices.

A *third* possibility is industrial sector negotiations in which all of the impediments to market access in a particular sector of industry—tariff and non-tariff barriers, restrictive business practices, state trading differential freight rates, etc.,—might be multilaterally discussed and negotiated.

For the Administration to undertake these sorts of negotiations without exposing itself to serious domestic political difficulty, it should get some sort of "blessing" from the Congress. It seems imperative to have a joint resolution or a statutory expression by the Congress approving international discussions and negotiations over these issues, subject, of course, to presenting the results of such negotiations to the Congress for the final action.

I also see merit in a running consultative arrangement between the Administration and a group designated by the Congress, so that the judgments and practical insights of the Congress are brought to bear *in the course of events* rather than afterward.

AGRICULTURE

A *third* major trade question lies in the area of agriculture. I will mention it only briefly. I realize that this Committee will devote tomorrow's session to it.

International trade in agriculture presents a Byzantine performance of subsidies, restrictions, quotas, variable levies, and minimum import prices.

It meshes into domestic programs of agricultural price supports and poses for the President a long-standing, politically potent skein of artificial interferences into the market mechanism.

The United States—as the biggest exporter of agricultural products and the third biggest importer—has a big stake in keeping world markets open. This ticklish enterprise entails urging other countries to take measures which tend to alienate rather than gratify the farm element of their populations; and it entails readiness to reciprocate with a moderation of our own measures to help U.S. farmers.

The most troublesome issue for the United States is the European system of variable levies. These apply to imported agricultural commodities in the amount necessary to raise the import price up to, or above, domestic support levels. Such levies insulate Europeans from much lower-cost American grain. Moreover, they induce the unloading of European dairy and grain surpluses overseas by use of export subsidies. The cost of the combination of support payments and export subsidies exceeds $2.5 billion a year. These circumstances make a favorable technocratic case for a European move to moderate this practice. But in Germany, plagued with an especially high-cost agriculture, and in other EEC countries, the farmer has a powerful political position.

The combination of the French devaluation and the West German revaluation has strained the EEC agricultural arrangement. Ultimately, its tolerability in terms of cost is likely to create more grave misgivings within Europe than American oratory does.

Our most likely course on agriculture lies in negotiations, both bilateral and multilateral. A U.S. diplomatic effort might combine (1) a carrot by proposing parallel phase-outs of our agricultural barriers in return for (a) similar phase-out by the EEC and (b) a stick by threatening U.S. subsidies to offset those of the EEC in third-country markets. Such a policy would involve a political price with important elements of our own farm constituencies, as well as some unpopularity abroad.

EXPORT INCENTIVES

A *fourth* decision for U.S. trade policy relates to incentives.

The definition of a forbidden export subsidy is murky. For example, we sometimes get complaints that our economic assistance loans, tied to U.S. procurement, are an unfair subsidy for U.S. exports. In turn, we tend to regard the European border tax-tax rebate system as a combination tariff-subsidy.

Straightforward subsidies, of course, are forbidden by GATT. Diplomacy and treaty rights can be brought to bear in these cases. Moreover, the U.S. countervailing duty law, while not perfect, gives the U.S. a means to fight such subsidies.

In practice, these techniques have not been fully successful, especially when addressed to camouflaged situations. Japan and France gain a competitive edge through abnormally low export credit rates. Is this something we should try to deter? Or outcompete?

Analytically, any export incentive anywhere detracts from equality of opportunity. But world-wide abrogation of *all* export incentives is virtually impossible to achieve.

As a practical matter, the U.S. has—

fought to minimize the most unfair incentives or subsidies of other countries;

adopted for itself the more reasonable export incentives—government export promotion programs, government credits through the Export-Import Bank and the Agriculture Department, etc; and

eschewed major subsidies.

This seems to me an unexciting but sensible course. Tax incentive of the right magnitude could be a major stimulant to U.S. exports—provided it did not trigger a series of competing or countervailing tax and other barriers by other countries. As things now stand:

(a) A tax incentive capable of being effiective would be illegal under GATT unless in the form of a border tax-tax rebate. That only makes sense if the turnover value added tax (or its equivalent) makes sense in terms of U.S. domestic tax needs.

(b) The country would have difficulty accepting the revenue losses—or imposing offsetting taxes—which would stem from an effective export tax incentive.

(c) The Congress would have political difficulty in passing a proposal for an export tax incentive which will be viewed as competing with proposals for tax incentives to give private enterprise a profit motivation for helping deal with major national domestic problems of the inner city and the like.

(d) A U.S. tax incentive which really worked would stir lots of counteractions by other countries. We are too big a part of the international trading community for them to react in any other way.

In brief, psychologically and politically, the prospects for a really effective tax incentive do not seem good. (I don't consider lessening the restrictions of Section 482 or even the promising proposal to permit a Domestic International Sales Corporation to defer Federal income taxes on exports potent enough to be "major tax incentives.")

More promising is the use of export credit as a means of spurring American exports. I see its value in my own business. PROCON Incorporated engineers and builds petroleum refineries and chemical plants on a world-wide basis. In 1969, we added four new project and over $90 million of new business to our French and our British subsidiaries *because* of lower effective interest rates and greater flexibility of financing by their Government export credit agencies. Otherwise, we might have done the transactions out of Chicago.

Henry Kearns, the President of Ex-Im Bank, has shown imagination in using the tools at his command to help the exporter. To give him the necessary authority to compete more successfully with Britain's ECGD and France's COFACE, the Congress should eliminate Ex-Im Bank's operations from the budget; that is, Ex-Im Bank's net annual cash outlays (or receipts) should not be included in determining whether there is a budgetary deficit or surplus.

Given the impossibility of negotiating full equality in the matter of incentives, the United States (a) should adopt first-class export incentives in those areas which, in international practice, have become "permitted" and (b) should avoid extremes likely to trigger a pattern of retaliation and counter-retaliation.

TRADE AND PAYMENTS RELATIONSHIP

Fifth, the United States must consciously or unconsciously develop an approach favoring or disfavoring use of trade incentives or disincentives to deal with balance of payments maladjustments.

Economic tradition puts the burden on redressing imbalances of payments upon domestic fiscal and monetary measures. But in the real world, countries struggling with imbalances in their international payments often seek to moderate their payments problem by manipulating other factors. The trade account can be used for this purpose, through surcharges, subsidies, deposit requirements, quotas, and the like. France, Canada, and the United Kingdom have done one or more of these things within the last few years, and the United States seriously considered a surcharge in 1968.

Under Article XII of GATT, a country in balance of payments difficulties may impose import quotas—but not less-offensive import deterrents or export subsidies. In practice, countries generally by-pass the GATT procedures, first, as too cumbersome and uncertain procedurally and, second, as too unsubtle a remedy.

A currently popular proposal is to change the GATT to permit the IMF to authorize a country in deep balance of payments difficulty to impose an import surcharge on all imports, coupled with an equivalent export subsidy on all exports. This would have the net effect of an exchange rate devaluation limited to the trade account. Indeed, West Germany used the reverse of this technique in the monetary crises of November 1968 and May 1969 as a partial substitute for its refusal to revalue the mark at that time, as urged by the rest of the monetary powers. Germany cut its border tax on imports and its correlative tax rebate to its own exporters. The object was to diminish the payments surpluses piling up in Germany by encouraging imports and limiting the incentive to export.

The trouble with all of this is that it distorts the basic structure of international trade on an expedient, *ad hoc* basis. Norms of good conduct in trade relations get eaten away by exceptions to permit domestic economic indiscipline.

The better way would be for the international monetary system to deal with short-term imbalances of payments by loan and swap arrangements and the longer-term imbalances by exchange rate adjustments.

The Johnson Administration never quite decided whether it should seek to tie balance of payment adjustments to trade policy, or, alternatively, to seek their separation. Actions of other countries, to which it acquiesced, tied the two together in particular instances. This may be inevitable.

The Nixon Administration may embrace and capitalize upon this phenomenon, or it can seek to control it, as far as possible, in favor of monetary actions. One trouble with accepting the tie between the two is that trade subsidies and border levies by the United States—the world's biggest trading nation—are less practical and less subject to offsetting actions than similar measures by other countries. The economic mastadon has less flexibility than others.

REGIONAL TRADING BLOCS

The broad picture of a trading world based on relatively universal, multilateral, non-discriminatory trading system has some special problems to it. My *sixth* point relates to the subject of this Committee's session earlier this week—regional trading arrangements such as the EEC, LAFTA, etc.

They have benefits; yet, they also entail risks. At worst, they could trigger fractionalization of the world trade into a series of trading blocs, deals, double-deals, trade wars, and other splits with unfortunate political as well as economic consequences. They need careful watching.

A regional trading arrangement is legal under GATT only if it frees substantially all trade among its members and does not increase tariffs against other countries. Unless they fully abide by the GATT standard, such arrangements challenge the most-favored-nation principle of equal non-discriminatory treatment for all.

There are many pressures for deviation from these standards. Nigeria, Austria, and Israel, for example, either have or seek relationships with the EEC which give them trade benefits without full membership. The special relationship between France and her former African colonies entails another discriminatory preferential arrangement.

A more consequential example was the 1968 proposal to unite the European Economic Community and the European Free Trade Association into a customs union. The alleged objective was to improve British chances for entry into the EEC by an arrangement tolerable both to France and to other members of the Commerce Market.

The proposed preliminary step was a grant by the EEC and EFTA to each other of tariff preferences on selected products. This would be an outrage; putting the United States and other non-participants at a competitive trade disadvantage with no satisfactory compensating benefit.

We helped foster the EEC believing it would benefit our national goals to have an economically healthy and politically unified entity in Western Europe. EFTA seemed an appropriate way to promote greater economic success for the Outer Seven. However, we have to be alert to frustrate a perversion of these institutions into straightforward cartel-like deals for trade reciprocity from which the rest of the world is excluded.

The United States will almost surely have to make difficult political-economic choices and pursue tough, intricate diplomacy with respect to the uses and abuses of regional trade groups in Western Europe.

Regional trade groupings composed solely of less developed countries can be misused too, but the impact on the world trading system is less profound. The impact on the protected countries of excessive tariffs has been eloquently described by Roberto Campos Salas, Mexico's Secretary of Industry and Commerce:

"Production at prices at wide variance from those competitive in the international market prevents us from capitalizing on the advantages of international labor distribution and specialization. A vicious circle of high costs will be reached, in which, from raw materials to finished products, it will not be possible to take advantage of the opportunities which the markets of the highly industrialized countries are opening to us for the production of labor-intensive manufactures."

Where a bloc of less developed countries and a bloc of industrialized countries enter special arrangements, it creates discrimination and spheres of influence and a potential briar patch of trade barrier to choke international commerce.

By expressing these thoughts, I do not wish to be in opposition to regional arrangements as such. I just want to record a note of caution against their misuse.

PREFERENCES FOR LESS DEVELOPED COUNTRIES

This leads to a *seventh* trade policy issue. What are the merits of current proposals to grant trade preferences to the less developed countries?

I have read the Chairman's recent remarks on this subject and I realize that the Committee's schedule includes a session directly on the subject. It is, nevertheless, of interest to this session on developed country trade, since such a preference system would entail a deviation from the non-discriminatory, MFN general trading system.

Self-development, foreign private investment, international commodity agreements, and foreign economic assistance have all helped improve the economic performance of the less developed world. But, it has not been enough. The less developed countries argue that they need a special break—tariff preference for the sale of their products in the industrialized countries. They want to earn foreign exchange for development through trade.

The simplicity and appeal of this argument calls for perspective. The LDC preference system would break with the long-standing U.S. commitment to the principle of universality and most-favored-nation arrangements in favor of selective discrimination. It's only justified if it promises to yield substantial benefits to the less developed countries. And these benefits are not clear.

The major categories of commodities which the less developed countries sell to the United States fall into two categories: those with low or zero tariffs (where a preferential system would have no effect) and those which are "sensitive." Domestic producers have already created, by political persuasion not easily ignored, special protection for many of these sensitive categories, for example, petroleum and textiles. Assuming that any preference scheme would have to except sensitive items to be politically realistic in the developed countries, the prospective trade benefits for the less developed countries from the preference scheme become quite small.

Furthermore, the benefits accruing in the area of light manufacturing—the main category of promise—would go to a limited number of less developed countries, like Mexico and Taiwan, which have a marked advantage in competitiveness over other, less successful economies in the spectrum of "less developed countries."

President Johnson, faced with political pressures from the less developed countries and an upswing in discriminatory arrangements between European nations and their former colonies, set a new course for the United States in 1967 at Punta del Este: He told the other American Chiefs of State:

"We have been exploring with other major industrialized countries what practical steps can be taken to increase the export earnings of all developing countries. We recognize that comparable tariff treatment may not always permit developing countries to advance as rapidly as desired. Temporary tariff advantages for all developing countries by all industrialized countries would be one way to deal with this: We think this idea is worth pursuing."

The Johnson Administration laid great stress on a universal system for all less developed countries and a termination of "reverse preferences" by the less developed countries for the goods of selected industrial countries. Among others, the Commonwealth preference system would have to go.

During the Presidential campaign, Mr. Nixon seemed to subscribe to a system of tariff preferences for Latin American exports, but he now is pursuing the course President Johnson initiated—a non-discriminatory, generalized preference system. If this fails, a special arrangement for Latin America seems to be an alternative. This would reinforce tendencies toward regionalized trading blocs.

While I believe we could absorb the generalized preference scheme. I think we would be better off to skin the same cat by a reaffirmation of our traditional MFN policy coupled with commodity agreements, general tariff reductions on products of most concern to the less developed world and other compensating actions. I favor the last course on two grounds: (a) I believe the preference scheme is not likely to have enough significant real benefits to justify the detriment to sound international trade practice, and (b) I suspect that the political imperative of the preferential scheme is overstated.

From the U.S. point of view, MFN makes the most sense. However, if politics and psychology *do* require an LDC preference scheme, it is less unsettling to our overall trade goals and more beneficial to the LDC's if achieved on a world-wide basis rather than within regionalized blocks.

EAST-WEST TRADE

Eight, the problem of East-West trade continues to be with us despite the passage of the Export Administration Act of 1969. In my view, the Congress should open up the possibility of integrating trade with Eastern Europe into the general international trade structure by enacting the East-West trade bill introduced by Senator Magnuson last year (S. 2283). The bill would give the President authority to offer non-discriminatory tariff treatment to the individual countries in Eastern Europe in return for actions by them of benefit to the United States. Only Poland and Yugoslavia now have the benefit of MFN treatment under U.S. tariff laws.

The Congress should also remove the effective prohibitions on Export-Import Bank financing of transactions with Eastern Europe.

CONCLUSION

I have tried to approach these eight issues with a basic philosophy generally favoring economic efficiency in the international trading system. An efficient system should produce more goods and services and ultimately serve everybody better, including the United States.

However, I recognize (a) that an efficient system gets distorted in a variety of ways, some of which are uncontrollable; (b) that political and psychological and other factors may be more important in any given instance than the economic factor; (c) that the shifting of resources in the kinetic process of seeking economic efficiency via the market-price system has its human costs which need amelioration; and (d) that equity is very difficult to achieve internationally since not every country is likely to play fair on every issue—or even to see all the issues our way.

The value to the United States of an open international trading system shows up on both sides of the ledger. From *imports*, we expect—

raw materials, including critical items like chrome and nickel;

an addition to the variety of goods and services available to the American consumer and American industry;

a competitive check on price and quality in the American market; and

a "peak shaving" function by absorbing some of the excess demand in the U.S. when we're in an inflationary period.

From *exports*, we expect—

a continuation and growth of the $37.3 billion overseas market for American goods and services; greater employment in the United States, estimated by the Commerce Department to be 127,000 jobs for each additional $1 billion of exports; and an important contribution to the U.S. balance of payments.

Senator JAVITS (presiding). Mr. Kravis is our next witness.

STATEMENT OF IRVING B. KRAVIS, PROFESSOR, DEPARTMENT OF ECONOMICS, UNIVERSITY OF PENNSYLVANIA

Mr. KRAVIS. Mr. Chairman, I hope your policy will not apply to campuses. Professors have enough trouble with universities without this new element of such stern limitations on their time.

Senator JAVITS (presiding). Professor Kravis, I might say that each of the witnesses has taken 15 minutes. And I think for a panel of five you would agree that that is not restricting the witnesses unduly.

Mr. KRAVIS. Indeed, sir.

I would like to address myself in my summary of my statement to two of the main arguments that have been advanced reflecting the alarm of industries at what appears to be a deteriorating trade position of the United States. Both of those arguments center upon the notion that international competition is unfair to the United States. And I think there are two major strands to this feeling of unfairness. One is based on the real fact that foreign laborers' wages are very low relative to U.S. wages. The other is based on notions of inequity in commercial policy. American automobiles, for example, entering France pay border adjustment taxes, are subject to higher internal taxes because of the way the internal French tax structure deals with high horsepower, and there are a host of these things which I think largely correctly have been described as hurting American exports and weakening the competitive position of American industry abroad.

These arguments should be assessed in the light of the position of the United States in the world economy. Most aspects of this position are very familiar. The United States has an advantage in capital-intensive sophisticated products. It has an advantage in products that are produced on a large scale. Some of this, particularly the large-scale part, is not so obvious as one thinks at first.

A part of this large scale comes not just from having a very big plant, in the shoe industry or even in the automobile industry. Most big industrial countries, and even some small ones, have large enough economies to have big plants in most industries. However, the low costs from large scale have been coming increasingly from very long production runs of a specialized variety of products.

One of the things that has happened in the economy of the United States and other countries is an enormous increase in the diversity of products. The American economy by its vast size can produce very long runs of special variants in each industry. For example, special kinds of antifriction bearings that occupy only a tiny fraction of the American market can be produced in a long run in the United States because a tiny fraction of the American market is a very large amount in absolute terms. But abroad, even in the United Kingdom or Germany, that same fraction of the market permits only a small production run. The result is that although ordinary bearings are available very cheap abroad, and come into the American market, special kinds of bearings, such as those that resist corrosion or heavy pressure, are exported by the United States. Thus, the United States has a net export position in antifriction bearings.

Now, another aspect of the American position which I think is worth commenting upon is the great political and economic power of the United States. This affects our trade relations in that it has created a series of foci of countervailing power. The establishment of regional entities all over the world is a response to the obvious power of the United States. It is well known, for example, that the first and most conspicuous and most successful of these regional organizations, the Common Market, had as its impetus for formation partly in the feeling of these six countries that they were dwarfed by the giant size of Russia on the one side and the giant of the United States on the other.

The growth of regionalism threatens to make a shambles of the basic American policy of nondiscriminatory trade. This is, in part, a response to American power, and we have to understand it as such. We should realize also that every national or regional grouping has a tendency to do its best to shift the burden of adjustment to outsiders. Whatever the source of trouble, whether it is due to foreign imports or some other reason, there is a tendency to protect insiders and to shift the burden of adjustment to outsiders.

We have done that ourselves in hats and dairys products and other industries, and the Common Market has done it to us in coal, chickens, and so on.

There is one new factor in world trade that I think is very important and significant, and that the Congress ought to bear in mind in formulating trade policy for the future. That factor is the growth of intra-industry specialization. In the classical model one industry was supposed to disappear because the other country could produce the goods more cheaply and it would all be imported, and some other industry would grow in the country and it would export everything, and that industry would disappear abroad.

That is not the way the expansion of international trade has been working. What has been happening in the Common Market, for example, and in the world generally, is that there has been a great expansion in trade of specialized variants of products within industries. If you look at the trade statistics of the United States, say for pumps, you will find that we are exporting pumps to Germany and we are importing pumps from Germany. We are also exporting centrifuges to Germany, and importing them from Germany. And the same is true of virtually the whole list of manufactures. The reason is that each market has special varieties of these products that have been developed, partly for random reasons but probably more often to meet the special needs or tastes of the local market.

For example, an American producer who needs a printing press that is versatile, that is not built for long production runs, may find that the printing presses in Germany are attuned, adapted to that kind of work. On the other hand, in Germany where a particular producer needs a printing press that will run forever and produce lots of copies of the same thing, he may find it advantageous to buy that in the United States.

If we are to participate in this kind of international specialization, we have to be in a position where we are in other markets on equal terms. If we do not get in that position, we are going to be at a disadvantage across the board in world trade.

Now, I would like to turn, in the light of these general comments, to the labor cost argument. Of course, in those industries where the United States does not have particular sophistication, or where the advantages of sophistication or large market size are not very important in their effect, and where labor costs are very important, the United States is going to be at a disadvantage. Industries producing products like that are going to find foreign competition tough.

On the other hand, those American industries which are producing sophisticated products, which are capital intensive, will find that they can export. The foreign company manufacturing such goods, say computers, feels just as much at a disadvantage, at a hopeless disadvantage, in the face of the large U.S. firm as the American textile manufacture feels when he faces low wages competition from India.

The question is, what should we do about it? What should each country do about it? Should each country say that any advantage that the other fellow has is unfair? Should we say it is unfair competition because the other country has low wages, and should they say it is unfair competition because we have a lot of capital? To do that is to say there ought to be a sports contest in the world. The advantage that any foreign company or country has ought to be thrown away. You ought not to permit your consumers to benefit from that advantage. You ought to discount that, and make everybody equal and see which guy can win the race then. That is not what I think economic activity is about. The purpose of our economy is to get the most we can out of our resources. If we can find that foreign countries can sell textiles cheap, we ought to buy them cheap, and we ought to sell to them what we can make cheap.

Someone may say, well, suppose this is true across the board, suppose all wages are so low in every industry, and that all goods are cheap abroad. Well, of course, the answer there is, that we have got to change our exchange rate. We have got to do it directly or indirectly; either through a direct change in exchange rate or through relative price levels.

If you do want to use tariff policy for that purpose, the appropriate method is an across-the-board tariff—an equal ad valorem tariff—accompanied by an equal ad valorem subsidy. That is the only economic way to use commercial policy for the general trade balance.

Now, the other argument concerning unfair competition, which I think has validity, refers to disadvantages faced by American firms in gaining equal access to foreign markets. The question is how do we cope with that?

If we try to cope with it by saying, the United States stands squarely and firmly for a free trade policy, and for a policy which will minimize all distortions of the competition introduced by public policy, I think we have a chance of reducing the disadvantages that our products face.

But if instead we say, well, we are for free trade, wherever it does not embarrass our domestic industry, where it does not cause difficulties for us, but where it does cause difficulties for us, we want to curb imports, why of course we are not going to fool anybody.

What we will do is strengthen the protective cast that prevails in many foreign countries, including the Common Market. So that it seems to me that we have two broad choices. Either we follow a policy of ad hoc protectionism, in which case we will isolate the American market increasingly from world competition, or we try to use our great power to bring about a world trading system in which economic advantages and not government regulations determine trade flows.

The latter course of action is not an easy course of action. It involves an uphill struggle at home with political forces that favor protection. I can understand that if a man is accustomed to a certain kind of work, and he is threatened with a loss of job, and that if an employer who has his whole stake in a particular industry is threatened with a loss of his capital and his livelihood, I can understand that people will take whatever action they can, and they will use political instruments if they can. They have, of course, every right to attempt to influence the Congress in their favor. But I think the Congress should assess the difference between the particular interest and the public interest. In all these cases the public interest, it seems to me, favors movement toward freer trade.

The interests of the United States will be best served from an economic standpoint and from a political standpoint by standing squarely for a world in which public power is not used to hinder commerce, but one in which public power is used to facilitate competitive relationships in the world economy.

The world is becoming more and more a single economy. The freedom of decision of the United States, or any other country, on which course to follow, is becoming more limited. The fact that we have a growth of multinational corporations indicates that business has already perceived the world as a single economy. And I think the sooner American policy is attuned to that fact the better off our country will be.

Thank you, Mr. Chairman.

Senator JAVITS (presiding). Thank you very much, Mr. Kravis. I hope you did not feel inhibited.

Mr. KRAVIS. I hope you did not take amiss my attempt at humor.

(The prepared statement of Mr. Kravis follows:)

PREPARED STATEMENT OF IRVING B. KRAVIS

The formulation of a national trade policy for the 1970's must rest in part on the characteristics of the U.S. economy and its position in the world.

The salient features affecting the U.S. position in the world economy are familiar, but a stock-taking at a time when a national trade policy is being reassessed is appropriate.

From the standpoint of developing the basis for a trade policy, the essential characteristics of the American economy may be listed in the following way:

1. The United States has a cluster of characteristics, including skilled management, abundant capital and broad capital markets, and technological leadership that give it a comparative advantage in sophisticated products. The managerial, financial and technological advantages are, however, no longer being confined to the U.S.; they are no longer being exported only through embodiment in commodities. The communications revolution which enables a management in New York or Chicago to control enterprises throughout the world has led to an enormous expansion of American production overseas through foreign subsidiaries and affiliates. It still remains true, however, that new products are typically developed and placed on the market in the U.S. first. Production abroad is often one model generation behind production in the U.S. and may be concentrated on models or product variants that are large volume sellers. In one respect this process is not new; the history of U.S. trade in manufacturers for nearly a century now has been one in which new products have been developed in the U.S., exported abroad, copied by foreign producers, and eventually imported into the U.S. The new element, however, is that this process is now much more systematic and probably more rapid than before, since it occurs within the framework of corporations producing both in the U.S. and in foreign areas. It is quite possible that the more rapid spread of innovations is the inevitable result of more rapid communication in the world and not mainly a consequence of the growth of multi-national corporations.

2. The United States has a large market. Other industrial countries too have markets that are large enough to permit the establishment of a number of optimum size plants in virtually every industry. However, the huge size of the U.S. market permits the U.S. to use these plants for long production runs even for relatively uncommon product variants, whereas in smaller markets the unusual items have small runs and thus are more expensive. An illustration is provided by the foreign trade position of the ball-bearing industry of the U.S. This industry has a net export position even though large quantities of ordinary types of ball bearings are imported at prices much lower than domestic prices; exports consist of bearings that are capable of meeting special uses such as bearing large loads or uses that require resistance to great pressure, temperature, or corrosion. The enormous increase in the diversity of products in almost every line of production has tended to make the advantage of long runs more important.

3. The man-land ratio in the United States is lower than in any other major industrial exporter. Agriculture has shared fully in the rapid technological progress that has characterized the American economy and the historic ability of the United States to export large quantities of food and other agricultural products has been maintained. What has been altered is the growing tendency of other countries and regions to promote agricultural self-sufficiency, sometimes as an end in itself but more often as a by-product of measures designed to improve the incomes of the farmers.

4. The United States is a high-wage, high-income and high-price country. The point about higher wages and higher incomes scarcely needs to be documented, and almost any traveler will feel that the same is true of American prices. It

may, however, be of interest to report that in a recent study that Robert Lipsey and I conducted for the National Bureau of Economic Research we found that American export prices of manufacttured meal products and machinery, including transportation equipment, varied from five to ten per cent above prices of equivalent products being exported by European countries over the period 1953–1964. We do not have up-to-date information but there is little reason to believe that this situation has been altered in a way that is favorable to the U.S. In general, the differences between foreign and U.S. prices tended to be remarkably stable in the six years during this period we examined. This stability was attributable to the tendency for prices to move together in international competition.

5. The U.S. dollar is used as the international monetary unit. This in effect removes from our policy arsenal one of the instruments that most other countries have, namely, the opportunity to change the foreign value of our currency. The role of world banker is part and parcel of the great economic and political power that the United States has in the world, but it also means that the U.S. is greatly concerned with how other countries, which are free to adjust their exchange rates, alter their parities. Reliance on power alone would, of course, be a poor means to protect U.S. interests in these and related matters. The U.S. must seek the cooperation and collaboration of other countries in international monetary affairs. The path of such cooperation, obviously, will be easier in a world of good trade relations than in one characterized by trade warfare, whether total or piecemeal in character.

6. The great economic power of the U.S. conditions our relations with other countries in many ways. For one thing, it invites the development of countervailing foci of power. The establishment of the Common Market, for example, had as one of its major sources of impetus the feeling that Western European countries had of being dwarfed between the giants of the Soviet Union on the one hand and the United States on the other hand. Once the EEC was formed, the European Free Trade Area was formed as still another countervailing focus of power. The establishment of these and other regional units bring their own problems for American trade policy. These are attributable in no small part to what is virtually a law of behavior of any national unit or any regional unit: when difficult adjustments have to be made in response to an economic change the conflicting interests will find a compromise that will shift as much of the burden as possible to outsiders. We have seen this law work against us in Common Market policies with respect to coal and agriculture and we have seen it work in the U.S. against outsiders with respect to hat bodies, dairy products, and other items. Regional groupings are inherently discriminatory and their growth is making a shambles of the principle of most-favored nation treatment upon which the post-war trading community was supposed to be based.

To these factors, uniquely American, should be added one that is affecting the trade of all the major industrial countries. It is well appreciated that the most dynamic sector in world trade has been manufactures, but it is perhaps less widely realized that there has been a growing tendency for world trade in manufactures to develop along the lines of intra-industry specialization rather than in terms of the textbook case of inter-industry specialization. The textbook version of a world of free trade is one in which one country specializes in one industry while another country specializes in another industry; in Ricardo's early and much copied illustration, England specialized in cloth and shipped it to Portugal and Portugal specialized in wine and exported wine to England. What is actually happening is that there is to an increasing degree specialization within industries. Europe may export low-speed versatile printing presses to the U.S. and the U.S. may export high-speed single-purpose printing presses to Europe. The specialization within industry is particularly characteristic of the manufactured metal products and machinery categories which are of burgeoning importance in world trade. Intra-industry specialization explains why it appears when one examines the trade statistics that the industrial countries are exporting the same kinds of goods to one another. It also helps to explain the much more rapid rate of growth of trade between the highly industrialized countries as compared to the rate of growth for trade involving at least one non-industrial partner.

Almost all the problems that the Congress faces in its efforts to formulate a trade policy for the 1970's can be seen to be an outgrowth of or at least to be conditioned by these characteristics of the U.S. economy and the world economy.

To start with one important aspect of the current situation, the drive of certain industries, such as textiles and steel, for more protection can be explained and assessed in the light of these factors. Part of the U.S. advantage in exporting is based on our low man-land ratio which gives us an advantage in agriculture and another part on technological sophistication and long runs of relatively specialized products. We tend to be at a disadvantage where these special factors are not helpful. This is often the case where labor is a relatively large element in production costs. One of the most important issues in trade policy is what we shall do about cases where foreign countries can compete on the basis of lower labor costs. The decision that is forged in our political processes over the coming months and years will have a major influence on our trade and other economic and political relations with both developed and less developed countries.

Claims for increased protection in such cases are sometimes supported by the argument that competition based on low foreign wages is "unfair". It is true that wages in foreign countries are almost invariably lower, and sometimes very substantially lower, than U.S. wages and that this tends to give other countries a competitive advantage in labor intensive goods. It is easy to understand the feeling of helplessness that an American steel producer may feel at the task of achieving enough superior productivity to overcome the disadvantage of foreign hourly earnings that are one-half or one-third those of the U.S. But it is also true that the wide availability and low cost of capital and of technological sophistication in this country tend to give us an advantage in up-to-date capital intensive goods. A European producer of sophisticated machinery, say computers, may feel equally that the odds are stacked against him. What policies should each nation follow in the face of these cases where market phenomena produce an unequal balance between domestic and foreign producers? Should each country define an "unfair" advantage as any one enjoyed by producers in the other country. For each country to offset whatever advantages a foreign producer has would be to throw away most of the gains from trade and to restrict trade to non-competitive commodities. It would be to fly in the face of the trend of our technology which by shrinking economic space is operating to create a single world economy. It would be to reject the view that the purpose of our economy is to produce the largest quantity of goods and and services for our people and to adopt the view that international activity is a sports contest in which anyone that has a great advantage should be handicapped so that the competition can be more equal.

Now, of course, it is possible that the whole level of wage rates abroad is so low relative to wage rates in the United States that all foreign industries or many of them have advantageous labor costs relative to the U.S. industries. In that case, what is called for is not protection for particular industries but an across-the-board change in the power of foreign currencies to purchase U.S. goods; the objective would be to restore a balance in which some industries had low enough labor costs so that, together with their other advantages, they would be enabled to export enough to achieve a trade balance (or a trade surplus if that were taken as an objective of our policy). One of the unresolved problems facing us is the difficulty of achieving such an overall adjustment, should it be necessary, since we cannot readily alter our exchange rate. If tariffs are to be used for this purpose, what is called for is a uniform ad valorem levy on all imports accompanied by a corresponding subsidy of all exports.

No case can, however, be made in the broad public interest for the protection of particular industries on grounds of "unfair" competition even when, owing to low foreign wages, prices and costs abroad are lower than the most efficient producer at home can achieve. What can be regarded as unfair is to ask the workers and employers in the affected industries to bear the costs of adjustment, particularly when these costs result from a change in national policy designed to benefit the nation as a whole. Relief should, however, be temporary and geared to adjustment rather than to the permanent protection of any share of the domestic market. The experience of the European Economic Community in moving to tariff-free trade suggests that the extent of the dislocation of industry may be surprisingly small. Once the policy of free trade was convincingly laid down in the six Common Market countries, firms had the incentive to adjust rather than the incentive to organize politically for protection.

There is a present danger that U.S. trade policy will be dominated by the adjustment problems encountered by a limited number of industries involving a small fraction of the U.S. labor force. The costs to the nation of protection for these industries whether through higher tariffs or "voluntary" or involuntary quotas are likely to be very great.

The effort to shelter the exposed industries rather than to help them adjust will give a protective cast to our trade policy. This will burden our relations with other countries and will have repercussions unfavorable to U.S. exports in a number of different ways.

Most obviously, it will strengthen tendencies abroad to protect foreign producers against U.S. products where U.S. firms have the advantage. The protected American industries will, it is true, be left with higher output and employment than would otherwise be the case, but American export industries will emerge with lower output and employment than would otherwise be the case. We shall wind up having protected some low-wage jobs at the expense of the higher-wage jobs that characterize our export industries.

A U.S. policy that amounts to protection where competition hurts us and free trade elsewhere will make it more difficult for us to cope with foreign practices adversely affecting American industry which really do constitute "unfair" competition. These practices involve the use of public power to distort the relative prices that would be produced by competitive markets or the use of such power to control or deny equal access to markets. They include export subsidies, direct or indirect, and non-tariff barriers, such as quantitative restrictions, buy-domestic procurement policies, tax measures, health regulations, and industrial standards.

Finally, a policy of ad hoc or piecemeal protectionism, whether avowed or de facto, would hinder our ability to meet the increasing threat of discrimination against U.S. goods arising out of the spread of regional organization. The discriminatory aspects of such entities are being enhanced by the tendency of some, notably the EEC, to form partial ties with other countries.

The costs of exclusion from equal access to the markets of major industrial countries will be all the larger since it will mean that the U.S. will not be participating fully in the important and growing intra-industry specialization. On this account, too, equipment and other input costs will tend to be higher in the U.S. than abroad and our competitive position worsened.

In the face of these problems, there are two broad choices with respect to a trade policy during the 1970's. One is to renew our leadership in an effort to establish a closer integration of the world economy. The other is to follow a day-to-day pragmatic policy of accommodating ourselves to regionalism, restricting as much as possible the extent of the injury it does to U.S. interests, and taking unilateral action or negotiating bi-laterally where American interests are being injured.

The latter course of action is in many ways easier and may be politically attractive. It does not involve an uphill domestic and diplomatic struggle that may require the investment of political capital that has high opportunity costs. The disadvantages are however very great. This policy implies acceptance of growing discrimination against U.S. products. It will continually burden international diplomatic relations with negotiations affecting particular industries such as those which have been adversely affecting our relations with Japan. It will encourage American firms to press for protection in the face of foreign competition rather than to adjust to new circumstances. Finally, it will, by raising the costs of inputs to other industries, increase the competitive disadvantages of U.S. goods.

The alternative course of action, to press for the integration of the world economy, requires venturing on new grounds. This task is more complicated than it was in the past when tariffs loomed as the largest barriers to trade and when the potentialities for conflicts of national policy were relatively easily identified in terms of such policy instruments as tariffs, exchange rate changes and the like. As nations are brought closer and closer together by the inexorable march of technology in shrinking the world, even policies that have mainly domestic purposes tend, like antitrust laws, to impinge more obviously upon the sovereignty of others. In a smaller world with lower tariffs, other primarily domestic regulations, like those relating to safety or health, are seen more evidently to affect international competition.

The need is clearly for closer international collaboration and for the development of mechanisms through which nations can reconcile conflicting policies and promote "fair" competition by minimizing distortions in relative prices. It is possible that a clear and firm commitment in this direction by the U.S. might enable an existing institution such as the OECD or GATT to be used for this purpose. It may be, however, that other countries, fearing the great economic and political power of the U.S., will not wish to enter into closer collaboration without some arrangements that leave them less vulnerable to unilateral decisions of the U.S. Other countries too can make proud statements to the effect that they expect to be "responsible" for making "our own judgments as to conditions in our own domestic industry". The maintenance of this position of unilateral determination of import cut-off points without proof of injury, recently taken in the Japanese textile negotiations, will lead to a trade jungle. It may indeed help our textile industries and other special beneficiaries but at the cost of a growing insulation of U.S. industry from the world economy.

One way or another we are going to have to evolve toward some kind of system in which the nations collaborate more closely so as to minimize the conflicts and distortions that arise from the organization of the political world into a series of national states while there is, to an increasing degree, only one economy. We will be better off if we start the process sooner rather than later.

Senator JAVITS (presiding). Mr. Goldfinger?

STATEMENT OF NATHANIEL GOLDFINGER, DIRECTOR, DEPARTMENT OF RESEARCH, AFL-CIO

Mr. GOLDFINGER. As the U.S. position in world trade has been deteriorating, some observers, including observers on this panel, attribute the deterioration to such temporary factors, in the late sixties, as the capital goods boom in the United States, the accelerated rise in the price level, and the Vietnam war, which, in combination, increased imports and cut down exports.

But brushing off serious problems is not analysis. Temporary factors in the late sixties can explain only part of the deterioration. There are basic underlying causes. The underlying causes of the deterioration of the U.S. position in world trade have been new developments in the post-World War II period that accelerated in the 1960's.

I have outlined six of them in the statement presented for the record, and I will just mention them.

First, the revival of war-shattered economies.

Second, the emergence of trading blocs such as the European Common Market with inward-looking, protectionist tendencies.

Third, the spread of managed national economies.

Fourth, the internationalization of technology.

Fifth, the skyrocketing rise of foreign investments of U.S. firms.

And sixth, the rapid spread of U.S. multinational corporations.

I will dwell on two of them. The combination of various practices of managed national economics means that imports which are frequently subsidized by governments, directly or indirectly, surge into the relatively open, huge, and lucrative U.S. market, the most open market for imports of all major countries.

At the same time, U.S. exports are often retarded by barriers and other practices of foreign governments. For the U.S. Government to talk and act, under these conditions, as if there were merely some nontariff barriers to free trade is unrealistic.

The basic issue is that for their own social, economic, and political reasons, other governments engage in a wide range of direct and indirect barriers to imports into their countries, and subsidies for exports from their countries.

Whether these practices are abstractly good, bad, or indifferent, they are usually part of a framework of national policies to protect and advance their national interests as they see them. These frameworks, in my opinion, are certainly more rational in facing the realities of the present world than the repetition by altogether too many Americans of 18th- and 19th-century formulations, derived from studies of world economic relations that are long gone. Yet a significant portion of both U.S. exports and U.S. imports is involved in this condition, in the management of national economies, including foreign trade, by governments for their own national interests as they define and interpret them.

I do not know whether the portion of U.S. trade involved in this issue is in the neighborhood of 20 or 40 percent, but it is considerable. It includes U.S. exports of agricultural products and coal, and a range of trade in manufactured and semimanufactured goods. It will not be solved by wishful thinking.

Another large and growing portion of U.S. exports and imports—about 25 percent or more of exports and probably a roughly similar percentage of imports—are now composed of intrafirm transactions among the far-flung plants, distribution, and shipping facilities and sales agencies of U.S.-based multinational companies.

Although they show up in government figures as exports and imports, in reality they are closed system relations, within the company, among its numerous foreign subsidiaries and U.S. operations—the results of decisions made by the private managers of U.S.-based multinational companies for the private advantage of the firm.

Another significant share of U.S. trade, perhaps as much as another 25 percent, is between U.S. firms and foreign companies with whom they have license, patent, and other arrangements.

Skyrocketing foreign investments and the spread of multinational companies do not always help to boost U.S. exports. However, the operations of foreign subsidiaries often displace U.S. production and substitute for U.S. exports to the countries of foreign subsidiary operations, and to third country markets, with impacts on U.S. employment. Moreover, foreign subsidiary operations result in increased imports into the United States, frequently displacing U.S. production and employment.

These and similar developments, including the great shift in the composition of imports to manufactured goods, are the basic causes of the deterioration of the U.S. position in world trade, with impacts on employment, on communities and product lines.

Precise information on the job loss of imports is not available. And estimates of the job impact of imports are only rough guesses that are clouded by the increasing complexities of trade patterns.

Unfortunately, foreign trade experts usually show little interest and even less knowledge about the employment impact of developments in foreign trade.

One rough indication of job losses was Labor Secretary Shultz's estimate, presented to this committee, that about 1.9 million jobs in 1966 would have been required in the United States to produce the equivalent value of the 74 percent of imports into the United States that, he said, were nearly competitive with U.S.-made products. For 1968, the Secretary went on, the estimate would be about one-third higher, about 2.4 million. And he indicated that these estimates do not take into account the jobs which are dependent on imports, such as longshore activities.

However, Labor Secretary Shultz' highly conjectual estimate omitted the job losses due to the sales of foreign subsidiaries in foreign countries, including third-country markets, in competition with U.S.-made products, and it omitted losses due to the operations of foreign firms with licenses, patents, and other arrangements with U.S. companies.

And yet the fact of job losses is clear. And recent changes in the composition of exports and imports have been a special burden on semiskilled and unskilled production workers in an increasing number of industries and product-lines, with a surge of imports of such relatively labor intensive products as shoes, textiles, clothing, steel, oils, ceramic tools, radio, T.V., leather goods, and similar products.

The loss of such job opportunities has occurred at a time of urgently needed unskilled and semiskilled production jobs, as well as skilled industrial jobs, for the U.S. labor force, which is growing about one and a half million each year, and particularly for Negroes and members of other minority groups who are seeking to enter the economy's mainstream.

There have been other adverse impacts on workers as well as job losses. Imports are sometimes encouraged as a supposed discipline on prices. Often the American consumer benefits not at all, since the imports are frequently sold at the American price. Or the price differential to the consumer is small, and the profit margin to the business widens.

The "discipline" is usually most effectively directed to the labor cost, to the workers' earnings, to the workers' collective-bargaining strength, and to their ability to negotiate improved wages and fringe benefits.

The adverse impacts of the deterioration of the U.S. position in foreign trade are much tougher and more direct on workers than on capital or top management. Capital is mobile. Owners and top management usually are much more mobile than workers.

In contrast, workers have great stakes in their jobs and their communities, skills that are related to the job or industry, seniority and seniority related benefits, investment in a home, a stake in the neighborhood, schools, and church.

New developments in trade relations among nations have been drastically changing the factors of major importance in world trade. Old textbook theories about international trade have become increasingly obsolete. Theories of comparative advantage and freely competitive trade relations among nations are not relevant to the present world of managed national economies, international technology and multinational companies. About 50 to 70 percent or more of U.S. foreign trade, in my judgment, lies within areas affected by practices of managed national economies and U.S.-based multinational companies, outside of anything like freely competitive trade relations among the nations of the world.

American production can hardly compete, for example, with the output of foreign subsidiaries of U.S.-based multinational companies, using American technology, achieving productivity levels that are close to those of American plants, and paying wages and fringe benefits that are 50 to 90 percent lower than American wages.

Economic prices are hardly the key consideration when governments subsidize exports and retard imports. Moreover, prices and trade relations are not much more than bookkeeping devices of multinational companies, in that they are intracorporate closed system transactions, among subsidiaries and licensees, across national boundary lines with different tax laws, currency exchange rates, and labor standards.

Foreign trade has become increasingly affected by these new developments. Yet the foreign trade policy and posture of the United States seems to us to be based primarily on the 18th- and 19th-century theories of comparative advantage and free competitive markets in world trade, which hardly exist, now, in most areas of trade relations.

The deterioration of the U.S. position in world trade amid new factors in international trade requires a thorough change in U.S. trade policy and posture.

The choices that we see are not free trade versus protectionism, but, first, an effort to face up to the need to move ahead for an orderly expansion of world trade with the United States as the starting point of American policy and posture. Trade is a two-way street. And secondly, the urgent need is to develop realistic trade, investment and monetary policies to deal with the foreign investment outflows, operations and relations of U.S. firms, multinational corporations, and international banks.

Economic and political isolation is not the answer. But neither is continuation of a head in the sand posture, and maintenance of policies that were developed in 18th- and 19th-century England, when it was the only major industrial nation in the world.

I think that we need a considerable change in the U.S. Government's international trade and investment posture, policy, and mechanisms to meet the world realities of the 1970's.

Moreover, I think we, as a nation, also need to answer some hard questions. What kind of economy and society for the United States is implied, for example, by the expansion of U.S.-based multinational companies, with a continuing displacement of labor-intensive U.S. production, including relatively sophisticated goods, by imports from foreign subsidiaries?

Moreover, what kind of world economic relations are implied by the spread of international companies and banks?

I do not think that we can ignore the views of one observer of these trends when he said there would be "a new feudalism with great multinational corporations operating enormous economic fiefdoms in competition with each other, but increasingly free from the control of nation states. And these new fiefdoms would make their decisions for the welfare and greater profit of the corporations."

Thank you.

Senator JAVITS (presiding). Thank you, Mr. Goldfinger.

(The prepared statement of Mr. Goldfinger follows:)

PREPARED STATEMENT OF NATHANIEL GOLDFINGER

The United States position in world trade deteriorated in the 1960s, with adverse impacts on American workers, communities and industries. The deterioration threatens to continue in the 1970s. A thorough revision of U.S. government posture and policy is required to meet present realities in world markets.

The U.S. ranks first among nations in world trade, but this ranking is essentially based on the huge size of the American economy. In terms of the share of world trade, the U.S. position has been declining throughout the post-World War II period.

Exports from the nations of the world rose from approximately $61 billion in 1950 to about $238 billion in 1968—a nearly fourfold increase—according to the United Nations. But U.S. exports increased at a slower pace. As a result, the U.S. share of rapidly expanding world exports continued to decline, from 16.5% in 1950 to 15.9% in 1960 and 14.3% in 1968.

Some decline in the U.S. share of increasing world exports was to be expected in the early postwar years, as the war-ravaged economies of other industrial nations returned to world markets. But the decline did not stabilize during the 1950s. It continued through the 1950s and continued down, even more rapidly, in the 1960s.

This decline in the share of world trade was particularly pronounced in the export of manufactured goods. U.S. exports of manufactured products fell from about 27.7% of world exports of such goods in 1958 to approximately 23.7% of a much greater volume of world exports of manufactured goods in 1968.

While U.S. exports continued to increase—although at a much slower rate than most other industrial countries—imports also rose. In most of the latter 1960s, imports increased much faster than exports.

Imports also increased faster than total national production—from about 3% of the gross national product in 1955–1965 to 3.4% in 1966–67 and to approximately 3.8% of a substantially greater gross national product in 1968–1969.

In terms of impact on U.S. production and employment, foreign trade is considerably more important than the comparison which the gross national product indicates. In 1969, merchandise imports amounted to approximately 8% of total national output of goods (excluding services and structures) and merchandise exports amounted to a roughly similar percentage. For some specific industries and products, the impact is much greater than 8%.

Since imports rose faster than exports, during most of the latter 1960s, the reported merchandise trade surplus dropped from about $5 billion a year in the early 1960s and $7.1 billion in 1964 to $800 million in 1968 to $1.3 billion in 1969. Exclusion of government-financed AID and PL–480 shipments from reported merchandise exports would reveal a trade deficit of about $1.5 billion in 1968 and a small deficit in 1969.

The worsening of the overall trade balance has been concentrated in trade with Canada, Japan and Germany. By 1968, the U.S. was in a deficit trade position of about $1 billion with each of these three countries and there was no marked improvement in 1969.

The U.S. trade position has been changing in composition, as well as in overall volume. The growth of rapidly rising imports has been primarily in manufactured and semi-manufactured goods—parts and components, as well as finished products.

Exports of food, beverages, tobacco, crude materials and fuels increased only modestly during the 1960s, while such imports expanded at a somewhat faster pace. But in manufactured goods, the change was sharp.

The increase of manufactured exports, in the 1960s, weakened in such goods as steel; autos, trucks and parts and rubber products. Imports of such goods shot up sharply.

By the 1968, the U.S. was a net importer of steel and autos, trucks and parts, as well as such products as textiles, clothing, footwear and glass.

The entire rapid expansion of U.S. domestic sales of shoes in the 1960s was provided by increased imports.

Even in such products as electrical and non-electrical machinery, U.S. exports increased slowly, by comparison with the sharp expansion of imports. In some consumer electrical products, imports took over major parts of the U.S. domestic market.

From 1960 to 1968, U.S. exports of manufactured goods, generally, nearly doubled. But imports of manufactured goods tripled in those years.

In the early 1960s, exports of manufactured goods were close to twice as great as manufactured imports—such exports were in the neighborhood of $6 billion per year greater than imports. By the late 1960s, the overall U.S. trade advantage in manufactured goods was down to merely about 14%. In 1968 and 1969, manufactured exports were merely $3.2 billion and $3.8 billion greater than manufactured imports.

Imports of finished manufactured goods, other than food products, rose from about 35% of all imports in 1961 to approximately half of a much greater volume of imports in the late 1960s. By 1968, imports of finished manufactured products, aside from food, came to $16.9 billion out of total merchandise imports of $33.2 billion.

During the 1960s, the expansion of manufactured exports was strongest in products, based on advanced technology, such as computers, jet aircraft, control instruments and some organic chemicals. Such industries are generally capital-intensive, with relatively few production and maintenance workers for each dollar of production.

The rapid expansion of manufactured imports in the 1960s was particularly great in several products for which the U.S. had previously been a world leader—such as steel, autos, machinery, and electrical products (including TV, radio, telecommunications apparatus). Imports of these products, in the 1960s, joined with the continued rise in imports of other products that had previously posed import-problems—such as shoes, textiles, clothing, glass and leather goods. These industries are mostly labor-intensive—with sizeable numbers of production and maintenance workers per dollar of output.

The number of jobs attributable to merchandise exports, according to Secretary of Labor George Shultz, was estimated at 2.6 million in 1968, including over 400,000 in agriculture—jobs in the production, transportation and servicing of exports. This was a small increase from about 2.3 million in 1960 and 2.5 million in 1966, compared to the 73% rise in the dollar volume of merchandise exports, and near-doubling of manufactured exports between 1960 and 1968—reflecting the shift in exports to capital-intensive, advanced-technology products.

Detailed information on the job-impact of imports is not available. There are jobs, involved in the transportation and distribution of imports. Also, there are job-losses, due to imports that compete with U.S.-made products. Moreover, the labor-intensive nature of much of the great import-expansion of the 1960s indicates significant losses of job opportunities, particularly for semi-skilled and unskilled production workers—at a time when such job opportunities were sorely needed. And the shift of imports to relatively sophisticated products also indicates the loss of skilled industrial jobs.

An indication of the deterioration of the U.S. trade position and job-losses can be found in the substantial change in the nature of imports. In the 1950s, according to foreign trade experts, only about 30%–40% of imports were considered competitive with U.S.-made products. By 1966, according to a report by Secretary Shultz to the Joint Economic Committee of Congress, about 74% of the much greater volume of imports were "nearly competitive with domestic products." About 13% of imports, in 1966, were products not produced in the U.S. and another 13% were goods "produced in the U.S. but in short supply," according to Secretary Shultz. Between the 1950s and the latter 1960s, the total volume of imports increased sharply and competitive imports, as a share of the rapidly rising total volume, approximately doubled.

Temporary factors in the 1960s can explain only part of the deterioration of U.S. trade position. The rising price level in the U.S. since 1965 and the boom of business investment in new plants and machines undoubtedly contributed to the sharp rise of imports and the deterioration of the U.S. position.

But there are basic underlying causes of the deterioration of the U.S. trade position. Temporary factors—the rising U.S. price level, the business investment boom and the Vietnam war—merely aggravated them.

The Chase-Manhattan Bank Newsletter for June 1969 predicted a further slippage of the U.S. share of world trade by 1973. Moreover, it predicts a slower rise of exports of "technologically advanced products," while imports of such products are expected to continue to increase rather rapidly. "Thus," states the bank newsletter, "prospects for an improved U.S. trade balance remain dim."

New Developments in the 1960s

The basic causes of the deterioration of the U.S. position in world trade have been new developments in the post-World War II period that accelerated in the 1960s. Among these developments have been the following:

1. *By the latter 1950s, the war-shattered economies of Germany, Japan, etc., were revived*, with newly-installed plant and equipment and increasing strength in world trade. Some effects of such American-aided revival of the war-ravaged economies on the U.S. trade position were to be expected. But these effects have not stabilized. The U.S. share of world exports of manufactured goods continued to decline in both the 1950s and 1960s.

U.S. exports of manufactured goods approximately doubled from 1958 to 1968—from $11.5 billion to $23.8 billion. However, Germany's manufactured exports rose from $7.8 billion to $22.3 billion; France's, from $3.6 billion to $9.4 billion; Italy's, from $1.7 billion to $8.4 billion; Belgium and Luxembourg, from $2.5

billion to $6.7 billion; the Netherlands, from $1.6 billion to $5 billion. In that same period. Japan—the most protectionist of industrial nations—skyrocketed its manufactured exports from $2.5 billion to $12.2 billion.

However the desired revival of war-ravaged economies, in itself can hardly be the reason for the deterioration of the U.S. position.

2. *In the 1960s, another development was the emergence of trading blocs,* such as the European Common Market, with its inward-looking, protectionist tendencies.

The Common Market countries have greatly expanded their world trade. Yet these Common Market countries maintain barriers to U.S. exports and many of these barriers have been imposed in the past 10 years—despite U.S.-aided economic revival and increasing prowess in world trade.

These major trading nations have not significantly readjusted their trade arrangements—after achieving great export strength—to provide equitable, two-way arrangements with the U.S.

3. *In the past 25 years, there has been the spread of managed national economies*—with varying degrees of government management, regulation and control. The U.S. is now confronted by complex governmental economic arrangements in other countries to spur exports (direct and indirect subsidies, etc.) and to bar or hold down imports (direct and indirect barriers). Examples include numerous Japanese quotas on imports, the German border tax and the Mexican border problem.

The *Federal Reserve Bulletin* of April 1968 reported that "some goods in which the U.S. competitive advantage is large are not freely admitted to some foreign markets. They are subject to quotas, usually stringent health and technical standards, equalization levies and other special import taxes, marketing agreements, and mixing requirements whereby stipulated amounts of local products must be used. Such restrictions have limited U.S. exports of wheat and other grains, tobacco, poultry and some agricultural products; and also coal and a wide range of manufactured products, including computers, autos, heavy electrical equipment, drugs and fabrics."

The combination of such practices means that imports, which are frequently subsidized or otherwise encouraged by governments, surge into the relatively open, huge U.S. market, with its high living standards—probably the most open market to imports of all major countries. At the same time U.S. exports are often retarded by barriers and other practices of foreign governments.

4. *The internationalization of technology* has been reducing or eliminating the former U.S. productivity-lead in many industries and product-lines.

In many products, the lead in technology and productivity, which enabled high-wage U.S. industries to compete successfully in world markets, even against low-wage competition, has been reduced or eliminated.

Deputy Undersecretary of Labor George Hildebrand explained to the National Foreign Trade Council's Labor Affairs Committee in September 1969: "It has often been assumed that high U.S. wages and better working conditions were largely offset by high U.S. productivity and a strong internal market. Increasingly, however, the spread of skills and technology, licensing arrangements and heavy investment in new and efficient facilities in foreign lands have all served to increase foreign productivity without comparable increases in wages."

Much of the U.S. technology, which has rapidly skipped over national boundary lines, has been developed with U.S. government expenditures.

5. *The skyrocketing rise of foreign investments of U.S. firms*—accompanied by licensing arrangements, patent agreements, etc., of U.S. companies with foreign firms—has contributed substantially to the internationalization of technology and its deteriorating effects on the U.S. trade position.

Direct investments of U.S. firms in foreign subsidiaries, plants and other facilities soared from $3.8 billion in 1960 to $9.3 billion in 1968 and an estimated $10.5 billion in 1969—partly financed by outflows of U.S. capital, partly by plowed-back profits and depreciation of foreign subsidiaries and partly by foreign-raised capital. The outflows of private U.S. capital that have financed part of these soaring investments have been a major factor in the U.S. balance of payments problems.

Foreign subsidiaries of U.S. firms and foreign companies using U.S. licenses, patents, etc., with U.S. technology—and, thereby, with productivity levels that are close to those in similar US. plants—can take maximum advantage of lower wage—and fringe-benefit costs and produce goods at lower unit costs. Both directly and indirectly, the sharp rise of foreign investments, licensing arrangements, etc., of U.S. firms has cost American jobs. To some degree, it has meant the export of U.S. jobs to subsidiary plants in foreign countries; to some degree, it has resulted in the loss of exports to third countries; to another degree, it has meant the increase of imports from foreign subsidiary plants to the U.S.—with a further loss of jobs. There is no precise information on these impacts, but the fact of job-loss is clear.

The U.S. Department of Commerce, in 1969, reported a study that shows about 22% of non-farm exports in 1965 were from U.S. firms to their foreign subsidiaries—excluding the additional impact of licensing, patent and other arrangements. Imports from subsidiaries to U.S. firms are not known—probably similar to the percent of total exports. That would mean over one-fifth of U.S. exports and imports, in 1965, were intra-corporate transactions.

By 1970, intra-corporate relations between U.S. companies and foreign subsidiaries may account for one-quarter or more of U.S. non-farm exports and imports. Moreover, that figure excludes the additional impact of foreign subsidaries on U.S. exports to third countries and it also omits the unknown impact of licensing, patent and similar arrangements of U.S. firms with foreign companies.

The skyrocketing rise of foreign investments of U.S. firms since the latter 1950s—and their licensing, patent and similar arrangements—have become a major factor in the U.S. trade picture. Obviously, not every dollar invested abroad has had adverse impacts on the U.S. But much of this development has resulted in the export of U.S. technology and the export of American jobs

6. *The rapid spread of multi-national corporations*—usually U.S. firms with plants, offices, sales agencies, licensing arrangements, etc., in as many as 40 or more countries—is a new factor of growing importance in the deteriorating U.S. position in world trade. They can manipulate the location of operations, depending on labor costs, taxes and foreign exchange rates. They can juggle exports, imports, prices, dividends, from one country to another within the corporate structure.

Multi-national companies attempt to use a systems approach to global production, distribution and sales. With plants and other facilities spread through numerous countries, multi-national firms can and do juggle the production of components and assembly operations, license and patent agreements, distribution and shipping and sales arrangements to maximize the gains of the firm. What finally shows up as U.S. exports and imports is, to an increasing degree, the result of intra-corporate decisions, made by the private managers of U.S.-based international companies for the private advantage of the firm.

A multi-national corporation can produce components in widely separated plants in Korea, Taiwan and the U.S., assemble the product in a plant on the Mexican side of the border and sell the goods in the U.S.—perhaps with a U.S.-brand name. Or the goods produced in foreign subsidiary plants are sold in foreign markets, in competition with U.S.-made products.

Fortune magazine reported in September 1968: "When it (the multinational company) operates in many different markets with varying labor conditions, market demands, money market rates, tax laws, etc., the corporation finds multiplying opportunities to buy cheap and sell dear if it can closely coordinate all parts of its operation. Carrying multi-nationalism to its logical extreme, a corporation will concentrate its production in the area where costs are lowest and build up its sales where the market is most lucrative. Thus some U.S. electronics manufacturers are using plants in the Far East to make components for equipment sold in the U.S. market and the apparel industry is, for the first time, hinting at farming out some of its production."

Fortune magazine also pointed out: "The multi-national firm can also adjust prices on these intra-company sales according to a deliberate plan. For example, if a country is in foreign exchange difficulties, it may earmark scarce exchange for imports but not allow dividends to be remitted abroad. A multi-national company could simply 'take out' its dividends by raising prices on intra-corporate sales proportionately. Transfer prices are also a useful device for keeping down the overall corporate tax liability. Subsidiaries can be instructed to set high prices on intra-corporate shipments to high-tax countries, low prices on those to low-tax countries."

The fact that other nations have higher, and often prohibitive barriers against U.S. exports, while the U.S. is a relatively open market for industrial goods. means that U.S.-based multi-national companies can have relatively free both abroad and at home, while U.S. workers' jobs, incomes and communities pay the price. No wonder that spokesmen for multi-national corporations usually advocate a free trade policy for the U.S.—freedom to manipulate operations, prices, sales, profits, etc., and to ship back whatever they wish, for sale in the U.S. market—for the sole benefit of the managers and stockholders of the corporation, regardless of possible adverse impacts on American workers, communities and perhaps, the nation, itself.

Skyrocketing foreign investments and the spread of multi-national corporations do not always help to boost U.S. exports. A study by the Department of Commerce, reported in the *Survey of Current Business*, May 1969, stated: "The great majority of U.S. parent companies and of foreign affiliates contributed very little to U.S. export trade. This suggests that foreign direct investments by U.S. corporations do not necessarily contribute to the export trade of these corporations."

However, the operations of foreign subsidiaries often substitute for U.S. exports—to the countries of the subsidiary operations and to third-country markets, with impacts on job opportunities. For example, the Commerce Department reports that in chemicals, non-electrical and electrical machinery—which account for about one-half of U.S. manufactured exports—foreign subsidiaries of U.S. firms exported $1.9 billion in 1965 to third countries, amounting to about one-fifth of all such exports from the U.S.

Moreover, foreign subsidiary operations result in increased imports into the U.S.—frequently displacing U.S. production and employment. A Commerce Department report on foreign trade states: "The increase in imports of manufactures has resulted in part from the establishment of plants by U.S. firms in low-wage countries to produce for the U.S. market, as in the case of TV picture tubes and clothing. Precise data are not available to develop this observation fully." The report also declares: "Technology is rapidly diffused among advanced countries. European and Japanese manufactures are penetrating the American market even in the most advanced product areas where we have been exporting technology. The more rapid rate of increase of imports than exports implies a larger problem in future years. Some of these imports will come from foreign subsidiaries or affiliates of U.S. firms."

The mushrooming growth of multi-national companies, in the 1960s, has been accompanied by the rapid expansion of international banking—much of it by U.S.-based banks. The London *Economist* of November 15, 1969, stated: "It is without precedent that banks should have joined forces across national frontiers to establish multi-national institutions with their own separate identities."

These international banks have been servicing and helping to finance the multi-national companies. Moreover, they move money back and forth across national boundary lines "beyond the effective reach of the national monetary policies of any country," as the London *Economist* pointed out.

One example of the great degree to which U.S. multi-national banks can avoid the monetary policy of the Federal Reserve can be seen in the $7 billion rise in the borrowing of U.S. banks from their foreign branches in 1969, when U.S. government policy was squeezing domestic money markets, with severe consequences for residential construction, states and local governments, small businesses and workers.

U.S.-based multi-national banks have succeeded, increasingly, in moving beyond the effects of U.S. monetary policy, just as U.S.-based multi-national companies have succeeded in juggling production, distribution and sales across national frontiers, with different laws, customs, taxes, living standards, and currencies.

The spreading operations of U.S.-based multi-national companies are an important factor in both the surge of manufactured imports into the U.S. and the absolute slow-down or the slowing rise of U.S. exports in many product-lines.

Foreign trade experts are particularly concerned about the near-future impacts of foreign subsidiaries of U.S.-based multi-national corporations on exports and imports of such major commodities as chemicals, non-electrical machinery (including engines, office and metal-working machinery, construction and factory equipment) and electrical products (including generators, power machinery, motors, TV, radios, household equipment and control instruments).

The Impact On Workers

The deterioration of the U.S. foreign trade position has significant impacts on jobs, on collective bargaining strength of unions, on wages and labor standards in adversely affected industries.

Precise information on the job-loss of imports is not available and estimates of the job-impact of exports are only rough guesses that are clouded by the increasing complexity of trade patterns.

Unfortunately, foreign trade experts usually show little interest and even less knowledge about the employment impacts of developments in foreign trade. This appalling lack of knowledge, or even concern, about the impacts of foreign trade on manpower is prevalent in most government agencies, with direct responsibilities in foreign trade, as well as among academic foreign trade specialists.

The employment impacts are complicated by the operations of foreign subsidiaries of U.S. firms. As a simplified example, a U.S.-based multi-national firm may export some semi-manufactured goods to several of its foreign subsidiaries and such exports may be reported to have created 500 jobs. The goods are finished and assembled in foreign subsidiary plants. Some of the finished products are imported into the U.S.—resulting in a job-loss of 400, but such job-loss will usually not be traced back to the U.S.-owned subsidiary. In addition, some of the finished goods also may be sold by the foreign subsidiaries in third-country markets, as well as in the countries in which the plants are located—in competition with U.S. exports; this process is difficult to trace, but there may be a job-loss of 300, due to lost exports. There would be a job-loss of 700, in such case, but it is rarely, if ever unravelled in this way and the government's report would probably concentrate solely on the 500 jobs involved in the U.S. export of semi-manufactured goods.

One rough indication of job losses was Secretary Shultz's estimate, presented to the Joint Economic Committee of Congress, that "about 1.8 million jobs in 1966 would have been required in the U.S. to produce the equivalent value" of the 74% of imports into the U.S. that were competitive with U.S.-made products. "For 1968, the estimate would be about one-third higher—about 2.4 million. These estimates do not take into account the jobs which are dependent on imports, such as longshore activities . . . the net effect (of competitive imports) on employment would be smaller than is indicated by the figures above."

However, Secretary Shultz's "highly conjectural" estimate omitted the job losses due to the sales of foreign subsidiaries in foreign countries, in competition with the U.S.-made products. Anything like a full picture of the job-impact of foreign trade developments is lacking.

Yet the fact of job losses is clear. And recent changes in the composition of exports and imports have been a special burden on semiskilled and unskilled production workers in an increasing number of industries ad product-lines—with the surge of imports of such relatively labor-intensive products as shoes, textiles, clothing, steel, autos, ceramic tile, radios, TV, leather goods and similar products.

The loss of such job opportunities has occurred at a time of urgently-needed unskilled and semi-skilled production jobs, as well as skilled industrial jobs, for the U.S. labor force, which is growing about 1.5 million each year, and particularly for Negroes and members of other minority groups who are seeking to enter the economy's mainstream. These are the same types of blue-collar jobs that are now being affected by layoffs and production cutbacks, due to the Administration's severe squeeze on the economy.

Production and maintenance workers—usually the unskilled, semiskilled, and the most vulnerable—are being forced to bear most of the burden of the deterioration of the U.S. position in foreign trade. This is the same group of non-supervisory workers—including skilled employees—that bears most of the heavy burden of the Administration's policy of severe economic restraint, as well as the impact of radical and rapid technological change.

There have been other adverse impacts on workers, as well as job losses. Imports are sometimes encouraged as a supposed "discipline" on prices. Often, the American consumer benefits not at all—the imports are sold at the American price. Or frequently, the price differential to the customer is small and the profit margin to the business widens. The "discipline" is usually most effectively directed to the labor cost—to the workers' collective bargaining strength and their ability to negotiate improved wages and fringe benefits. For example, in 1967 and 1968, the copper imports of major corporations contributed to delaying achievement of a settlement of the strike of U.S. copper workers.

The adverse impacts of the deterioration of the U.S. position in foreign trade are much tougher and more direct on workers than on capital or top-management officials. Capital is mobile—investments can be moved out of an unprofitable business to other industries, companies and countries. Owners and top-management are usually much more mobile than workers—from one company to another. In contrast, workers have great stakes in their jobs and their communities—skills that are related to the job or industry, seniority and seniority-related benefits, investment in a home, stake in the neighborhood, schools, church, etc.

Groups of workers adversely affected by the deterioration of the U.S. position in world trade, include the following:

Textile and apparel workers are affected by imports from foreign companies, occasionally with licensing arrangements from U.S. firms and purchase-agreements from U.S. large retailers, and, in apparel, from U.S.-owned foreign subsidiaries. These industries are among the first to develop in industrialization—they exist in almost all countries and usually utilize modern technology. The American workers are employed in both large efficient plants and thousands of small shops in small towns and major cities throughout the U.S. Much of the U.S. employment tends to be lesser-skilled and lower-paid, with concentrations of older workers and women, and in apparel, among minority groups, as well. Labor costs are a rather large part of total costs and these industries are especially susceptible to wage-cost competition. Moreover, there is relatively more price competition in most product-lines in these industries than in most other major U.S. industries, so that import competition in most of these product-lines can have severe and rapid impacts. Multilateral governmental agreements regulate exports to the U.S. of cotton textiles and apparel—but not of synthetic and wool fibers.

Steel workers are affected by foreign barriers to U.S. exports, as well as by rising imports from foreign companies. The U.S. industry is composed of large companies, with huge investments in expensive plant and equipment. Price policies in the U.S. industry are set by the dominant corporations. American steel workers are among higher paid factory workers. In foreign countries, steel is related to national prestige—foreign governments provide direct and indirect subsidies for the development of steel-making plants. In the 1960s, steel imports rose sharply. While the U.S. industry sharply stepped up its investments in new equipment so that expanded production will require fewer workers, imports into the U.S. rose rapidly throughout most of the 1960s. In 1969, changes in world-demand for steel, as well as multi-lateral agreements on exports of steel, brought some change in this pattern, though the restraints have not worked out perfectly.

Workers in the glass and allied products industries are being hit by imports from both U.S.-owned foreign subsidiaries and foreign companies. Over the years, the glass, ceramic, and similar industries—old U.S. industries, with plants frequently located in economically depressed areas—have increasingly felt the erosive impact of imports. While the U.S. government has found injury to the U.S. industries from time to time and taken some action—and many parts of these industries have modernized—the problems mount. The combination of new technology in foreign countries, foreign cartel operations and foreign subsidiaries of U.S. firms, as well as imports from protected foreign markets where foreign countries subsidize exports, have continued to plague these industries. The results have been a decreasing number of producers over the years and declines in employment.

Shoe workers have been hit hard, in the 1960s, by a flood of imports from subsidiaries of U.S.-based multi-national giants, as well as from foreign companies with licensing arrangements by U.S. shoe manufacturers and purchase-agreements from U.S. retailers. In the U.S. industry, there is a varying pattern of many small producers, scattered among giant conglomerates, with world-wide interests from the basic raw material to the retailing of the finished products—there are about 675 companies in 1,000 establishments in 38 states, according to a recent Tariff Commission study. About 16 companies, each of which produced 4 million or more pairs made up one-third of total U.S. output in 1967 and 42 additional companies making 2–4 million pairs made up another fifth. Most of the big companies control retail outlets and many of them are engaged in imports or in foreign operations. Imports took up the entire new consumption in a rising U.S. consumer market in the 1960s. For workers, the impact of imports has been serious, since the workforce often includes many older and lower-wage workers while the mobility of shoe workers, scattered in small towns throughout the U.S., is limited. The precipitous rise of shoe imports in the 1960s has not been accompanied by any U.S. government action to curb the losses to U.S. production, U.S. jobs and American wages.

In electrical products, workers are being affected by the operations of U.S.-based multi-national corporations, using U.S. technology, which produce components, entire products or assemble components in foreign plants for sale in the U.S. market, as well as in third countries—with substantial impacts on export-markets, as well as imports into the U.S. The U.S. industry is essentially composed of large multi-national corporations—among the largest and richest in the world—that juggle production and sales from one country to another. Taiwan, Japan, Korea, Hong Kong and Mexico have become runaway areas for relocating U.S. electrical goods production by low-wage production—often for sophisticated electrical products. The result is a flood of low-wage and U.S. technology imports of consumer products, as well as increasing imports of electrical products generally, wherever it serves the advantage of the firms. Offset by defense contracts, overall U.S. employment in the industry thus far has tended to show improvement, but in consumer electronic products, TV sets, radios, etc., the trend has been to substitute foreign production for U.S. production at the expense of U.S. jobs. Thousands of workers in this industry—including large numbers of unskilled and semi-skilled workers—are confronted by import-related job losses and production cutbacks, as defense contracts decline.

Workers in the merchant marine and related industries have been plagued by the operations of multi-national companies, runaway operations, flags of convenience and by competition of subsidized foreign shipyards. By 1968, it is estimated that U.S. flag vessels carried only about 6% of U.S. waterborne export and import trade—down from approximately 57% at the end of World War II. It is reported that the foreign-registered and foreign-manned merchant marine fleet, owned by American interests, is now considerably larger than the American-owned, American-manned fleet, which has been permitted to shrink in size and become aged. By November 1969, shipboard jobs aboard privately-owned American merchant ships were down to 27,222, compared with over 50,000 in the fourth quarter of 1938, before the outbreak of World War II. The precipitous decline of the U.S. merchant marine has affected other employment opportunities, as well, such as in shipyards. The world's largest trading nation, with ports on two oceans and the Gulf of Mexico, has seen its maritime industries nearly go down the drain in the past 25 years.

Workers in several different industries are being increasingly affected by a combination of Mexican and U.S. law, which encourages development of labor-intensive operations of U.S. companies in Mexican plants, utilizing low-wage labor and U.S. technology for the sale of products in the U.S. This spreading development, in the past several years, includes electronics, apparel and food processing operations—large U.S. firms, as well as small ones. These operations result in the loss of American jobs and in increased profits to the firms that are engaged in such runaway plants. The job-impacts of this development can be found in numerous parts of the U.S., although there are concentrated impacts in the low-wage, high-unemployment areas in the southwestern states.

The increasing foreign production of films for the movies and TV, by foreign companies and U.S.-owned foreign companies, has resulted in losses of another group of job opportunities, with a wide variety of skill and professional requirements.

The Developing Countries

Most developing countries are confronted by a lack of strong and viable economies, inadequate expansion of per capita gross national product, inequitable distribution of income and lack of adequately viable social and political institutions.

In recent years, the developing countries have been placing sole or overwhelming emphasis on increased exports, especially exports of manufactured goods—exports to the industrial countries, particularly the U.S. market. Foreign trade has been viewed as a substitute for investment and social development. They have been demanding trade preference from the U.S. and other industrial countries. This demand by the developing countries, such as those in Latin America, has been joined and supported by some major U.S. banks and multinational companies, as well as some U.S. political leaders.

This emphasis on exports as the sole or major solution to their economic, social and political problems is utterly unrealistic. It shifts attention away from their need for improved education and manpower training of their populations; improved labor and social standards, including effective minimum wage measures; increased social development investments, such as housing; the development of free institutions, such as trade unions and effective collective bargaining; balanced investments among and from their urgent need to effectively curb the large outflows of private capital by wealthy people and business from their countries.

Moreover, it diverts attention from the serious need of the developing countries for expanding domestic markets, as the essential foundation for the development of viable economies and societies—domestic markets that obviously must include expanding consumer markets, based on improvements in living standards, with workers and their families sharing in the gains of economic progress.

Within such realistic framework of economic development, the expansion of trade is a supplement to investment and social development—not the sole or major factor.

However, the ability of the U.S. to respond to the realistic issues of expanded exports from developing countries requires an adequate U.S. trade policy, generally—for the orderly expansion of trade, with minimized adverse impacts on American workers and communities and effective adjustment mechanisms to assist workers and firms who may be adversely affected, as well as effective measures to regulate the operations of U.S.-based multi-national companies and curbs on runaway plant developments. The U.S. does not yet have such trade policy and posture for the 1970s.

Change in Posture and Policies Is Needed

New developments in trade relations among nations have been drastically changing the factors of major importance in world trade. Old textbook theories about international trade have become increasingly obsolete. In recent years, for example, Japan has achieved substantial advances in economic efficiency and great prowess in world markets, despite numerous import quotas and a rapidly-rising price level. Or U.S. multi-national firms profitably produce relatively sophisticated electronic components, as well as more simple products, in very low-wage, generally low-productivity countries, through the use of mechanized U.S. technology, although raw materials may have to be imported and the components may be shipped great distances for final assembly in other facilities of the companies.

Frequently there are attempts to explain deterioration in the U.S. trade balance simply in terms of differences in hourly wage rates or overall labor costs between the U.S. and other countries. But buyers do not purchase hourly wage rates—they buy products at a price. The price is importantly affected by profit margins and such costs as raw materials and energy (electricity or coal, etc.) per unit, as well as the cost of labor per unit.

Foreign trade economic competition does not center on prices, alone. Product design, for example, is of great importance in the export and import of many items. Other non-price, competitive factors in world trade include patent and licensing arrangements and the servicing of foreign-purchased equipment.

The labor cost, therefore, is one of several different economic factors. Moreover, the unit labor cost is the result of productivity (output per manhour) and the hourly compensation of employees, so that the combination of high wages and high productivity can result in low unit labor costs. Indeed, America's traditional prowess in world trade has been largely based on high wages, combined with high productivity—on technology, efficiency of operations, manpower skills, large volume of output and a highly educated population—as well as on the availability of raw materials and sources of energy.

However, new factors, like the internationalization of technology, the multinational corporations, managed national economies with trade subsidies and barriers have changed the trade relationships of prices, wages and unit costs in recent years.

American production can hardly compete, for example, with the output of foreign subsidiaries of U.S.-based multi-national companies—using American technology, achieving productivity levels that are close to those of American plants and paying wages and fringe benefits that are 50% to 90% lower than American wages.

Economic prices are hardly the key consideration, when governments subsidize exports and restored imports. Moreover, prices are not much more than bookkeeping devices of multi-national companies in their intro-corporate transactions among subsidiaires and licensees, across national boundary lines, with different tax laws, currency exchange rates and labor standards.

Foreign trade has become increasingly affected by the new developments of the past 25 years that accelerated in the 1960s. Yet the foreign trade policy and posture of the U.S. government seems strangely based on 18th and 19th century theories of comparative advantage and free competitive markets in world trade—as if the real world had not changed drastically in the past quarter of a century.

The deterioration of the U.S. position in world trade, amidst new factors in international trade, requires a thorough change in U.S. trade policy and posture. The U.S. government's trade policy can no longer ignore reality.

The choice is not free trade vs. protectionism, but an effort to face up to the need to:

(a) Move ahead for an orderly expansion of world trade, with the U.S. as the starting point of American policy and posture. Trade is a two-way street.

(b) Develop realistic trade, investment and monetary policies to deal with foreign investments and relations of U.S. firms, multi-national corporations and international banks.

There is no one-shot panacea or simple collection of a few easy answers. A change in posture and a battery of new policies and mechanisms are needed to make it possible to get at the varied different causes of the specific problems that affect different groups of workers, different product-lines and different industries.

Economic and political isolationism is not the answer. Neither is continuation of a head-in-the-sand posture and maintenance of policies that were developed in 18th and 19th century England, when it was the only major industrial nation in the world.

America needs a change in its international trade posture, policy and mechanisms to meet the world realities of the 1970s.

Senator Javits (presiding). Gentlemen, I am very grateful to you for these very illuminating statements. And I am sure you all realize that the statements are practical recommendations to us as to precisely what to do. We have a trade bill for the Congress sent to us by the President which is rather limited in its approach. Naturally any comments that any of you would choose to make directly to that bill would be very valuable to our thinking. If any one of the witnesses is moved to communicate with the subcommittee on that score, we will include any comments you have on the President's trade message and bill as part of your remarks, without objection.

Secondly, there are many plans and schemes, some of which have been referred to here, for dealing with problems of temporary imbalance in our trade, and the temporary heavy impact of imports on domestic employment, as, for example, in textiles, shoes, electronics. If any of you have any ideas as to what is the best measure there—shall we seek voluntary agreements, shall we impose quotas or rather make administrative changes in respect to the administration of adjustment assistance, or open international negotiations which you have mentioned—we would appreciate receiving any information from any of the witnesses on that score.

Finally, regionalism is not a one-way street either. The United States can be as regional as anybody.

Although that has not been dealt with by any of the witnesses, I think the question of a trade hegemony in the Western Hemisphere which has frequently been discussed would also be a suitable subject for comment by any of the witnesses. Some Latin American countries are desirous of it. Others fear impact of the U.S. economy. But nevertheless there is perhaps a growing incentive for some kind of special relationship in the free trade area or some association with the northern part of the Hemisphere.

Those are the problems which we face. And if any of the witnesses care to comment now on any of these matters we would be very glad to hear you. Otherwise we have specific questions.

You do not have to proceed in order. Anyone that feels moved to speak may respond.

Mr. Swanson?

Mr. SWANSON. Mr. Chairman, if I may comment on the President's bill that has been put forth.

In my testimony that went into the record I commented that the President in his economic report to Congress explained that our policy of trade restrictions would add to domestic inflation and jeopardize our domestic position in world markets at the very time that increased world competition makes it imperative that we heighten our competitive capabilities. And I would say that the members of ECAT would strongly support and endorse the President's bill.

Senator JAVITS (presiding). Thank you very much.

Anyone else?

Mr. GOLDFINGER. The AFL–CIO will be testifying before the Ways and Means Committee on the bill. But I would like to say that in general I do not think that the President's message and the proposed legislation meet the requirements of the 1970's at all.

It attempts a new piecemeal measure to a very complex problem, involving foreign investments of U.S. firms, the operations of the multinational corporations, as well as other problems, some of which are dealt with in the President's message.

But the problem, as we see it, is not simply one of improving the adjustment assistance mechanism. We are very much concerned with this. We contributed a good deal to originating the idea of the adjustment assistance way back to the mid-1950's. But that is not the answer to the kind of problem that exists today in 1970.

I think that the major answers are along the lines of meeting the problems that I briefly tried to indicate in my opening statement. And they are much more serious, much more complex than the President's message he addresses himself to.

Senator JAVITS (presiding). Mr. Goldfinger, will the AFL–CIO be giving its specific recommendations to the Ways and Means Committee?

Mr. GOLDFINGER. Yes, Senator. I would be glad to put into the record, the convention resolution of the AFL–CIO on the subject of the international trade, which indicates a wide range of specific recommendations.

Senator JAVITS (presiding). Would you be good enough to do that. I would appreciate that very much.

Mr. GOLDFINGER. Yes.

Senator JAVITS (presiding). The convention resolution that you mention will appear in the record at this point.

Mr. GOLDFINGER. Thank you, Senator.

(The resolution referred to by Mr. Goldfinger for inclusion in the record follows:)

INTERNATIONAL TRADE RESOLUTION NO. 205

[This resolution covers the substance of Resolution 11 (Book 1, Page 16), Resolution 13 (Book 1, Page 17), Resolution 52 (Book 1, Page 42), Resolution 87 (Book 1, Page 73), Resolution 123 (Book 2, Page 23), Resolution 131 (Book 2, Page 33), Resolution 155 (Book 2, Page 52), Resolution 156 (Book 2, Page 54), Resolution 181 (Book 2, Page 86) and Resolution 201 (Book 3).]

Organized labor's consistent support of U.S. reciprocal trade policies and the expansion of world trade has been based on the goal of increasing employment and improving living standards at home and abroad.

Changes in world economic conditions require changes in U.S. trade policies. The Reciprocal Trade Agreements Act was adopted in 1934, during a depression which was aggravated by world-wide protectionism. The General Agreement on Tariffs and Trade of 1947 was signed amidst war-devastated national economies in most parts of the world. The Trade Expansion Act was passed in 1962 with great expectations that have not been fulfilled and with the promise of adequate adjustment assistance for adversely affected workers and firms that has not been kept.

In 1967, the AFL–CIO called on the Administration and the Congress to reassess and revise the nation's trade policies, in the light of substantial changes in international investment, production, economic aid and trade. But these policies have not been updated. In 1969 the continuing deterioration of the U.S. position in world trade requires new national policies.

The overall U.S. position in foreign trade has deteriorated, while world trade has expanded substantially. In manufactured goods, U.S. exports have declined from 27.7 percent of world exports to foreign markets in 1958 to about 23 percent of much greater world exports in 1968. U.S. exports have been rising slowly, while imports, particularly of manufactured and processed goods, have been rising rapidly. The result has been a narrowing surplus of exports over imports—down to $800 million in 1968—and no improvement is predicted for 1969.

Temporary factors, such as the rapid growth of the U.S. economy from 1965 to 1968 and the more rapid rise in the price level since 1965, can explain only part of this deterioration. Basic causes of the change involve new factors that came to the fore in the 1960s and pose more serious problems for the 1970s.

By the 1960s, regional trading blocs and the revived economies of previously war-shattered nations were creating new trading conditions for the U.S.

During the past twenty-five years most countries moved to manage their national economies—with direct and indirect aids for exports and bars to imports that have affected the U.S. trading position.

The skyrocketing investments of U.S. companies in foreign operations—combined with licensing arrangements and patent agreements—have transferred American technology and knowhow to plants throughout the world. As a result, the U.S. productivity lead has been narrowed or eliminated in numerous industries. Much of the foreign operations of U.S. firms, in plants, with American technology, that pay workers as little as 15 cents an hour, substitutes for U.S. production—exporting American jobs and displacing U.S.-produced goods in American and world markets.

The rapid growth of U.S.-based international companies has been substantially changing the composition, as well as the size of U.S. exports, imports and the trade balance. These companies can juggle exports, imports, prices, profits and dividends from one subsidiary to another, across national boundaries, for the private advantage of the firm. In 1969, a large share of U.S. exports and imports is intra-corporate transactions, within the structure of U.S.-based international companies.

Moreover, while U.S. trade, investment and aid policies have fostered expanded world trade and the rapid development of foreign production, many other nations' policies have failed to move in a similar direction, at a pace that would help equalize the healthy improvement of living standards among nations. In addition, emphasis on expanded trade in many industrial and developing nations has failed to take into consideration the need to expand consumer markets and to improve domestic economic and social conditions. At the same time, the vast American market, with its high living standards, is a prime attraction to the exports of foreign firms and foreign subsidiaries of American companies.

The combination of these conditions has resulted in soaring increases of imports of a wide and spreading variety of products and components in recent years—disrupting markets, with adverse impacts on workers, communities and smaller companies.

Old concepts and labels of "free trade" and "protectionism" have become outdated in this world of managed national economies, international technology, the skyrocketing rise of U.S. foreign investment and the growth of multinational companies.

AFL–CIO support for the orderly expansion of trade does not include the promotion of private greed at public expense or the undercutting of U.S. wages and labor standards. Our support for expanded trade involves the expansion of employment at home and among our trading partners. Our objective is to actively promote improved living standards and working conditions here and abroad.

No single action can attempt to meet the varied complex of trade and investment issues. There is no single measure that can solve the problems of different groups of workers in different industries and product-lines.

A battery of realistic policies and measures must be adopted and implemented to meet the needs of over 200 million people in a diverse national economy of continental size. Therefore be it

RESOLVED: 1. The AFL–CIO supports the healthy expansion of international trade on a reciprocal basis in the national interest. The foundation of government policies on international investment, trade and economic aid should be the well-being of the American people.

2. Appropriate government and private actions should be encouraged to promote growing exports. Such expansion, however, has no priority over domestic needs. Tax incentives or subsidies to business for export purposes are unnecessary.

3. We call upon the government to enforce, without undue delay, the laws that apply to unfair competition from foreign countries, such as antidumping and other appropriate measures. Through administrative procedures, the U.S. should pursue concern for domestic interests, as foreign countries do for their national interests.

4. The Trade Expansion Act of 1962 should be revised. The escape clause mechanism should be made effective by changing the criteria for relief. The law should clearly state the objective of protecting jobs and labor standards.

Section 252 of the Act, which calls for the removal of U.S. concessions to any nation which raises unfair or unreasonable barriers to U.S. exports, should be rewritten to clearly include exports of U.S. industrial, as well as agricultural products.

Congressional authority to negotiate removal of non-tariff barriers should exclude any adverse impacts on U.S. minimum wage, national labor standards, consumer protection and social legislation.

An effective and workable trade adjustment assistance mechanism must be adopted, as an integral part of the nation's trade policy. Trade adjustment provisions should be amended to make the government's judgment of criteria for relief more realistic and equitable. The administration of trade adjustment should be changed to insure that a worker displaced by imports receives assistance. Decisions on trade adjustment assistance cases should rest in the Executive Branch of the government and not in the Tariff Commission.

Statutory authority should be granted to the President for emergency action, including trade restraints, to meet monetary and trade crises.

5. The International Cotton Textile Agreements should be renewed without any erosion in its safeguards against disruption or its effective enforcement. Supplementary agreements covering international trade in textiles and apparel made of other fibers should be negotiated or the AFL–CIO will support Congressional legislation for appropriate action.

6. Additional agreements to regularize world trade are needed and should be concluded in industries and for products sensitive to disruption by rapidly rising imports and unfair competition. We urge the executive Branch of the government to negotiate, as soon as possible, international arrangements to prevent market and job disruption in such industries and products. If the executive agencies of the federal government fail to engage in such negotiations, covering these problems, the AFL–CIO will support appropriate Congressional legislation.

7. Any extension of tariff-cutting authority for compensation purposes should be minimal.

8. No tariff-cutting authority, beyond the authorization of the Trade Expansion Act of 1962 should be approved if there is any change of the methods of valuation of imports, such as the American Selling Price.

9. The United States should seek the development of workable international fair labor standards in international trade through international negotiations. This aim should be sought not only to protect U.S. workers against unfair competition, but also to assure workers in other countries a fair share of the increased returns resulting from expanded trade. The United States should seek annual reports from member countries of the GATT on labor standards of exporting countries.

10. The United States should try to help developing countries in their efforts toward improved trade and economic development. The goal should be the development of viable free societies in those countries, with growing consumer markets and improving labor standards. Economic aid should emphasize internal, not trade-led development. Expanded trade should be viewed as a supplement to, and not a substitute for the sound economic development of those countries, based on expanding domestic markets.

Any exploration of preferences on semi-manufactured and manufactured products from developing countries should include appropriate mechanisms for preventing market disruption and adequate fair labor standards, as well as general, equivalent programs among all major industrial countries. In addition, commodity agreements that are effective both for producer and consumer interests should be worked out. Such agreements should contain effective clauses for fair labor standards; they could provide a basis for needed expanding consumer markets in the developing countries, as well as a fair share of economic progress for workers.

11. The export of U.S. capital and its effect on international trade should be thoroughly investigated and appropriate government supervision and necessary regulations should be instituted. Until there is a basic improvement of the balance-of-payments problem, there should be direct restrictions and controls on U.S. investment in developed countries. Mechanisms for such restrictions are already established in all other major industrial countries. Effective tax policies should be adopted to prevent avoidance and/or evasion of U.S. taxation on profits from foreign investments. The Congress should examine the operations of international companies for the purpose of developing supervision and regulation of the operations of U.S.-based multi-national firms.

12. Consumer interests in international trade require adequate labeling of foreign products and foreign-made components by both the Federal Trade Commission and the Customs Service. The Federal Trade Commission and other administrative agencies of the U.S. government should emphasize the need for consumer protection and consumer information in the enforcement of the nation's consumer legislation.

13. East-West trade should be viewed as a tool of our nation's foreign policy, not a mere commercial issue. Appropriate precautions against exporting U.S. technology and prohibitions against exporting strategic items are essential.

14. The U.S. government should encourage the use of U.S. flagships and seek to remove freight rate discrimination against U.S. exports.

15. Item 807 and similar provisions of the tariff code, which provide financial encouragement to foreign production and the juggling of operations by international companies, should be repealed.

16. Studies should be conducted to determine new approaches to international trade. Such studies should include recommendations for better mechanisms for dealing with problems of injury from trade, for examining new bargaining strategies, for improving the government's ability to collect and distribute information on international trade, investment and economic aid. Legislation should be adopted to require federal agencies to collect and publish information on international trade, aid and investment relationships and product flows. We ask the President of the AFL-CIO to appoint a permanent committee to study in depth the problems caused by multi-national corporations.

Senator JAVITS (presiding). I have just one other question of you, and then I will beg to be excused, and Congressman Conable will chair the hearing, as I am the floor manager today of the opposition to the Carswell nomination.

I would like to ask you, Mr. Goldfinger, one question about labor which interests me very much.

It is a fact, is it not, that labor has often faced the same issues which it faces now through domestic technological change?

For example, manmade versus natural fibers, taking only a fairly recent past, or other technological breakthroughs, which have made certain factories and industrial processes obsolete. In other words, is not this a problem which we are now just encountering because of imports, but a problem we have been facing all along because of domestic technological change?

Mr. GOLDFINGER. Yes, Senator, you are absolutely right. And, in fact I point out that we still face another problem, and that is the internal migration of industry, the runaway plants out of New York and out of the industrialized areas into the less industrialized and lower wage areas. However, all of that has occurred within the confines of the United States, within the confines of a relatively common culture, of common law, of labor standards and social standards established by the Congress of the United States and enforced by the executive branch.

What we face here is something altogether different. We face the kind of runaway plant situation, not to Mississippi or South Carolina, but to Taiwan, to Japan, to other places. This whole situation is considerably different. The multinational corporation, with foreign subsidiary operations in as many as 40 or more countries, is considerably different from the kinds of technological change problems and internal plant migration problems that occur within the geographical confines of the United States.

Senator JAVITS (presiding). Mr. Goldfinger, to the individual worker losing his job, however, doesn't it come down to much the same thing?

Mr. GOLDFINGER. In terms of the loss of the job, yes. But in terms of the ability of the trade union movement, through collective bargaining and through economic measures, to handle this kind of problem, the issue is infinitely greater and more complex.

Senator, if we lived in one world government, with common law and common labor and social standards, that would be one thing. We do not. We live in a world of nation states.

Senator JAVITS (presiding). Gentlemen, I will have to ask you to excuse me. I have got to go.

Congressman Conable will take over. And my people who are here will ask any questions that I may have.

Representative CONABLE (now presiding). Dr. Kravis?

Mr. KRAVIS. May I try to pose the issue concerning employment effect on the basis of some data that I see in Mr. Stewart's statement.

I refer to his 128 manufacturing industries which had a cumulative trade deficit of $9 billion, and to his 185 industries which had a surplus of $10 billion. Now, the deficit industries, according to his calculations, involved the loss of 368,000 jobs. The surplus industries gained by virtue of their surplus 201,000 jobs. Now, that is exactly the issue. Notice that the balance-of-payments effects were about the same—a $9 billion deficit versus a $10 billion surplus. What we were doing was getting the product of 368,000 workers for only 201,000 workers' work. According to Mr. Stewart's own figures, this trade involved getting almost the product of two men in imports but the exports produced by one man. The only reason for opposing such advantageous trade appears to be the desire to make work. I am as much in favor of high levels of employment as anyone but trade policy is not the right way to get high employment.

If you think the purpose of our economy is to get the highest output we can, then obviously Mr. Stewart's figures do not present an argument for protection; they constitute a powerful argument for increased trade. The problem of maintaining high levels of employment is a problem of monetary and fiscal policy.

I would like also to come back to this business of the 19th and 20th century. I think it is a 20th century policy for the United States to say the world is getting smaller. The world of national states is a 19th century world, and policies adopted by national states purely for national purposes are right in the 19th century character. If you want to look forward to the 20th century, you have got to look forward to a world in which national states collaborate and harmonize their policies. The Common Market countries of Europe, which have felt the shrinkage of the world sooner than we did, have shown a lag.

It is true that every nation tries to use its power for national purposes.

But it is also true that the scope that nations have to do that is diminishing. The only rational thing to do is for nations to collaborate more closely in the common problems that arise because of the smaller world.

Representative CONABLE (presiding). I wonder if Mr. Goldfinger would like to offer any rejoinder at this point?

Mr. GOLDFINGER. I do not think that Mr. Kravis or Mr. Stewart posed the issue in my terms. Mr. Stewart's figures may be right and may be wrong. They are probably right. But they deal with aggregates. And this is where I beg to differ with Mr. Kravis. The issue is not simply 300,000-odd jobs as against 200,000-odd jobs. It so happens that workers are not statistics or machines. And the sooner we learn that the better off we will be. We are talking about people. We are talking about human beings who live in communities and have stakes in specific jobs in specific communities.

We are speaking of specific workers who live and work in specific places and in specific industries. And we cannot shove them around from one industry and community to another very easily, certainly not in a democratic, free society. And we cannot shove them around from one part of the country to another.

It is not very easy for people to move, particularly people who are 40-odd or 50-odd years of age. We have the problems in the New England shoe towns, for example, where plants have closed in the past year or so as a result of the flood of shoe imports in the 1960's.

These plants are located primarily in small towns. The workers are frequently older workers, many of them women. The wages are relatively low wages. What are these people to do? How are they to survive?

This is not simply a matter of aggregate statistics or capital investment. This is a matter of people who live in communities, who face problems. And I submit that we have to face up to the realities.

A key part of the reality to me—and I will put it bluntly—is that a good deal of what has been talked about at this table today is hokum. We do not live in a world of free competitive trade relations of trade among nations. The shoe workers are being displaced not simply by trade, arm's length trade relations between foreign companies exporting to the United States, but mainly by the foreign subsidiary operations of U.S. shoe companies and by their license agreements, patent agreements, retail and joint venture arrangements, and so forth.

It involves multinational corporation operations which are far outside of the frameworks of current economic theory. In my opinion, the United States does not have a tenable trade policy, we do not even have a tenable trade theory, in terms of the realities of the 1970's.

Representative CONABLE (presiding). Thank you.

Mr. Kravis, I would like to ask you if you do see any danger in the United States ultimately becoming, let us say, the Westchester County of the world with very highly skilled types, with full employment for those highly skilled, and with an increasing number of permanently unemployed, as a result of the export of all our low-skilled jobs to the developing countries.

Is there any danger in this kind of economic stratification among nations? Or should we try to base our policy in such a way that we will still have some employment for those who may not be able to acquire high skills?

Mr. KRAVIS. Mr. Chairman, I really do not think that is a great danger for the United States. I am sorry I do not have the statistics of employment or of the labor force in front of me. But I think the industries we are talking about are not industries which employ a very large fraction of the American labor force. The service industries, which have been expanding rapidly, can be expected to absorb persons with low skills as well as many with great skills.

Furthermore, it is not to be expected that those industries will disappear completely. I think that is a very naive view, to think that the American steel industry would disappear if we had completely free competition. They have enormous advantages in the domestic market. They would be likely to maintain a substantial fraction, or perhaps a smaller share than they have now, perhaps not any smaller at all. So I do not think that that is a very great danger.

While I have the floor I would like to say that I do not disagree at all with Mr. Goldfinger's stress on the human aspect of the problem. I think it is the responsibility of the Congress to worry about these human aspects. But the first thing to do is to decide where you want to go. And then the second thing to do is to decide how you can get there with minimum injury to people.

If you do opt for a policy of freer trade, then the thing to do is to give people time to adjust to that, and to give them incentive to adjust to it.

Let me just add one thing about the multinational corporation. I do not think that these are remote, powerful, evil conspiracies. And I do not think Mr. Goldfinger meant to imply that. But maybe some listeners might have heard that. I think these corporations try to pursue their economic advantage, and that this does not so greatly alter the role of comparative advantage in determining trade flows. If you have a corporation trying to decide where it is going to place a shoe factory, or whether it is going to place a shoe factory in one country rather than another, I think the same kind of considerations that affect competition between countries have a very large role in those decisions. While the rise in multinational corporation has changed things in many ways, I do not think it has thrown out all the kinds of competitive factors that affect in the national trade.

Representative CONABLE (presiding). Mr. McQuade?

Mr. McQUADE. I was trying myself to piece out just what Mr. Stewart and Mr. Goldfinger would like us to do. I think they both have made powerful statements to the effect that the world is not as we thought it was in the 18th and 19th century. But do they want us to rig the incentives against imports?

Do they want us to rig the incentives only against imports which are successful?

Do they want us to rig the incentives against multinational corporations?

Do they want us to deter U.S. companies from licensing or letting their patents go abroad?

Now, my own worry is that if you do that over time, instead of becoming Westchester it becomes one of those less developed corners of the United States, we are going to fall behind, and we will really have serious problems in the longer run.

In the course of doing that, of course, all of us have to pay, because one value of competition, at least under the historic 18th century and 19th century rules, was that it kept prices down by making sellers come up to snuff by price and quality competition.

Now, what I certainly tried to present here was something that would move in the direction of freer international markets without being too rigidly ideological. I want to get there with a minimum of injury, to use Professor Kravis' phrase.

My idea would be that if you have to have things to protect against particular imports, it should be for only the short run. That is why we ought to have, as the President has in the trade bill, an escape clause. That is why we ought to have some other avenues to let the steam off. But we ought to phase them out over reasonable periods of time, specified in advance, so that the workers as they look to their future, and management as they plan the future of their company and their industry, have a timetable to work against. And second, where the Federal Government switches the rules on people, and suddenly changes the game so that their capital investment or the environment of their lifetime skills has been changed, some investment assistance is available. I really feel that the object of the game is to move always in the direction of getting optimum economic efficiency, subject to real life adjustments to take care of the serious problems mentioned.

Representative CONABLE (presiding). Mr. Stewart, I think, would like to respond to Mr. McQuade.

Mr. STEWART. Yes. And if I may be pardoned for doing so, I would also like to respond to Professor Kravis.

If there were the type of ideal mobility of labor which his response assumes, there would not today in the United States be anyone working in a labor-intensive industry such as textiles, because the wages of the sophisticated industries are higher. If it is simply a matter of transferring to available jobs, the workers would have transferred long since.

The fact remains that we are a nation, and as a nation we represent a people that occupy a vast geographical expanse. People who live in Kansas may not be as close to sophisticated industries, as residents of industrial States, but there are those Kansans who prefer to live there.

Part of the genius of the art of government is so ordering our national policies so that the general welfare of all of our people, given their talents, the particular place where they choose to live, and the feeling that they have for their homes and communities, can be taken into account.

Mr. McQuade and Professor Kravis speak as though we are concerned only with constructing an economic model and forgetting all other considerations. It is precisely because our tariff negotiations in the past have not been equitable in the sense of providing the same opportunity for our export industries to move abroad as we afford to other nations to come in here that we now have, as Professor Kravis puts it, about a trade off in the dollar value of our exports and imports of manufactured products, where we have had a large surplus. The job content of those manufactures coming in is vastly greater, and their displacement effect on jobs vastly greater, than the job generating effect of our exports.

In addressing myself to the rather interesting series, if I may say so, of somewhat artificially phrased questions posed by Mr. McQuade as to what we should do, the first thing we should do is to recognize that our trade negotiating policy in the past is a bankrupt operation. We ought not again to go into the future with authority in the hands of the President, which permits him to reduce duties so unequally that we do not get for our export industries the kind of expansionist opportunity which is assumed by the answers of these gentlemen.

The second thing—and I regret that Mr. Goldfinger feels that in some way I am in some other part of the pasture than the one he chooses to occupy—I had thought that my interest was in workers and not in statistics merely. I have tried to discipline myself to evaluate the size of the human problem by looking at the numbers.

In any event, the kind of tariff policy that we need, to borrow his phrase, is one of orderly expansion of trade. Where there is acute distress in an industry with significant displacement of workers resulting from imports, we should make such an adjustment in our tariff as not to preclude imports of those products, but to bring moderation into the rate of increase for a period of years, so that stability can be restored to the industry and there can be an orderly exodus out of that industry, if that is the case, into industries where there are job opportunities, if they have in fact been generated.

Now, this type of selective adjustment was until 1962 a key part of our foreign economic policy. Presidents Truman and Eisenhower had the courage to adjust tariffs in such situations.

But in the sixties, out of the desire to embrace and embellish the panacea of freer trade, and to nourish the idea of adjustment assistance, we have excluded the idea pretty much of tariff adjustment and import controls as a means to provide this opportunity for the situation to be phased out in a gradual way.

So my specific answer to Mr. McQuade is, first, a restructuring our tariff negotiations criteria so that in the future reductions may be granted only if we in fact get equivalent concessions in return.

Secondly, to adjust the escape clause so that discretion is removed from the President and his political diplomatic advisers, and to put it in the hands of an expert body before whom all advocacy will be directed, those on the part of foreign governments and industry, as well as the U.S. industry, so that experts may make the kind of balanced, measured, economically sound decisions on a public record which the political process does not now lend itself to.

These two recommendations in particular I would offer.

Representative CONABLE (presiding). Mr. Goldfinger, I know you have something further to say. I wish you would also tell us how the AFL-CIO would like to see multinational firms controlled.

Mr. GOLDFINGER. Thank you.

First, I would like to read a couple of sentences from a statement which was presented to this subcommittee, in this series of hearings, just a few weeks ago by Professor Raymond Vernon, because I think they are in direct reply to some of the comments that have been made here.

Professor Vernon stated in his presentation to this subcommittee:

> The efforts of governments to make national policy in the fields of trade and payments are generally based implicitly on the assumption that such transactions are arms length affairs, undertaken between their nationals and the nationals of other countries. That, in part, is why they think of tariffs or devaluations as effective policy instruments in international trade.
>
> But today one-quarter or more of United States exports in manufactured goods are transactions between affiliates. * * * Trade flows of this sort are fairly insensitive to changes in tariffs or in currency values, except in the very long run.

I think that unless we face up to these realities of the 1970's, we are just living in a dream world in terms of coming to terms with trade policy.

Now another thing is that——

Mr. McQUADE. Excuse me. What do you want to do?

Mr. GOLDFINGER. Among the things that have to be done—and we do not claim to have the last word on this issue whatsoever, because we know altogether too little about the operations of multinational firms. What we have to do is the opposite of what Mr. Swanson recommended in terms of our foreign investment policies. Instead of giving up the controls, the very mild controls that we now have on foreign investment outflows of U.S. firms, I think that we need policies and mechanisms to regulate and control direct foreign investment outflows from the United States.

Representative CONABLE (presiding). By regulating controls you mean reducing them?

Mr. GOLDFINGER. I think that they should be reduced from their recent heights. I am not saying that they should be cut off, but I am saying that they should be managed. And they should be managed by the Government, by the Government of the United States. These are corporations that are based in the United States, making their basic money in the United States, and they are U.S. firms.

These outflows affect not only our balance of payments, but they affect trade relations.

But I would go much further. As you probably know, we have urged the Congress to repeal section 807 of the Tariff Code, which, in our judgment, helps to promote the operations of U.S. subsidiaries and provides these subsidiary operations with reduced tariff rates when the assembled goods return into the United States. This is a problem of subsidiary operations in general. And it is a very special problem in relation to the Mexican border operations of U.S. firms in the past number of years.

Representative CONABLE (presiding). Mr. Goldfinger, I wonder if Mr. Stewart would like to comment on this point: I notice in his prepared statement he called President Johnson's restraints "the unwelcome and much-lamented restraints on direct foreign investment."

Would you take some issue, then, Mr. Stewart, with Mr. Goldfinger, despite the fact that the two of you do have a viewpoint that at least is not entirely inconsistent?

Mr. STEWART. Having tremendous respect for Mr. Goldfinger, I might cast it in a different mold than taking issue with him. What I meant by the statement is that it is curious that out of the executive branch which proclaims such allegiance to free trade would come such a protectionist program as an embargo on foreign investment, which is what occurred. I say that if the problem requires the use of selective restraints, the use of tariffs to address regulation of trade to the sensitive areas is much less restrictive than the type of embargo that was imposed on increases in direct investment. And in that sense I probably cast myself in the role of a free trader.

Representative CONABLE (presiding). Mr. Swanson, I notice that imports of books have risen about fivefold in the past 12 years, but there has been a corresponding increase in imports also. And your company makes 50 percent of its sales effort abroad. Has the increase in imports caused any economic dislocation in the publishing industry? How have you adjusted to it? Why has the Britannica gone so heavily to trading in other countries recently?

Mr. SWANSON. Our history as far as the Britannica is concerned is that of a 202-year-old firm now. So our trend to go to business outside this country is not a recent trend. It has been underway for many, many years. The percentage of business that we are doing outside the United States has increased. But I think much of that is a result of plus business, or new business that we have entered into. There are two sides to it. One would be the English language production of products that are published in this country and exported to other countries. We have the advantage of higher volumes which give us lower cost in this country, as well as additional income from those other countries.

To my knowledge there has been no displacement of people within the publishing industry in this country. As a matter of fact, I think there probably have been jobs added as a result of the imports. And I think this is a side that we often tend to overlook, that many people in this country are involved in activities as a result of imports.

Representative CONABLE (presiding). We have had a sharp increase in employment through the sixties, and we have had a sharp increase in imports as well.

Would you comment on that, Mr. Goldfinger? The sixties, of course, started out with an unemployment rate in excess of 5 percent. And it has been gradually reduced after the first 5 years of the sixties to 3 percent, and now just over 4 percent, despite the fact that we have had an increasing inflow of imports during this period.

Mr. GOLDFINGER. Well, the major reason for that, Congressman, is that from early 1961 until mid-1968 the domestic economic policies of the Federal Government were expansionary. We have had an expansionary fiscal policy and a more or less expansionary monetary policy, and those aggregate policies were supplemented by structural measures to aid the unemployed and the hard to employ.

Employment increased and unemployment was reduced. In addition to the deliberate policies of the Government to increase employment, there was the additional factor that arose toward the end of 1965, with the acceleration of military expenditures in connection with the Vietnam war.

Now, all of those were factors in increasing employment and reducing unemployment. But it did not eliminate the very specific problems of workers who were affected by sharply increased imports, such as in steel during part of the 1960's, like shoes all through the 1960's, and particularly in the past number of years.

The trade problem was there. It did not necessarily show itself in the aggregate, but it was very much there. Furthermore, we continued to have serious problems of hardcore unemployment in 1968 and 1969. And the situation is worse now.

If I may, sir, I would like to add just two sentences on the price issue, because many economists think, as Professor Kravis mentioned, that there is a beneficial price impact from imports.

Representative CONABLE (presiding). Certainly working people are interested in keeping the cost of what they buy down, and foreign competition costs make a contribution to a restraint in prices.

Mr. GOLDFINGER. But I question whether this is always true, and whether that is the way it always works.

Take the area of shoes, in which there was a very sharp increase in imports during the 1960's, in which shoe imports absorbed the entire, rather substantial increase in domestic consumption of shoes. Yet the Consumer Price Index for November 1969, which is the most recently available to me, at present, shows the CPI figure, based on 1957–59 equals 100, for footwear as 143.9, considerably higher than the aggregate increase in the Consumer Price Index of 128.1.

In other words, while the overall Consumer Price Index increased 28.1 percent above the 1957–59 base, shoe prices increased 43.9 percent, despite the very sharp rise of shoe imports which displaced considerable numbers of American shoe workers.

Representative CONABLE (presiding). Of course, we don't know what it might have been without the shoe imports.

Mr. GOLDFINGER. I do not know what it would have been without the shoe imports. But I know that this is precisely what happened in shoe prices. In terms of the kind of discussion that we have been hearing, I do not understand how footwear prices increased nearly 44 percent in a period of very sharply rising imports. Shouldn't those sharply rising imports have at least stablized the price level in shoes? Shouldn't the rise of shoe prices have at least been somewhere close to the aggregate rise in the Consumer Price Index? How come it rose so much faster?

I do not know the answer to it. I am just questioning. I am questioning the theory that imports always have this very beneficial impact in reducing price pressures. And in looking at the facts and figures, I fail to see this kind of impact in all cases.

Frequently I find the same trend indicated by shoe prices.

Representative CONABLE (presiding). You are not questioning the fact that competition has a beneficial impact on prices?

Mr. GOLDFINGER. No. I am not questioning the theory. But the theory has a decreasing relationship to the world of reality. In effect, once again I am questioning how much price competition there is in numerous basic industries in the country, and also in terms of foreign trade.

Representative CONABLE (presiding). There is no question about it, economists are more modest than they used to be.

Mr. GOLDFINGER. Yes.

Representative CONABLE (presiding). But I suspect that they still hold onto a few of the tenets of their craft.

Mr. McQuade?

Mr. McQUADE. I would like to to make, if I might, two observations. One is a technical one. On the question of control of foreign investment, I think it should be clear that the program which was installed January 1, 1968, limited outflows of funds for direct investment abroad. It did not per se limit direct investment abroad.

In other words, companies could get funds, and have on a large scale, by borrowing from European capital markets. The reason I want to nail this down is that if I understood Mr. Goldfinger correctly, he wants to control direct investment and not simply outflows of funds for that purpose.

If I could move to my second point, which is that we are worried about the tremendous rise in imports during the sixties—and I think maybe you made the point that unemployment was brought down from 6 or 7 percent in 1960 to below 4 percent as it has been a tremendous portion of that decade. It is this tremendous domestic demand which cannot be met with our domestic resources which has caused the huge inflows. I gave those numbers—a 24 percent increase in 1968 as compared with a 3 percent increase in the period where we had that slight slump from the middle of 1966 to the middle of 1967. When your capacity is overstrained like that, it seems to be reasonable not to have a price impact except on holding down the rise or limiting the rate of rise rather than diminishing the domestic price. Actually U.S. machine tool manufacturers, for example, were making deliveries so late that their customers started to buy in Japan. And I expect they may have built up a new pattern of buying machine tools partly as a result of that.

Mr. GOLDFINGER. What capacity was overstrained? Shoe production?

Mr. McQUADE. I do not know the story about shoes.

Representative CONABLE (presiding). Do you have a further comment, Mr. Kravis?

Mr. KRAVIS. I would say that you cannot rely on an anecdotal kind of analysis even if you do not like economic theory. I think to establish the proposition that there was no relationship between increases and exports and changes in places, one would have to really make a more careful study.

Mr. GOLDFINGER. I did not make that statement, you just did.

Mr. KRAVIS. Then what was the purport of the statement? If your statement is that it is possible for prices to increase even though imports are increasing, I do not know any economic theory that would deny that. Unless you are claiming that the general tendency for increased import competition to restrain price increases is untrue, I really do not know what the relevance of the illustration is. If you are saying, it sometimes does not happen because these are other factors in the market—I do not know what happened in the shoe industry, maybe there is a worldwide scarcity of leather that made shoe prices go up all over the world. But I do not think there is any real challenge to the general statement of tendency, which is all economic theory is supposed to do.

Representative CONABLE (presiding). Dr. Kravis, let me ask you another question. Your statement reads in part that regional groupings are inherently discriminatory, and their growth is making a shambles of the principle of most-favored-nation treatment upon which the postwar trading community was supposed to be based.

How would you relate that to your recommendation that the United States should press for the integration of the world economy? How will the world economy be ultimately integrated, by the formation of larger and larger regional groupings that compete against each other, such as the proposed North America, EFTA, and Japanese alliance against the Common Market, or by the dismantling of those regional groupings?

Mr. KRAVIS. I return to a proposal that has been made to the subcommittee. The United States should take the position that it is willing to enter into negotiations for a free trade area with all comers. We would regard as part of the scope of those negotiations the harmonization of policies that distort competition. This would include nontariff barriers, tax measures, and areas where sovereignties tend to conflict because of the activities of multinational corporations. It would also include provisions for escape clauses that would protect individuals in countries where the foreign company or foreign imports were rising and displacing workers, but it would make those provisions subject to some international consultation or even supervision.

We cannot say, as we are saying now to the Japanese, we will be the unilateral judges of when American industry is being injured, and expect other countries to do anything different. If each country insists on being the unilateral and self-serving judge of what international policies it should follow, we will get into a situation where the diplomacy of the United States and other countries will be burdened by continuing negotiations and arguments about this industry or that. I think it is a way to a trade jungle rather than to an orderly trade world.

I do not believe the United States should follow a policy of reducing its barriers without seeking concessions that really place American exports in a position where they have equal access to markets comparable to what we are giving to foreign products.

Representative CONABLE (presiding). This, of course, is one of the major points Mr. Stewart makes.

Mr. STEWART. I am delighted that Professor Kravis and I at last occupy the same ground.

Representative CONABLE (presiding). Mr. Goldfinger?

Mr. GOLDFINGER. I do not necessarily agree with that, because foreign subsidiaries of multinational corporations set up shops in the protected markets of overseas countries. And on this issue may I read once again from the valuable document that your committee put out in your previous set of these hearings, from a statement by

Mr. John Powers, the chairman of the board and president of Charles Pfizer, a multinational pharamaceutical firm. And he said:

It is important, I think, to pinpoint the reason for this enormous growth of sales and production operations in overseas markets by American-based companies. * * * Primarily it is in order to compete effectively

now, mind you, he is not talking about trade, he is talking about the firm competing effectively

in these fast-growing external markets. To a certain extent government regulations in the host countries may require local production by cutting off or heavily taxing imports of finished goods or even sometimes of some basic materials. * * * To compete effectively for a good share of any major market anywhere requires direct investment in that marketplace in the form of sales offices and warehouses, and at least packaging and assembling plants, if not basic production units. It is just not possible for a mere exporter of manufactured goods to become a major long-term factor in a market in this second half of the twentieth century.

I submit, sir, that the point made by Mr. Powers on the basis of his experience with his firm is an indication of one of the serious problems here. It is not merely the problem of imports from foreign subsidiaries, it is also the impact of foreign subsidiary operations of United States multinational corporations on the export potential of American products, so that we are being hit both directly and indirectly by the multinational corporations' operations, as well as by the national economic management of other countries. The multinationals set up shop, as Mr. Power indicates, in rational terms for them, as firms, within the protectionist areas set up by these other governments.

But this all affects American production and it affects American employment. There is a vast difference between the interests of our Nation and the interests of a firm.

Representative CONABLE (presiding). Mr. Goldfinger, yesterday we had a labor leader in the metalworkers group from Switzerland here. And he took a rather more affirmative view of the role of the international labor movement as a possible mitigating factor in the various competitive confrontations that were going on in world trade.

Would you care to comment on that?

Mr. GOLDFINGER. I did not hear Mr. Casserini's statement, and I have not yet seen or spoken to him on this trip to the United States. I would add that Mr. Casserini is one of the top-flight trade union economists in the world.

But let us look at this issue realistically. The trade union movement internationally does cooperate, and the American unions in the metal fabricating industries are part of the international metalworkers trade union secretariat for which Mr. Casserini works. However, the trade union mechanisms of collective bargaining are available to the union only after the fact of the subsidiary's operations. The horse is out of the barn by the time you can get the collective bargaining impact on the foreign subsidiary.

Furthermore, the International Trade Union Secretariats as represented by Mr. Casserini yesterday, are not strong in all countries. They are relatively weak in some countries, and stronger in others.

I would say that the mitigating effects of international trade union cooperation are most desirable, and we work at it. But they are rather minimal. We are trying to be realistic about this. What is required above all is U.S. Government policy. The operations of the U.S. trade union movement, in cooperation with other trade unions, can have some mitigating effects in some places, depending upon a whole series of circumstances, but only after the subsidiary's operations are there. We have to get at the whole problem, including the problems of the export of U.S. capital and the operations of these U.S.-based multinationals.

Representative CONABLE (presiding). I suspect that we must bring this to a close.

Are there any last points that anyone wishes to make?

Mr. Stewart?

Mr. STEWART. Mr. Chairman, when you referred to the trend in employment and contrasted it with the rising levels of imports, it occurred to me that you might have overlooked the fact that whereas between the average employment in 1966 to the latest figure of February 1970, employment on nonagricultural payrolls increased by nearly 7 million jobs, employment in manufacturing between these two periods increased by a little less than 600,000 jobs.

It is the manufacturing sector of the economy that is principally affected by the rising imports. At the time of a strongly rising and growing labor force, the fact that this sector of the economy is relatively at a standstill on creating new jobs is a matter of concern.

Representative CONABLE (presiding). I would like to express for the record my great pleasure at having the gentleman, Mr. Curtis, whose seat on this committee I took, back here listening with us today. And I would like to comment that if he had felt that he could properly ask questions as I urged him to do a few moments ago, I do not think you fellows would have gotten off so easily.

Thank you very much for a very valuable contribution to our hearings, gentlemen. We are most grateful.

The subcommittee will stand adjourned until tomorrow morning at 10 o'clock.

(Whereupon, at 12:15 p.m., the subcommittee recessed, to reconvene at 10 a.m., Thursday, March 19, 1970.)

APPENDIX

(The following prepared statement was submitted for the record of the hearings in the context of the discussion on issues in U.S. trade policy:)

PREPARED STATEMENT OF THE INTERNATIONAL ENGINEERING & CONSTRUCTION INDUSTRIES COUNCIL

My name is J. David Layden. I am Chairman of the Foreign Construction Committee of The Associated General Contractors of America. I am also Vice President of Vinnell Corporation, a general contractor whose home office is in Alhambra, California. The Vinnell Corporation has an annual construction volume of $100 to $125 million, of which about 50 per cent is performed overseas.

I am appearing before you today as spokesman for the International Engineering and Construction Industries Council, an organization formed in 1967 by The Associated General Contractors of America, the Consulting Engineers Council of the United States, and the National Constructors Association. The Council was formed to deal collectively with the mutual interests and problems of the consulting engineers, designers and builders of projects abroad, and to provide these groups with a more effective contact with government agencies, financial institutions, and private organizations concerned with foreign investment and development projects.

With me are Charles E. Golson, representing the National Constructors Association, H. Peter Guttmann, representing the Consulting Engineers Council, and Thomas Ryan of the M. W. Kellogg Company.

We appreciate the opportunity to appear before this committee to present our industry's views of the problems confronting us in our overseas operations.

1. Removal of Unified Budgetary Controls Limiting Export-Import Bank's Scope of Activities

The Export-Import Bank Act of 1968 increased Eximbank's authority to lend, guarantee, and insure to $13.5 billion, while limiting its authority to borrow from the Treasury to $6.0 billion. Up to $3.5 billion of outstanding guarantees and insurance can be charged against this lending authority at 25 percent of the contractual liability assumed.

The Annual Report of the Export-Import Bank for Fiscal 1969 reports that as of June 30, 1969, the uncommitted authority to lend, guarantee, and insure totaled $4,769.4 billion.

However, under the unified budget concept, this authority is limited annually to specific amounts authorized by the Congress. The Fiscal 1970 Budget submitted to the Congress for approval anticipated Eximbank budgetary disbursements of $1.67 billion, resulting in an excess of expenditures over budgetary income of $85 million. Recent revision of this request has increased the anticipated disbursements to $2.56 billion, for an excess of expenditures over income of $805 million. This latter figure impacts bot hthe Federal Budget surplus and the annual expenditure ceiling imposed by the Congress.

According to a United Nations study, published in late 1967, none of the countries with developed economies impose this type of annual budgetary controls on their export financing institutions.

Because of these limitations, Export-Import Bank's efforts to promote and stimulate the export of U.S. goods and services are undermined, and this crippling affects particularly the direct—or project—loans. In order to remove this restraint, recommendations have been presented to:

(1) formulate a policy decision, by the Congress, that Eximbank lending does not constitute a budgetary expenditure; or

(2) create a new corporation for Eximbank financing outside the budget.

The "sale of assets" in one form or another on the open market, to create Budget receipts, results in a continuing loss between commercial rates and Eximbank's cost of financing which is still competitive in world markets for this type of operation. The only solution would appear to be to resort to purchase of this paper by the Federal Reserve.

2. Improvement in Liquidity of U.S. Funds Available for Financing of Export of Goods and Services

In recent months, the Department of Commerce has once more reported the wide divergence between U.S. practice and that prevalent in other developed economy countries in providing funds to finance exports of goods and services. With the monetary measures imposed by the Federal Reserve to restrain inflation, this divergence has become even more pronounced and has contributed to over-pricing our exports in competition with those of other countries.

Since early in the 1950's, other countries have maintained a differential—or subsidy—between the domestic cost of money and that used to finance exports. This differential based on discounting of commercial bank holdings has been at least 2 percent. The discounting is provided for either by the central bank of the respective countries or directly by their treasuries.

Although Eximbank has in the past years provided rediscount facilities similar to the above but applicable to 1 to 5 year paper and limited to a proportion of the commercial bank's portfolio of foreign paper, this does not apply to either short term or the longer maturities. Furthermore, under the unified budget concept mentioned previously, this Eximbank function is limited by the amount of operating funds available to Eximbank each year.

Because of the restrictions imposed upon commercial banks, there is a very marked limitation on funds available to them for their own operations, and the "prime rate" of 8½ percent is only a nominal starting level in the actual cost of money to the borrower of funds for a medium to long term loan. In order to discourage potential borrowers who would immobilize their restricted availabilities by this type of investment, commercial banks have restored to several tactics: (a) raising the amount over the prime rate at which funds are available to borrowers; (b) requiring a compensating balance—immobilizing from 10 to 20 percent of the amount borrowed and on which interest is paid; (c) offsetting these borrowings by using Eurodollars at a high cost and for a short duration.

As a result, when the ½ percent which Eximbank charges for its guarantee—which exempts commercial bank lending from the limitation imposed by the Federal Reserve on foreign operations of U.S. banks—is included into the picture, a typical calculation would show:

Amount of borrowing	$1,000,000
Cost of borrowing:	
Prime rate percent	8½
Mark-up do	1
Exim-guarantee do	½
Or cost per annum	$100,000

Amount available to borrower:

With 15 percent compensating balance $850,000 or true cost p.a.: *11.76 percent.*

With 20 percent compensating balance $800,000 or true cost p.a.: *12.5 percent.*

When this is compared to 5–9 percent export money available in the United Kingdom, Germany, France, Italy, Spain or Japan, it is evident that no amount of juggling of maturities between U.S. commercial bank and Export-Import Bank participation in a loan will result in a competitive cost of borrowing.

Since Eximbank participation in such an operation, either as part lender or as guarantor would preclude its re-discounting of the commercial bank participation, it would appear that the only remedy is for Congress to authorize the rediscounting by the Federal Reserve or by the Treasury, and to establish rates competitive to those obtainable by our foreign competitors from their own institutions.

3. Eliminate Punitive Provisions of U.S. Taxes Applicable to Income From Foreign Operations

The recently concluded National Foreign Trade Convention presented specific recommendations on this subject, as has our industry in testimony related to the Tax Reform Bill of 1969.

Relief from double taxation of U.S. corporations and individuals is mandatory if U.S. exports are to be able to compete with those of other countries. Since 1918, the United States has adopted the foreign tax credit mechanism to eliminate international double taxation, and this system has generally been acceptable to date. However, certain recently proposed legislative measures and regulations would serve to nullify this situation:

Instead of taxing them as domestic taxes, the United States should provide tax credits under Section 902(b) for dividends from foreign subsidiaries to United States companies beyond the second tier.

(1) *Subpart F Controlled Foreign Corporations.*—An immediate tax on foreign affiliates of U.S. corporations prior to remission is clearly discriminatory and runs counter to accepted practice in foreign countries and make it extremely difficult for U.S. investors to form joint ventures abroad. Most foreign countries encourage profitable investments abroad which contribute favorably to their balance of payments.

(2) *IRC Section 482—Regulations.*—These regulations which attempt to set standards for intercompany transactions may have had justification in the days of "tax havens," but should be amended to conform to sound economic and accounting practices accepted internationally. Futhermore, unilateral application by the U.S. fiscal authorities of Section 482 regulations may lead to retaliatory measures by foreign governments.

(3) *Tax Treaties.*—Efforts of the Treasury Department to negotiate tax treaties are commendable, and every effort to encourage the conclusion of additional treaties is urged. Since many countries resort to indirect taxes which are not considered as ligitimate deduction by the Internal Revenue Service, the effect of the basic differences in taxation principles between these countries and our own is that of costly reporting and discriminatory taxes on income of U.S. subsidiaries bỳ our own government as compared with that of foreign governments on their taxpayers.

All of the above would only remedy punitive measures of present or prospective taxation of foreign base income of U.S. companies and individuals.

4. Formulate Tax Incentive Programs to Encourage Export of Goods and Services

In the foregoing paragraphs certain disguised subsidies to our foreign competitors by their own governments have been mentioned, none however is so effective and prevalent as the one of tax incentives. As of January 1, 1958, GATT precludes any form of tax exoneration or remission on exports other than those applied to the exported product. The increasing use of such indirect taxes—such as the Valued Added Tax—with remission of all or part of this tax applied to export and imposition of a corresponding border tax for imports is equivalent to a subsidy of the export and a penalty on imports. Study of replacing some of our direct taxes by some form of indirect tax, with the same possibility of remission of all or part when levied on exports should be implemented until such time as forthcoming negotiation of their removal by all countries becomes a fact. Despite the difficulties in administering this type of tax, our industry requests that the Congress in its efforts to expand our exports consider this as a means to compensate for established practices in foreign countries.

5. Internationalization of U.S. Foreign Assistance Programs

President Nixon's speech to the Inter-American Press Association is one of the more recent pronouncements of this idea which has been the subject of study and discussions by the Congress in the past few years. The President presented as an objective: "to evolve a multilateral framework for bilateral assistance."

This has been construed by many as entrusting U.S. foreign assistance to the unrestricted administration of international financing agencies such as the World Bank Group, the Inter-American Development Bank, the Asian Development Bank, etc.

This Council invites the attention of this Subcommittee and of Congress to the fact that although there are no restrictions as to the use of the capital (or equity) contributions to these agencies, most of the developed nations have set definite provisions on the proceeds of funding these agencies by the sale of bonds or by contributions. In participating in consortia or other forms of multilateral financing, the same restrictions apply. These determine the certain percentages of expenditure of their respective contributions must be limited to their own countries or to the economic communities of which they are members.

Because of the factors mentioned in preceding paragraphs which place U.S. engineers and contractors in a non-competitive position, and for other reasons, our industry has not participated to any fair extent in any world-wide awards of contracts from the World Bank Group.

This Council, therefore, suggests to this Subcommittee that in establishing the multilateral framework mentioned by the President, that U.S. representatives be instructed to ensure fair treatment to U.S. engineers and contractors, on an equal basis with our foreign competitors.

6. Untying of Aid Funds Within Latin America

This Council endorses President Nixon's plan, expressed in the same speech of October 31, of "untying" funds provided for by Foreign Assistance programs from exclusive procurement for U.S. goods and services and shipment in U.S. flag vessels. This will provide, in many casés, the local currency funding which was unavailable under existing regulations.

However, our industry would suggest that where goods and services are obtained in Latin America, provision that the supplier of such goods or services is a bona fide corporation or citizen of one of our sister republics be maintained, lest these U.S. funds be diverted to other than Latin American countries through "paper" entities.

In line with proposed economies proposed by the President, these measures would liberate many of the projects from the costly and time-consuming requirements now encumbering AID projects, which reduce the effectiveness of the dollars made available to these developing countries.

A FOREIGN ECONOMIC POLICY FOR THE 1970'S

THURSDAY, MARCH 19, 1970

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

The Subcommittee on Foreign Economic Policy met, pursuant to recess, at 10:10 a.m., in room G-308, New Senate Office Building, Hon. Hale Boggs (chaiman of the subcommittee) presiding.

Present: Representatives Boggs and Conable; and Senator Javits.

Also present: John R. Stark, executive director; John R. Karlik, economist; Myer Rashish, consultant; and George D. Krumbhaar, economist for the minority.

Chairman BOGGS. The subcommittee will come to order.

This is the concluding session in the current effort of the Subcommittee on Foreign Economic Policy to outline an appropriate U.S. trade policy toward developed countries.

Today we examine one of the most difficult problems attending our trading relations between the United States and its industrial partners, the problem of trade in agricultural products.

The difficulties in agricultural trade present a classic example of the clash of national domestic policies that affect external relations and internal adjustment. If we consult the problems of trade and agriculture we ought to be able to have all the trade problems.

To assist in our investigation today we are privileged to have an exceptionally qualified panel of witnesses; listed in alphabetical order, Mr. Michel Fribourg, who will be a little bit delayed, president of the Continental Grain Co.; D. Gale Johnson, dean, Division of Social Sciences, University of Chicago; Herman C. Posthumus Meyjes, professor, the Agricultural University, Wageningen, The Netherlands; M. Roger Savary, secretary general, International Federation of Agricultural Producers, and John A. Schnittker, professor, Department of Economics, Kansas State University; formerly Under Secretary of Agriculture, who all of us know very well, and we are very glad to have him back.

We are very happy to welcome all of you.

Mr. Johnson, suppose you lead off this morning.

STATEMENT OF D. GALE JOHNSON, DEAN, DIVISION OF SOCIAL SCIENCES, UNIVERSITY OF CHICAGO

Mr. JOHNSON. Thank you, Mr. Chairman.

I appreciate the opportunity to present my views before this subcommittee. And I will try to summarize fairly briefly the paper that I have sent to you.

It is easy to be pessimistic about the prospects for agricultural trade in the 1970's. One needs only to study the FAO Provisional Indicative World Plan for Agricultural Development, the OECD projections for 1975 and 1985 and the USDA study of the effect of the EEC common agricultural policy on U.S. trade to reinforce such pessimistic views.

During the past 15 years the production of most farm products in the industrial countries has increased more rapidly than consumption or use in those countries. Thus two effects have followed inevitably:

(1) The degree of self-sufficiency in agricultural products in the industrial countries has increased; and

(2) Exports of farm products from the industrial to the developing countries have grown more rapidly than the imports of the industrial countries from the developing countries. And the consequence of this, of course, has been a deterioration in the availability of foreign exchange from agricultural products to the developing countries.

I do not know that anywhere the nature of the problem of agricultural trade has been stated more clearly than in a brief paragraph in the FAO Provisional Indicative World Plan. And I quote from that:

> A reversal in the trends of increasing self-sufficiency in the high-income countries as a group can be brought about only if their domestic farm policies and trade policies for the relevant commodities are modified considerably. The essence of the modification in farm policies would consist of ensuring that total resources used for current agricultural production in Zones AB (industrial countries) were smaller than they would otherwise be.

The above quotation makes clear what most of us know, but few are willing to recognize—it is impossible to divorce trade policies for agricultural products from the domestic farm policies. In most industrial countries it is the domestic farm policies that determine trade policies; trade policies are accommodated to farm policies and not vice versa.

If the restrictions on international trade in farm products are to diminish rather than expand during the 1970's, domestic farm policies must be accommodated to the terms and conditions of a liberal trade policy. It is as simple as that and there is no other magic answer.

It needs to be remembered, I think, that the FAO quotation is not just about the EEC or the Soviet Union; it refers to the United States as well. We often try to relieve our consciences by saying, as did Orville Freeman before this subcommittee on December 2, 1969:

> The only country in the world that has tried to do anything about overproduction is the United States.

It seems to me that when such statements are made a number of things are left out; namely, the programs that the United States has outside of its acreage control programs that in fact result in increased production, such as bringing in high yield irrigated land, and direct payments for conservation at one time or another.

And in addition to that, we have a number of farm products for which there has been no effort to reduce production, such as dairy products, long staple cotton, sugar, and peanuts.

One of the consequences of the domestic farm policies in the industrial countries is that almost all of them are encouraging high cost production of one or several farm products. And when industrial countries follow such policies the countries with the real comparative advantage in particular farm products find themselves in an impossible situation.

It is clear that governmental policies in most industrial countries have not adjusted to the dramatic changes that have occurred in agriculture since World War II. Changes have occurred at rapid rates—changes in employment, in output, in labor and total input productivity, and in the growing importance of purchased inputs.

I think far too little attention has been given to this latter factor, the increased significance of inputs in agriculture purchased from the rest of the economy. In many of the industrial countries purchased inputs, such as fertilizers, tractor fuel, and so on, constitute from 40 to 50 percent of the total value of farm output. And as a result, the degree of protection which is afforded to agriculture in the industrial countries through either tariffs, quotas, variable levies, and so on, is substantially higher than what it is normally estimated to be by a simple comparison between domestic prices and import prices.

And in my prepared statement I give an example of where a difference of 50 percent between the domestic price and the world price can actually lead to a degree of protection of over 100 percent.

And the second factor here is that because of the increased importance of purchased inputs today compared to, say, before World War II, a change in protection that before World War II might have increased farm production in the country by 5 percent, may today increase it by as much as 10 percent.

The United States, I think, now finds itself in a very different position than it was some 30-odd years ago. At that time its exports really were not very important to the economic health of its farming. Today our exports are so important, since they are a large fraction of the total volume of our output, that they have become perhaps one of the major dynamic elements in the demand for our farm products.

And the fact that our exports have increased dramatically does not mean that we have a commanding position in the world market situation for any of the major agricultural products any longer; partly as a result of our past policies, and partly for other reasons, we really are no longer in a position to have very much influence over the prices of three of our important exports, namely, wheat, cotton, and tobacco.

And this perhaps explains one of the reasons why we are now following the policy of competitive pricing in these commodities, and have established price supports at levels at or below world market prices in a number of cases.

At the heart of the difficulty in the trade policies of the industrial countries is the fact that the farm policies of most industrial countries are output increasing. Generally this is not an intended consequence, but intentions are of little significance relative to effect.

Most such countries have accepted as the objective of their policies that farm incomes should be increased to some level relative to nonfarm incomes. The specific income objectives vary from country to country and are not really of much importance to the present discussion. The important point is the nature of the approach adopted by most countries to achieve these income objectives.

The underlying assumption of what I have called the new agricultural protection is that the primary determinant of farm income is the demand for farm resources as expressed through product output and price.

Now, I argue more fully in my prepared statement that this is really a misinterpretation of the reasons for differences between the incomes of farm and nonfarm people, and that in order to use price policy as a means of eliminating the disparity between farm and nonfarm incomes, it would be necessary to have a policy of continuously increasing farm output prices by about 3 to 5 percent per year in order to have much effect on the level of farm income relative to nonfarm income over the period of time.

Practically all of the improvement in farm income relative to nonfarm income that has been realized in the industrial countries in the period since the end of World War II has been due to adjustments through the labor market; the farm population has declined as has the number of workers engaged in agriculture.

In my prepared statement I have given an example based on the United States, that if the farm population had been in 1968 at the same size it was in 1950, and if the importance of nonfarm to total farm income of the farm population had remained unchanged, farm income would have had to have increased from $17 billion in 1950 to $45 billion in 1968 to have given the same level of per capita income of the farm population.

I think we all understand that this would simply have been impossible to achieve through higher farm prices, and that the adjustment that occurred was due to adjustments made by farm people themselves with little or no aid from Government policy except a policy of high employment.

I would like now to complete my comments by just briefly describing two or three things which it seems to me the United States might do as a means of improving the possibilities of reducing the barriers to trade. These suggestions are not dramatic, and their chances of success are hardly overwhelming.

The first point is that the United States should review its own farm programs in terms of their consistency with a liberal trade policy.

The United States has a number of farm programs that are output increasing; it has programs that clearly limit imports of commodities that it produces at high cost. While the feed grain, cotton and wheat programs have been modified in recent years to make them more consistent with a liberal trade policy and expansion of exports, each of the programs still retains features that induce farmers to plan for yields higher than would be economic at world market prices.

We have all too many programs that directly and deliberately increase farm production—agricultural conservation payments, soil conservation programs, land reclamation, irrigation—and at high social costs. And we also continue to use import quotas, which we object to when other countries use them, on most manufactured dairy products, cotton, sugar, wheat, wheat flour, and peanuts.

And while we have greatly reduced our allowance on export subsidies in recent years, we still use them for certain products. And there is no guarantee that, if it suits our fancy, we will not reinstate export subsidies at any time. In fact, fairly recently were instituted export subsidies on wheat.

A nation that fails to impose a self-denying ordinance on the use of export subsidies can hardly object to the use of variable levies.

The second point is that the United States and other industrial nations, perhaps through an international agency, should undertake a careful and systematic study of the degree of effective protection of agriculture in all industrial nations and of the output and trade effects of existing domestic farm programs.

The study would have no objective other than providing the best possible analysis of the prevailing degree of agricultural protection and the impact of that protection upon national farm production in each of the major industrial nations. The United States has no systematic knowledge of the output effects of its own farm programs nor information on how much protection is provided agriculture; the same lack of knowledge exists in all other industrial countries. In part, we do not have such knowledge because it has never been sought. Those of us in the academic world bear as much responsibility for this ignorance as do farmers and politicians.

It should be recognized that the present state of data and economic and statistical analysis would not permit unequivocal answers. Yet substantial knowledge could be obtained through a competent study or set of studies. The suggestion for the study is based on two assumptions that knowledge is better than ignorance and that policies are changed in response to an understanding of their effects, if these effects are generally considered to be undesirable.

Finally, the United States should seek the agreement of the other major industrial countries to engage in negotiations to reduce the conflicts between domestic farm and international trade policies and to expand international trade in farm products, both among themselves and between the industrial countries and the developing countries.

A new general trade negotiation, such as the Kennedy round, is unlikely to be of much consequence in reducing the barriers to trade in agricultural products. Most of the important barriers to trade imposed by industrial countries are integral parts of domestic farm policies. Thus, countries must be willing to enter into negotiations that will involve aspects of their domestic farm programs. Such negotiations might be fruitful since the basic economic features of the farm problems of the industrial nations are so similar.

Every industrial country, whether it is an importer or exporter, is faced with continuing major adjustment problems in agriculture as economic growth occurs. These adjustments cannot be avoided, it would be hoped that there could be agreement upon programs that assist farmers in making the necessary adjustments without seriously interfering with international trade in agricultural products.

The three steps that I have suggested are hardly dramatic ones. The suggestions assume that there are alternative means of meeting the legitimate income objectives of farmers in the industrial countries. I think that this is a correct assumption and that it has in fact been true that the income gains realized by farmers over the past two decades have been due primarily to the general economic growth of the industrial economies.

This conclusion does not mean that farm people require no assistance in minimizing the costs of adjustments imposed by economic growth, but unfortunately most industrial countries, including the United States, have chosen the most expensive and least effective programs for assisting farmers to adjust to the inevitable.

Thank you.

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

(The prepared statement of Mr. Johnson follows:)

PREPARED STATEMENT OF D. GALE JOHNSON

AGRICULTURAL TRADE IN THE 1970'S

It is easy to be pessimistic about the prospects for agricultural trade in the 1970's. One needs only to study the FAO Provisional Indicative World Plan for Agricultural Development, the OECD projections for 1975 and 1985 and the USDA study of the effect of the EEC common agricultural policy on U.S. trade to reinforce such pessimistic views.

During the past fifteen years the production of most farm products in the industrial countries has increased more rapidly than consumption or use in those countries. Thus two effects have followed inevitably: (1) The degree of self-sufficiency in agricultural products in the industrial countries has increased and (2) Exports of farm products from the industrial to the developing countries have grown more rapidly than the imports of the industrial countries from the developing countries.

The nature of the problem that we face in the 1970's has been succinctly stated in the FAO Provisional Indicative World Plan (Chap. 14, p. 116): "A reversal in the trends of increasing self-sufficiency in the high-income countries as a group can be brought about only if their domestic farm policies and trade policies for the relevant commodities are modified considerably. The essence of the modification in farm policies would consist of insuring that total resources used for current agricultural production in Zones AB (industrial countries) were smaller than they would otherwise be."

The above quotation makes clear what most of us know, but few are willing to recognize—it is impossible to divorce trade policies for agricultural products from the domestic farm policies. In most industrial countries it is the domestic farm policies that determine trade policies; trade policies are accommodated to farm policies and not vice versa. If the restrictions on international trade in farm products are to diminish rather than expand during the 1970's, domestic farm policies must be accommodated to the terms and conditions of a liberal trade policy. It is as simple as that and there is no other magic answer.

The FAO quotation is not just about the EEC or the Soviet Union; it refers to the United States as well. We often try to relieve our consciences by saying, as did Orville Freeman before this Subcommittee on December 2, 1969: "The only country in the world that has tried to do anything about overproduction is the United States." When such statements are made, a number of other things are left unsaid. Nothing is said about the acres of high-yield irrigated land that have been added through federal subsidies or about the increased productive capacity of land undertaken in the name of conservation or the effect of high support prices and/or direct payments on crop yields on the land that remains in production or of the farm products for which no significant effort to reduce production has been made—dairy products, long staple cotton, sugar, peanuts—while we have at the same time reduced imports or expanded our exports.

As a result of their domestic farm policies almost all industrial countries are currently encouraging high cost production of one or several farm products. If only one country did it, it would not matter too much. But when most industrial countries follow such policies the countries with a real comparative advantage in particular farm products find themselves in an impossible situation. And this is not the only cost. Consumers and taxpayers are burdened with heavy and economically unnecessary expenditures for home produced products when equally acceptable products could be obtained much cheaper by importation.

It is clear that governmental policies in most industrial countries have not adjusted to the dramatic changes that have occurred in agriculture since World War II. Changes have occurred at rapid rates—changes in employment, in output, in labor and total input productivity, and in the growing importance of purchased inputs. I shall comment primarily upon the latter change, since it is so important in the unanticipated creation of excess production capacity in agriculture in recent years.

There are two consequences of the increased importance of purchased inputs that merit emphasis in this brief discussion. First, because of the existence of purchased inputs, the degree of protection afforded agricultural production may be substantially greater than the difference between domestic prices and import prices. If the import price of wheat is $1.50 and the domestic price is $2.25, the true degree of protection is not equal to 50 percent. If purchased inputs account for 40 percent of total expenses, the degree of protection of the farm resources used in the production of wheat is 125 percent if the purchased inputs are available at approximately world market prices. As the importance of purchased inputs increase over time, as they are, a given differential between domestic and import product prices will result in an increase in the degree of protection of domestic production.

Second, while the empirical evidence has not been carefully analyzed, economic analysis quite clearly supports the hypothesis that the increased importance of purchased inputs has increased responsiveness of output to changes in output prices. Consequently the output effects of changes in the degree of protection are almost certainly much larger now than would have been true 2 or 3 decades ago. Thus a change in protection that before World War II might have increased domestic farm production of a country by 5 percent may well increase output by 10 percent today.

The United States now finds itself in the position that agricultural exports are a major dynamic element in determining the economic health of its agriculture. In part as a result of the price policies that it has followed over the past two decades, the United States no longer has a dominant position in the world export trade for any farm product except feed grains and high protein feeds. Whether we like it or not, we are now in the position where we can have relatively little direct effect upon the prices at which major farm products move in international trade. It wasn't so many years ago that we were under the delusion that we could pretty well determine the world prices of wheat, cotton and tobacco. Declining shares of total international trade and burdensome carryover stocks finally convinced us that our power was quite limited. We then discovered the advantages of "competitive pricing" and the need to use direct payments rather than high support prices to transfer incomes to farmers.

Unless our exports of farm products continue to grow in the years ahead our agriculture will be faced with enormous problems of adjustments. Even with expanding exports it will be necessary to continue to reduce the level of employment in agriculture if the returns to farm resources are to increase at the same rate as the return to comparable resources elsewhere in the economy. But if the growth of exports stagnates or if exports actually decline, which is not at all unlikely if the trends toward self-sufficiency in other industrial countries continue, the adjustment problems will become even more difficult. Thus it is time that we took seriously the need to adapt our own farm programs to the requirements of a liberal trade policy and at the same time attempt to induce other industrial countries to undertake similar adaptations.

The farm policies of most industrial countries are output increasing. Generally this is not an intended consequence, but intentions are of little significance relative to effect. Most such countries have accepted as the objective of their policies that farm incomes should be increased to some level relative to nonfarm incomes. The specific income objectives vary from country to country and are not really of much importance to the present discussion. The important point is the nature of the approach adapted by most countries to achieve these income objectives. The underlying assumption of what I have called the new agricultural protection is that the primary determinant of farm income is the demand for farm resources as expressed through product output and price.

If the sources of the income disparity problem were only of one or two years duration, the emphasis upon demand would be appropriate. But it should be clear by now, from both experience and economic analysis, that the fundamental sources of income disparity are long run and not short run in nature. In a rapidly growing economy agriculture is faced with serious adjustment problems. It is not unusual for farm employment to decline by 3 to 5 percent annually and to do so over long periods of time. This is an order of adjustment to changing conditions that is seldom matched by other sectors of growing economies. Thus it is not surprising that income differentials exist, often appear to be of fairly large magnitude, and persist more or less indefinitely. But the labor income differentials can at best be temporarily reduced by increasing output prices. For farm product price increases to function as an alternative to labor transfer as a means of maintaining a constant differential between the returns to comparable farm and nonfarm labor, product price increases must occur continuously. The reasons for this are that the real returns to labor in the nonfarm part of a growing economy increase at a reasonably constant rate over time and that the demand for farm products grows more slowly than for all other products.

A brief review of the changes in the sources of income of the farm population over the period from 1950 to 1968 in the United States is clearly consistent with the above analysis. Between 1950 and 1968 total net farm income in current dollars (national income produced by agriculture) increased by 20 percent. Since farm family living costs increased by 36 percent, this means that in real terms net farm income decreased by about 12 percent. But the per capita personal income of the farm population increased by 168 percent; in real terms per capita personal income doubled. This came about in two ways: First, the farm population declined by 55 percent and thus the number of people sharing in the net agricultural income was reduced very substantially, and second, the per capita nonfarm income of the farm population increased by 312 percent and in 1968 equalled 47 percent of the total income of the farm population compared to 31 percent in 1950.

If the farm population had remained unchanged and if the relative importance of nonfarm income to the total income of the farm population in 1968 had been as it was in 1950, net agricultural income would have had to increase from $17 billion in 1950 to $45 billion in 1968 to have given the same increase in the per capita income of the farm population. Can any one imagine that such a huge increase in net agricultural income could have occurred as a result of any set of farm commodity programs? The above examples show how really unimportant a 20 percent—even a 50 percent—increase in total farm income is compared to the results of adjustments that have occurred through the labor market. A final point is worth making. Over the same period of time, realized gross farm income (including government payments) increased by 58 percent and this was associated with only a 20 percent increase in total net farm income. Thus much of the increase in gross farm income went to pay for additional purchased inputs and increased farm output.

I shall now briefly describe a number of actions that the United States might initiate that have some prospect of reducing the conflicts between domestic and trade policies for farm products and of increasing the international trade in those products. The suggestions are not dramatic and their chances of success are hardly overwhelming. But hopefully the suggestions might provide a small beginning.

1. The United States should review its own farm programs in terms of their consistency with a liberal trade policy.[1]

The United States has a number of farm programs that are output increasing: it has programs that clearly limit imports of commodities that it produces at high cost. While the feed grain, cotton and wheat programs have been modified in recent years to make them more consistent with a liberal trade policy and expansion of exports, each of the programs still retains features that induce farmers to plan for yields higher than would be economic at world market prices.

We have all too many programs that directly and deliberately increase farm production—agricultural conservation payments, soil conservation programs, land reclamation, irrigation—and a high social cost. Each of our major commodity programs includes features that are output increasing. The payments under the cotton, feed grain and wheat programs are so distributed that they induce farmers to increase their yields in order to increase payments on current yields. A study might well indicate that putting an upper limit on the size of payments per farm would reduce the output increasing effects of the payments under the major commodity programs. The main argument against modifications in the various subsidies for obtaining compliance with the acreage control programs is that the cost to the Treasury will be increased. This is probably true in the short run, but I doubt if this would be the case over a four- or five-year period. We have import quotas on most manufactured dairy products, cotton, sugar, wheat and wheat flour, and peanuts. We object to the use of import quotas by others, but continue to rely upon them ourselves. While we have greatly reduced our reliance upon export subsidies in recent years, we still use them for certain products and there is no guarantee that if it suits our fancy that we will not reinstitute export subsidies at any time. A nation that fails to impose a self-denying ordinance on the use of export subsidies can hardly object to the use of variable levies.

[1] One such review has been made, but ignored. See National Advisory Commission on Food and Fiber, *Food & Fiber for the Future* (1967), especially pp. 61–111.

The United States should actively search for farm programs that do not require the use of export subsidies or import quotas. I have elsewhere made a few suggestions along these lines.[2] However, the specific proposals are really unimportant; what is important is that the continued reliance upon export subsidies and import quotas makes it possible for us to avoid long-run adjustments in peanuts, sugar, long staple cotton, and dairy products. We are high cost producers of these products and, perhaps worse, even with our present high prices returns to resources are relatively low, especially in peanuts and manufactured dairy products and there can be little hope for significant improvement in the future.

While I believe that it would be in our own interest to seek other means of meeting the needs of these high cost farm products, it might well be that our best strategy would be to develop programs for peanuts, sugar, long staple cotton, and manufactured dairy products and probably also for tobacco.

2. The United States and other industrial nations, perhaps through an international agency, should undertake a careful and systematic study of the degree of effective protection of agriculture in all industrial nations and of the output and trade effects of existing domestic farm programs.

The study would have no objective other than providing the best possible analysis of the prevailing degree of agricultural protection and the impact of that protection upon national farm production in each of the major industrial nations. The United States has no systematic knowledge of the output effects of its own farm programs nor information on how much protection is provided agriculture; the same lack of knowledge exists in all other industrial countries. In part, we do not have such knowledge because it has never been sought. Those of us in the academic world bear as much responsibility for this ignorance as do farmers and politicians.

It should be recognized that the present state of data and economic and statistical analysis would not permit unequivocal answers. Yet substantial knowledge could be obtained through a competent study or set of studies. The suggestion for the study is based on two assumptions that knowledge is better than ignorance and that policies are changed in response to an understanding of their effects, if these effects are generally considered to be undersirable.

3. The United States should seek the agreement of the other major industrial countries to engage in negotiations to reduce the conflicts between domestic farm and international trade policies and to expand international trade in farm products, both among themselves and between the industrial countries and the developing countries.

A new general trade negotiation, such as the Kennedy Round, is unlikely to be of much consequence in reducing the barriers to trade in agricultural products. Most of the important barriers to trade imposed by industrial countries are integral parts of domestic farm policies. Thus, countries must be willing to enter into negotiations that will involve aspects of their domestic farm programs. Such negotiations might be fruitful since the basic economic features of the farm problems of the industrial nations are so similar. Every industrial country, whether it is an importer or exporter, is faced with continuing major adjustment problems in agriculture as economic growth occurs. These adjustments cannot be avoided: it would be hoped that there could be agreement upon programs that assist farmers in making the necessary adjustments without seriously interfering with international trade in agricultural products.

The three steps that I have suggested are hardly dramatic ones. The suggestions assume that there are alternative means of meeting the legitimate income objectives of farmers in the industrial countries. I think that this is a correct assumption and that it has in fact been true that the income gains realized by farmers over the past two decades have been due primarily to the general economic growth of the industrial economies. This conclusion does not mean that farm people require no assistance in minimizing the costs of adjustments imposed by economic growth, but unfortunately most industrial countries, including the United States, have chosen the most expensive and least effective programs for assisting farmers to adjust to the inevitable.

Chairman BOGGS. Now Professor Meyjes, we will be very happy to hear from you, sir.

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[2] "Agricultural Trade and Foreign Economic Policy" in National Advisory Commission on Food & Fiber, *Foreign Trade & Agricultural Policy,* Tech. Papers, vol. VI (August 1967), pp. 1–34.

STATEMENT OF HERMAN C. POSTHUMUS MEYJES, PROFESSOR, THE AGRICULTURAL UNIVERSITY, WAGENINGEN, THE NETHERLANDS

Mr. MEYJES. Thank you, Mr. Chairman.

I would like to begin by saying, Mr. Chairman, how greatly I feel honored by having been invited to appear before this distinguished committee, and how much, as an outsider, one feels impressed by the scope and depth of the investigation which you are conducting into the trade relations of the 1970's. The thoroughness and openmindedness of these investigations testify, I think, to the strength and vitality of the legislative and democratic process in his country. To be allowed to contribute, however marginally, to these proceedings, I consider a privilege indeed.

I have submitted a prepared statement, Mr. Chairman, in which I have outlined my views on what appears to be the most crucial problem in agricultural world trade; namely, the relation between the European Economic Community and the United States.

But before summarizing the main burden of my views I would like to make a preliminary remark of some length. What I wish to avoid, and what I hope the discussions of this morning can avoid, is to reinforce the erroneous impression that the argicultural problems existing between the United States and the European Community are a decisive element in the relationship between these two. They are not, and they certainly should not be allowed to become so.

Whatever agricultural difficulties have arisen between the United States and the European Community in the past few years are distinctly secondary in an economic sense, and they ought to be even less significant in a political sense. They should never be allowed to obscure the infinitely more important relationships that exist between the United States and Europe and that are based on large common interests in the defense of freedom and prosperity, and on the long-term interest that the United States has, as I see it, in the progressive unification of Europe.

I think it is particularly important for the United States not to be sidetracked at the present moment by contentious issues of a secondary nature, whether they concern the agricultural price levels in Europe or association agreements or preferences for developing countries, now that the Community, after years of stagnation, seems fiinally prepared to move forward in the wake of the summit conference at The Hague on the two issues which really are vital; namely, that of its enlargement by other democratic countries in Western Europe, and that of its political unification, which remains the ultimate objective.

It has been my understanding that those two objectives, enlargement and political unification, have always been supported by the United States, and that the United States has never ceased discreetly to encourage the Europeans to make progress along these lines.

I believe that this support continues to be necessary. Nothing would be more unfortunate than to have a situation in which minor disagreements and disappointments—such as will inevitably arise—which would diminish or qualify this support. If ever the United States would cease to consider the enlargement of the European Community and its political unification as consistent with its own best interests, that would be a black day indeed. It would remove one of the main props under the Atlantic relationship as it exists today, and it would obscure the ideal of an ultimate partnership that has inspired so many of us.

The early 1970's will be of very considerable importance to the further progress of European unification. I hope that the Community can continue to profit during this period from the same patient understanding and persistent encouragement from the United States that it has received in the past.

On the other hand, I am quite willing to agree that the Community should also learn to act with greater consideration for the interests of others, and should become less immature and less self-centered than it has often appeared in its brief existence.

I also particularly agree that the Europeans should not fail to take into consideration the very heavy burdens of worldwide responsibility that have been weighing on the United States ever since World War II and which Europe as such, partly because of its disunity has only shared to a very limited extent.

I hope, Mr. Chairman, that by these preliminary remarks I have made clear the very relative significance of whatever I have to say about agricultural problems. It is to these problems that I will address myself now.

I think that for a proper understanding of agricultural relationships between Europe and the United States it is good to take a very brief look at what the agricultural situation in the Community is today and which factors have shaped in the recent past.

I think those factors are three.

The first of these is the very rapid rise of real incomes outside agriculture which has taken place during the past 10 or 15 years, partly as a result of the realization of the Common Market. In real per capita terms nonfarm incomes have risen by between 50 and 60 percent since 1958 in most EEC countries, and this has undoubtedly resulted in accentuating the already serious disparity of incomes between the farm and nonfarm sectors of the economy.

This situation has generated strong political pressures to improve the income position of the European farmer. To some extent, these pressures have had to be taken into account in shaping the common agricultural policy, but it should also be noted that the major CAP prices have remained virtually unchanged since they were first agreed on, in 1964 and 1966—that is a long time ago now—in spite of a large nominal and real income growth in the rest of the economy.

The second factor of importance in shaping European agriculture has been the high rate of technological innovation in agricultural production during the past decade, combined with a steep decline of the agricultural labor force, which, incidentally, is being reduced at a much faster rate than it has ever been in the United States, as far as I know.

These technological developments are now almost visibly transforming European agriculture and they are surely to an appreciable extent responsible for the present maladjustments of supply and demand.

The imperfections of statistical evidence do not permit an exact comparison between the state of technological advancement in European and American agriculture. But from the few indications available it would appear that, as far as the degree of mechanization is concerned, European agriculture is still at least one or two decades behind its American counterpart.

Such comparisons, of course, are very hazardous. But I wonder if it would be too much to infer from those few indications that we have that the technological phase of development now being traversed by European agriculture is very roughly similar to that of the 1950's in the United States, when with a relative labor force of about twice its present size, American agriculture was also plagued by large production surpluses?

And would it be too much to hope that the EEC will overcome these difficulties, as did the United States, by finally adopting more effective methods of production control?

These questions defy precise answers, but they do seem to point to the possibility that the present production problems of the Community may be of a transitory nature.

The third factor that has helped to shape the recent development of European agriculture is the integration process as it has occurred within the European Community. This process has been essential in getting the Community going. It has set the pace and it has indicated the procedures for integration in other fields. And it has certainly acted as a catalytic force in the entire process of European unification during the 1960's.

As such it has been welcomed, and should be welcomed, by those who feel that European unification is a good thing. Even today, although under more trying circumstances, it continues to be essential to the life of the Community.

But the process has not been without its drawbacks, one of them being that integration could not in fact proceed except, generally speaking, at price levels higher than the average of existing national prices, and that it involved a certain amount of shifting common problems to those outside the Common Market.

It would appear that in the formative stages of the Community such developments represented an acceptable sacrifice for the larger purpose of European unification. But now that the policy has been formed these same attenuating circumstances can certainly no longer be invoked.

At any rate, there is no evidence, that the agricultural policies that the Community has followed have for a moment retarded the continued contraction of the farm sector in the total economy.

Looking at this situation, I think it is fair to say that what we are witnessing in Europe is a process of very rapid and massive social and economic change. The extent of this change can be gaged by the fact that half of all the persons who run farms in the Community are over 57 years of age and will quit farming within the next 5 to 10 years. In my own country, to take another example, more than half of the farmers of over 50 years of age have no known successor, which means that about a quarter of the total number of farms will cease to exist as independent production units in the near future.

These changes, which are likely to result in a farm population in the EEC of only about 6 percent by 1980, are of almost revolutionary magnitude, and they proceed under conditions of large income disparities and an imbalance of supply and demand.

Under these circumstances I think it is unrealistic to assume that the Community is now ready or able to agree to substantial reductions of its external protection and open up its markets to imports over and above the large imports that are already taking place. After all, the Community is the largest importer of agricultural products in the world today.

The political and economic pressures generated by the adjustment process are surely such that for the time being they leave the Community with relatively little room to maneuver. These possibilities will, however, grow as gradually, through a continued reduction of the factors of production, a better balance between supply and demand can be attained and the domestic pressures will ease off. It is a process which will take a certain amount of time, but one should not forget that the EEC has to cope with a social and economic problem of unusually large dimensions.

Nor should one overlook the signs that point toward the restoration of a more satisfactory equilibrium. I would like particularly to emphasize these signs, because one hears a great deal of criticism of the common agricultural policy, and much of that, I think, is justified. But one should also give attention to those efforts that are being made today to bring a better balance into that policy.

Counter-forces are already building up against the one-sided emphasis that the EEC has so far bestowed upon agriculture. Ministers of Finance are combining to get a better grip on agricultural expenditure within the Community. Ideas on direct production controls are now being discussed by the Ministers of Agriculture of the Six that even 1 or 2 years ago were still absolutely taboo.

Although these Ministers have so far been painfully slow in reaching decisions of this sort, they have taken their first, timid steps in this direction: The slaughtering premiums for milk cows, and the premiums for uprooting fruit trees. I may add that the scope of the slaughtering program for milk cows is such that it will comprise about half a million cows, which will mean approximately one and a half million tons of milk. The present surplus production in the Community of milk is supposed to be about 4 million tons. So one and a half million tons of that is being taken care of. It is obviously inadequate, but it is a step in the right direction.

Similar steps in the right direction are the production controls built into the recently agreed common policy for tobacco.

Suggestions on bringing the diary and the sugar producers again in closer touch with prevailing market prices are slowly gaining ground, as is the idea of withdrawing land from agricultural production. None of these things will amount to a fundamental revision of the CAP as it now stands. But given time and further progress in this direction, the CAP may become a more rational, more manageable policy instrument than it is today.

Simply to say, as the former Secretary of Agriculture, Mr. Orville Freeman, has done before this committee, that the Six "have made a complete mess of their agriculture" is neither helpful nor just.

Under the given circumstances, what aims should U.S. trade policy pursue? I think the answer is fairly simple. It should first of all seek to consolidate the gains in exports that have been made during the last 10 years. It should seek to prevent a worsening of these trade relations. And it should seek to help the Community to impose upon itself those disciplines that it needs and it accepts in principle, but that it finds it very difficult to implement just by itself.

These disciplines to be effective and negotiable should, of course, be of a reciprocal nature, and they should cover a broad range of products.

In more practical terms I believe the United States should move in the three following directions: First of all, it should seek to freeze and subsequently to reduce, the total protective impact of the farm policies of all the industrial nations. In that respect I think I come very close to what Mr. Johnson said in his statement.

This can only be done by accepting commitments and having commitments accepted that bear upon the totality of agricultural policy, whether it concerns price levels, export incentives, import impediments, or surplus disposal. For all of these are only different aspects of the same thing. To treat them in isolation is a recipe for failure.

In this respect, I would emphatically want to draw attention to Wyndham-White's eminently authoritative judgment before this committee, that in his opinion "the whole range of domestic support, price and production policies must be brought into the negotiations, and and not only barriers at the frontier * * *. We faced this in the Kennedy round, but we backed away from it, quite frankly, and the result is that the Kennedy round results in agriculture were limited."

Now, I just very recently saw the statement that was made by the American representative in Geneva during the latest discussions in the GATT, and it seemed to me that when he called for price reductions or production controls, alternatively, to be imposed on the major industrial countries, he was moving in the direction of this same approach which combines the domestic and the external aspects of the agricultural policies of the main members of GATT.

One cannot help but recall in this same context that the Community in 1965 and 1966 offered to negotiate a consolidation of the amount of agricultural support. The offer entailed not only a freezing of the support price levels, but also of putting a ceiling on the degree of self-sufficiency, the export policies and the total size of stocks to be handled.

This offer, as is well known, was not accepted. With the wisdom that one only gets in retrospect, I think it is fair to say that this rejection was a mistake. How much better off wouldn't we be today, the United States, the Community, and other agricultural interests in the world, if a commitment of this nature would have been in operation during the past few years?

For one thing, it would have practically forced the Community to adopt those very production controls that it is now so reluctantly considering. For another, it would almost certainly have prevented through a moderation of export subsidies, the many conflict situations in which the United States and the Community now find themselves embroiled in foreign markets.

And this freezing of support levels, if combined with an appropriate mechanism for consultation and negotiation, could very well lay the basis for ultimate reductions in the overall degree of agricultural support, an objective, the desirability of which I strongly support.

I am not saying that the proposals made by the Community were the best that one could think of, and that they should be repeated now without change. But what I am saying is that the United States should seriously consider to employ the same general approach directed at putting a limit on the totality of agricultural support in each of the major industrial countries. Only such a global approach, to be translated, to be sure, into commitment bearing upon the main support elements of the agricultural policies, is likely to be effective.

I am not entirely convinced that under the present circumstances the Community could come up with the same sort of proposal of its own initiative. But having once taken the initiative in this direction, the Community could not now very well reject a similar proposal if it came from someone else.

The second direction into which U.S. policy might usefully move is that of a continuation of existing and conclusion of new international commodity agreements. This point is very closely connected to the previous one, because the freezing of the support levels would necessitate a somewhat more orderly arrangement of world markets.

In spite of its imperfections, I believe that the International Grains Arrangement has been a constructive element in world trade and should be continued. It could serve as a model for other agreements.

In this connection, Mr. Chairman, I would like to refer to an idea expressed by you, to the effect that the United States, in the interest of the world trading community, should be able to influence the course of the impending negotiations between the EEC and the United Kingdom. To my mind this legitimate interest could find no better and no more effective expression than if the United States would put forward proposals for more orderly world market arrangements.

This could not help but influence the Six and Britain when they get around, as they certainly will, to discussing the problems of the temperate zone agricultural products. If there was in existence a perspective of a worldwide negotiation on these temperate zone agricultural products, I think the Six and Britain might very well decide to leave those problems alone and to reserve them for later negotiation with other interested parties in the world. But if there were no such perspective, they might be tempted to solve these problems as best they can by themselves, and some of the negative effects that you have indicated in your speech might then result.

I might add that as far as dairy products are concerned, such an initiative would only acquire its full, practical meaning if the U.S. market for dairy products could then also be drawn into the discussion. In my prepared statement at this point I have added a sentence on the GATT waiver from which the United States is now benefiting. But I would rather refer here again to what Mr. Gilbert, the American representative in Geneva, said on this point very recently, a statement which I think is both reasonable and encouraging.

Finally, I think the United States would be well advised to consider initiatives in the field of food aid. It seems fairly certain that the Community will turn increasingly to food aid, as did the United States, to alleviate its service problems.

I think it would be useful if the United States, with its tremendous experience in this area, would come forward with suggestions for coordinated multinational food aid programs, with close consultations that might supplement the consultation procedures that are already in effect.

Now, in conclusion, Mr. Chairman, I would like to say that it is my fervent hope that the United States will again be in the position, as it was in 1963, when it took the initiative for the Kennedy Round, to provide the bold and imaginative leadership that the trading community of the free world continues to need in the 1970's.

I am convinced that the European Community will not fail to respond. The prompt passage of the Trade Act of 1969 would appear to be a significant step in this direction.

Whether that act, as I read it, and the way I understand it, provides an adequate basis for the sort of large agricultural negotiation that I have in mind, I am not capable of judging. But only such negotiations will open the way toward a satisfactory long-term solution of the problems of agriculture and world trade. That I am firmly convinced of.

Thank you very much, Mr. Chairman.

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

(The prepared statement of Mr. Meyjes follows:)

PREPARED STATEMENT OF HERMAN C. POSTHUMUS MEYJES

PROBLEMS OF AGRICULTURE IN WORLD TRADE

A. GENERAL CONSIDERATIONS

In the decade which has just begun the conditions of world trade will be largely determined by the commercial policies of the United States and the European Economic Community towards one another. Together, these two account for 40% of world trade. Agricultural commodities take a very large share of this trade, the U.S. being the world's largest exporter of farm products and the EEC being, besides the second largest exporter, also the world's largest importer. If relations between the U.S. and the EEC are based on mutual understanding and the pursuit of common objectives, the climate will be created for the continuation of the rapid growth of world trade that we have witnessed during the sixties and which has been so beneficial to the world economy as a whole.

If, however, these relations are characterized, as they sometimes threaten to be today, by conflict, irritation, and failure to understand the other side's problems, the whole climate of world trade will suffer. All of us would be the worse for it. The interests at stake here are certainly not only economic, they are also, and even primarily, political.

Looking ahead at the seventies, it does not require great foresight to distinguish any number of events and developments that will present new challenges and opportunities to the trade policy relations between the U.S., and the EEC. Agriculture, from raw materials to processed foodstuffs, plays a role in each of them.

In the first place, there is the coming round of negotiations in GATT, which this time is designed to deal in particular with the flourishing field of nontariff barriers. It does not yet appear to have been settled how the problems of agricultural trade will be fitted into this context; but what is clear, is that without a fair deal in agricultural trade, no satisfactory equilibrium will be reached in mutual concessions and advantages, or that one has to settle for an equilibrium at an unnecessarily reduced level.

Secondly, it may be recalled that, if all goes well, in the middle of this year negotiations will be opened by the EEC and Britain, Ireland, Denmark, and Norway on their admission as members to the European Communities. For the commercial relations in the world, certainly in the field of agricultural trade, the outcome of these negotiations will be of momentous significance. The enlargement of the Community will be a decisive step on the road toward European unification. It will greatly increase the weight of the Community as a trading partner. It will correspondingly increase its responsibilities in the world.

Thirdly, the early seventies should also witness the adjustment and reform of the common agricultural policy, in response to the pressing problems which now face the agricultural economy of the Six. Given the institutional conditions that the Community has to operate in, and the size of the problem at hand, the period of gestation before major new policy decisions can be taken, is inevitably a long one. There will be few people, either inside the Community or outside, who would deny that such adjustments are in fact long overdue. But if we are going to assume, as I think we should, that the EEC will continue to function as an active economic unit, we must act on the hypothesis that in the near future it will be able to overcome its present indecision in agricultural matters, and be ready to move in new directions.

Finally, in the next few years we will also be confronted by other developments of importance, such as the establishment of a system of generalized tariff preferences for the developing countries, the re-negotiation of the association agreements that the EEC has concluded with the African States, and the renegotiation of the International Grains Arrangement that came out of the Kennedy Round.

It is obvious that this confluence of events in the first half of the seventies will pose a severe challenge to the foreign economic policy of the United States. It is a challenge which could be met, but only very unsatisfactorily, by short-term and incidental measures or by the use of small, tit-for-tat tactics. It will certainly not be met by a withdrawal into the shell of protectionism, because protectionism here will only breed protectionism elsewhere. Rather, it would appear that what is called for under these circumstances is the definition of an overall strategy, aimed at clearly defined long-term goals of trade expansion, international cooperation, and the harmonious ordering of world market conditions. Such goals will, of necessity, have to be stated in bold and ambitious terms, so as to fire the imagination and mobilize the political will necessary for their implementation. At the same time, such proposals will have to be based on the facts and realities of the present—realities which often tend to restrict the scope for immediate action. The framing of a new foreign economic policy will largely depend on the question of how successfully the requirements of long-term ambitions and sort-term possibilities are combined. It is in this light that the "Trade Act of 1969" will have to be judged.

B. AGRICULTURAL TRADE BETWEEN THE U.S. AND THE EEC

Turning now to the agricultural trade relations between the U.S. and the European Community, there is no denying that these form now, on both sides of the ocean, a source of mutual irritation and apprehension. The agricultural policy system of the EEC, with its intricate mechanism of import levies and export restitutions, is the subject of mounting criticism on the American side, while the nature of the import policies applied by the U.S. often meets with no greater sympathy on the other side of the Atlantic. In addition, there is a long list of complaints about particular difficulties that have arisen during the past few years and though many of these concern cases of minor importance, their cumulative effect is no doubt serious.

In the agricultural field American complaints against the Community are more numerous than vice versa; in the industrial field it is the other way around. Some of these complaints are based upon actual damage; others upon expected damage, that may or may not occur. Some of these problems would appear to be capable of fairly simple solutions, given the will to cooperate; others appear more complicated.

But no matter how irritating these sources of conflict may be, it remains necessary to view them in perspective. They should not obscure the infinitely more important possibilities of large, comprehensive negotiations between the U.S. and the Community, nor should they obscure the fact that the actual import performance of the Community has, on the whole, been satisfactory. No matter how much the EEC deserves to be criticized for some of the more primitive and awkward features of its common agricultural policy (CAP), one should at least sometimes give credit to its actual import performance in the agricultural field. Between 1958 and 1968, U.S. agricultural exports[1] to the EEC more than doubled in value, and since 1962 (the starting date of the CAP) these exports have grown by almost a third. In 1958, they reached a total of

[1] Excl. cotton and tobacco.

$1.2 billion. Total agricultural imports into the Community from all three countries together reached $7.2 billion in 1968, up 23% over 1962. And this has been accomplished in spite of the fact that the European Community is saddled with a domestic agricultural problem that is many times more serious than that in most other industrially advanced nations.

Now unfortunately, it is true that during the most recent years U.S. agricultural exports to the Community have tended to decline. In 1967 these exports were down by almost 10% compared to the record level of 1966. This decline continued through 1968 and 1969, though at a lower rate (4.5% and 7% respectively). This is a distinctly unfavorable evolution, that must give rise to concern. Yet, it cannot be entirely charged to the Community's agricultural policy. E.g., against the declining exports of corn in the first half of 1969 should be set the marked, though not fully equivalent rise in exports from the Argentine and Brazil—a shift in the sources of supply that cannot be attributed to the CAP. A similar shift is observable for canned and preserved fruit, where the EEC has tended to import more from Australia, South Africa, and several developing countries. In general, it should be noted that the Community's total imports of agricultural products have continued to rise and were, in the first half of 1969, 8% larger than the year before. The recent setbacks in U.S. exports are, therefore, not fully indicative of an overall trend. Yet, one cannot deny that, as far as the U.S. is concerned, the development is unfavorable, and that the Community's growing surplus situation must at least be partly to blame.

C. THE AGRICULTURAL SITUATION IN THE COMMUNITY

These short-term preoccupations, however, do not touch upon the real core of the trading relations between the U.S. and the EEC, nor do they help us in selecting the proper policy options for the future. In evaluating the trade perspectives for the seventies, it is important to understand the present situation of agriculture in Europe, for there is no doubt that this situation will form, for the time being, a limiting factor in the relationship which we are here considering. Summarizing very briefly, it can be stated that the recent development of the agricultural economy of the Six has been shaped by three major factors:

The first of these is the very rapid rise of real incomes outside agriculture which has taken place during the past ten or fifteen years. In real, per capita terms non-farm incomes have risen by between 50 and 60% since 1958 in most EEC countries, and this has undoubtedly resulted in accentuating the already serious disparity of incomes in the farm and non-farm sectors of the economy. This situation has generated strong political pressures to improve the income position of the European farmer. To some extent, these pressures have had to be taken into account in shaping the common agricultural policy, but it should also be noted that the major CAP prices have remained virtually unchanged since they were first agreed on, in 1964 and 1966, in spite of a large nominal and real income growth in the rest of the economy.

The second factor of importance has been the high rate of technological innovation in agricultural production during the past decade. Together with the steep decline of the agricultural labor force,[2] this has resulted in a growth of labor productivity of very large proportions. "Substitution of capital for human effort has been large (in the EEC) and is expected to continue at a rapid rate, but the end result is likely to be an agriculture that still requires a relatively high farm product price in order to provide even low returns to the majority of small farms." [3] These technological developments are almost visibly transforming European agriculture and they are surely to an appreciable extent responsible for the present maladjustments of supply and demand.

The imperfections of statistical evidence do not permit an exact comparison between the state of technological advancement in European and American agriculture. But from the few indications available it would appear that, as far as the degree of mechanization is concerned, European agriculture is still at least one or two decades behind its American counterpart, e.g., the productivity of capital invested in France is probably still lower today than it was in the U.S. in 1950. Another indication is provided by the fact that the number of farm implements in the U.S. seems to have reached a ceiling since about 1960, where-

[2] It should be noted that it took the Community 16 years (from 1950 to 1966) to reduce the agricultural labor force from 31 to 15%. The same reduction took 36 years in the U.S. (from 1910 to 1946).

[3] USDA, Economic Research Service, Foreign Agricultural Economic Report no. 55, "the European Community's Common Agricultural Policy", p. 4 (October 1969).

as in Europe no such level of saturation is in sight. Other indicators point to an even larger time-lag. Such comparisons have, of course, only limited validity, but would it be too hazardous to infer that the technological phase of development now traversed by EEC agriculture is roughly similar to that of the nineteen-fifties in the U.S. when, with a relative labor force of about twice its present proportions, American agriculture was also plagued by large production surpluses? And would it be too much to hope that the EEC will overcome these difficulties, as did the U.S. by finally adopting more effective methods of production control? These questions defy precise answers, but they do seem to point to the possibility that the present production problems of the community may be of a transitory nature.

The third factor that has helped to shape the recent development of European agriculture is the integration process as it has occurred within the Community. This process has acted, somewhat unexpectedly perhaps as a catalytic force, setting the pace and indicating the procedures for other areas of European integration. As such, the unification of agricultural policies has no doubt been essential to the development of the European Communities and has been welcomed by those who support the ideal of the unification of Europe. But the process has not been without its drawbacks, one of them being that integration could not in fact proceed except, generally speaking, at price levels higher than the average of existing national prices and involved a certain amount of shifting common problems to those outside the Common Market. It would appear that in the formative stages of the Community such developments represented an acceptable sacrifice for the larger purpose of European unification. But now that the policy has been formed, the same attenuating circumstances can no longer be invoked. However, in judging the CAP it should also be recalled that the Community did manage, after all, to reduce some guaranteed price levels—a difficult exercise under any circumstances, and that for the rest it succeeded in keeping prices stable, without compensation for the large inroads that inflation has made into purchasing power. At any rate, there is no evidence that these policies have for a moment retarded the continued reduction of the farm sector in the total economy.

Looking at the agricultural situation in the Community in the light of these three factors, it is obvious that we are witnessing a process of rapid and massive social and economic change. The extent of this change can be guaged by the fact that half of all the persons who run farms in the Community are over 57 years of age and will quit farming within the next 5–10 years. In my own country, to take another example, more than half of the farmers of over 50 years of age have no known successor, which means that about a quarter of the total number of farms will cease to exist as independent production units in the near future. These changes, which are likely to result in a farm population in the EEC of only about 6% by 1980, are of almost revolutionary magnitude. And they proceed under conditions of large income disparities and an imbalance of supply and demand.

Under these circumstances I think it is unrealistic to assume that the Community is now ready or able to agree to substantial reductions of its external protection and open up its markets to imports over and above the large imports that are already taking place. The political and economic pressures generated by the adjustment process are surely such that for the time being they leave the Community with relatively little room to maneuver. These possibilities will, however, grow as gradually, through a continued reduction of the factors of production, labor, land and livestock, a better balance between supply and demand can be attained and the domestic pressures will ease off. It is a process which will take a certain amount of time, but one should not forget that the EEC has to cope with a social and economic problem of unusually large dimensions. Nor should one overlook the signs that point towards the restoration of a more satisfactory equilibrium.

Counter-forces are already building up against the one-sided emphasis that the EEC has so far bestowed upon agriculture. Ministers of Finance are combining to get a better grip on agricultural expenditure within the Community. Ideas on direct production controls are now being discussed by the Ministers of Agriculture of the Six that even one or two years ago were still absolutely taboo. Although these Ministers have so far been painfully slow in reaching decisions of this sort, they have taken their first, timid steps in this direction : the slaughtering premiums for milk cows, and the premiums for uprooting fruit trees,[4] although

[4] Combined with a prohibition to re-plant.

of limited significance as yet, are new departures within the CAP. So are the production controls built into the recently agreed common policy for tobacco.[5] Suggestions on bringing the dairy and the sugar producers again in closer touch with prevailing market prices are slowly gaining ground, as is the idea of withdrawing land from agricultural production. None of these things will amount to a fundamental revision of the CAP as it now stands. But given time and further progress in this direction, the CAP may become a more rational, more manageable policy instrument than it is today. Simply to say, as the former Secretary of Agriculture, Mr. Orville Freeman, has done before this committee, that the Six "have made a complete mess of their agriculture,"[6] is neither helpful nor just.

D. SUGGESTIONS FOR ACTION

Under the given circumstances, what aims should U.S. trade policy pursue? I think the answer is fairly simple. It should first of all seek to consolidate the gains in exports that have been made during the last ten years, and secondly, it should help the Community to impose upon itself those disciplines that it needs and seeks, but that it finds understandably difficult to implement all by itself. These disciplines, to be effective and negotiable, should of course be of a reciprocal nature. They would have to involve sacrifices by all major participants in the negotiation. I think it is up to the U.S., not to make a frontal attack on the Community's import and export policies—for such attacks will only lead to sterile and useless conflicts—but to challenge the Community to accept the responsibilities that it really cannot shirk. In more practical terms, I believe U.S. trade policy should move into the three following directions:

It should seek to freeze, and subsequently to reduce, the total protective impact of the farm policies of all the industrialized nations. This can only be done by accepting commitments and having commitments accepted that bear upon the totality of agricultural policy, whether it concerns price levels, export incentives, import impediments, or surplus disposal. For all of these are only different aspects of the same thing. To treat them in isolation is a recipe for failure.

In this respect, I would emphatically want to draw attention to Wyndham White's eminently authoritative judgement before this committee, that in his opinion "the whole range of domestic support, price and production policies must be brought into the negotiations, and not only barriers at the frontier. . . . We faced this in the Kennedy Round, but we backed away from it, quite frankly. And the result is that the Kennedy Round results in agriculture were limited".[7]

One cannot help but recall in this same context that the EEC, in 1965 and 1966, offered to negotiate a "consolidation of the amount of agricultural support". The offer entailed not only a freezing of the support price levels, but also of putting a ceiling on the degree of self-sufficiency, the export policies, and the total size of the stocks to be held. This offer was not accepted by the U.S. Looking at these events in retrospect, I think it is fair to say that this rejection was a mistake. How much better off wouldn't we be today—the U.S. and the EEC, and the other agricultural interests of the world—if a commitment of this nature would have been in operation during the past few years? For one thing, it would have practically forced the Community to adopt those very production controls that it is now so reluctantly considering. For another, it would almost certainly have prevented, through a moderation of export subsidies, the many conflict situations in which the U.S. and the EEC now find themselves embroiled in foreign markets. The consolidation of the agricultural support level may not be the most simple nor the most direct way to secure the expansion of international trade in farm products. Indeed, it is a complex and a roundabout way, but under the given circumstances I think it is the only realistic starting point. If combined with an appropriate mechanism for consultation and negotiation, it could very well lay the basis for ultimate reductions in the overall degree of agricultural support.

I am not suggesting that the proposals made by the EEC in 1965 and 1966 represented the ultimate in perfection and should now be repeated without change. What I am suggesting is that the U.S. should seriously consider to

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[5] There seems no longer to be ground for the fear that U.S. tobacco exports to the EEC might be hurt by this policy.
[6] Hearings before the present subcommittee, Dec. 2, 1969, p. 17.
[7] Hearings before the present subcommittee, Dec. 3, 1969, p. 76.

employ the same general approach, directed at putting a limit on the totality of agricultural support in each of the major industrial countries. Only such a global approach, to be translated, to be sure, into commitments bearing on the main support elements of the agricultural policies, is likely to be effective. And the EEC, having once itself taken initiatives in this direction, could not now very well reject such ideas.

The second direction into which U.S. policy might usefully move is that of a continuation of existing and the conclusion of new international commodity agreements. This point is, of course, closely connected with the previous one, as the freezing of agricultural support levels necessitates a more orderly arrangement of the world market. In spite of its imperfections, I believe that the International Grains Arrangement has been a constructive element in world trade and should be continued. It could serve as a model for other agreements.

In this connection I want to refer to an idea expressed by the Chairman of this Committee [8] to the effect that the U.S., in the interest of the world trading community, should be able to influence the course of the impending negotiations between the EEC and the United Kingdom. To my mind, this legitimate interest could find no better and no more effective expression, than if the U.S. would put forward proposals for more orderly world market arrangements. This couldn't help but influence the Six and Britain when they get around, as they certainly will, to discussing the problems of the temperate zone agricultural products. I might add that, as far as dairy products are concerned, such an initiative would only acquire its full, practical meaning, if the U.S. market for dairy products could then also be drawn into the discussion. In general, the bargaining position of the U.S. would appear stronger if it would agree to meet its partners on an equal basis, i.e. without reliance on the GATT-waiver which now puts American agriculture in a somewhat privileged position.

Finally, I think the U.S. would be well advised to consider initiatives in the field of food aid. It seems fairly certain that the EEC will increasingly turn to food aid as a means to alleviate its surplus problems, as the U.S. did under similar circumstances. The Kennedy Round committed the Community to its first action in this direction, under the International Grains Arrangement. Since then dairy products have been added and a further expansion of these activities is to be expected. I think it would be very useful if the U.S., with its tremendous experience in this area, would come forward with suggestions for co-ordinated food aid programs, with close consultations on how best to avoid the disturbance of commercial exports and how best to tailor these actions to the development needs of the receiving countries. At the very least, the present consultation procedures of the Committee on Surplus Disposal of F.A.O. should be regirously adhered to and, where necessary, strengthened. Nothing would be more regrettable than a situation in which the U.S. and the European Community would feel they had to compete with one another in food aid; this would almost certainly lead to conflict, and such conflicts might easily spill over into the commercial sphere. Here again, the acceptance of mutual disciplines is the answer, to be fitted into the overall approach of getting a grip on the total level of agricultural support.

In conclusion, I would like to say that it is my fervent hope that the U.S. will be again in the position, as it was in 1963 when it took the initiative for the Kennedy Round negotiations, to provide the bold and imaginative leadership that the trading community of the free world continues to need in the nineteen-seventies. I am convinced that the European Community will not fail to respond. The prompt passage of the "Trade Act of 1969" would be a significant step in this direction. Whether that Act, as it now reads, provides an adequate basis for the kind of comprehensive agricultural negotiations which I think are necessary, is maybe not for an outsider to judge. But that only such negotiations will open the way toward a satisfactory long-term solution of the problems of agriculture in world trade, is my firm conviction.

Chairman BOGGS. Now, Mr. Savary, we will be very happy to hear from you, sir.

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[8] Congressional Record—House, Feb. 17, 1970.

STATEMENT OF M. ROGER SAVARY, SECRETARY GENERAL, INTERNATIONAL FEDERATION OF AGRICULTURAL PRODUCERS

Mr. SAVARY. Mr. Chairman, I appreciate very highly the honor of addressing this committee. I would like to preface my remarks by stressing the fact that I am a bird of very peculiar feathers, so to speak, having been the chief executive officer of the International Federation of Agricultural Producers for a period of 17 years.

The Federation was set up in 1946. And its major purposes are to identify and promote the mutual interests of farmers throughout the world and to identify and reconcile the conflicting interests that farmers of the various nations may have, with a view to establishing a more prosperous world community.

We have, therefore, been confronted for a long period of time with the kind of difficulties which engage the attention of governments at the present time, and that of the committee.

When the producers of the world ever get together, they cannot agree on everything. And when it comes to trade problems and policies, we obviously encounter difficulties in achieving the reconciliation at which we are aiming.

However, there are two or three major principles on which I believe the whole of the world farming community will agree. First, producers organizations, national producers in the various countries, believe in an expanding and prosperous international trade, and in mutually beneficial trade arrangements or agreements. That is the positive side.

With respect to free trade on the world markets for agricultural products, they are not so convinced of the merits of complete laissez-faire. The consensus is that it is almost impossible to visualize completely free trade in the world in agricultural products, no more than it is possible to visualize in the near future completely unfettered operation of the agricultural economy at the national level.

As a corollary to those observations, some organizations, I believe, are also agreed that the economic principle of the international division of labor according to competitive advantage can be applied to agriculture with considerable qualification only.

These, Mr. Chairman, as far as I can make them out, are the points on which you will find almost unanimous agreement throughout the world in farming circles.

Now, instead of attempting to deal with economic and trade problems of agriculture at large in the seventies, which I might have been tempted to do by the terms of reference of this committee, I have chosen to focus the whole of my statement on the question of how one might achieve more successful negotiations in the agricultural field than has been the case for the past 20 years and the past 5 years. Having made that choice, of course, I will not document many of the statements which I will cite. But I note that the two previous speakers have admirably set out the situation of the contemporary agricultural economy, and most of what I could have said on that subject would have been less satisfactory an exposition of the situation.

The first thing which must not be done, as we are about to engage in a new round of trade negotiations, or perhaps only trade consultations, the first thing which should not be done is to do what was done in 1963. In 1963 the GATT passed a resolution which virtually gave a mandate to the negotiators to deal with agricultural trade in a way which I consider to be unrealistic.

And I believe that the very formulation of the GATT 1963 solution, which has been the guiding light for the Kennedy round negotiation in agriculture, has done more harm than good. I do not believe, and many others do not believe, that it is possible, that it is realistic to expect that negotiations in the agricultural and trade field can be conducted along the same lines as in the nonagricultural trade field, and that they can yield similar results.

This was proved, I believe, by the lack of success of the Kennedy round when it came to agriculture. The whole negotiations started from false assumptions. One, an assumption with respect to the extent to which any "high cost of production" country could be expected to yield to pressure, tending to have it adopt less protectionist policies. And the other one, which also proved to be wrong, that by the threat of retaliation or withdrawal of concessions in the nonagricultural field it will be possible to twist the arm of the partners hard enough for them to concede in the agricultural field what they did not consider to be possible of conceding.

These two fundamental mistakes must be avoided at the start, I believe. And I think that it is beginning to be realized even in GATT circles.

Now, if we wonder why it has been so difficult in GATT to achieve substantial results in the agricultural field, we have always to remember that GATT has taken up most of the principles agreed between governments directly after World War II in the Havana Charter: most, or virtually all of them, except for one, which was Chapter 6 of the Havana Charter, where it was recognized that international arrangements on commodities were essential if we were to have an orderly trade in agricultural products in the world. And so far no one has ever managed to fill that gap, either by restoring the principles that there should be commodity agreements, or by substituting something for that approach.

I think we are all agreed that given the circumstances of contemporary agriculture, there is bound to be a degree of Government assistance to agriculture, and there are bound to be price and income support policies in all industrialized countries. The consequences of that is that the very principle of competition in free and open markets cannot operate, and that for the numerous important agricultural commodities for which Government policies are essential, what we have to seek is intergovermental examination of national agricultural policies and agreement about their effects even before one starts trying to find compromises.

If competition is between governments or between the treasuries of the various nations, it is quite obvious that it is only through intergovernmental consultation or agreement that it is possible to establish some kind of order on international markets for agricultural products.

I realize that that analysis is not accepted by all. And recent statements by United States top negotiators have indicated otherwise. Again the point has been made that trade is trade whether it is in farm or in nonfarm products. (I think that the Under Secretary of Agriculture made that statement.) Mr. Gates, who is an assistant special representative for trade negotiations, has made a statement recently that trade negotiations should follow the same path and proceed at the same speed for agriculture as for nonagriculture products.

Well, there you have so clear a conflict of opinion that I wish to draw the attention of the committee to it. I do not think that, starting from so entirely contradictory an assumption, it is likely that international agreement can be reached. And I am confirmed in my opinion by the fact that, scanning the proceedings of the first set of hearings before this committee on the one hand, and the statements which have been before you during the second set of hearings this week on the other, I found no indication of the view that it will be possible to conduct trade negotiations for agricultural products along the same path and at the same speed as for nonfarm products. And I refer here to the statements of virtually all the experts you have heard from so far.

Mr. Chairman, in the letter by which you kindly invited me to testify you raised very important questions with some of which I do not think I will try to deal now. One is: What is going on in agriculturally developed countries at this present time? I think that the previous speakers have admirably dealt with that point.

In my prepared statement I refer to the fact that the tremendous changes to which agriculture is being subjected, especially in the Western European countries, are of such a nature, and affect so profoundly the traditional patterns and values of centuries past, that it is extremely difficult to envisage that too much interference from international competition can be allowed to take place while such dramatic processes are in progress.

Another question raised in your letter was that of the impact of the so-called "Green Revolution" in the developing countries, the impact of that "Green Revolution" on world markets. Here again I will not say anything at this stage. I said a few words about it in the prepared statement. But I realize that you will have in a few weeks another set of hearings in which the problem of developing countries and their trade relations with the rest of the world will be considered in depth.

Suffice it to say that the "Green Revolution" so called may not yield all the fruits which are announced for it, but it seems obvious already that the extent to which the developing countries as a group had to rely in past decades on food aid and concessional trade terms, especially for grain from the high income countries, is going to be reduced. In other words, they are going to be more self-sufficient in respect of food. This has consequences for exporting countries; they will have to adjust their production objectives to the reality of the world market.

I will now return to the all important problem of the approach to future trade negotiations. I think what is more important than anything else is to try and evolve a procedure or a machinery for international consultation which may lead in due time to a more satisfactory setup for international trade relationships. And I submit that as far as agriculture is concerned, it is virtually impossible to begin to discuss trade problems or trade barriers before a much deeper understanding of the elements by which agricultural policy is achieved.

Again, this is the point which has been made by all the speakers, I believe, during the hearing.

But we must go a step further. And we must realize that it will be beneficial to all if discussions, consultations, confrontations, about national farm policies and all that goes with this were to be held in a form which is not the same as that where the trade negotiations proper take place.

I have the greatest respect for the ability of the GATT Secretariat and for the skill of the GATT delegations sent by governments. But I think that it is giving them an almost unmanageable task simultaneously to consider the various elements which determine national farm policies, the situation and outlook for world commodity markets, and the balancing of advantages and disadvantages which is of necessity part of the international trade negotiations.

I would therefore suggest that that approach be divided into three parts, that the first one should be devoted to a confrontation or consultation on national farm policies, their justifications, their aims, and their effects. And these, I believe, could best be done in the OECD. I observe that the OECD itself has begun to realize that that should be part of its responsibilities, and has set up a top policy group to look at the subject matter in that way. Unfortunately that group has not yet met very often, nor made an attempt at confronation very actively. And I believe no time should be lost in activating it in a real way.

I say no time should be lost, because I consider that the general confrontation of farm policies, whether or not directly related to trade problems, is related to essential trade relations in the future.

Second, I believe that out of the confrontation of farm policies would emerge a number of findings important for consultations on the trading of major problem commodities. And these again I believe should be the task of yet another forum which I call by the general term of international commodity conferences.

It is only when these two stages have been completed or at least sufficiently advanced that I see the likelihood of fruitful negotiations on trade itself—on the balance of advantages and disadvantages to be sought and verified in GATT.

And I make the further point in my prepared statement that you need different types of negotiators for different types of negotiation, and that those who are the so-called hard-hitting negotiators in trade negotiations may not be the best qualified to discuss and appraise the intricacies of national farm policies and commodity problems.

Such, Mr. Chairman, is the essence of what I wanted to put before you. I have further added two or three points which are not minor, but which do not occupy such a central position in the overall situation.

First, with respect to the confrontation of farm policies, I believe that one should look very attentively into the extent to which farm policies actually benefit the kind of farmers—the social category of farmers—for which they are supposed to be pursued.

Other speakers have reference to the fact that tremendous changes are underway throughout European and North American agriculture. And we know that policies which were conceived 10 or 30 years ago do not fit the circumstances of today. I believe that it would be appropriate to look into the various price and income support policies of the various countries, and to see whether they actually are meant to, and do, benefit the farmers who are in need of support. And when I say the farmers, you will know that there is the problem of corporate farming, of integrated farming, and that these categories appear in a different light.

The second point—and this is perhaps a public relations point—I believe that the United States, which is anxious to keep open its outlets in other industrialized countries, neglects the support that could be secured from those agricultural producers in these countries who are anxious to export to the United States. Some of these exporters are very successful. Others could be. And I believe it will be a part of an enlightened approach on the part of the United States to see to it that agricultural trade moves both ways, and that, where there are opportunities for agricultural producers in other countries to sell in the United States, they can take advantage of these opportunities.

And the third subsidiary point I want to make, Mr. Chairman, is that just as much as it is essential for you to hear the views of the experts or specialists, I think the time has come to seek a closer relationship between parliamentarians in the United States and in the European countries.

You are all aware that on matters of defense, on foreign policy, the parliamentarians of the NATO countries meet at regular intervals to exchange views. But I believe that there would be much to be gained if the members of the U.S. Congress and the representatives of the parliaments of European countries, the Council of Europe, the European parliaments of the six countries, would set up and organize some machinery for consulation at regular intervals.

After all, it is in most countries the parliamentarians who have the major influence on farm policies. And it seems to be an essential part of any approach to have a close liaison between the parliamentarians on agricultural and trade matters.

I am finished, Mr. Chairman, I hope I have not taken too much of your time. I realize that I have not answered many questions which may arise in the minds of many people. I also realize that among the member organizations of IFAP the kind of statement I give you will not be accepted with great enthusiasm. Those who are strong believers in commodity agreements and organized markets, national and international, will feel that I have been really too timid. And those who believe in free trade—and there are some—will find that I have not given all possible scope to exploring the possibilities of a freeing of trade. But I did that deliberately, because I have been observing at very close quarters the international scene in the agricultural trade field for 25 years, and what I have seen is that the drives of the proponents of free trade and of the proponents of organized markets cancel each other out, and we are in a kind of permanent stalemate in the matter of agricultural trade.

Now, we have to break that stalemate, and we have to seek measures which may not be agreeable to all, but which may be better than the kind I think the world has often used with respect to the agricultural market and which partly account for the situation in which we find ourselves today.

Thank you, Mr. Chairman.

Chairman BOGGS. Thank you very much, Mr. Savary, for a very interesting statement.

(The prepared statement of Mr. Savary follows:)

PREPARED STATEMENT OF M. ROGER SAVARY

TRADE POLICY TOWARD DEVELOPED COUNTRIES

It is a signal honour for me to be invited to testify before such an essential body of the Congress. I know that I owe this honour to the confidence placed in me by the farm leaders of the world, a confidence that I am singularly proud to have had over a period of seventeen years.

IFAP, under its Constitution, was set up "to secure the fullest co-operation between organizations of agricultural primary producers . . . to develop [their] understanding of world problems and how they affect the agricultural primary producers of the world . . . to discover mutual interests among [them] and to take co-ordinated action to further such interests . . .". It is in the service of the Federation that I have been able to observe the agricultural world scene since 1948.

Saying this I am also saying that I am not qualified to convey to you the views of the farming community of any particular country. Thus, although I appear before you by leave of the United States national farmers' organizations (the American Farm Bureau Federation, National Council of Farmer Cooperatives, National Farmers Union, and National Grange) I shall not speak in their name. All four were founding members of the International Federation of Agricultural Producers twenty-four years ago, but they do not write our Federation's policies. These are evolved democratically by the member organizations from forty countries. The American delegation, in whole or in part, has occasion from time to time to disagree with the majority.

International trade in agricultural products, your major subject of concern today, is one of the fields in which the national farmers' organizations of the world have occasional difficulties in evolving a single policy. They are agreed, however, on the importance of agricultural trade and on the need for reciprocal trade agreements. They are also agreed on another point: *laissez-faire* pure and simple offers no acceptable solution to the complex problems of contemporary agriculture and on the corollary proposition that the economic theory of an international division of labour according to comparative economic advantage is not applicable in agriculture without considerable qualification.

These general conclusions, even though they are seldom the theme of conventional addresses, also appear to be accepted by all government (including, it seems to me, by that of the U.S.—the legislative as well as the executive branch thereof.)

As a matter of fact each country appears to be prepared to claim rights of free access to foreign markets for those of its agricultural products in which it is strongly competitive—and inclined (although more reluctantly) to grant access to its own market for the same products. But few, if any, countries—and most definitely not the U.S.—are prepared to leave their domestic agricultural markets open to the disruption of lower priced imports of products for which they find themselves in a weaker position; nor are they prepared to let imports interfere with the efficiency of domestic support programs.

This is for many reasons which I will not enumerate here because they are entirely familiar to all those who have had anything to do with the formulation of farm policies over the past fifty years.

It is in the light of these considerations that I would like the first point I make today to be that little if any contribution to the easing of foreseeable difficulies in international agricultural trade over the forthcoming decade can be expected from a theoretical or dogmatic approach.

Trade issues cannot be looked at through Manichean glasses. Nobody has been appointed from Heaven to legislate about the rights and wrongs in this respect. Not even the Contracting Parties to the General Agreement on Tariffs and Trade whose pronouncements regarding agriculture have almost invariably been shrouded in ambivalence and equivocation. I would therefore plead first of all for more realism in such pronouncements than past conferences held on that subject have demonstrated.

To take an almost perfect example, I will refer to the much-touted paragraph in the Contracting Parties to GATT's resolution of May 1963 which, as you all remember, reads as follows:

"That a significant liberalization of world trade is desirable, and that, for this purpose, comprehensive trade negotiations . . . shall cover all classes of products . . . including agricultural . . . products . . . that the trade negotiations shall provide for acceptable conditions of access to world markets for agricultural products."

I submit today, as I did seven years ago, that such a statement is to a large extent hypocritical—hypocritical on the part of those delegations who knew perfectly well that their governments did not intend and would not in any event be able significantly to open more widely their domestic markets to agricultural imports (and developments have sufficiently shown the narrow limits imposed by political, social, and economic circumstances to their stated willingness to liberalize agricultural trade). But hypocrisy also on the part of those delegations who—figuratively speaking—twisted their partners' arms energetically enough to secure a commitment which they knew to be virtually impossible to fulfill.

Fortunately the fact that, as far as agricultural products are concerned, trade liberalization on a grand scale is unlikely in the foreseeable future, does not mean that there is no room at all for trade expansion.

It definitely means, on the other hand, that such expansion will not primarily be the result of a decision that high cost countries will take a chance with open market competition—a kind of open-ended commitment to accommodate all the imports which aggressive export policies might put on their domestic markets. This is definitely not in the cards and whoever contends that it is must be starting from false assumptions.

A thousand reports prepared by the busy secretariats of ten international agencies and reverently embodied in the resolutions of one hundred international conferences cannot change the facts of life. I often suspect that it is precisely because they know it that governmental delegations are always prepared to adopt such resolutions rather light-heartedly.

All we can work for is enlightened agricultural protectionism and this in itself would represent immense progress compared to the present state of chaos.

For the sake of fairness I shall say, however, that it is of course possible that international trade in agricultural products could evolve towards an open door policy. The prerequisite to such an evolution would be the abondonment by all countries of most if not all of the tenets of the domestic agricultural policies pursued by them for as long as fifty or eighty years. Whether or not electrorates, parliaments, and governments are ready for such a dramatic reversal of their approach I leave to you to assess.

If an enlightened rather than a narrow-minded and inward-looking protectionism is the best we can hope for, it is not too late to evolve a realistic policy for international agricultural trade in the seventies.

The road to such a solution has hardly been explored because altogether unrealistic hopes were pinned to the elusive target of free trade as a matter of principle. That road was blocked, ever since the Kennedy Round proposals were first launched, by the delusion that the threat of non-cooperation or retaliation in the field of trade in non-farm products would be sufficient to secure meaningful concessions in that of farm products. The same belief is still prevalent in a number of places.

If I know anything of the mood in responsible circles in Europe and elsewhere, this kind of diplomatic—or undiplomatic—strategy will take agricultural exporting countries nowhere. A different approach is indicated.

It is to such a different approach that I intend to devote the larger part of my remarks. In so doing I hope I will to some limited extent respond to the request addressed to me by your Chairman on 17th February and answer the following of his four questions:

How should future negotiations be conducted to bring about the reduction of impediments to trade in agricultural products?

Before doing so, however, I should like to reflect on three other points on which Mr. Boggs thought you might be interested to have my views:

What is happening in agriculture within developed countries?

What are the implications of these changes for trade in agricultural products?

What impact will the agricultural revolution in poor countries have on trade patterns?

AGRICULTURAL REVOLUTION IN POOR COUNTRIES, ITS IMPACT ON TRADE PATTERNS

With respect to the third question, which I am going to tackle first, I am conscious of the fact that a complete discussion would take us rather far from what I understand to be the central purpose of the present hearing, namely the problems of agricultural trade amongst developed countries. I will therefore limit my remarks on this particular point to an absolute minimum—not from any lack of interest in this crucial issue, but because, as it is intended to be the theme of your next set of hearings, the opinions of qualified experts will be presented to you at that time.

Let us say on that third point that I am comparatively optimistic about the further consolidation and development of the spectacular technological advances recently made in the creation and use of high-yielding varieties of grain. Given the necessary encouragement and support by their governments a growing number of efficient producers in several major food deficit countries should gradually become capable of satisfying a growing share of the increasing requirements of their peoples.

Whether or not the necessity of supplementary programs of food aid *in grains* will disappear altogether in the near future remains an open question. It is clear, however, that, as developing countries as a group achieve greater food self-sufficiency, global outlets for grain exporting countries (including concessional transactions) will shrink and a progressive adjustment of their production policies will become imperative.

It is risky to go beyond such general statements because too little is known with any degree of certainty regarding the foreseeable evolution of supply and demand in most developing countries. On the supply side the rates of domestic saving, the availability of foreign aid, the extent to which scarce resources will go to agricultural development, the actual performance of production under new still largely untested conditions, are some of the factors which it is virtually impossible to project. On the demand side the unsatisfied needs of growing populations are, and will increasingly become, so large that it is no longer possible to reason exclusively in terms of effective demand (i.e. of demand backed up by adequate purchasing power). A redistribution of individual incomes increasing the purchasing power of the under-privileged or the establishment of substantial food distribution schemes will almost certainly be features of many developing countries' policies in years to come.

It is because this trend to higher food consumption levels per caput cannot be checked that I have reservations in respect of some forecasts recently published (e.g. in FAO's Provisional Indicative World Plan), according to which food-deficit developing countries would become net exporters of grains at the end of the decade. The authors of the Plan themselves have now recognized that animal production might easily absorb any apparent surplus of grains and reduce somewhat the protein deficit characteristic of the diets of peoples in developing countries.

There will remain, beyond that immense scope for food aid programs intended to improve the quality of the diet in many areas of the world. Protein-rich foods, especially those of animal origin, are expensive however, and the likelihood that such programs will include new (or still undeveloped or untested) products of industry rather than of agriculture appears to be great.

CHANGING AGRICULTURE IN DEVELOPED COUNTRIES

I will now deal, a little less summarily, with your distinguished Chairman's first question: "What is happening in agriculture within developed countries?"

The short answer would be that what is happening is a radical change in traditional structures, social patterns and values. This is being brought about by a technological revolution in farm practices, running parallel to fundamental changes in the nature of the markets to which farmers can sell their products.

Much—too much perhaps—has been written and spoken on these subjects during the last couple of decades. But few people truly realize the full meaning of this evolution.

One reason for this comparative lack of understanding is that the phenomenon is of such scope and implications that most of those in authority—and first of all the politicians—recoil not only before the unrewarding task of explaining it to the rural populations but even, unconsciously, before the challenge of taking in all the long-term consequences.

What is happening in agriculture within developed countries is that millions of small independent operators representing eight- or nine-tenths of their previous numbers are literally being "bull-dozed" away from their land through economic pressures they are unable to withstand, and that most of those who hang on can only do so to the extent that they accept the discipline of horizontal and vertical integration.

This is a total reversal of the trends, universally accepted for centuries, which were to work towards a pattern of agriculture based on the strengthening of the owner-operator system with every man the master of his own destiny.

Be it in Europe (where peasants fought for centuries to free themselves from serfdom first and later from the oppression of feudal landlords) or in North America (where immigrants throughout the 19th century sought better opportunities to operate farms which would be truly their own and the heritage of their offspring) the independence of the farmer was the cornerstone of post-landlordism society.

Agricultural development thus was—and, to a diminishing extent, has remained to this day—the antithesis of that in industry where high capitalization, concentration, and the attendant proletarization of the working masses were prerequisites, more or less reluctantly accepted, of progress.

The technological revolution had much to do with the progressive weakening of the identification of the farmer with his farm. The growing importance of research, development, and advisory services progressively substituted other peoples' knowledge and experience for the operator's own common sense and managerial instinct. Support policies for many years screened from the full effects of market pressures farm operations which had progressively become uneconomic.

But the decisive blow to the conventional 19th century pattern of agriculture has been dealt by urbanization. Increasing localization of demand has led to a growing concentration amongst farming's principal trading partners and to diverse forms of contract farming intended to satisfy the requirement of bulk deliveries of products of standard quality according to pre-established timetables.

These considerations are germane to our present subject. Being caught in the midst of such a fundamental change in circumstances, rural populations are less prepared than ever to accept that the considerable difficulties they have to face in adjusting to them be further compounded by unbridled international competition. These feelings are further intensified by the chaotic state of many commodity markets.

If we turn from the structural to the technological revolution which is progressing apace we observe that its consequences are not always fully understood.

Few people realize, for example, that the virtually complete disappearance over a period of two to three decades of draught animals (horses, oxen, mules)—replaced by imported fuels for tractors—has freed immense acreages previously devoted to the production of feeding-stuffs. This is an important cause of present-day disequilibria. Also largely ignored is the fact that several branches of animal production have now become so completely divorced from the immediate environment (in fact some are even conducted under controlled atmosphere) that there are few natural advantages left to formerly privileged geographical areas. Inasmuch as these modern techniques are comparatively easy to emulate even their inventors cannot hope to maintain their lead for a very long time.

Technological or structural, the current developments have the common feature that they do not affect evenly all sectors of agriculture or all producers within the various sectors. While some appear to be settling fairly easily into new frameworks—where the farm operator becomes a sub-contractor at best or a worker with semi-salaried status at worst—energetic efforts are being made everywhere to preserve or gain back for the farmers their dignity as independent businessmen. This can only be achieved in general through co-operative undertakings—all the way from bargaining co-operatives to retailing societies—and provided individual farmer members take an active and personal part in shaping up the policies of these bodies.

Finally, what is happening in the agriculture of developed countries nowadays does happen within the context of policies and laws which were evolved for an altogether different type of farming—that of thirty or forty years ago. In consequence many people and firms can still take advantage of devices which were originally intended to improve the lot of comparatively under-privileged families and which—although they have now lost a good deal of relevance—are still required to safeguard the livelihood of millions.

It is clear—at least to me—that a profound rethinking of national farm policies will have to take place before we can meaningfully discuss the prospects for a much freer agricultural trade in the future.

IMPLICATIONS FOR INTERNATIONAL TRADE

These considerations lead me to answer your Chairman's second question: "What are the implications of these changes for trade in agricultural products?"

Here again it is easier to give a short answer. In the fairly long-term (in the words of one of your previous witnesses, Mr. A. Iveroth of Sweden) "we shall have to treat agriculture as the industry it has become." But it is my absolute conviction that in the short and medium term, as long as the Western agricultural patient is undergoing structural surgery and recovering from the subsequent shock, international trade in agricultural products amongst developed countries will require especially careful handling. The same, by the way, is to a large extent true of Japan.

If we try to be more specific about what the foregoing statement implies we may consider the following points:

It is more essential than ever that world markets for the major problem commodities should be stabilized at reasonable price levels (i.e. at prices which will ensure producers in the more efficient exporting countries a remuneration for their labour, capital, and management consistent with that observed in the other economic sectors of the same countries). This is primarily because erratic or unduly low world prices will always be the favorite excuse for protectionism and for export subsidization.

It is unrealistic to assume that national production trends will be determined so to speak *a posteriori* by developments on world markets. For some considerable time to come the opposite will continue to be true. The advice given to you by former Secretary of Agriculture Freeman on 2nd December 1969 was to try "to accomplish balanced production through supply management;" he added "I see no other way to move successfully towards free trade in agriculture." In the meantime the stockholding and stock disposal policies of all countries will, in future years, need to be even more closely co-ordinated than these production policies themselves.

No illusions should be entertained about the likelihood of a significant lowering of the over-all level of self-sufficiency in food of most developed countries in the near future. The full effects of new technologies and improved structures have yet to be felt and the more economic-minded world agricultural economy of the future has yet to emerge from the mists of the present.

Going beyond these very general points is hazardous.

HOW TO CONDUCT FUTURE NEGOTIATIONS

I am now coming to the fourth and operative part of this testimony. This is trying to answer your Chairman's last question: "How should future negotiations be conducted to bring about the reduction of impediments to trade in agricultural products?"

Mr. T. R. Gates, Assistant Special Representative (Industry and Labor) for Trade Negotiations, in a recent address before the National Industrial Conference Board (New York, February 26) said that "trade in industry and agriculture can no longer follow separate paths and at different speeds." I, and many others with me, hold precisely the opposite view. Trade in industry and agriculture is bound to follow separate paths and at different speeds.

Here you have the perfect conflict of opinion in a nutshell. No amount of lecturing, arguing, pleading, or threatening can do away with it.

As I prepared to appear before you I consulted during the past few weeks with a number of people on this point. I can only confirm that the conflict is there, as it has been there for several decades. There are many unexplored or insufficiently exploited possibilities to mitigate it but none of making it disappear.

I already said that, in my opinion, it would not be constructive to maintain the pretense that the international community is heading for free trade in agricultural products. I said why and I will not say anything further on the subject at this stage.

Many observers also doubt the wisdom of starting negotiations with the announcement that trade "concessions" in the non-farm products field will be conditional upon "equivalent" concessions being secured in the agricultural field; or that industrial concessions will be withdrawn if concessions on agriculture are not forthcoming.

It would be dangerous to make an unrealistic assessment of the maximum agricultural concessions that can be expected of reluctant partners, or to overstate the bid for such concessions.

A crucial question from a purely bargaining standpoint is to know whether *mutual* concessions on non-farm products are more important to those countries with protectionist tendencies in the agricultural field than to those seeking larger outlets for their farm products. It will often be found that the opposite is true.

Be that as it may, I believe that it would be unwise to tie the hands of negotiators in this respect. They might well have to forfeit the global benefits of further trade liberalization within their reach because they could not make the advances they had been instructed to seek in agriculture. Worse still, there might be a setback in the liberalization of non-farm trade.

If all the conventional approaches of an international trade negotiation are thus found to be barred, what is left for governments to do at this stage?

The reply has already been given to you by the witnesses you heard in December:

Professor Vernon of the Harvard Business School told you: "My suspicion is, however, that we will not get much increased liberalization unless at the same time we move in the direction of the co-ordination of policy among the advanced countries . . . I would hope, if one may be a bit ambitious in this respect, that eventually we could get around to the co-ordination of agricultural national policy, just as we have already been getting around to the co-ordination of national monetary policy . . ."

And the former Director-General of GATT, Mr. Wyndham White declared: "On agriculture, I continue to feel that the whole range of domestic support, price, and production policies must be brought into negotiations and not only barriers at the frontier. It involves a confrontation and rationalization of policies which create very serious economic and social and political problems in all cases. We faced this in the Kennedy Round, but we backed away from it, quite frankly. And the result is that the Kennedy Round results in agriculture were limited."

Compare this with the unanimous opinion expressed on many occasions by national farmers' organizations at IFAP Conferences. They have consistently recommended a co-ordination of national farm policies, a sharing out of the burdens of necessary adjustments between all countries, exporting and importing, the negotiation of appropriate commodity arrangements, for some commodities minimum export prices to avoid senseless downbidding among exporters—in short, a concerted and global approach to the interrelated issues of food production and distribution which would also take into account the fundamental objective of a fair deal for all progressive farmers.

These, then, are the considerations that we should keep in mind if we want to set our course towards an enlarged international trade in agricultural products by mutual consent, to greater imports consistent with the production and farm income objectives of high-cost countries rather than in direct conflict with them.

Such an approach is not as far-fetched as may appear at first sight. There is nothing revolutionary about it. It is precisely that which your December witnesses had also envisaged for industrial trade—a sector where direct governmental interference in resource allocation and in trade itself is somewhat less obvious than in agriculture.

I fail to see why rather close co-ordination of agricultural policies would involve a much greater abandonment of national sovereignty than that already agreed to, or contemplated, with respect to money, anti-trust, investment jurisdiction, and the like. To quote Professor Vernon: "Past experience with international co-ordinating mechanisms, such as the IMF and COCOM, suggests that national views need not be identical in order to maintain some tolerable degree of co-ordination and harmonization. It would be a great deal easier for any country to abide the differences in national policies, if it thought that there was a mechanism for working out the problems associated with the differences in those policies."

To answer specifically the Chairman's question I would therefore say that any renewed approach to negotiations intended to bring about a reduction in impediments to trade in agricultural products should be conceived as consisting of three separate and successive (not simultaneous) stages.

1. In OECD (where a top level group has already begun half-hearted, and somewhat sporadic efforts in that direction) industrialized countries must seek to reconcile, with a view to global balance, their medium- and long-term forecasts of agricultural production and prices. That reconciliation must take into account not only purely economic considerations (including the actual total cost to the community, inside and outside the farm sector, of agricultural transformation) but also relevant social factors.

2. These comprehensive consultations should lead to commodity conferences where a flexible pattern for world trade over a period of three to five years would be evolved.

3. Ultimately, in GATT, final negotiations would aim to assure that a balance of advantages between countries has been achieved to the full extent of what the OECD findings have indicated as attainable.

Although these suggestions may appear to be unduly complicated I submit them quite deliberately because I realize that there is a long way from agreements in principle about the loose co-ordination of national farm policies and production objectives, to commodity arrangements, and to a package deal such as a big GATT negotiation entails.

It seems to me that different types of negotiators are required to deal with the three aspects of the problem and that it is much better than the "cold-blooded", "hard-hitting", and "tough talking" experts in trade bargaining proper, should come into the act only at a stage when all the chances of a reasonable and mutually acceptable compromise have been explored from other angles than that of "equivalent concessions." To say this is not to belittle the work and efforts of the GATT Committee on Agriculture. They themselves would probably be among the first to accept the strength of my argument.

I advise the Committee and its counsellors to refer in this respect to a lively discussion which took place at the 13th International Conference of Agricultural Economists in Sydney, Australia, in August 1967. D. H. McKay of Australia, who had spent long periods in Geneva attempting to negotiate an arrangement as part of the Kennedy Round, stated: "It is always a matter of some surprise to me that when we gather as *economists* to discuss international trade and agricultural products we find very large areas of agreement; we become almost a mutual admiration society. But when we gather as *negotiators*, often the same people dealing with exactly the same subject, we find ourselves in the midst of a knock-down drag-out fight in which agreement with the other fellow can only be achieved by the sacrifice on your part or his part of some dearly held principle."

I submit that there should be a time for level-headed studies and conclusions on agricultural policies (in OECD), one for a comprehensive approach to the particular circumstances of the various commodity sectors (at commodity conferences) and one for the "knock-down, drag-out fight" so popular with a number of delegates in GATT. The attempt to compress the three into one single negotiation during and since the Kennedy Round has been so unsuccessful that a different procedure should be given a fair try.

To conclude my presentation today I would like to sum up my remarks and to offer one or two additional tentative suggestions which appear to be relevant to your terms of reference.

1. It being virtually impossible to evolve generally acceptable trade arrangements which can accommodate divergent and occasionally contradictory features of national farm policies, the first necessity is to achieve some co-ordination of the medium-term production and trade objectives of OECD countries.

The United States seems to be in the best possible position to take an active lead in this respect. It is virtually the sole member country of OECD with long and, on the whole, instructive experience of all the key elements of a forward-looking policy: annual outlook conferences; an active stock management policy; setting, in the light of the Secretary of Agriculture's findings, acreage and/or marketing quotas for those who wish to take advantage of price support facilities; conservation and diversion payments to participants in commodity programs; food aid to the needy at home and abroad.

It may well be that, when another Agricultural Adjustment Act is written in the future, Congress in its wisdom will wish to change the relative emphasis under these and other elements of American farm policy. But even a more market-oriented domestic farm policy in the U.S. will incorporate features (such as land retirement provisions) which imply that there is no intention of running the risk of a glut. Similarly in Europe there are many signs that the need for supply management (in a broad rather than in a narrow sense) is becoming more widely realized. More recent supply control actions in Australia and Canada are important and well known.

2. Inasmuch as most protective policies are based on the assumption that they are required to safeguard the livelihood of family farmers it seems appropriate to seek an international commitment to show convincingly, prior to entering into any international debate concerning trade, that such is in fact their purpose and their effect.

I say this because there are certain sectors of agricultural production which are no longer a source of farm income for independent operators' families. And because, as the size of agricultural enterprises increases, a number of them each year clearly move from the category of "farms" into that of purely, or almost purely capitalistic enterprises which need not be entitled to the conventional forms of income support.

3. The belligerent approach which is favoured by too many with respect to trade negotiations involving commodities held to be of vital interest to individual countries is self-defeating. Denunciations and threats are bound to be met with angry retorts rather than with greater submissiveness. Frustration and grievances are often all too understandable, but President Nixon in his inaugural message rightly pointed out that "We cannot learn from one another until we stop shouting at one another, until we speak quietly enough so that our words can be heard as well as our voices."

A more rewarding tactic might be to enlist the support and co-operation in all OECD countries of exporters (both actual and potential) of agricultural products to the United States—even perhaps to the extent of helping them develop their U.S. markets—and of *agricultural* buyers of U.S. farm products. A more trade-oriented approach in OECD farm circles would thus be encouraged.

4. Because, in the matter of farm policies, parliaments as the voice of the citizenry (especially that of rural districts) are exceptionally vocal and powerful institutions, some forum for continuing consultations amongst parliamentarians of OECD countries—analogous to those which are in existence among NATO countries with respect to defence and related issues—should be set up. The Consultative Assembly of the Council of Europe and the EEC's European Parliament both have active Committees on Agriculture representing a pool of authoritative interlocutors for members of the U.S. Congress. Frank and comprehensive exchanges of views, if properly prepared, could help clear up many misunderstandings and put mutual grievances in a better perspective.

CONCLUSION

I have attempted to answer your difficult questions to the best of my knowledge and ability. Many people, here as elsewhere, will consider that I have underestimated the opportunities for drastic changes on way or another. Strong believers in market organization and management at the national and international levels will feel that I have not come out strongly enough in support of agricultural support policies and international commodity agreements. Others will denounce my defeatism regarding the possibilities of a resolutely liberal approach in the immediate future.

I accept these criticisms. But I have been observing international agricultural debates and negotiations at too close quarters for twenty-five years to be able to visualize the eventual victory of the proponents of either thesis. As a matter of fact, what we have seen throughout the fifties and the sixties has been a succession of stalemates and mutually ineffective drives which have prevented any real progress in either direction on the international trade in agricultural products front.

I plead for realism and pragmatism. Trade negotiations must not become wars of religion. Peaceful co-existence among the countries of the non-communist world is even more essential than between West and East. Inasmuch as agriculture is constantly denounced as the critical sector in trade co-operation it is imperative to go to the root of the disagreements which have to be cleared up and to work untiringly at the formulation of a transitional *modus vivendi* acceptable to all.

If agricultural trade progressively takes on the characteristics of trade in manufactured products (which, as we all know, grows apace with the achievement of higher standards of industralization throughout the world) agricultural protectionism will fade out as fast as the agricultures of the so-called traditionally importing countries find themselves in a position to reach adequate productivity levels and to specialize in those products for which they are able to develop world markets.

Chairman BOGGS. Secretary Schnittker is our next witness this morning.

We shall be very happy to hear from you at this time, sir.

STATEMENT OF JOHN A. SCHNITTKER, PROFESSOR, DEPARTMENT OF ECONOMICS, KANSAS STATE UNIVERSITY; FORMER UNDER SECRETARY OF AGRICULTURE

Mr. SCHNITTKER. Thank you, Mr. Chairman.

Domestic agricultural policies in the developed nations are the principal impediments to future agricultural trade expansion, and they will not be improved easily.

Eventually the new balance of power in the U.S. Congress and in European countries will lead to less protectionist agricultural policies. After that has occurred, international institutions concerned with trade expansion may take actions to protect the new trade pattern arising out of new agricutural policies.

But until domestic policies are modified as a result of changing political views regarding domestic spending priorities, international institutions have only a limited role to play in agricultural trade expansion.

The agricultural policies of the two largest agricultural trading regions of the world may get worse, from the standpoint of trade, before they improve. Britain, Ireland, Denmark, and Norway will have to accept the highly protectionist agricultural system of the EC in order to enter the community. The moderate price levels in those countries will certainly be raised when the community is enlarged.

In the United States, most of the farm organizations are supporting higher levels of price support and higher export subsidies for farm products, while arguing the merits of trade expansion at the same time. A strong campaign has been mounted to further restrict imports of dairy products from glutted world markets, and our milk prices have just been increased.

Differences between our agricultural policies and trade expanding policies are rooted partly in our postwar farm programs, and partly in the technological revolution. After 1947, political decisions prevented our agricultural price guarantees from falling along with world prices, as war-induced demands declined. Parity was still king. War-time price support levels were maintained far too long, or were reduced too slowly. Huge export subsidies were required to compete abroad. Ineffective acreage controls and rapidly increasing yields catapulted grain, cotton, and dairy products into a surplus crisis by 1960.

This crisis would have come sooner, except for the Agricultural Trade Development and Assistance Act, commonly known as food for peace. But by 1960, that escape valve had begun to close. Objections by other exporting countries prevented U.S. exports under that program from reaching the levels which might have otherwise been achieved. Grain and milk surpluses continued to accumulate despite the greatest efforts under the food for peace program.

Also, by 1960 there was a growing realization that in giving food to needy agricultural nations, one could do too much for the long-term good of the recipient nation itself.

It was not possible to materially reduce the extent to which U.S. agriculture was protected from world market prices at the same time our price and income support system was changed rather fundamentally in the 1960's. Feed grains and wheat were related more directly to world markets, but this was offset by increased levels of protection for cotton and milk and some additional commodities.

Before 1961, U.S. wheat prices were supported at approximately 70 cents per bushel above world prices. With the new system after 1963, the average level of return price support plus payments for U.S. wheat is somewhat lower than before 1962, but is as much as 50 cents per bushel above world prices.

Cotton is among the most highly protected of our major field crops. Before 1961, the average subsidy ranged between 30 and 40 percent of world prices. The new cotton program enacted in 1965 set a level of protection, through payments, which is higher than before. At the same time, however, it initiated procedures which had the capacity to limit production and dispose of the existing surpluses.

The milk price-support system in the United States is even more vulnerable to international criticism than cotton. Our butter price is supported at about three times the world price. Taking all manufactured dairy products together, our support level is about 50 percent higher than world prices. Increasing our dairy product imports as production of milk for manufacturing declines instead of raising our milk prices would be an important step toward expanding world agricultural trade.

Strong leadership will be required if agricultural policy is to be modified this year in a manner consistent with future trade expansion.

The administration has looked to Congress for this leadership. The agriculture committee of Congress, however, lean toward higher price guarantees, and therefore, to higher levels of protection. This is not the true temper of Congress and the American people, either on farm policy or trade policy.

Turning briefly to the past, under the mandate Congress had given U.S. negotiators in the Kennedy round, agriculture was required, as others have said, to be a full partner in negotiations aimed at trade liberalization. We now know that such a mandate to link agriculture and industry tightly together in a negotiation could not be carried out in the 1960's. There is the most serious doubt, in my opinion, that it should again be considered in the 1970's. We are not ready for it domestically and neither is Europe.

In the end, little came of the Kennedy round in agriculture, as others have said.

No domestic agricultural policies were improved, and no agreements were concluded to prevent future damage to world trade by future farm policy changes.

What, then, can be done to facilitate future expansion of agricultural trade by way of improved agricultural policies? The developed world badly needs to find a new rationale, a new constituency, and a new rhetoric in this area. Unless these can be created, progress toward domestic agricultural arrangements with constructive international implications may have a long wait.

The new rationale would be principally a domestic one. Trade gains would be a byproduct. It would recognize the clear pattern of concentration in the emerging economic organization of agricultural production in all developed nations.

It would face the fact that continuing high levels of protection in the 1970's will benefit mostly large farmers, and will bypass small and needy farmers. We spend a lot of money on low priority farm programs and relatively little money on high priority farm programs.

For commercial farmers, we should concern ourselves with agricultural price and income stabilization rather than with price escalation. The process of capitalizing increased farm prices into a temporary income advantage, and later into high asset values and costs which then lead to new demands for higher farm product prices, must stop somewhere. The U.S. feed grain program is an excellent example of a policy of stabilization almost entirely devoid of direct subsidy, and entirely compatible with international trade principles.

The new constituency would be national, as against the regional and farmer-oriented groups that interest themselves seriously in farm policy formulation today. Consumers and urban Congressmen, finance ministers and budget directors, and foreign ministers as well as farmers and agricultural ministers must be represented in the struggle for domestic agricultural policies. If we wish to reap the benefits of agricultural specialization, and if we want national budgets allocated according to current rather than to obsolescent priorities, we must work for it.

There has been too much hand wringing and too little effort in the United States and Western Europe by urban members of Congress, finance ministers, and budget officials concerning the need to come to grips with farm policy via the budget. The competition for public funds was never greater yet many national budgetary commitments for agricultural stabilization continue to be open ended, while higher priority public programs must be financed out of prior appropriations. It will require a far greater effort than has been made so far if finance ministers, budget directors, and urban-based members of parliaments are to be heard on national agricultural policies. In the United States, at least, urban members of Congress have been so busy on other pressing matters that they have often voted blindly on farm policy.

A new rhetoric for agricultural policy may be the most difficult of all. President John F. Kennedy, speaking to a Yale University audience in 1962 on the difficulties of public discourse on economic policy, said:

> * * * the unfortunate fact is that our rhetoric has not kept pace with the speed of economic and social change.

Nowhere is this more true than in our approach to domestic agricultural stabilization in the developed world. Apparent sympathy for small farmers has generally fronted for enactment of huge windfalls for large farmers. Protecting home producers has meant shutting out more efficient producers in other countries. The new constituency must develop the new and relevant rhetoric on the way to creation of new policies. If this cannot be done, old cliches and protectionist farm policies will guide the world's agricultural production and trade for another decade.

I hope, Mr. Chairman, that I might have an opportunity to comment on remarks others have made after the formal statements are finished. But this concludes my opening statement.

Thank you.

Chairman BOGGS. Thank you very much, Mr. Schnittker; we appreciate your comments.

(The prepared statement of Mr. Schnittker follows:)

PREPARED STATEMENT OF JOHN A. SCHNITTKER

Domestic agricultural policies in the developed nations are the principal impediments to future agricultural trade expansion. Domestic farm policies have generated price guarantee levels well above world trading prices principally in Europe and the United States, but to a degree, in nearly all the developed countries.

Developed countries which have been net importers want to be entirely self-sufficient, or to be less dependent on imports. High production incentives are offered to producers to reach such targets. Actions in the past 20 years by the European Community and the United Kingdom are representative of such policies.

Developed countries which are net exporters of agricultural products may want to be self-sufficient even in products which they produce at a relatively high cost. Dairy products in the United States are an excellent example of this. We maintain milk price supports far above world levels, and exclude low-priced dairy products from abroad, while periodically raising our milk price guarantees even further above world levels "to prevent a shortage of manufactured dairy products".

Domestic agricultural policies which inhibit trade, limit development, and generally waste resources will not be easy to overcome. A changing political landscape and continuing efforts by interntional consultative and negotiating bodies have not yet exerted any important influence against protectionist instincts in countries which were predominantly agrarian not long ago.

Eventually, the new balance of power in the U.S. Congress and in European countries will lead to less protectionist agricultural policies. After that has occurred, international institutions concerned with trade expansion may take actions to protect the new trade pattern arising out of new agricultural policies. But until domestic policies are modified as a result of changing political views regarding domestic spending priorities, international institutions have only a limited role to play in agricultural trade expansion.

The agricultural policies of the two largest agricultural trading regions of the world may get worse, from the standpoint of trade, before they improve. Britain, Ireland, Denmark and Norway will have to accept the highly protectionist agricultural system of the EC in order to enter the Community. The moderate price levels in those countries will certainly be raised when the Community is enlarged. It will require a substantial reduction in in EC price guarantees at the same time to offset the expected "wrong way" moves by the countries entering the EC.

In the United States, most of the farm organizations are supporting higher levels of price support and higher export subsidies for farm products, while arguing the merits of trade expansion at the same time. A strong campaign has been mounted to further restrict imports of dairy products from glutted world markets, and our milk prices have just been increased.

Differences between our agricultural policies and trade expanding policies are rooted partly in our postwar farm programs, and partly in the technological revolution. After 1947, political decisions prevented our agricultural price guarantees from falling along with world prices, as war-induced demands declined. Parity was still King. War-time price support levels were maintained for too long, or were reduced too slowly. Huge export subsidies were required to compete abroad. Ineffective acreage controls and rapidly increasing yields catapulted grain, cotton, and dairy products into a surplus crisis by 1960.

This crisis would have come sooner, except for the Agricultural Trade Development and Assistance Act, commonly known as Food for Peace. But by 1960, that escape valve had begun to close. Objections by other exporting countries prevented U.S. exports under that program from reaching the levels which might have otherwise been achieved. Grain and milk surpluses continued to accumulate despite the greatest efforts under the Food for Peace program. Also, by 1960 there was a growing realization that in giving food to needy agricultural nations, one could do much for the long-term good of the recipient nation itself.

A New Start

A new Administration in 1961 made a number of tentative starts in an effort to find a way out of the maze of agricultural surpluses, export subsidies, and spiraling costs. After an extended debate, we turned to sharply lower price guarantees, and to voluntary acreage control programs in which direct government payments to producers were the incentives for participation. By the end of 1965, revised machinery for production adjustment, and price and income support for farmers had been approved by Congress for feed grains, wheat, and cotton, which are produced on two-thirds of the cultivated land in the United States.

Price supports were geared to world market prices and to competing products at home and abroad. For wheat, the drop in the level of market price supports was from nearly $2.00 to $1.25 per bushel. For cotton the decline in price was from 30¢ to 21¢ per pound. For feed grains, the drop was small.

The political key to reducing market price supports to world levels was a program of payments which compensated, and in some cases more than compensated, farmers for the decline in market prices. Payments were the "carrot" and acreage controls were the "stick" of the new policy. To qualify for payments, farmers were required to reduce their plantings. By 1967, a combination of lower price supports, direct payments, acreage controls, and increased exports had disposed of the principal surpluses, and had improved the image of U.S. agriculture at home and abroad. There was an element of luck in this record. Grain exports to Europe were higher than in earlier years, and a severe drought in Asia wiped out the last of the grain surplus in 1966.

Levels of Protection

It was not possible to materially reduce the extent to which U.S. agriculture was protected from world market prices at the same time the price and income support system was changed so fundamentally in the 1960's. Feed grains and wheat were related more directly to world markets, but this was offset by increased levels of protection for cotton and milk.

Before 1961, U.S. wheat prices were supported at approximately 70 cents per bushel above world prices. With the new system after 1963, the average level of return (price support plus payments) for U.S. wheat is somewhat lower than before 1963, but is as much as 50 cents per bushel above world prices.

Prior to 1961 the level of protection for feed grains in the United States was low, although export subsidies were sometimes required to make our prices competitive. After effective acreage diversion programs and direct payments begun, feed grain export subsidies were eliminated. The level of protection for feed grains is now near zero. The price support level for feed grains in the United States virtually establishes market prices for coarse grains in world markets.

Cotton is among the most highly protected of our major field crops. Before 1961, the average subsidy ranged between 30 and 40 percent of world prices. The new cotton program enacted in 1965 set a level of protection, through payments, which is higher than before. At the same time, however, it initiated procedures which had the capacity to limit production and dispose of the existing surpluses.

The milk price support system in the United States is even more vulnerable to international criticism than cotton. Our butter price is supported at about 3 times the world price. Taking all manufactured dairy products together, our support level is about 50 percent higher than world prices. Systematic increases in our dairy product imports as production of milk for manufacturing declines would be an important step toward expanding world agricultural trade.

Strong leadership will be required if agricultural policy is to be modified this year in a manner consistent with future trade expansion. The Administration has looked to Congress for leadership. The Agriculture Committees of Congress, however, lean toward higher price guarantees, and therefore, to higher levels of protection. This is not the true temper of Congress and the American people, either on farm policy or trade policy.

EUROPE

While the United States struggles with the political problems of reforming its farm policy, the European Community (EC) labors under a protectionist agriculutral policy of recent origin. In the 1960's, some risks had to be taken to insure the life of the European Economic Community. Survival was thought to depend partly on creation of a Common Agricultural Policy (CAP) to replace the separate agricultural policies of the six countries. The CAP, developed under great political stress in the mid-1960's, featured higher levels of border protection. It has restricted trade. It is not unlike the farm policies which the United States carried over from World War II into the 1950's. The end result there will probably not differ very much from the result a decade ago in the United States. A commodity surplus crisis is building in Europe; a huge budget drain is already a reality. This will surely end in a long and painful transition to an agricultural policy more compatible with the realities of modern agriculture, and thus less trade restrictive.

AGRICULTURAL POLICIES IN INTERNATIONAL NEGOTIATIONS

Recent experience shows that international efforts can exert but little pressure against farm policies and programs arising out of powerful domestic political forces. Decision making on agricultural policy in the United States and Europe responds principally to domestic political considerations, and not to international interests.

Domestic economic interest groups seldom attach much real value to international considerations. Instead, they respond selectively to international opinion and to pressures for expanded trade; they often support extended trade in principle, while making exceptions for their own interests.

Occasionally, the domestic interest of one country coincides with the trade interest in another country or group of countries. Japan's decision a few years ago to import an increasing share of its food requirements was born of internal necessity, and it satisfied the Japanese as well as the North Americans. The temporary increase in dairy product imports to offset a shortage in the United States in 1967 was another example, but a brief one.

We should not allow such coincidence to mislead us, however. Exports are usually popular, but imports are not. The economic advantages of reciprocal agricultural trade generate little short-run political leverage, relative to the power of domestic agricultural interest groups in the United States and the European Community.

The limitations of international negotiations in influencing domestic agricultural policies were illustrated during the Kennedy Round negotiations which ran from 1963–1967. Agricultural questions proved to be among the most frustrating, although equally grave problems existed in other sectors. Inability to live up to early rhetoric regarding agricultural trade liberalization nearly doomed the entire effort. Other hang-ups may have delayed the negotiation and limited its results, however, even if agricultural issues had been set aside. Internal problems arising out of creation of the European Community, technical questions associated with chemicals, and disparities in the tariff schedules of major countries, as well as agricultural differences influenced the timetable and diminished the final result.

Under the mandate Congress had given U.S. negotiations, agriculture was required, for the first time since creation of the General Agreement on Tariffs and Trade in 1948, to be a full partner in negotiations aimed at trade liberalization. We now know that such a mandate could not be carried out in the 1960's. There is the most serious doubt, in my opinion, that it should again be considered in the 1970's.

Decisions at the May, 1963, opening of the Kennedy Round in Geneva also locked agriculture firmly into the negotiations. In recognition of the relatively minor role of tariffs and the crucial importance of domestic agricultural policies in obstructing trade, it was decided to "negotiate major elements of domestic agricultural policies."

This intention became the great platitude of the Kennedy Round. Negotiators made an earnest effort; Ministers gave repeated assurances; officials maintained a stiff upper lip throughout the prolonged negotiations. All this obscured an early and deep pessimism about the eventual agricultural outcome.

Christian A. Herter, chief negotiator for the United States, addressed the opening session of Agriculture Ministers of the Kennedy Round countries as follows on May 17, 1963:

"It is, of course, the firm position of my Government that negotiations must include agricultural products. This means that my government will not be prepared to conclude the negotiations until equitable tariff and trade arrangements have been developed for agricultural products."

Commissioner Sicco Mansholt, speaking for the European Economic Community on the same occasion, stressed the importance of terms of reference capable of leading to a successful agricultural negotiation, and committed the EEC unequivocally to a negotiation on domestic agricultural policies, which are the "decision elements for world trade" in agricultural products.

The Ministerial group went on to adopt a resolution which became charter for the Kennedy Round. One of eight principles stated: "that, in view of the importance of agriculture in world trade, the trade negotiations shall provide for acceptable conditions of access to world markets for agricultural products."

The lines were thus drawn for a struggle which lasted four years and in the end yielded the most disappointing results for agricultural trade liberalization. Negotiating groups were established: extended meetings were held. The complex farm program methodology of all the major trading countries was discussed exhaustively in Geneva from 1963 to 1967.

In the end, little came of it. The Kennedy Round did produce greater tariff reductions on agricultural products than in any previous negotiation, but it was far short of the result in the industrial sector. It yielded an agreement (now partially inoperative) to continue to stabilize world wheat prices at levels considered favorable to exporting countries, and established a new arrangement for meeting some of the world's food aid needs.

No domestic agricultural policies were improved, however, as a direct result of the Kennedy Round; no agreements were concluded to prevent future damage to world trade by future farm policy changes. The limited agricultural tariff reductions achieved were made under crisis conditions after four years of negotiations. At the end, the success of the entire Kennedy Round depended on agreement by the EC to make modest agricultural tariff reductions, the Japanese contribution to food aid, and a U.S. concession on chemicals. The agricultural tariff cuts were far below the official target of 50 percent, and were limited to a tiny fraction of the world's agricultural trade. The level of coverage and percentage reductions were eroded repeatedly to avoid the risk of collapsing the entire negotiation by setting a target for agricultural trade coverage which the Europeans might reject outright.

Grains were excluded from any trade expanding actions by the fact that the EC had unilaterally adopted trade-restrictive domestic grain policies while the Kennedy Round negotiations were in progress. The United States Congress enacted trade-restricting legislation on meats as the Kennedy Round began in 1964. The European Community and the United Kingdom also offered higher production incentives to livestock producers between 1964 and 1967.

Efficient milk producers in New Zealand, Australia, and Denmark got little encouragement in the Kennedy Round. The United States and the EC increased their internal milk price guarantees during the negotiations, and provided only nominal tariff reductions on dairy products.

The Next Round

What can be done to facilitate future expansion of agricultural trade by way of improved agricultural policies? The developer world badly needs to find a new *rationale*, a new *constituency*, and a new *rhetoric* in this area. Unless these can be created, progress toward domestic agricultural arrangements with constructive international implications may have a long wait.

The new *rationale* would be principally a domestic one. Trade gains would be a by-product or windfall. It would recognize the clear pattern of concentration in the emerging economic organization of agricultural production in all developed nations. It would face the fact that continuing high levels of protection in the 1970's will benefit mostly large farmers, and will by-pass small and needy farmers. We spend a lot of money on low priority farm programs and little money on high priority farm programs.

For commercial farmers, we should concern ourself with agricultural price and income stabilization rather than with price escalation. The process of capitalizing increased farm prices into a temporary income advantage, and later into high asset values and costs which then lead to new demands for higher farm product prices, must stop somewhere. The U.S. feed grain program is an excellent example of a policy of stabilization almost entirely devoid of direct subsidy, and entirely compatible with international trade principles.

The new *constituency* would be national, as against the regional and farmer-oriented interest groups that interest themselves seriously in farm policy formulation today. Consumers and urban Congressmen, Finance Ministers and Budget Directors, and Foreign Ministers as well as farmers and Agriculture Ministers must be represented in the struggle for domestic agricultural policies. If we wish to reap the benefits of agricultural specialization, and if we want national budgets allocated according to current rather than to obsolescent priorities, we must work for it.

There has been too much hand-wringing and too little effort in the United States and Western Europe by urban members of Congress, Finance Ministers, and Budget officials concerning the need to come to grips with farm policy via the budget. The competition for public funds was never greater, yet many national budgetary commitments for agricultural stabilization continue to be open-ended, while higher priority public programs must be financed out of prior appropriations. It will require a far greater effort than has been made so far if Finance Ministers, Budget Directors, and urban-based members of Parliaments are to be heard on national agricultural policies. In the United States, at least, urban members of Congress have been so busy on other pressing matters that they have often voted blindly on farm policy.

A new *rhetoric* for agricultural policy may be the most difficult of all. President John F. Kennedy, speaking to a Yale University audience in 1962 on the difficulties of public discourse on economic policy, said: ". . . the unfortunate fact is that our rhetoric has not kept pace with the speed of economic and social change."

Nowhere is this more true than in our approach to domestic agricultural stabilization in the developed world. Apparent sympathy for small farmers has generally fronted for enactment of huge windfalls for large farmers. Protecting home producers has meant shutting out more efficient producers in other countries. The new constituency must develop the new and relevant rhetoric on the way to creation of new policies. If this cannot be done, old cliche's and protectionist farm policies will guide the world's agricultural production and trade for another decade.

Further Considerations

There were reasons apart from the sensitivity of domestic agricultural policies which contributed to the limited Kennedy Round results in agriculture. There was an undercurrent of concern that the United States and the European Community wanted to impose elements of their own agricultural systems on other countries. This delayed discussions of the method of negotiating major elements of domestic farm policies. Eventually it came to be understood that it is the result arising out of the price support system of any country, and not the system itself, which was to be the subject of negotiation. Canada's ability to control wheat exports through the Canadian Wheat Board (to cite one example) was seen finally as equivalent to the acreage control and storage policies used by the United States for grains. Both contribute toward price stability.

Issues of that type were not of major importance, however. The intention of Kennedy Round negotiators to negotiate domestic agricultural policies came to little, not for lack of understanding among negotiators, but for a lack of preparation and will at home, in the United States and Europe.

In the United States, there was considerable doubt over the intention of the Administration to carry out the commitment to maintain the tie between agricultural and industrial negotiations. Farm leaders demanded repeated statements by high government officials reaffirming the intention to succeed in the agricultural negotiations or to scuttle the entire Kennedy Round. Governor Herter devoted a major speech to the Detroit Economic Club in 1964 to "The Role of Agriculture in Trade Expansion", saying that "the most difficult and complex of the problems that face us is that of trade in agricultural products," and "We cannot expect to move toward freer trade in industrial products if we at the same time leave agriculture stagnating in a morass of protectionism, or even sinking deeper into it."

A few weeks later, in April 1964, President Johnson repeated that pledge to his Public Advisory Committee on Trade Negotiations. The President said:

The United States will enter into no ultimate agreement unless progress is registered toward trade liberalization on the products of our farms as well as our factories.

This was followed by the warning issued by Governor Herter in Geneva at the formal opening of the negotiations one year after the first Ministerial meeting had launched the Kennedy Round:

. . . unless progress can be made in establishing the basis for successful agricultural negotiations, it would be impossible for my Government to foresee a successful overall negotiation.

As Kennedy Round planners met in 1963 and 1964 to develop rules of procedure for the negotiation, the United States did not have a strategy for gaining Congressional support for negotiating on sensitive domestic farm policies at Geneva. The European Community was taking ominous protectionist steps under the relentless political pressure of French, German, and Italian agricultural interests, and the imperative of creating an economic and political community even at the risk of failure of the Kennedy Round.

Efforts to develop rules of procedure for a trade-expanding agricultural negotiation were thus doomed in advanced. Expanding agricultural imports was low on every country's priority list; expanding internal production at the expense of imports was the clear political choice. The agricultural talks went on grimly, but they were in no sense a negotiation until the imminent expiration of the Trade Expansion Act forced a crisis in April 1967. The impetus for completing the Kennedy Round arose finally, not out of any expectation of important agricultural progress, but out of prospects for a favorable industrial outcome even if agricultural issues had to be papered over. This was the final result, and the proper one, when all factors are considered.

If domestic policies were to be the principal elements for negotiations on agricultural products, careful political preparation was required at home, since the adverse impacts of such actions would be first feared, and later felt, at home. This was never possible. Farmers and their representatives in the United States and in Europe hold the view that government actions which will affect them directly ought to be decided at home. U.S. farm organizations resist and indication that an agricultural policy decision in Brussels or Geneva may affect what the United States does.

Farmers still hold substantial political power, even in the developed nations. In most countries, out of respect for the past, they are treated as though they were more powerful than they are. That is the real reason that existing farm policies will not soon be materially altered, and why future farm policy options will not be seriously restricted in the give and take of international trade bargaining.

Considerable discretion in administering farm programs would be required if domestic farm policies were to be a major element in international trade negotiations. Congress, and especially the Committees on Agriculture, have a strong aversion to executive discretion. Secretary of Agriculture Orville L. Freeman achieved broader discretionary authority during the 1960's than had ever before been granted to his office, but this was a temporary exception. It was achieved only by Freeman's great personal effort, and does not mark a fundamental change in legislative-executive relationships. Deep down, Committee Chairmen and senior members of Congress still oppose formulas under which someone else can set price support levels, possibly with increased imports of some agricultural products in mind.

Freeman's efforts to gain the discretion he needed to administer agricultural stabilization programs successfully at home would surely have been less successful if he had taken on the additional task of convincing Congress that such discretion was needed not only to stabilize or increase farm income and to dispose of crop surpluses, but also to conduct an international negotiation in which important elements of internal policy would be the stakes in the game designed to increase not only U.S. agricultural exports, but the agricultural exports of other countries as well.

"Bringing domestic agricultural policies into the trade negotiations" was mentioned to Members of Congress, but mostly to those interested in trade expansion. It was not fully explained to Members interested principally in higher farm prices and protection from imports. Any hint that newly-won executive discretion on domestic programs would be used partly to negotiate reciprocal trade-expanding arrangements with other countries would have been damaging. On the other hand, if the Secretary, without prior approval by Congress, had negotiated a trade arrangement requiring future action by the United States in gearing domestic agricultural policies to expansion of trade in items we import as well as in products we export, he would have run a serious risk of repudiation when subsequent Congressional approval was sought. So the broad implications of this question were never taken to Congress during the Kennedy Round agricultural discussions.

Instead United States negotiators indicated in Geneva that we would be prepared to continue certain farm policy actions, such as acreage restriction and relatively low price guarantees, actions which were expected to be required for purely domestic reasons in the late 1960's. Temporary authority had been granted for these actions, and continuing authority was expected from Congress. These offers would probably have been of little value in gaining agricultural concessions from other countries, but their value was never tested, since no serious negotiation on domestic policies was ever engaged.

To repeat, the United States had no master strategy in regard to winning support at home for a negotiaton on domestic agricultural policies (partly because the United States never considered this a realistic possibility),

The general approach of the United States was pragmatic; efforts were made to engage a negotiation by whatever means suited a particular commodity or country. The European Community, however, brought out twin negotiating plans. These were quickly named Mansholt I and Mansholt II, after the EC Commissioner for Agriculture. Mansholt I related to grains, and will serve to illustrate the issues at hand. It proposed to measure differences between the internal price guarantee and the world price for grain for all countries. Commitments were to be made that differentials between the internal support levels of each country and the world standards (reference price) were not to be increased for a stated time. This differential was called the *montant de soutien*, or margin of support. This measurement was to take place after the EC had established common price guarantees for various grains to replace the separate guarantee levels of the six countries and to protect the internal market. German and Italian prices were to be lowered, but French prices were to be increased substantially. This aspect of the EC grain proposals represented an early blow to prospects for world trade expansion, since agricultural production declines slowly or not at all in response to lower prices, whereas France had a known potential for increasing grain production in response to higher prices.

The European Community, having determined to increase the differential of internal prices over world prices prior to proposing the *montant de soutien* method of negotiation, was ready for all countries to agree that the level of protection was high enough. The *montant de soutien* was not to be increased by any country. Qualitative differences in national policies were not admitted. A country like Australia, with producer prices for its agricultural exports literally equal to world prices, and the EC, with producer prices roughly twice the level of world prices, were assumed to be equal. It was to be a balanced bargain if both agreed not to increase the difference between domestic guarantee levels and world prices for a time.

There was no provision for negotiating levels of protection downward from the high levels existing in some countries in return for reciprocal concessions on other products. It was politically impossible for the European Community to reduce the grain price levels which she had just established. This was not a plan for mutual reductions in trade barriers; it was a skillful accompaniment to actions the EC took for internal political reasons.

At the core of the EC negotiating strategy was a claim which was so bold that it was never successfully challenged, and so appealing to nations which were heavily dependent on the export of primary products that it attracted them despite its unreality. This claim was that the level of agricultural commodity prices in world markets had been severely and abnormally depressed because of a lack of market organization. World commodity price levels should therefore be raised substantially and permanently, according to the EC proposal. It was argued that the prices required to insure adequate world supplies of grains and other food commodities in the 1970's would be higher than prices which prevailed in the late 1950's and early 1960's, and that trading countries should work together to organize world markets to achieve such higher price levels.

This argument had been put forward earlier by French Finance Minister Wilfred Baumgartner in a November 1961 statement to the GATT Council, and by

French Agriculture Minister Edgard Pisani on June 29, 1962 in an address to the Common Market Council of Ministers. The central features of the Baumgartner-Pisani Plan were higher world prices, organization of world markets to protect the new price levels, and greater food aid contributions to be financed out of portion of the returns from commercial trade.

The details lying behind these initiatives were never spelled out. When the French government, through its Washington Embassy, asked the United States late in 1963 for informal talks on the Pisani Plan, United States Department of Agriculture staffers wrote a paper (Economic Research Service Unpublished Paper, "An Analysis of the Pisani Plan," dated February 11, 1964) which established some possible motives for the French initiatives:

To provide a rationale for the developing grain and trade policies of the EC.

To equalize food costs among countries, and especially to raise the cost of farm product imports to the United Kingdom and Japan, who bought heavily in low-priced world markets.

To show sympathy for less developed countries whose commodity export prices had declined relative to the import prices of manufactured goods.

To eliminate or minimize export subsidies on agricultural products.

To lower the silhouette of European prices, which were so far above world levels that they were vulnerable in international forums.

The United States considered the Pisani Plan to be based on unreal premises, and rejected the Mansholt Plan as a basis for negotiation for similar reasons. Governor Herter, speaking to the Ministerial level Trade Negotiations Committee in Geneva in May 1964, again placed agriculture at the top of the list of problems, and spelled out the U.S. objections to the EC negotiation plan.

The European Economic Community has proposed a negotiating plan generally applicable to all agricultural products in all countries. Under this plan it was stated that a maximum margin of support—referred to as the *montant de soutien*—would be bound for each agricultural product in each country. The margin of support would be calculated in each case in relation to "reference prices" to be established. It was not possible to see how it could be implemented and contribute to the objectives laid down by the Ministers. Indeed, in many cases, where tariff bindings now exist, the plan was considered to hold the possibility of increasing levels of protection.

The European Economic Community made it clear at the same time that it considered binding the margin of support—that is, promising not to increase protection but not reducing it—was the intended result of negotiations on agricultural products. The Community position, stated in an official GATT document, was as follows:

4. Convinced that a negotiation conducted according to traditional methods cannot yield satisfactory results, the Community wishes to bring out the one factor which is common to all the contracting parties, namely the support given directly to agricultural products, with a view to proposing to its partners to proceed to the negotiation and binding of a margin of support.

5. The negotiation extends not only to protection at the frontier but to the agricultural and trade policies of the contracting parties as well, since the margin of support is equal to the difference between the reference price on the international market and the remuneration obtained by the producer.

6. From this viewpoint, reciprocity of commitments becomes a matter of fundamental importance.

7. *The bound margin of support expresses the aggregate effect of the various support instruments used (customs duties, quantitative restrictions, direct subsidies, monopolies, etc.) on the conditions of production and of exchanges and is not to be confused with these instruments.*

8. The contracting parties remain, in principle, free in their choice of instruments which they mean to use to support their agriculture. Some contracting parties have seemed to fear, quite wrongly, that the margin of support is designed to replace existing instruments, whereas in reality it only expresses their aggregate effect in a form common to all the contracting parties. The binding of the margin of support may, however, require a change in the application of these instruments, so that their aggregate effect would be consistent with the commitment.

9. The European Community makes the binding of the margin of support the fundamental element of the negotiation in agricultural products.

The European Community never wavered from this line. United States negotiators marvelled at the Brussels negotiators who claimed that fixing margins of support was consistent with the Kennedy Round objectives to expand trade. My notes from a discussion in Geneva in 1964 read as follows:

"The EEC understands that if their approach were taken, countries would give up a part of their freedom to develop future agricultural price and income support measures autonomously. They understand that loopholes permitting easy escape from this commitment must be closed in advance. But they seem not to understand why exporters insist on *reducing* existing margins of support before binding them. Europe simply wants to fix the newly established *status quo* for 3 years, a step everyone else considers to be trade restrictive."

By early 1966, it was clear that no negotiating method of universal application could be found for agricultural products, and that substantial and measurable agricultural trade expansion was not on the EEC agenda for the 1960's. Such a result was sure to require greater agricultural imports by Common Market countries, and this was unacceptable to European farmers.

The agricultural phase of the Kennedy Round thus he added for a conclusion early in 1967 under the shadow of an agricultural settlement of nominal and perhaps even negative value, results wholly inconsistent with early Kennedy Round objectives. From early 1966 on, the negotiators' task was to "paper over" a number of insurmountable agricultural difficulties associated with agricultural commodities protected by domestic programs, while making such limited progress as could be made on items of trade protected principally by tariffs.

Chairman Boggs. And now we come to our last scheduled witness for this morning.

Mr. Fribourg is the president of the Continental Grain Co.

We welcome you before the subcommittee, sir, and shall be happy to hear from you at this time.

STATEMENT OF MICHEL FRIBOURG, PRESIDENT, CONTINENTAL GRAIN CO., NEW YORK, N.Y.

Mr. Fribourg. Mr. Chairman and gentlemen, I appreciate the privilege and honor of testifying before this Subcommittee on Foreign Economic Policy of the Joint Economic Committee of the Congress.

The problems of foreign economic policy are many and complex. I shall confine my remarks to the area of my own business activities, trade in agricultural products.

In order to understand the difficulties we face in expanding our agricultural exports, we need to take a look at what is happening to agriculture and agricultural trade on a worldwide scale as well as in the United States.

During the past decade several specific patterns have emerged. We have witnessed a tremendous increase in agricultural output and, at the same time, a considerable increase in demand for food. However, these trends have developed very unevenly over time and among countries, so that we have seen periods and areas of acute shortages as well as of excessive surpluses.

Grain production has shown the greatest increase. The reasons are well known:

First, improved technology due to the development of high yielding seeds and expanded use of capital inputs such as fertilizers, herbicides, pesticides, and mechanization.

Second, high support prices in most areas of the world, enforced by policies of protectionism from free and open international competition.

In most general terms, the major phenomenon occurring worldwide in agriculture is a shift from a labor intensive to a capital intensive industry. The most striking example lies within our own frontiers: we have withdrawn from production huge amounts of land; we have sharply reduced the number of commercial farmers and farm laborers; and yet we have substantially increased our agricultural output. Though we have not achieved the desired objective of balancing crop supplies with demand, the freeing of this labor force (with some painful adjustments) for productive nonagricultural employment has been of great benefit in this period of rapid economic expansion.

The combination of increased agricultural technology and agriculture protectionism, much of it guided more by sociologic than by economic goals, has created intense competition for markets in the world grain trade. On the one hand, the large traditional exporting countries have increased their output, and some new nations have become permanent exporters; on the other hand, some of the traditional importers have also developed their output, but failed to increase demand to the same extent.

Finally, a significant development has been the generally poor performance of agriculture in communist countries which in balance has shown less growth on a per capita basis than the developed countries of the free world. This has resulted in mainland China becoming the world's largest commercial buyer of wheat. It has also resulted in large but sporadic imports of both wheat and coarse grains by Eastern European countries. For well known reasons the United States has had only a minor participation in this trade.

So much for the highlights of the past decade.

NOW WHAT CAN WE EXPECT IN THE 1970'S?

We will, in all probability, have a continuation of most of the same patterns as in the 1960's. Although some of them are desirable, a few are quite detrimental. I shall not engage in forecasts but I shall address my remarks to the detrimental aspects of certain policies. I shall also recommend policies which would hopefully expand the world grain trade and would give the United States its rightful share.

The most important change which has to take place is a reversal from the present protectionist stands taken by all developed nations and areas—we are guilty of this too!—toward a dynamic policy of trade liberalization. This will require painful adjustments in many fields. But it is the only long range solution to expanding the exchange of goods and services in the world.

Successful efforts in that direction have been made in the GATT Agreements. But the GATT negotiations have covered industrial products primarily. Formidable barriers remain in the agricultural field. The EEC is a prime example. Its high internal price supports have increased very substantially grain production in the member countries. Consumption, though considerably higher, has not kept pace with this increase. Imports of low priced commodities have therefore been sharply reduced and large surpluses of certain grains have been created. These have been heavily subsidized in order to dispose of them.

We should discourage artificial incentives to promote self-sufficiency in countries not suited to efficient large scale and, therefore, low cost production. This is the case for a great part of the land in the

EEC. We should stress and apply to ourselves—which has not always been the case—the principle that each economic bloc should produce goods for which it has the greatest advantage, and be willing to import what can be produced by others more economically.

The realization of the exorbitant cost of its present agricultural system is causing great concern to most EEC members. It was emphasized at the Community's Council of Ministers held last December, at which they asked their members to "pursue without delay" efforts to control agricultural surpluses. This is a familiar problem to us in the United States. We have tried to solve it through acreage restrictions and direct income payments to farmers, which has lowered food costs and increased consumption. The EEC would be wise to act similarly. It is symptomatic that Canada, with its huge surplus, has just taken steps towards acreage restrictions.

I am not here to pass judgment on the political and economic merits of the possible entry of the United Kingdom, the EFTA countries, and also Spain in the EEC, but I will state that, under the circumstances prevailing today, such steps would be extremely harmful to U.S. grain exports. With grains flowing freely within the community, the surplus areas would find their way to the deficit area. These new participants all being deficit countries, would absorb some of the surpluses and reduce imports from the outside world. Whereas Spain—who has not yet officially asked for admittance—has high internal prices, Britain has generally maintained a policy of low food costs, and almost duty-free entry for grains.

British farmers' incomes have been supplemented by a deficiency payment system somewhat similar to our own feed grain program. This completely different approach is creating the major stumbling block to Britain's entry in the EEC. It seems clear that our hopes lie in Britain's system being adopted by the EEC. It also appears unrealistic at this time to expect that the British can impose their agricultural program. However, the negotiations will be of long duration. Possibly the hard bargaining and necessity for compromises, coupled with the EEC agricultural financial strains I have mentioned above, will force the transition of the community to a more rational agricultural policy.

I believe we should make every effort to convince Spain that it is in her own interest to lower food costs. She has been moving in the other direction, adopting gradually the EEC system with a view to her eventual admittance. But, it might still be time to reverse this trend.

We should definitely promote an agricultural policy of market oriented price support levels supplemented with direct income payments to farmers, if needed. This should apply to the United States as well as to other nations and areas. Our feed grains program provides a model. Such a policy would protect the small less efficient farmers until such time as they leave agriculture either through retirement or by accepting nonfarm employment. Lower food costs would increase the standard of living of the consumers and the demand for meat and poultry.

There will be a temptation for nations and commodity groups to promote international commodity agreements. This would, in my opinion, be unwise. International commodity agreements are the antithesis of trade liberalization. The experience of the unfortunate International Grains Arrangement should provide ample reason to reject extension of such agreements. Maintaining prices above or below long-run equilibrium levels is impossible unless accompanied by controls which cannot be enforced on a worldwide basis. International commodity agreements clearly are not in the U.S. interest. They should be strongly opposed.

I believe we have failed to reach our full potential for commercial exports due to the inability of our private trade to compete on equal terms with other major exporters such as France, Canada, and Australia. This not only means that our prices should be in line with those of other exporters, but that all conditions be as favorable. First, I refer to payment terms. Credit terms based on Government-backed credit insurance programs have been made available by other exporters, and bilateral agreements have facilitated transactions.

This latter type is perhaps contrary to our basic trade principles, but every effort should be made to devise sales on credit. They could substitute to a great extent concessional sales to developing countries. Second, we have not encouraged trade with the Communist countries.

I favor adoption of policies to increase U.S. trade in nonstrategic goods with Communist countries. We can take positive actions, many of them unilaterally, to that effect. As an immediate step, I recommend that we extend most favored nations treatment to the Soviet Union and the Eastern European countries for nonstrategic goods. The requirements that half the grain shipped to the Soviet bloc be carried on American flag vessels or that grain exports be subject to part cargo restrictions should be abolished.

I would like now to make a few comments about trade with less developed countries.

The major problem facing them is their need to purchase food and their inability to pay for it. We have alleviated this problem, but not really solved it, by supplying them with large shipments under concessional sales programs, primarily Public Law 480.

Two solutions are possible: One, we can induce the developing countries to produce and market goods for which they have a comparative advantage and purchase the others on the world markets. Two, they can attempt to become self-sufficient in agriculture. I believe that the ultimate solution for the future lies in the first alternative. I have, therefore, great reservations about the section of the last extension of Public Law 480 which requires that recipients give evidence of self-help, regardless of their suitability.

I do not find fault with the principle of "self-help" when it means efficiently employing the underutilized resources of a country, but I do object to the interpretation that "self-help" at all times and in all cases should mean self-sufficiency in agriculture.

Developing countries need to develop labor intensive industries. Grain production, as we know it today in the developed world, does not fit this category. I do, however, believe that "self-help" for agriculture in the developing countries will serve an extremely useful purpose, when it is used to encourage livestock production, particularly of dairy and poultry. The problem in many countries of the world is not hunger but malnutrition—the lack of adequate protein. Livestock production helps solve that problem. But it has other desirable attributes. It provides productive employment for farm labor. It also provides a market for grain, both indigenous and foreign.

Let me summarize, and make suggestions for solving problems of agriculture in world trade.

SUMMARY AND RECOMMENDATIONS

In order to increase exports of U.S. grain, our greatest need is a rational policy for agriculture worldwide. All countries and areas, including the United States should shift less efficient farmers and marginal land out of agriculture. If this occurs, world trade in grain will increase and the United States will get its rightful share.

In the case of most developed countries, emphasis should shift from high commodity price supports to market oriented prices supplemented with direct payments to farmers, if needed. We should have a policy of being fully competitive with all other exporters at all times, and strive for improved international relations with all nations, including all Communist countries. But until we achieve this, we should take all positive steps to remove barriers of our own making which inhibit commercial trade in nonstrategic products such as grain with the Soviet bloc.

In order to encourage the developing countries to import U.S. grain on commercial terms, we should provide them means of earning dollars. This will necessitate their access to our markets for labor intensive goods and agricultural goods for which we have no comparative advantage. In the 1970's it may be desirable to give preferential treatment for manufactured imports from developing countries.

What we need, of course, is not simply a rational policy to facilitate world trade in grain. We need a rational policy for world trade in general. This is your task and I commend you in your efforts to achieve it.

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

Would any other members of the panel care to comment on the remarks made by the members of the panel?

Mr. Schnittker, you indicated that you might want to.

Mr. SCHNITTKER. I took note of Professor Johnson's remark that we will have to do something about studying and verifying levels of protection in the different countries. I agree with this. I doubt if it can be done by any existing international organization.

I took note of Mr. Savary's remark that we may need two or three different levels of confrontation, study, et cetera.

It seems to me that with so many systems of agricultural policy around the world, and with so many competing international organizations, and given the tendency of international organizations to dampen down differences, and in effect act as if differences didn't exist, a study of levels of protection must be done by some independent body. It would be a body so authoritative that once the study is done it could not be ignored, and, of course, by a group which would be set up to show differences and to defend what they have discovered before international bodies later on.

It is important that this be done. But nothing exists at the moment capable of doing it, in my opinion.

Chairman Boggs. Would the OECD be an instrument that might be utilized?

Mr. Schnittker. The OECD is an instrument for consultation, but not in my opinion to establish objectively different levels of protection for agricultural products. There are simply too many countries which are members of OECD to do this kind of thing effectively.

Chairman Boggs. What do you recommend?

Mr. Schnittker. I would recommend that some group, preferably an international foundation, or even a U.S. or European foundation, might consider setting up an expert group, a high level body, to do this job for the international organization and in cooperation with them, but to do it independent of influence by the international organizations or by the governments belonging to international organizations. I know nothing can be fully independent, but some groups are more independent than others.

Chairman Boggs. Mr. Johnson, do you care to comment on that?

Mr. Johnson. I think the comments that Mr. Schnittker made about the problem of finding an organization or a group of individuals that could carry out such a study are very apt. I am pleased that he feels that such a study is necessary. But it is a very difficult problem, because of the existing organizations all have constituencies and these constituencies clearly would not be too pleased, perhaps, with some of the results of such a study. And the more independence that such a study could have in terms of sponsorship the better it would be. I have no doubt about that.

Chairman Boggs. Mr. Meyjes?

Mr. Meyjes. Could I comment on that, Mr. Chairman?

Of course, an independent study would be valuable. But if all the emphasis is on independence there is the danger of such a study staying within the academic sphere. And if you want a study like the one here envisaged to form the basis for an eventual negotiation, I think that you will not get around the necessity of involving governments in it, of having governments closely associated with the making of the study.

I myself do not see what is really against entrusting a study like that to the GATT Secretariat and to the working parties which exist in Geneva. I agree that the OECD is probably not quite fitted for this task, because it doesn't really engage in the sort of negotiation which must be the end result of the whole process. But the GATT is. The way I understand it, the Agricultural Committee of the GATT is making a study of the sort that we are talking about at the present time.

Chairman Boggs. Mr. Savary?

Mr. Savary. Mr. Chairman, I personally would have no objection whatsoever to an academic study of the amount of protection as has been fashionably expressed in the past. But it is more part of the problem when we deal with agricultural policies in their entirety.

I remember when the Kennedy round negotiations started, even before that, when the suggestion of measuring protection was first launched, the Swiss Delegation said: "All right, let's have that study, it will show the need for protection." Governments have many other preoccupations besides producing at the best possible price some agricultural commodity, and I believe that there are those justifications for protection, social, political, economic, and many others, which have to be thrashed out, so to speak, among countries. Some of them are very strong, and some of them have become weak as the years go by, and may well become weaker as economic development and growth proceed.

Therefore, we have to find some way of looking at the agricultural problem in its entirety. It is not by chance that we have seen so many governments, virtually all governments, follow a certain type of policy, in spite of its shortcomings. It is because there are stronger reasons behind it, reasons which have been compelling, otherwise we would not have that.

Speaking for farmers, they would like nothing better than to need no support and protection. But the facts of life are such that in the present stage of evolution and agriculture in many countries there are many reasons why protectionist policies have to be pursued. That is why I suggest what I call enlightened protectionist policies instead of self-centered and inward looking protectionist policies.

Thank you, Mr. Chairman.

Chairman BOGGS. Thank you very much.

Mr. Fribourg, what methods do you recommend to prevent a drop in the U.S. agricultural exports as a result of the expansion of the Common Market?

Mr. FRIBOURG. The steps——

Chairman BOGGS. What methods would you advocate that we pursue in order to prevent a drop in our agricultural exports to Europe, as a result of the expansion of the Common Market?

Mr. FRIBOURG. I think we should induce the Common Market countries to reduce their support prices to make them more realistic. I think that we should induce them to take certain steps which we have taken in the United States such as direct payment to farmers.

I think one has to realize that there are political problems as far as farmers are concerned, and that one can only solve them from a very long range point of view. But I think lower prices would benefit the European Common Market countries from the industrial point of view by giving in effect payments that would protect the farmers, and the consumers, by having lower prices, would be able to divert some of the money that they would have spent on food products to buy industrial goods.

Therefore the standard of living in Europe would rise substantially by a lowering of prices in the community. And at the same time it would create a greater demand for agricultural products. I think we would benefit very greatly from this increase in the market.

Chairman BOGGS. Do you have a comment, Mr. Johnson?

Mr. JOHNSON. I wish I really knew something to say that would be especially helpful.

It is, I think, becoming somewhat evident that there is now a concern in the United Kingdom about the implications of entering the Common Market if current agricultural policies of the Common Market remain unchanged. The effect on food prices paid by the English consumer would be very striking. And evidence has been brought forward by our own Department of Agriculture as to the costs to the EEC itself of its present policies. Measuring both the Treasury costs and the cost to the consumer implies a very high cost compared to what these food products and other products would be bought at on the world market.

But given the fact, as was stated by one of the speakers, that the United States has in the past favored, and apparently continues to favor, the degree of European unity implied by the current Common Market and its expansion, I don't see that we can much more than appeal to their own self-interest to adopt more rational policies in those areas. I think to enter this in a way by which we would imply that we would oppose Great Britain's entry unless agricultural policies were changed would probably not be in our long-run interest, taking all the factors into account.

To say that we can hope that the policies in agriculture will be changed, and indicate our reasons why, might well be of some limited value.

Chairman BOGGS. Mr. Meyjes, would you like to comment?

Mr. MEYJES. Yes, Mr. Chairman.

I think I am very largely in agreement with what Mr. Johnson said or Mr. Fribourg said, that an attempt should be made by the United States to try to induce the Community to follow a more rational policy. Such a reform might be achieved by separating the present EEC producer prices into an economic price on the one hand, and a social element on the other, and giving farmers that have to be phased out of production a social payment, while continuing a lower producer price for those who remain in production. I think that in itself would be very good, and would certainly make sense for the Community. The only question is, how do you get the Community to adopt such policies?

Direct intervention or interference is, of course, not possible. But I come back to something I said before, that the only way to influence the Community in this respect, and especially an enlarged Community, is to put forward proposals for worldwide negotiations which bear exactly on the domestic agricultural policy elements. I couldn't very well visualize a situation in which only the Community would undertake commitments to change its domestic policies in such a way as to be of most benefit to the world community as a whole.

Such commitments would also have to be accepted by others. And if a prospect existed of such negotiations being conducted, I am sure that would profoundly influence the discussions which are now going on within the Community and which, as you know, have been fairly sterile up to now, largely because of the absence of such a perspective.

Now, if the perspective could be supplied through the next round of negotiations in GATT, I think that would be all to the good, and that along that line the interests of exporting countries like the United States could be very well served.

Chairman BOGGS. Mr. Rashish, do you have a question?

Mr. RASHISH. Still on the question of mitigating the consequences of the enlargement of the EEC for third country exports, what is your judgment on the question of whether one has to wait until after these negotiations are completed before engaging in negotiations on a multilateral scale? A member of the European Commission did indicate that he thought the questions of agricultural trade policy were so urgent in character that it might be necessary to undertake negotiations on agriculture in the short term while the United Kingdom negotiations were going forward. There is a concern that waiting until after the negotiations have been completed means that third countries will then be faced with a fait accompli that will be a product of considerable political effort, and it may be very difficult then to undo the results. So the question is, what is the timing of any negotiations on agriculture?

Is it something you must wait for only until the United Kingdom negotiations are completed, or can it be untaken earlier?

Mr. SCHNITTKER. As I indicated, Mr. Chairman, I think general negotiations on agricultural products will be fruitless unless countries for their own domestic reasons are able to make constructive moves on their internal agricultural policies.

Therefore, I would wait to see whether the British, Danes, Norwegians, and the Irish can influence the Community in their own negotiations to a more constructive agricultural policy before taking on any general negotiations. We had, I think, a very bad experience in the Kennedy round, one which tends to discredit all negotiation.

I would be very frank to say that the Community placed a much higher priority on solving the internal problems which were plaguing the Community in the early sixties, than the priority they placed on a successful result in the Kennedy round, agricultural or industrial.

I would not like to get into an agricultural negotiation now and have it delayed and eventually fail because EEC-British negotiation was very long and very difficult.

Chairman BOGGS. Mr. Johnson?

Mr. JOHNSON. I would agree with Mr. Schnittker on that, not only for the reasons he indicated, but for this reason. If we look at the situation in the United States today, there have been several references here this morning to dairy products, and the particular posture of the United States in the production and trading in dairy products. So far as I can tell the United States is now no more prepared than it was 10 years ago to undertake meaningful negotiations with respect to dairy products, because really it has not thought through any alternative programs for dairy producers in this country.

Until it is willing—I am just using this as one example, there are others—to look at this issue both from the standpoint of the United States and other countries, I don't really see what we have got to negotiate on in that area. And it is clearly one of the critical ones in which the EEC has a very considerable concern, and not only the EEC, but certainly the EEC, either in its present composition or its enlarged composition, would ask for concessions in this area, and at the present time I don't think they are prepared to give them.

Chairman BOGGS. Mr. Meyjes?

Mr. MEYJES. Mr. Chairman, I would still like to try to provide an answer to the question asked by Mr. Rashish about the timing of the two negotiations. I think it would be very unfortunate, and surely not intended, if the American initiative for multilateral negotiations was seen in Europe as an interference in the negotiations that will be opened soon between the Community and Great Britain and the other candidate countries. For if it was seen as a complicating factor, the initiative would certainly evoke a negative response, and would not achieve the results which were intended.

The problem is a difficult one. I also see the other point of not wanting to be confronted with a fait accompli. But somewhere in between those two, one has to aim.

Now, the negotiations with Britain will start in the middle of this summer. And I assume they will last at least a year.

The GATT will not have completed its preparations for the next round of negotiations before the middle of 1971. By that time Britain and the Community may not quite have finished their negotiations, but they might be a long way along. And that might be just the time for the GATT partners to come in.

So I think I would prefer the Community and Britain to start off by themselves and settle as fast as they can their major problems, and then at a later stage, but before the six and Britain have concluded their discussions, to have the worldwide trading community move in and make its proposals.

Chairman Boggs. Any further questions?

Mr. Rashish. I have one more.

I noticed a conflicting view between Mr. Fribourg on the one hand and Professor Posthumus Meyjes on the other on the question of the approach the industrial countries should take towards agricultural trade with developing nations.

Mr. Fribourg recommends that the United States should, as the more efficient agricultural producer, export food to developing countries and freely admit labor-intensive manufactured goods from these low-wage nations into our markets. On the other hand, Mr. Posthumus Meyjes recommends consideration of new initiatives in the field of food aid. Are these suggestions complimentary or contradictory, and what principles should be used to guide agricultural trade with developing nations?

Mr. Fribourg. I feel that we have been of tremendous aid to the developing countries. And eventually this aid has been extremely successful in certain cases. Take a country like Japan. We gave large aid to Japan after the war, and finally they became a prosperous country, and they naturally turned from aid to dollar payments.

And I think the tendency should be, and our policy should be, to gradually eliminate aid for the developing countries, and to go more and more towards dollar sales. I think one has also to give them the means to pay for the dollar goods that they are importing. And one of the ways, and the only way I can see, is for us to import their goods, paying dollars which will be received by the sale of agricultural products.

So I think that gradually we should reduce the aid given, as many other countries have done, through long-term financial commitments, and it is being done by other countries outside of the United States. Most agricultural countries are selling to the developed countries hard currencies under long-term payment terms, which we have not been doing.

Chairman Boggs. Mr. Savary?

Mr. Savary. Mr. Chairman, as I said, I have refrained from discussing the problem of trade with developing countries, because I understood that to be the terms of reference of your next set of hearings.

In principle I would agree with Mr. Fribourg's approach in the long term. In the long run it is obvious that we must evolve in the direction of the world economy where every country would be able to import and export on a commercial basis. But what is essential there is to be conscious of orders of magnitude on the one hand, and of timing on the other hand.

Now, if developing countries—and I do not consider that Japan even in 1945 was a developing country, not at all by my understanding of the term—if developing countries must finance out of their earnings the large sums required to purchase food needed by their growing populations, and at the same time finance the considerable investments required for their economic growth, they cannot do it.

So, in the next decade, or 2 or 3, I don't know how many, we are going to be in a position where the import saving element for the developing countries with respect to food is rather essential. And I think we should never lose sight of that.

That does not apply with equal strength to each developing country. There are developing countries which approach the stage where they can finance their imports of food. But when we look at the developing country group's aggregate position, I think there is no other way out for them than to seek to be as self-sufficient in food as possible in the near future.

These are the conclusions of the study made by the United Nations, and there is no quarrel about it.

Thank you.

Chairman BOGGS. Thank you very much.

Is there any further comment?

Mr. MEYJES. Yes, Mr. Chairman.

I still owe an answer to Mr. Rashish's question about food aid.

I do not think I am in disagreement with what Mr. Fribourg said. I am not a great advocate of food aid as such. I only see that the Community will go more deeply into this venture in the coming years. And I think it would be good to take such measures as will prevent situations of conflict from arising between the United States and the Community in the field of food aid and the impact of food aid on the commercial markets.

But I agree with what Mr. Fribourg has said.

I do see another point, however, in his statement with which I strongly disagree.

That is the desirability or undesirability of continuing the International Grains Agreements. It would seem to me that the course advocated by Mr. Fribourg consists of a free-for-all in the world market where ultimately the financially strongest partner will win, i.e., a competition of national treasuries, trying to outdo each other in paying out the largest export subsidies. This does not seem to me a rational solution for international farm trade. Moreover, I am opposed to such a situation because it will almost certainly lead to conflict, and not only conflict in the commercial sphere, but these irritations will spill over into the political sphere. Therefore, I strongly recommend that an International Grains Agreement, whether the present agreement or an improved agreement, will be renegotiated for the next couple of years.

Mr. SCHNITTKER. Mr. Chairman, I should say a word also in defense of the International Grains Arrangement, since I had something to do with it.

I, too, disagree with Mr. Fribourg. There was a major experiment in the last arrangement, an effort to establish a higher minimum price level, and to maintain that price level against the adversity of world surpluses. That effort has failed in a sense. Even so, the arrangement was flexible enough to hold together as the countries adapted to the new situation.

So as a means of stabilizing prices, as a means of confronting and consulting on international grain problems, and importantly, as a means of maintaining a basic set of world statistics on grain flows, grain production and grain prices, I think the arrangement, like the old wheat agreement, continues to be a success, and should be renegotiated.

Chairman BOGGS. Mr. Savary?

Mr. SAVARY. Very briefly, Mr. Chairman, on behalf of the whole of our membership I would also like to uphold the view that another International Grains Arrangement should be negotiated when the present one lapses. There is one exception in our membership in that respect. It is the American Farm Bureau Federation. And they share Mr. Fribourg's view to a large extent.

Thank you.

Chairman BOGGS. Thank you very much.

And thank all of you gentlemen for your discussion.

This concludes our series of panels on the U.S. trade policy with reference to the developed nations.

The subcommittee will be in recess subject to the call of the Chair.

Thank you very much.

(Whereupon, at 12:25 p.m., the subcommittee adjourned, subject to the call of the Chair.)

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