514

A FOREIGN ECONOMIC POLICY FOR THE 1970'S

HEARINGS

BEFORE THE

SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY

OF THE

JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

NINETY-SECOND CONGRESS

FIRST SESSION

PART 7—U.S. Foreign Economic Policy

JUNE 24, 25, 28, 29, AND 30, 1971

Printed for the use of the Joint Economic Committee

U.S. GOVERNMENT PRINTING OFFICE
66-850 WASHINGTON : 1971

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402 - Price 70 cents

574

JOINT ECONOMIC COMMITTEE

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

WILLIAM PROXMIRE, Wisconsin, *Chairman*
WRIGHT PATMAN, Texas, *Vice Chairman*

SENATE

JOHN SPARKMAN, Alabama
J. W. FULBRIGHT, Arkansas
ABRAHAM RIBICOFF, Connecticut
HUBERT H. HUMPHREY, Minnesota
LLOYD M. BENTSEN, JR., Texas
JACOB K. JAVITS, New York
JACK MILLER, Iowa
CHARLES H. PERCY, Illinois
JAMES B. PEARSON, Kansas

HOUSE OF REPRESENTATIVES

RICHARD BOLLING, Missouri
HALE BOGGS, Louisiana
HENRY S. REUSS, Wisconsin
MARTHA W. GRIFFITHS, Michigan
WILLIAM S. MOORHEAD, Pennsylvania
WILLIAM B. WIDNALL, New Jersey
BARBER B. CONABLE, JR., New York
CLARENCE J. BROWN, Ohio
BEN B. BLACKBURN, Georgia

JOHN R. STARK, *Executive Director*
JAMES W. KNOWLES, *Director of Research*

ECONOMISTS

LUCY A. FALCONE
JOHN R. KARLIK
ROSS F. HAMACHEK
RICHARD F. KAUFMAN
COURTENAY M. SLATER
JERRY J. JASINOWSKI
LOUGHLIN F. MCHUGH

Minority: GEORGE D. KRUMBHAAR, Jr. (Counsel) WALTER B. LAESSIG LESLIE J. BANDER

SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY

HALE BOGGS, Louisiana, *Chairman*

HOUSE OF REPRESENTATIVES

HENRY S. REUSS, Wisconsin
WILLIAM S. MOORHEAD, Pennsylvania
WILLIAM B. WIDNALL, New Jersey
BARBER B. CONABLE, JR., New York
CLARENCE J. BROWN, Ohio

SENATE

JOHN SPARKMAN, Alabama
J. W. FULBRIGHT, Arkansas
ABRAHAM RIBICOFF, Connecticut
HUBERT H. HUMPHREY, Minnesota
LLOYD M. BENTSEN, JR., Texas
JACOB K. JAVITS, New York
JACK MILLER, Iowa
CHARLES H. PERCY, Illinois

MYER RASHISH, *Consulting Economist*

CONTENTS

WITNESSES AND STATEMENTS

THURSDAY, JUNE 24, 1971

FRIDAY, JUNE 25, 1971

MONDAY, JUNE 28, 1971

TUESDAY, JUNE 29, 1971

WEDNESDAY, JUNE 30, 1971

SUBMISSIONS FOR THE RECORD

THURSDAY, JUNE 24, 1971

SUBMISSIONS FOR THE RECORD—Continued

THURSDAY, JUNE 24, 1971—Continued

A FOREIGN ECONOMIC POLICY FOR THE 1970'S

THURSDAY, JUNE 24, 1971

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

The subcommittee met, pursuant to recess, at 10:10 a.m., in room G-308, New Senate Office Building, Hon. Hale Boggs (chairman of the subcommittee) presiding.

Present: Representative Boggs; and Senators Javits and Percy.

Also present: John R. Stark, executive director; Myer Rashish, consultant; George D. Krumbhaar, Jr., minority counsel; and Walter B. Laessig and Leslie J. Bander, economists for the minority.

OPENING STATEMENT OF CHAIRMAN BOGGS

Chairman BOGGS. The subcommittee will come to order.

Over the past 18 months, members of this subcommittee have been conducting hearings aimed at developing broad understanding of factors involved in shaping a foreign economic policy appropriate to—and adequate for—the 1970's.

The hearings have been productive, useful, and constructive.

While I would not attempt to speak for any other member of this subcommittee, I believe it is fair to say that during this period a new sense of urgency has grown among us all regarding the subject of these continuing studies.

It is increasingly clear that the United States is in desperate need of a policy addressed to the realities of the last quarter of the 20th century.

The world economy is changing.

The position of the United States with relation to that economy is changing as well.

Unless and until we evolve a policy responsive to the realities of such change, we are—and we shall continue to be—vulnerable to the instabilities of an increasingly instable world economy.

To speak in such terms, though, is to deal in understatement.

In a very real sense, foreign economic policy is presently moving beyond the traditional confines of our historic dialog and debate. The concerns of special interests are being overridden by the concerns of national interests. For the truth of these times—and the times we can foresee ahead—is that our success or failure domestically will increasingly be influenced by our wisdom or folly internationally in regard to economic policy.

Underlying this is the reality that we in the United States are crossing a watershed in our relations with the world. Over the past 25 years, since the end of World War II, our American interests abroad have flowed primarily to concerns for national security. Such concerns, of course, are constant and continuing. But we are clearly moving into a very different world with a very different variety of concerns and challenges. In that world ahead, economic policy will require of us all the same imagination, initiative, effort, and consuming attention which our security policies have demanded of us over the quarter century past.

In an age of economic interdependence, the well-being of our families, the financial security of our workers, the promise of our young, the strength of our institutions, and the fulfillment of our social commitments to all our people will rest—and do already rest—upon the maturity, sophistication, toughmindedness, and realism of our foreign economic policy. Unless we pursue such a goal for our policy, the tragic costs of the cold war may well be compounded and multiplied many times over by still greater costs of unending global economic wars.

Against this stern truth, we must weigh the undeniable fact that we do not have—and, since completion of the Kennedy round in 1967, have not had—a meaningful trade policy.

The absence of such policy is an open invitation to having policy imposed upon us by default.

Already the evidences of disarray suggest this is the direction of our drift.

In recent years, and even in recent months and weeks, we have seen the emergence of new forces and new factors of greatest magnitude.

We have seen Japan develop as an economic superpower which, as yet, has not found a sure and settled place in the world system. We see the European community on the brink of significant enlargement. We recognize in the European developments and in other policies a basis for real concern about the breakdown of the world economy into discriminatory and divisive trading blocs.

But there is more.

As we in the United States have lowered our tariffs and become an economy open to trade, others have multiplied their nontariff barriers and denied fair access to our exports, particularly in fields such as agriculture.

Furthermore, we recognize that disequilibrium in balance of payments—whether through persistent deficits or surpluses—is widespread, yet there is little evidence of the will to take those steps necessary to correct such conditions to the benefit of both deficit and surplus countries.

Facing these deepening and broadening challenges, it is clear that we need a policy. The day has passed when the United States can make international economic policy alone. Yet the time has not yet come when we are without effective influence. If we are to exert our influence wisely and well we must have a policy—a policy which affords us a clear understanding of our goals and purposes, a clear guide as to how we are to reach those goals and a clear conception of how we are to cope with the problems which must inevitably arise along the way.

Half measures will not do. Expediencies and compromises will not do. Nor will it suffice to rely on rehashing the response of a remote past.

The world economy is taking giant steps in the 1970's.

We who are responsible for national policy must match those strides in our thinking and in our action.

We need a major assault on trade barriers of every kind to bring nondiscrimination and equality of treatment to trade among all nations.

We need basic reform of the international monetary system so adjustments can take place when necessary without prejudicing the movement of trade and capital or the ability of countries to maintain economic growth and full employment at home.

We need to improve cooperation and consultation among countries on a host of economic issues that we share in common.

We need, most importantly, to rekindle a sense of confidence and purpose in our own country.

The first priority of our foreign economic policy must be to restore vigorous growth and progress in our own economy. Not only would a vigorous economy at home allay fears about jobs and income and ease adjustment to our continuing change, but it would also serve our international position by increasing productivity, reducing inflation, and enhancing our vital competive position in the markets of the world.

I am not at all pessimistic. Ever since the start of our series of hearings in December 1969 there has been a great awakening to these realties and a strong surge of interest in fashioning an adequate national response. I can only believe that this will continue and grow and benefit the Nation in the process.

But I do believe that we must bring one thing home to ourselves and those we serve. Since the beginning of America's modern world role, two decades ago, international relations have been dominated by concerns for national security. Today we are in a new era in which foreign economic policy is—and will continue to be—the stuff of international relations.

We shall succeed or we shall fail in the last quarter of this century by the speed and certainty with which we grasp this change and put it to the service of our national interests.

No one can responsibly promise that the future will be easy, the answers quick or the results sure. On the contrary, as a matter of simple honesty, one of the responsibilities of national leadership during this decade may well be to alert the American people that the demands of this transition may be burdensome, the changes not always welcome, the ends not always comfortable. For this generation of Americans, the age of easy living is ending.

That relates to the purpose of the hearings we begin today.

A wise response by the Nation inevitably rests on the wisdom and vigor and courage of our executive leadership in this field. I am encouraged by recent initiatives of the President, particularly in establishing a consultative body within the OECD to sort out the growing problems and the earlier step of setting up within the White House the Council on International Economic Policies to develop and coordinate a coherent policy strategy for the nation.

Today we begin 5 days of hearings in which we will take testimony from officials of the executive branch. I am hopeful that the witnesses of the administration appearing before us in these sessions will convey the sense of urgency which we here on Capitol Hill increasingly feel about this sector of the national interest.

We are very happy to have the Deputy Under Secretary of State for Economic Affairs, Mr. Nathaniel Samuels, with us this morning.

We will be very glad to hear from you, Mr. Samuels.

STATEMENT OF HON. NATHANIEL SAMUELS, DEPUTY UNDER SECRETARY OF STATE FOR ECONOMIC AFFAIRS, ACCOMPANIED BY ERNEST PREEG, PLANNING AND COORDINATION STAFF

Mr. SAMUELS. Thank you, Mr. Chairman, members of the subcommittee. I appreciate very much the opportunity to appear before this subcommittee today. I would like to address my remarks particularly to the recent OECD ministerial meeting, chaired by Secretary Rogers, and at which I was vice chairman of the U.S. delegation.

The OECD, as you know, is the forum in which the highly industrialized countries, representing roughly two-thirds of world output, consult and seek to develop closer and more productive economic relations. At the 10th annual ministerial meeting of this organization earlier this month, the principal topics of discussion were the interrelation of economic policies among the industrialized countries and the outlook for international trade. In many respects these two subjects overlap, and in summarizing for you the U.S. views as expressed in Paris, I would like to address them jointly.

Economic relations among the industrialized countries are in a difficult phase that require the most active international cooperation. The meeting in Paris convened against the backdrop of the international monetary events of early May as well as certain pressures for restrictive actions in the fields of international trade and investment.

The meeting also underlined the new focus of economic forces that has emerged in recent years, centering on the European Community, now on the point of enlargement, a highly dynamic Japan, and North America. While the absolute position of the U.S. economy continues to grow, the relative role of the United States in the world economy, compared with 20 or even 10 years ago, is smaller, and our influence over economic developments is thereby reduced.

This new balance of economic power carries with it certain positive developments. A strong and more unified Western Europe and a steadily expanding Japanese economy provide greater stability in the world order, both among the industrialized countries, and in our joint efforts toward the many developing countries. But this also requires a greater understanding of America's burdens and responsibilities and a greater willingness by others to share in some of them. There is, unfortunately, a sadly lacking appreciation abroad of the costs to the United States of providing defense forces, particularly within the NATO framework, and the relation of these costs to economic conditions. There is also less than adequate appreciation of inequities in the world trading system which render more difficult the ability of the United States to carry out its economic and defense responsibilities.

In 1970 the United States had a balance-of-payments deficit on current and long-term capital account—that is, our basic deficit—of about $3 billion. This deficit is not significantly larger than the average for the past 5 years, but it is nevertheless highly unsatisfactory.

Under present circumstances, the United States must aim for substantial surpluses on current account if it is to sustain the cost of adequate defense and foreign assistance policies. The attainment of such surpluses requires cooperation by our major trading partners with us; it cannot be achieved by ourselves alone without pursuing policies that would be highly damaging to our friends and allies. We, of course, have the task of containing domestic inflationary pressures and improving our productivity, but the removal of restrictions against our commerce is an area where joint efforts are needed. Some of these restrictions are rooted in early post-war policies which are no longer relevant in light of the rapid growth of economic capacity and competitiveness abroad, particularly in Western Europe and Japan.

Before going into the detail of these problems, however, I would like to emphasize that much has been done to reduce trade barriers and to stimulate international trade and investment over the past two decades. The picture is not all black. In the course of this period of liberalization, between 1950 and 1970, our exports quadrupled from $11 billion to $43 billion, while U.S. foreign directed investment abroad increased six times.

Even in the field of agriculture, where there has been a conspicuous lack of progress in reducing trade barriers, our exports have not done poorly; impressive gains have been made on the Japanese market, and U.S. farm exports to the European Community in 1970 were $1.6 billion, or about equal to the highest previous level recorded in 1966.

Despite these accomplishments, however, there remain serious problems in our trade relations. The substantial increase in imports in recent years, rising from $9 billion to $40 billion over the period 1950–1970, has given rise to difficulties for particular U.S. industries. The Department of State, in concert with other parts of the executive branch, has vigorously pursued equitable solutions to these problems.

Other major concerns we have in the trade field, which we have communicated clearly to our trading partners, and which we particularly emphasized in the OECD meeting in Paris earlier this month, are:

Restrictions on foreign trade and foreign investment in Japan which are not in keeping with its present strong balance of payments position. These are inconsistent with the internal economic growth and external competitive strength attained by the Japanese in the postwar period;

The discriminatory restrictions in Europe and elsewhere against Japanese exports which have the consequence of focusing Japan's export efforts on the American market;

The operations of the common agricultural policy of the European Economic Community which curtail the development of American agricultural exports to that area. We believe that a more liberal agricultural policy would benefit our international payments position—as well as European consumers;

The extension of preferential trading areas of the European Community with developing countries, which arrangements discriminate against our exports and tend to divide the world into trading blocs; and

The possibility of further preferential arrangements between the Community and certain nonmember industrialized countries in Europe.

These restrictions, taken together, impose upon us a substantial balance-of-payments penalty. Of course, I do not want to imply that trade problems are a one-way street. Other countries have certain complaints against the United States as well, and if progress is to be made, it can only be through common efforts to achieve a truly open and reciprocal world trading system.

It is in this context, Mr. Chairman, that in Paris we welcomed the proposal by Secretary General Van Lennep to set up a high-level special group to develop guidelines for an action program on trade and related issues among the industrialized countries and to foster the political will to deal with these problems of common concern. We expect to establish the individual membership of the group in the very near future so that governments can begin immediately to formulate their policy positions and the special group's deliberations can begin early next fall.

Before we could go into a new round of trade negotiations dealing with the emerging issues of the 1970's, we will need to find internationally a basis of agreement both on the problems to be addressed and the techniques to be used. It is our expectation that the OECD special group will serve this function. In the meantime, of course, we shall vigorously seek to rectify the immediate trade problems that vex us.

In conclusion, the basic question facing all nations in this era of rapid technological advance is how continually to reorient resources so as to derive the benefits of this advance while minimizing disruptive effects to particular segments of the economy. To a large, and probably dominant extent, this is an internal problem and must be dealt with by appropriate domestic economic policies.

But there is also an international dimension to the question. The answer to the international aspect—as for the domestic—is not simple, but certainly the solution is not to perpetuate high cost and noncompetitive segments of the economy through subsidy and highly protectionist policies that have been so unsuccessful in the past.

Rather, I would suggest as one course of action a far more vigorous and comprehensive program for assisting our industries and workers to adjust adequately to changing international conditions. Instead of building into our economy rigid, high cost elements, we must use a variety of techniques in the way of tax incentives, investment assistance, consolidations, retraining of workers, and other things to help industrial sectors and communities, not simply companies, to improve their productivity and thus their competitiveness. This will require a major governmental policy decision and would involve a cooperative effort between the Government and the private sector.

Of course, adjustment assistance can only be one element of an overall strategy for coping with international economic problems. Perhaps most fundamental to improving our trade position is the need to pursue policies that will moderate internal inflationary forces in the context of a growing economy. Inflation is a major contributing factor to the high level of imports, and is harmful to our exports by increasing the costs of our products. Inflation goes to the heart of our competitive problem.

Finally, we need to achieve closer international coordination of economic policies, particularly among the industrialized countries. We have serious and urgent problems, and insofar as their alleviation or solution depends on the policies of other countries, we shall relentlessly, but I would hope intelligently, seek changes. We strongly feel that the action taken in Paris earlier this month to set up a group on which we can focus and move constructively is a very important step in the right direction.

If we can move ahead in these various ways, I am confident that the United States can continue to play its key role in the world economy in a spirit of self-confidence characteristic of our history and quite different from the self-doubts which we hear so frequently today.

Thank you, Mr. Chairman.

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

Senator Javits.

Senator JAVITS. Thank you very much, Mr. Chairman. I am very grateful to the Chair as I have a number of other engagements. I will confine myself, Mr. Chairman, to 10 minutes or less.

So, Mr. Samuels, if you will be kind enough to cooperate with me in your answers, I would like to elucidate certain information.

Mr. SAMUELS. Certainly.

Senator JAVITS. In your statement you speak of improving our productivity and you refer to that throughout your statement. Now, what, precisely, is the administration doing or what does it have on the drawing board to improve our productivity?

Mr. SAMUELS. The most important thing for improving our productivity, of course, is to try to get a proper attitude toward work. I think that the basic problem is essentially a moral problem.

Secondly, I think that basic to increased productivity is a high level of investment. The use of the tax system to stimulate investment as well as to improve the use of technology is likely to be essential to increases in productivity.

Senator JAVITS. Well, what is the administration doing or what do you propose? I understand the theoretics and I have been beating this drum for years, but now we are in a crisis. What are you going to do about it?

Mr. SAMUELS. I think what the administration proposes to do to speed up tax depreciation is a very important element in improving productivity by virtue of improving the technological ability of the worker to produce more.

Senator JAVITS. Well, is that all? What else? That is quite a long-swing proposition. I agree with it and I am for it and I supported it, notwithstanding the views of many other of my liberal colleagues. But it is a long swing. What are we doing now?

For example, is the administration contemplating the organization of productivity councils as it did in World War II? Why World War II and not the Vietnam war?

Mr. SAMUELS. The administration has contemplated this. Where the situation stands at the moment I do not know, but some have been set up on a regional basis.

Senator JAVITS. As I understand it, the Productivity Commission's work is lagging badly and I would strongly urge, Mr. Samuels—I am not trying to lay this on you; you are a marvelous man and a great public servant. But you are the administration here today. I do not think the administration is beginning to cope with the productivity problem. I do not think the work of the Productivity Commission is getting anywhere. I think that it is the biggest thing that you are talking about, because that is it, that is the guts of it. You can make all the rules you like; if you have not the productivity, you cannot make it. I would strongly urge you, Mr. Samuels, to represent to the administration that there is great dissatisfaction by at least one Senator, and I rather suspect many more, about the fact that we are doing a lot of talking about productivity, but productivity action, even within the bounds of existing policy, is not evident.

My next question, Mr. Samuels, is this: How much, what is foreign direct private investment producing now for the United States in respect of income?

Mr. SAMUELS. In 1970, we had an income on our foreign direct private investment, a net income, of between $3.5 and $4 billion over and above the long-term private capital transfers.

Senator JAVITS. Does that equal or exceed the foreign private capital now being invested per year outside the United States?

Mr. SAMUELS. It exceeds it.

Senator JAVITS. It exceeds it. So we are already a net balance ahead?

Mr. SAMUELS. Yes.

Senator JAVITS. What is the projection for the ensuing period, for whatever you have made it, 5 or 10 years?

Mr. SAMUELS. I do not have the figures here with me, but if we look ahead 5 to 10 years, there have been some Federal Reserve studies which would indicate sharply rising net income, running up at some point to an income of about $10 billion per year. This is what we can look forward to in the next decade.

Senator JAVITS. Will you insert for the record your report on this, whatever studies have been made, whether in the Fed or anywhere else, to give us an idea as to where we are going?

Mr. SAMUELS. I will be glad to do that.

Senator JAVITS. Because that is a major compensating factor to the export imbalance and to the balance of our trade, is it not?

Mr. SAMUELS. There is no question about it. Senator, if we take a longer look ahead at this problem, not just the next 2 or 3 years, but a longer look ahead and, if we do two or three things—first, improve our basic inflationary position relative to the other industrial countries, and some of the major European countries at the present time are actually running at a higher rate than we are; second, to bring our overseas Government expenditures under better control, and conditions are such that we can reduce some of them; and third, increase income from our foreign investments—it would make a very substantial difference in our balance-of-payments position.

(The information referred to follows:)

PROJECTED LEVELS OF LONG-TERM PRIVATE DIRECT INVESTMENT TRANSFERS AND NET INCOME TO 1975

Net United States private foreign direct investment income and long term private direct investment transfers to abroad, together with the netted difference on these figures for recent years through 1969, and shown in the first six columns of the table below. Comparable data are included for foreign direct investment into the United States and repatriated earnings from the U.S. to abroad.

Figures for 1970 will be released shortly, but are not yet available.

The 1975 column shows a range of projections based on the five year trend. Even this broad range, however, may turn out misleading for two reasons. First, the subject of the forecast is under regulation. The present level of repatriated earnings and the source of funds for new investment abroad are particularly influenced by the Foreign Direct Investment Program. Any changes in the FDIP (and it has been changed several times since its inception) will thus alter both lines 1 and 2 of the table. Second, there may be basic shifts in the direction and perhaps the level of foreign investment, which in turn would affect the earnings stream.

It should also be borne in mind that these figures do not show portfolio investment which runs heavily in favor of the U.S.

[In millions of dollars]

	1960	1965	1966	1967	1968	1969	1975 (estimate) High	1975 (estimate) Low
1. Repatriated earnings from U.S. investment abroad (includes fees and royalties from direct investments)	2,822	6,308	6,689	7,370	8,168	9,275	15,400	13,200
2. New U.S. private direct investment outflows to abroad	−1,674	−3,468	−3,661	−3,137	−3,209	[1] −3,254	−7,200	−5,650
Positive contribution to U.S. balance of payments (1.−2.)	1,148	2,840	3,028	4,233	4,959	6,021	9,750	7,550
3. Payments to abroad of income on foreign direct investments in United States	−731	−1,241	−1,593	−1,760	−2,231	−3,686	−7,080	−5,050
4. New foreign direct investment inflows into United States	141	57	86	258	319	832	3,800	2,100
Negative contribution to U.S. balance of payments [2] (3.−4.)	−590	−1,184	−1,507	−1,502	−1,912	−2,854	−4,980	−1,250

[1] Preliminary 1970 data equals −$4.445.

[2] Most foreign investments into the United States continue to be portfolio, though direct investment is rising rapidly. This figure would be heavily positive were portfolio investment included.

Senator JAVITS. I have just two other questions, Mr. Samuels.

Again I express my gratitude to the always unfailing courtesy of the Chair.

One is will the OECD special group also be charged with looking into such questions as to whether Bretton Woods is now obsolescent, whether we ought to begin to gear up to an international Federal Reserve or some other international system?

Mr. SAMUELS. No, sir; the special group will not have that kind of mandate. It is to deal with trade and trade-related matters. We indicated that we would interpret trade-related matters rather narrowly. The reason for this is that the problems that you allude to, which are absolutely essential and vital, are being dealt with by other agencies or groups. Obviously, there is an interrelationship—trade and monetary affairs are completely interrelated. But within the framework of the OECD, we have the Economic Policy Committee and Working Party 3 dealing with problems of this nature, and an interchange of discussion and ideas is quite practical and I am sure will take place.

There is also, of course, the IMF, the Group of 10, and other bodies that focus a great deal on these problems.

Senator JAVITS. Will you give us a list for the record or give us now the different international bodies which are working on trade like OECD and the international monetary problems to which the United States is a party?

Mr. SAMUELS. Certainly.

Senator JAVITS. I ask unanimous consent for its inclusion.

(The information referred to follows:)

INTERNATIONAL BODIES DEALING WITH INTERNATIONAL TRADE AND INTERNATIONAL MONETARY PROBLEMS

(A) INTERNATIONAL TRADE

General Agreement on Tariffs and Trade (GATT)

The GATT contains a body of rules and procedures governing virtually all aspects of trade among the member countries. It embodies three general principles: (1) That trade should be conducted on the basis of non-discrimination. In particular, member governments are committed to the concept of most-favored-nation treatment in the application and administration of customs duties and other charges. (2) That protection of domestic industries ordinarily should be afforded through customs tariffs and only exceptionally through other measures (such as import quotas). (3) That member governments should seek to settle their trade disputes through consultation and conciliation. However, provision is made for the imposition of sanctions by an injured party if consultations fail to produce a settlement.

The GATT also provides a framework for the negotiation of reductions in tariffs and other trade barriers and a structure for giving legal effect to the results of such negotiations. Part IV of the GATT provides a contractual basis for commitments having the objective of expanding the trade of LDCs, facilitating the growth of their export earnings and thus promoting more rapid economic development.

Organization of Economic Cooperation and Development (OECD)

A primary objective of the OECD is to further the expansion of world trade on a multilateral, nondiscriminatory basis in accordance with international obligations. Through its Trade Committee, the OECD conducts regular examinations of commercial policy problems facing member countries in their relations with each other and with other countries.

At the Ministerial Meeting on June 7–8, 1971, the OECD agreed to set up a small high-level group to examine trade and related problems, assess their relative urgency, consider how they might be dealt with, and set out options for their solution.

United Nations Conference on Trade and Development (UNCTAD)

UNCTAD focusses its attention on the continuing need of the developing countries to expand their trade and obtain increased resources essential to the achievement of self-sustained growth. One of its principal aims is to secure remunerative, equitable and stable prices from primary products of developing countries and to improve the access for their exports.

Food and Agriculture Organization of the United Nations (FAO)

FAO promotes the development of the basic soil and water resources of member countries and encourages the establishment of a stable international market for their commodities. FAO is preparing an Indicative World Plan for Agricultural Development—a complex of detailed studies on measures considered necessary to meet long-term needs in agricultural production and trade.

U.N. Regional Economic Commissions

Four regional economic commissions—subsidary bodies of the U.N. Economic and Social Council—study the economic problems of their respective regions and recommend courses of action to governments on matters concerned with economic development and trade promotion. They are:

Ecnómic Commission for Europe (ECE).
Economic Commission for Asia and the Far East (ECAFE).

Economic Commission for Latin America (ECLA).
Economic Commission for Africa (ECA).

The United States is a member of the first three of these, but not the ECA.

Inter-American Economic and Social Council (IA–ECOSOC)

IA–ECOSOC is the main forum of the Organization of American States for the discussion of economic and social problems. The Council meets annually and its agenda invariably includes an item on trade policy.

Special Committee for Consultation and Negotiation (SCCN)

The SCCN was established by the IA–ECOSOC in February 1970 in response to the Latin American desire for a forum for consultation and negotiation with the United States on specific economic problems, with special emphasis on trade. The SCCN has become the principal forum, in Latin American eyes, to press for reduction of United States trade barriers to Latin American exports.

Customs Cooperation Council (CCC)

The general purpose of the CCC is to study questions relating to international cooperation in customs matters. It makes recommendations to insure the uniform interpretation and application of customs conventions adopted by member governments; and it makes recommendations, in a conciliatory capacity, for the settlement of disputes concerning the interpretation and application of such conventions.

Other

There is a multiplicity of other international organizations dealing with specific commodity problems. These include:

International Coffee Organization.
International Cotton Advisory Committee.
International Lead and Zinc Study Group.
International Rubber Study Group.
International Sugar Council.
International Wheat Council.

(B) INTERNATIONAL MONETARY AFFAIRS

International Monetary Fund

The only official organization of world-wide scope dealing with international monetary affairs is the International Monetary Fund. The United States is a member of the IMF as well as of its "Group of Ten" made up of leading nations formed in 1962 to extend the borrowing capacity of the IMF through an exchange of letters generally referred to as the General Agreements to Borrow.

Organization for Economic Cooperation and Development

The Organization for Economic Cooperation and Development also deals with monetary matters. The United States, in particular, participates in Working Party—3 of the OECD's Economic Policy Committee, a restricted membership group of considerable importance which discusses monetary problems affecting member governments.

Other

Organizations dealing in some measure with monetary problems in which the U.S., although not a member, cooperates in the activities, include the Bank for International Settlements and the European Monetary Agreement.

Senator JAVITS. My last question on this. I notice what you said about dealing with our problems, the sudden impact of rising import levels like textiles or apparel, other difficulties of nontariff barriers to trade with Japan, special arrangements by the European Common Market, and so forth. And I notice you specify beefing up our own ability to compete, including tax incentives and productivity. But you did not mention Presidential powers. Now, does the administration recommend the beefing up of Presidential authority in respect of dumping and in respect of other similar ad hoc capability to meet situations?

I would like to point out to you, Mr. Samuels, that that is what they all do, except we. We are crude; they are very subtle. You cannot find much in Japan except a bureaucracy in the Imi which is stymying American investment in Japan. You will not find anything much on the books. But in the United States, we are full of proceedings and waiting for Congress to pass laws.

Now, can you tell us the administration's attitude on that? Why do we not beef up the powers of the President to deal with these situations on an ad hoc basis, just as subtly as our competitors do?

Mr. SAMUELS. Speaking personally, Senator Javits, I think we ought to give very serious consideration to doing whatever is necessary in this respect. I am in no position, however, to say as a policy matter what the administration may wish to do about this.

However, I would like to point out that we do have a good many techniques whereby we can deal with these immediate problems on a somewhat ad hoc basis. For example, in the area of dumping to which you alluded, the Treasury Department has done excellent work over the past year in beefing up their procedures and speeding up their investigations. In response to particular problems of this nature, I think they have made very important progress.

Senator JAVITS. Mr. Samuels, would you inquire of your Department as to an estimate of position on whether or not the President's authority should be increased and if so, how, in order to meet the very subtle points you make, that somehow or other, we get shut out even though you cannot find it on the books of the country in question.

I ask unanimous consent that the reply be included in the record.

(The information referred to follows:)

ADDITIONAL PRESIDENTIAL AUTHORITY

Foreign dumping, the specific problem cited, has largely been solved under existing authorities. Treasury has acted more frequently and to greater effect on dumping cases during this Administration. Since the beginning of 1969 there have been 16 findings of dumping, including nine in the first six months of 1971. This equals the total number of dumping findings in the 13-year period 1956–1968. The number of dumping findings is increasing—but the incidence of dumping may be declining—as a result of the Treasury's shifting from a practice of accepting assurances from foreign suppliers that they will revise their prices and not sell at less than fair value in the future, to a policy of pursuing dumping cases to their conclusion.

It probably is true that certain foreign governments act with greater swiftness and "subtlety" on trade problems than we do, although their attention is likely focused on problems other than dumping. However, in doing so, they act under a constitutional structure that enables the government to move on a broad range of trade issues without parliamentary approval, and without the openness to public scrutiny usual in the U.S. system.

The Congress has traditionally delegated authority to the President to conclude trade agreements with other countries, involving changes in U.S. as well as foreign trade barriers. The Administration is currently examining the prospects for, and the likely nature of, future trade negotiations. This is a complicated and time-consuming process that is far from complete. But some judgments can already be made. It is clear that it would be in the U.S. interest to obtain a number of concessions from our trading partners. The prospective enlargement of the European Community makes a reduction in the Common External Tariff all the more important. Improved access of U.S. agricultural products to European markets—unduly limited by the Common Agricultural Policy as it is currently conducted—is also clearly of importance. In addition, we could benefit from reductions in Canadian and Japanese trade restrictions. We can expect some unilateral action—especially on the part of Japan. But, for the most part, we would have to make compensating reductions in our trade barriers. The aim would be to achieve equal overall benefits to the various participating countries. But these are matters still under study and we do not suggest that the time is yet ripe to seek such authority.

Senator JAVITS. I thank the chairman again very, very much.

Chairman BOGGS. Thank you, Senator.

Senator Percy.

Senator PERCY. I can wait to ask my questions, Mr. Chairman, but while Senator Javits is here, I would like to make this comment. I realize this is not a direct responsibility of Mr. Samuels, but this dialog on productivity councils is a very important one.

I participated on a Mutual Security Agency mission in 1951. We sent missions abroad to set up productivity councils. We gave advice freely to European economists on what they should do to cut down inflation and increase productivity, and as a result, all over Italy, productivity councils were set up.

In 1957–58, in that recession, I helped participate with President Eisenhower to set up a gigantic conference of 3,000 chief executives of companies to get together in a 3-day session to decide what had to be done to increase production again. It was a miracle. We were at the bottom of that recession on the night before that council started and that day the economy started up again.

A year ago, the President seemed very interested in this idea. He wanted more details. The American Management Association said it would run it. Their representatives came down here a year ago and put top business and top Government people together but someone in the White House shot it down.

A year later, the problems are even deeper and I do not really see the solutions being found. The President wanted to do it but someone ground it down and there was another idea that never came to fruition. And here we are.

I agree with Senator Javits. I just do not think we are doing enough right now to move us off dead center. Something can be done psychologically, morally, and in all other ways.

I will hold my questions, Mr. Chairman, to follow you.

Chairman BOGGS. No, go ahead.

Senator PERCY. I am very happy to have this chance to discuss a couple of items with Mr. Samuels.

In your testimony, Mr. Samuels, you advocated the expansion of American agricultural trade with Europe by eliminating the barriers to trade in various products—barriers by the European Economic Community. Could you comment on what their attitude is on such products? Many are important to the Middle West, such as soybeans. There is always hanging over our head the possibility that some tariff or tax will be put on soybeans and we are in a state of jitters in the Midwest because we are so dependent on soybeans. If we were wiped out on that one product, it would take one of our major export products out.

Does it look like we will get by now without having that tax imposed by the European countries?

Mr. SAMUELS. I think at the present time the general atmosphere is such that we would doubt that there is any danger on the soybean issue. We are aware of how important it is and they are. How we can remove it as a threat hanging over our heads, I do not know; it will always be there, obviously. But I find, Senator, that there is no real disposition in Community circles at the present time to consider moving in that direction.

Senator PERCY. In Japan, they have cut the soybean tariff, I think, in half. There has been some consideration given to eliminating that tax entirely and I have strongly recommended it. I do not see any reason that they have to have a tax on soybeans and soy products coming in. Do you know if that is in the works?

Mr. SAMUELS. I do not know if that is in the works of Japanese planning, but we are pressing in that direction because we are certainly doing well with our soybean exports.

Senator PERCY. It is one of the really bright spots we have in exports.

Mr. SAMUELS. You are quite correct, one of the very bright spots. As you know, what we have lost in grain exports to Europe has been made up in soybeans and if it were not for that, our position would be much worse.

Senator PERCY. It enables farmers to move into products that are needed and not products that go into storage. Exports of soy products save us a great deal in surplus payments and it is bringing our surplus in other products down.

Mr. SAMUELS. I am keenly aware of that.

Senator PERCY. I would appreciate your letting me know as soon as you can what might happen on that particular product for the record.

Mr. SAMUELS. On the Japanese situation?

Senator PERCY. Right.

(The following information was subsequently supplied for the record:)

JAPANESE DUTY ON SOYBEANS

Japan has complied fully with its GATT obligations by reducing the duty on soybeans to the 6 percent level negotiated in the Kennedy Round. In addition, as a result of consultations with the Japanese Government we gained an acceleration of the final stage of the soybean duty reduction to this rate. This was accomplished two years earlier than required by the Kennedy Round agreement.

Although we have no reciprocal tariff authority with which to negotiate a further reduction, we have continued to urge the Government of Japan to move unilaterally and remove the duty entirely. Although no commitments have been received. we believe that there may be some possibility of further reductions in, and possibly the complete elimination of, the duty on soybeans. We intend to continue to pursue this point bilaterally with Japan.

Senator PERCY. I think it would be psychologically a very good thing for the Japanese to do now. They are under such pressure and such criticism around the world on trade policy. This would be a real symbolic move on their part that would be really meaningful and in no way hurt them, I should think.

If you are in favor of eliminating these barriers and taking this step, would you also favor the elimination of American import quotas which sharply limit the amounts of sugar, beef, and dairy products, which other countries may export to the United States?

Mr. SAMUELS. This is an important and complex question.

Senator PERCY. I can see the hair being raised on the backs of some of my western colleagues at the question, but are we giving any consideration or are we under any pressure to do that?

Mr. SAMUELS. We are under pressure from abroad to do this, but we are under equal or even greater pressures at home not to do it. And I think to be absolutely practical and realistic about it, this is not really in the cards for most, if not all, of the products you speak about. I think for the time being and for the foreseeable future, we will continue to maintain these import quotas.

Senator PERCY. You mention the discriminatory restrictions in Europe and elsewhere against Japan which makes the United States Japan's dumping ground for her exports. I seem to recall seeing a chart that Pete Peterson had, I believe, showing some 71 specific restrictions that European countries imposed against Japan and of that list of 71, the United States has only one of them imposed against Japan. So obviously, the products pouring out of Japan have to go someplace and if they cannot get into Europe, clearly they come here. Now, it would help us a great deal—of course we do not want to start imposing restrictions and get back into this trade war business ourselves and lead the parade—but it would help a great deal to relieve that pressure if the European countries would recognize that they cannot have it both ways and they have to take some of these products from Asian countries. What are they doing to remove their restrictions against Japan?

Mr. SAMUELS. I think they have not taken any really significant steps in this direction and we are pressing them very much on this point. This has become or is becoming a very important point of contention. I have detected in my recent travels in Europe that the Europeans feel very keenly that they are next on the list, to put it very bluntly, in terms of a Japanese penetration of their markets. Because of the openness of our market and because of other factors in the relationship between Japan and the United States, the Japanese have focused very largely on this rich market. And relatively speaking, at least, they have not focused as much on European and other markets.

But there is some change in this direction. The Europeans are terribly concerned and anxious about Japanese import competition in a number of sectors, so that bringing them around to rid themselves of these restrictions at this time is a difficult political problem in all the European countries.

When we were in Paris at the OECD meeting the week before last, we hit very hard on this particular point, because it is vital as far as we are concerned. I think we are carrying too large a burden of Japanese competitiveness and ability to penetrate markets abroad.

Senator PERCY. Has any viable program of adjustment assistance for companies affected adversely by imports been worked out? Is there anything new the administration has in mind? Do you think our present legislation is adequate to provide adequate adjustment assistance and are companies taking advantage of it?

Mr. SAMUELS. Well, I do not think it is adequate. My own opinion is that this problem has to be treated much more broadly, much more comprehensively than anything we have encountered thus far. The problem of adjustment to changing world economic conditions is common to all industrialized countries. Every industrialized country has this problem and my impression is that in some countries abroad, there has been much more thought given to how to resolve it than has been given here.

In the Council on International Economic Policy, under Pete Peterson, a great deal of attention is being given to the question of what would be constructive and feasible to adjustment assistance. This approach involves not simply the limited kind of assistance we can give to an individual company that gets into difficulty because of imports. It goes beyond that. It is a matter of having industry look ahead at trends in technology, trade, and investment patterns, and being able to adjust itself to changing markets, changing styles, and changing technology. And this is going to require a whole package of policies, involving such things as tax incentives, that will stimulate action and give direction. I think we are going to have to face up to the fact that this may mean a restructuring of certain sectors of industry, or consolidation to increase competitiveness.

Such an approach cannot be limited to individual companies. If I may express a personal opinion, I think that helping companies that get hurt, while important in some cases, is not at all responsive to the problem. There are whole industrial sectors involved. Take our steel industry today, or our textile industry or our shoe industry. These are not problems of particular companies, but rather problems that affect a whole industrial sector, and the factors that give particular companies difficulties are common to the whole sector.

It is this broader approach that is required to deal with this problem. It is in a sense of a national industrial policy approach, not just an adjustment assistance policy for somebody who happens to hurt, however important that may be.

Senator PERCY. I noticed yesterday the Canadian Textile Board proclaimed new import restrictions on textiles. What impact does this have on this whole tender area of textiles?

Mr. SAMUELS. I do not know the answer to that. I am not familiar with what they have done as yet, Senator.

Senator PERCY. Mr. Chairman, I think these hearings that you have called are very, very timely. This whole area of foreign economic policy has been considered a can of worms from the standpoint of how the Federal Government copes with it. We work at cross purposes bebetween the legislative and executive branch, and within the executive branch sometimes on various subjects, but none more clearly than in foreign trade. State Department policy is quite different from that of the Treasury sometimes, which is quite different from that of the Commerce Department.

Finally, the President has seen fit to put foreign economic policy in one place—I have forgotten exactly the title of the board, but it is the Council on International Economic Policy——

Mr. SAMUELS. Yes.

Senator PERCY (continuing). Under my successor at Bell and Howell, Pete Peterson. He is a very gifted, brilliant, and able man. The President could not have picked a better man to head this operation.

Have you seen some improvement? Does this mechanism provide the opportunity for us to formulate a more uniform and far-reaching and far-sighted policy? And rather than just constantly handle emergencies, is it going to give us perspective now to handle a situation in terms of what will happen in 10 years, rather than just what will happen next week someplace?

Mr. SAMUELS. I think it is going to be very helpful and useful. For one thing, it raises the focus on the problem of foreign economic policy to a somewhat higher level of attention than perhaps has been the case in the past, and that is extremely important.

One difficulty which I think Pete Peterson will tell you himself is inevitable is that there are a whole series of immediate problems that impinge upon one's time and effort daily. This obviously interferes with the basic task of dealing with long-term policy formulation, which I think is the thing we want basically to look to the Council for. But that is a problem of organization and after all, the Council has been in operation only a very short time.

In any event the amount of attention being given to the problems that need coordination and policy attention has increased substantially and I think we all welcome that.

I would like to add, because we hear about this so often, Senator, a comment about the variation in attitudes among different departments on particular questions. I think we have to look at this in proper perspective. Each individual department in the Government has a different focus of responsibility and emphasis which is reflected in its thinking. It is not that there is a conflict of views on basic policy. There is rather a conflict of responsibilities and a daily exposure to different sectors of the economy, which accounts for some of the differences in attitudes.

But that is what we are here for, to hammer these things out, and the differing viewpoints do not necessarily imply that policy is not being adequately coordinated in the Government. Ever since I have been here, in this administration, I think we have had a high degree of constructive economic policy coordination and the more we can do about it, the better.

Senator PERCY. Right, if we just had not gotten hung up on this unfortunate textile commitment I think we would have been a lot better off. But I hope we are digging our way out of that one.

Mr. SAMUELS. I hope so. I think we are making some progress.

Senator PERCY. Lastly, I think you are absolutely right, Mr. Samuels, when you say that fundamentally, the way to get productivity moving is through incentives. There is no better substitute—you cannot exhort people to work harder. It is very, very difficult. In fact, I was told by a member of the Soviet Union, high up, that one of the reasons Khrushchev fell was that he was just naive in the economic area. His colleagues finally realized in the Politburo that he really felt you could increase productivity by exhorting people, maybe beating a shoe on the table, rather than really providing what they described to me as socialistic incentives.

I think we have found in our country that the best way to pay a man $10,000 a year is to give him a $40,000 a year machine tool and train him in the use of that machine tool and then you can pay him a good deal more than you can do otherwise.

What the Treasury has done with the ADR proposals has been bold and dramatic. It is a political bomb. It is negative politically, I know that, and people are calling it a gift to business. That is just hogwash and I am ashamed, really, of sound economists and unions, and I value and treasure my relationship with organized labor, but I am just astounded when sound economists will call that a gift to business when they know the only way they can get the wage increases they are asking for is to give machine tools and equipment to American industry to do this job and to get our unit costs of production down.

This decision yesterday is right. I hope that Congress is not going to try to meddle in it and I hope that the courts will not, certainly, because there is plenty of precedent, back in the Kennedy days, for exactly what the Treasury Department did yesterday. If we cannot have that kind of stimulus, we are in a disgraceful condition against every other country in recognizing that there must be cash flow provided for the purchase of equipment.

Now, do you think there is any chance that we can get the 7-percent investment tax credit restored? I am not saying politically, because politically it would be a tough one on top of this one. But there again, I do not think we should have repealed it. I think that was a real giant step backward and it takes a long time for that to take effect, 18 months or 2 years. The machine tool industry is not growing now and if it is not growing, our productivity for the future does not grow.

Is there anything in the works that you know of? I know it is not in your direct area, but certainly you are in high councils in the Government. Is any consideration being given to using the investment tax cedit as a stimulant to the economy, and more important in the long run, to give us a chance really to produce more efficiently?

Mr. SAMUELS. I am not sure I can answer your question on that particular point. As you know, it is outside the bounds of my responsibility.

There is a problem at this particular stage as to how far you can go in stimulation of the economy. It is important that we stimulate for the reasons that you mention. On the other hand, we still have not gotten inflation under control to the extent we would like, and all of these problems must be balanced at a particular moment in the business cycle. But basically, I could not agree with you more that anything we do to improve the ability of the worker to produce more by giving him the machines to do it is highly desirable for the economy.

In this respect, I have often spoken informally to friends on the Council of Economic Advisers and at the Treasury to see if we ought not to try our best, however difficult it may be, to devise methods within the tax system whereby general increases in productivity could be linked to some tax form-tax benefit. I think there is basically a moral problem about productivity, and to the extent that the worker, as well as management and the economy as a whole, can find that there is a direct relationship between improved productivity and personal reward, we can make a big step forward. It is a very difficult and complex thing to try to develop, but that does not mean we should not think harder about it.

Senator PERCY. I thank you for that opinion.

Mr. Chairman, do I have time for one more question?

Chairman BOGGS. Surely, go ahead.

Senator PERCY. Mr. Samuels is engaged in what I think is one of the most important projects we have underway now. He is engaged in negotiations with the West German Government for offset payments. The importance of this is great. I think it is going to be the biggest single thing we could do to take the pressure off pulling our forces out of Europe. It will certainly answer a lot of the probing questions the American public are asking such as—Why do we have 525,000 Americans in Europe? We pay for them now. If it is not worth it for the European countries to pay, why should we pay it, then? This is a very nagging question and there was a lot of support for the Mansfield amendment, far more than was anticipated and showed up on that one particular vote.

I think it is important also to our economy. If we consider, Mr. Chairman, I think the budget deficit this year was predicted to be a $1.3 billion surplus, then a $1.3 billion deficit, then there was a long pause that did not refresh. Then we started whispering figures about a $18 billion deficit. The year is almost over and I am going to guess it is going to be $23 billion or $24 billion. What you are working on is, I hope, a couple of billion dollars offset that would go off of our budget onto the European countries budget. And when the West German Government has 1.3 percent unemployment, a balanced budget, and only 5 percent inflation this year and only 3.6 last year, they can well afford it. They are good friends of mine, but they can well afford to pick up part of this. I wish you Godspeed in your work.

Are you encouraged about your next round? When does it come up?

Mr. SAMUELS. Actually, I am going back to Germany this weekend to see if we cannot bring this thing to a conclusion. Since we are in the midst of negotiations, it is difficult to go into as full detail as I would like, Senator.

But let me say that I was in Europe in the latter part of May, and early June, and I did have occasion to talk with the Germans about offset. I tried as hard as I could to explain to them the real meaning of the debate which occurred here in connection with the Mansfield amendment, and to try to impress upon them the need to draw sound conclusions from what occurred in the debate and in the votes. The vote came out, from our point of view fortunately, but I think it has to be interpreted by them in the right way.

Senator PERCY. I think if you could explain to them just the parliamentary situation—the members of the Parliament over there will understand. The Mathias amendment was offered as a substitute amendment. If that had been voted on alone, it would have had an overwhelming majority. But no Mansfield supporters could vote for the substitute amendment. So if you take the two and put them together, you have not only every Democratic presidential hopeful in the Senate, and that is almost a majority right there, you have every one of those two groups voting for some form of troop reduction—an overwhelming majority of the Senate. And I think it would have carried in the House. But it was the nature of the parliamentary procedure. We never had a clean vote on a modified amendment. Senator Mansfield used a bludgeon attempt to cut off precipitately half of our forces within 6 months. It was just too much. If it had been a more moderate amount, I think it would have had overwhelming support. I think if you can impress on them the feeling in this country on that point it would be helpful. I even hear now there is construction money going to be needed to provide better housing for our soldiers over there—those barracks are never going to come back here. That can be done in marks, not in dollars. European nationals, transportation costs, power costs, and the taxes that we pay over there, all the supplies that we buy to be used in Europe should be paid by Europeans. That is not mercenary troop costs. We are not asking for salaries for soldiers, we are asking for all the support costs that go along with it. It has to come out of their budget. There is no other way.

These phony loans, all these offset payments that are not additionality just have to go. I wish you well this weekend. You have a tough job and I hope you will tenaciously stick at it. This is a time I think that firmness toward our allies will cause respect on their part. If we can get away from this bilateral arrangement every 2 years and get to some multilateral arrangement it would be an international process. No nation should lose on the balance of payments for common defense and if that principle is accepted, which was a principle in the North Atlantic Assembly, then we just need to get the ministers to accept it. If accepted, I think you would not have to go to Germany so many times.

Mr. SAMUELS. If I might add, Senator, we have pressed the Germans very hard on the particular points that you mention. They take the view that the problem is NATO-wide when we talk about burden sharing in addition to balance-of-payments offset. Our earlier discussions with the Germans have dealt with offset for our balance-of-payments burden, and not for budget costs for our troops abroad. Their position is that if what we really have in mind is going beyond offset, then it becomes a NATO problem, not a German problem. And no doubt, there is a great deal of validity in what they say.

However, we have also pointed out to them, first, that they are in the best position to deal with the burden-sharing cost problem of NATO allies, and second, that the size of the defense establishment and our contribution to it provides many important defense benefits for them that they might otherwise have to take on themselves.

In any case, however, from the practical point of view, we cannot do this all at one time. We can only do it in stages. We ought now to get an adequate contribution from the Federal Republic and then gradually, and as rapidly as we can, try to build it up into a broader NATO pattern. But just to hide behind the fact that it ought to be a NATO responsibility is not an answer to this problem.

I think it should also be pointed out and we must not lose sight of the fact that last December, the European NATO countries did take what I believe was an important step forward into a broader NATO responsibility for defense costs in what is known as the European Defense Improvement program. Essentially what they agreed to was to increase their own defense effort and to do certain things that the military regard as necessary. Of course, this has not brought a corresponding reduction in our costs, and from that point of view it does not help us. But it is in the direction we would like them to go in building up their own defense, rather than simply contributing to what we do.

The step they took was very important but modest, about a billion dollars over 5 years, of which the Germans will carry a very substantial part, at least 40 percent.

Now, with regard to the offset that we are discussing——

Senator PERCY. I might add that will not even come close to equalizing the increase in pay for the GI's who will be in Europe that we have already authorized.

Mr. SAMUELS. Yes, the costs are rising.

Senator PERCY. Our costs are going up astronomically.

Mr. SAMUELS. And their costs are rising as well. It is a very difficult problem.

To return to the current offset negotiations, we are talking with the Germans about an offset partly in terms of substantial military purchases here. Also, I think we are making some progress in the respect that some assistance will have a budgetary impact besides the balance-of-payments impact. I will not keep from you the fact that in our opinion the amount they propose is not adequate by any means, but it is in principle a step in the right direction and in fact, helpful. How far we can go in this direction is still not clear, but I hope to get more clarification on it during this next round.

With respect to loans, we have the same concern you do as to the real impact. However, one advance we may make in this respect is that the interest concept would be eliminated from any substantial sum of loans included in the offset.

One deficiency in the previous financial arrangement in the offset was that not only did we have to pay the principal back one day, but we had to pay interest on the loans as well.

Senator PERCY. Some of it at world rates, competitive rates.

Mr. SAMUELS. Some, but most at concessionary rates. For example, we had $250 million in the last offset for a 10-year deposit by the Germans at 3.5 percent per year. Well, to have money available at a cost of only 3.5 percent, compared with what interests have been in this period, is not without value.

Senator PERCY. Do you know the total of the loans we have now outstanding that we have contracted for this purpose?

Mr. SAMUELS. Going back——

Senator PERCY. Yes, going back right to the beginning.

Mr. SAMUELS. No, I do not have the figure here.

Senator PERCY. Could that be supplied?

Mr. SAMUELS. Yes; I will supply them for the record.

(The following information was subsequently supplied for the record:)

NOTE PURCHASES AND LOAN TRANSACTIONS CONNECTED WITH UNITED STATES/FEDERAL REPUBLIC OF GERMANY MILITARY OFFSET ARRANGEMENTS

[In millions of dollars]

Fiscal year	4½-year Treasury notes with interest at market rate		10-year loans with 3½ percent interest rate	
	Federal Republic of Germany purchase	U.S. interest paid	Federal Republic of Germany loan	U.S. interest paid
1962–67				
1968	625	7		
1969	500	41		
1970	[1]–521	61	75	1
1971		34	175	4
Balance	604	143	250	5

[1] Early redemption agreed.

Note: All figures rounded to nearest million. Figures indicate revaluation adjustment where appropriate.

Mr. SAMUELS. But if we take any loans this time, it will be on an interest-free basis, their responses thus far have indicated that in principle they are prepared to consider that. One reason they are prepared to consider it is that they have taken a look at the temper of things in the States at the present time. Their own views may also have evolved as to what an equitable contribution should be on their part.

Their biggest internal political problem, and they have political problems there as well as we have them here, is to get a budget contribution which is quite apart from an offset on balance of payments. A budget contribution is a serious and difficult internal political problem for the Germans on two grounds.

One is, and I am not defending it but only explaining it, that their position has always been that this is payment for occupation costs. If the Federal Government were to propose it, they would encounter the most serious kind of political criticism in the country and run the risk of producing a serious political crisis. Thus far, all German governments have been unwilling to face up to that.

We have argued that this is an obsolete concept and that there is no longer a question of occupation costs. All we are talking about is a common defense effort, in which it is only reasonable that they do their part, and that they ought to take the necessary steps to convince their public that this is the situation.

The other immediate practical problem is that they are running a high rate of inflation. They are trying by various means to keep it under control and to reduce it. They have cut down the budget of the various departments very severely. If they now go back to the Bundestag and ask for a budget contribution when they have cut agriculture, labor, and everybody else pretty severely, it would be politically extremely difficult from a practical point of view. The Chancellor has indicated to us that this is a problem that he is unable to find a solution for.

Senator PERCY. When they gave me that same story the night I had dinner with Chancellor Brandt here, I told the distinguished German guest who told me that his story didn't touch my heart. It is just perfectly ridiculous for them to be saying that when we are talking about the security and defense of Europe, when we are talking about a rate of inflation substantially less than our own, when we are talking about a country that pays less than 4 percent of GNP for its own defense against 8 for ours, that has no deficit in its budget and that has no unemployment in the country to speak of. It just simply does not impress me one bit and I hope you do not accept that malarkey from them. Because if that is their attitude, I will be the first one to say, let us get another Mansfield resolution out there and let us start pulling our troops home.

The fastest way we can get budget relief is to bring the boys back here and there is nothing that will be more popular with the American people than to say, we are not going to carry that load over there. Five hundred and twenty-five thousand U.S. military personnel and dependents living in Europe is just ludicrous. If these countries do not think it is worth it, then all right, let us say so and let us start bringing some of them back—not 50 percent in 6 months, but certainly start cutting the number down. And I think the Germans had better face up to that. They know themselves they cannot possibly increase their troop force to make up the entire difference. They are not allowed to, for one thing, and second, their East-West relationships would suffer. If they start to build a big army, they are not going to have the relationship and the trade with Eastern Europe that they have. They know that. It is in their economic interest to have fewer troops of their own and to have our troops there.

Now, they cannot have it both ways and I just hope when you go back, you are just as tough as can be and realistic with them and that you will say you will be backed up by Congress—not only backed up, but the ball might be taken out of the executive branch's hands in this particular case, as it might well have been a month or two ago.

Mr. Chairman, I have taken too much time on this particular problem. But I have some feeling about it.

Mr. SAMUELS. We share them, sir.

Senator PERCY. I do wish you well. We could not have a more able negotiator and I tend to think, having dealt and negotiated with the Germans, that they tend to respect people who lay it right on the line and say, this the basis you have to go on. They can sell the idea to their own people that it is only right to pay more for defense costs.

Thank you, Mr. Chairman.

Chairman BOGGS. Mr. Samuels, I want to ask you one or two questions about the Common Market.

What is the administration's view with respect to the enlargement of the Common Market?

Mr. SAMUELS. The administration has been a consistent and strong supporter of the Community and of its enlargement. We believe that the enlarged Community can play an even more important role than it has in the past, in terms of economic cooperation in building the strength of Europe and in having a sound and healthy ally, both economically and politically.

In our view, the enlargement will bring into the Community countries having a liberal orientation with respect to economic and particularly trade policy. This ought to have a desirable influence on the future evolution of the Community in a way that will be increasingly compatible with the interests of the United States and other nonmember countries.

At the same time, we are very conscious of problems that arise out of the enlargement of the community. For example, to be very specific, it means an extension of the common agricultural policy to countries which are not now covered by it, particularly the United Kingdom. This could be a disadvantage to us.

On the other hand, it is quite possible that countries like the United Kingdom would have a moderating influence on the future development of agricultural policies because it is certainly not in the British interest to continue higher support prices, and higher costs for food in the Community, just as it is not in our interest or in the interest of the Canadians, the Australians or other nonmembers.

On balance, our view is that the adverse effects of an economic unit such as the Community, and we cannot deny that there are some that can be brought into more manageable proportions and can be dealt with more effectively and liberally by the enlargement than is likely to be the case without the enlargement.

Senator PERCY. What has been the experience up to now?

Mr. SAMUELS. The experience up to now can be divided into three categories that are of major interest to us economically. They are industrial trade, investment, and agricultural policy which is the one area in which we have real difficulty.

In terms of industrial exports, we have had an enormous increase to the Community over the past 12 years. You can argue that we might have had as much of an increase if there never had been a Community, but that is a proposition that nobody can demonstrate effectively one way or the other. The fact is we have had a very large increase in our industrial exports to the Community.

In fact, we have a substantial balance-of-trade surplus with the Community today. I do not think anyone in the United States has a real problem with our industrial export experience to the European Community. There may be limited problems about standards or something of that order, but overall our experience has been highly satisfactory.

In the investment field, the Community is about as liberal an entity as anyone could ask for. There has been no appreciable interference, except perhaps in a given case in a given country. There has been no general problem about free flow of investment or establishment of plants. Our companies have experienced an enormous increase in sales and as a consequence an increase in U.S. exports, as a result of this policy.

As for agricultural policy, the experience we have had with the application of the variable levy system, the protective device they use, has resulted in a decline in our exports of grain, particularly corn and other feed grains. The extent of this decline between 1966 when the application of the policy really became effective, and 1969 was approximately perhaps $200 to $300 million in exports but obviously, in a $43 billion export economy. Although very important to the farmers concerned and of some importance to our balance of payments, this amount is relatively small in terms of an overall $43 billion export economy.

This decline has been made up, as Senator Percy pointed out, by our soybean exports, over which the variable levy does not apply.

I ought to say for the State Department, the Department of Agriculture and others—and this is before my time so I cannot take any personal credit for it—that our ability to get a zero binding on access to the European market for soybeans deserves great credit. It took the tough negotiating that our friends here on Capitol Hill would like to see on the part of the executive branch. We were able to get it and it has proved a bonanza for the American farmer and continues to be very valuable.

In 1970, particularly as a consequence of soybeans, our agricultural exports to the Community came back again to what they were in 1966. Even corn, in fact, registered a substantial increase of about 30 percent. These increases may be due in part to the weather last year, but this year, the experience of our exports so far has been in the same direction of improvement. So we do not really know, if we take a longer term period, what the real trend is in our agricultural exports to the European community.

Now, obviously, if there were no common agricultural policy and no levy on grains, we might have $200 or $300 million additional exports, which is what we ought to have. This is the point we have been trying to make to our friends over there. It is not just that we have a favorable trade balance or that we make up in soybeans what we lose in grain. If the United States is to continue to carry the kind of responsibilities it now has in the world, we have to have a substantial surplus in our trade and current account. It is not enough to say we have a surplus; it has to be substantial.

If I may just add one more word to put this in its proper perspective. Mr. Chairman, in the last go-around on agriculture price levels in the Community in April, the Commission recommendation was for no increase in the support price for corn for the coming year. Due to the big outcry and the demonstrations by farmers, however—they brought the cows right into the ministerial room where they were having the discussion—the Community finally agreed on a 1-percent increase, a rather negligible increase. We would have preferred not to have had it at all, but at least there has been moderation of the tendency for increases in grain prices.

I notice there are suggestions for a further increase in grain prices next year, and we hope this will not take place. But the point I would like to make is we think that the rate of increase is moderating. Maybe it will stabilize. We hope with the enlargement, it will be stabilized, and actually, we are pressing the Common Market to go in the other direction and reduce support prices.

The European farmer, by virtue of this price stabilization, or a slower rate of increase in price support, is getting lower real prices for his products. If you take account of inflation in Europe, the farmer is getting less and less in real terms and this is producing a serious internal problem with which we have to contend in trying to convince the Europeans to move in a direction favorable to us.

Chairman BOGGS. Thank you very much, Mr. Samuels. We would like to carry on because you have been very helpful to the subcommittee, but our time is limited. Thank you very much. We would appreciate it if you would supply the information for the record that you have been asked for.

Mr. SAMUELS. Certainly.

Chairman BOGGS. Our next witness is Paul A. Volcker, Assistant Secretary, Monetary Affairs, Department of the Treasury.

Please proceed, Mr. Volcker.

STATEMENT OF HON. PAUL A. VOLCKER, UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS, ACCOMPANIED BY J. R. PETTY, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS; AND ROBERT PELIKAN, DIRECTOR, TRADE POLICY, OFFICE OF THE ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS

Mr. VOLCKER. I have with me Assistant Secretary Petty, Mr. Chairman, and Mr. Pelikan from the Treasury. I have a statement here, which I shall read, with your permission.

Chairman BOGGS. Go ahead.

Mr. VOLCKER. These timely hearings are one manifestation of a significant fact: There is a growing sense of urgency about issues of foreign economic policy in the Congress and among our citizens. The administration shares this concern.

The immediate reasons are plain. In important areas, the competitive preeminence of American industry—once taken for granted—has been lost or is severely challenged. The once large surplus in our trade balance was sharply eroded in the latter half of the 1960's. The result has been heavy pressure on our international payments position, and recent monetary disturbances have raised warning signals about the international monetary system and the position of the dollar within it.

All of us as consumers benefit from the ready availability of a wide range of imports. But those same imports have posed difficult adjustment problems for some of our industries and workers.

Meanwhile, a generation after the Second World War, our farflung security interests continue to place a heavy burden upon the Nation, absorbing some 8 percent of our gross national product. That is far more than the proportionate cost to our allies. Nearly $5 billion of our expenditures are abroad, about $3 billion more than offsetting receipts.

The economic progress of the developing world, with some glittering exceptions, has not been so rapid or readily visible as was the postwar recovery of Europe and Japan; still the need for development aid continues at a high level.

Out of these events and trends can come a sense of disillusion and frustration. The resurgence of protectionist pressures is but one symptom. In other areas, too—including defense and aid—there are symptoms of a yearning to retreat from responsibility—to turn within ourselves.

Understandable as these yearnings may be, I am convinced they must be resisted in our own economic interests, as well as in the broader interests of a flourishing and peaceful world economy. But this resistance will not be successful if it becomes the equivalent of "standing pat."

As this committee is aware, there have been vast changes in the world economy. The United States emerged from World War II as the dominant economy. Europe and Japan lacked both productive power and purchasing power.

Now, the balance of economic strength has shifted dramatically. The U.S. economy is still the largest—but it no longer dominates. Other industrialized countries have advanced more rapidly. We helped in this process, at first directly by aid, by assuring the security of the free world, and by fostering a free and open trading system. As foreign recovery proceeded, our businesses invested abroad, not only money but their technology and managerial skills.

These policies were adopted because we conceived them to be in our interest, as well as that of other countries. I believe the fundamental objectives remain valid today. But, in their specifics, our policies have not kept pace with the needs of a changing world economy. Unless we attack the evident problems directly and forthrightly, our basic objectives will be lost.

The U.S. basic balance of payments position provides one perspective on the problems we face today. Our underlying position can be traced in the so-called basic balance, which excludes the large and often transitory flows of short-term capital which can move rapidly from nation to nation in response to interest rate differentials or currency speculation. It encompasses our trade and other current transactions as well as long-term capital transactions.

By a definition soon to be incorporated in our regular balance of payments presentations, this basic balance last year was in deficit by $3 billion—the latest, and one of the largest, in a series of persistent deficits running back through most of the sixties and earlier. In the early postwar years, deficits in the U.S. payments were a desirable and more or less deliberate consequence of our trade, defense, and aid policies. There was a need for both U.S. resources and U.S. dollars abroad. We not only had the productive resources but most of the world's financial reserves. The pattern of present international trade and payments policies was formed, and our overseas defense commitments established, when other countries had limited capacities and a major objective was to assist their recovery.

But, in the 1950's, this process of recovery was completed. In the past decade, our economic supremacy has been challenged. Yet, in these quite different circumstances, our deficits have continued, in good part because of the new competitive strength of our major trading partners.

Despite an improvement in our trade surplus in 1970, it remained far below the levels of the early 1960's. From a peak of $6.8 billion in 1964, it had dropped to $2.1 billion last year and it is running at a somewhat lower lever than that this year. This deterioration was the major factor in our basic deficits in recent years.

Policies and a deficit that were once the mark of a wise creditor have come to erode our strength and undermine the international stability of the dollar.

The phenomenal progress recorded in the postwar years by other industrial countries—and particularly by continental Europe and Japan—is not always adequately appreciated. Specifically, between 1950 and 1970:

Real output of European Community members grew threefold and, of Japan, grew by fivefold from 1950 to 1970—well above the level for the world as a whole.

Exports of the European Community grew by a multiple of 10 and Japan by a multiple of 20—while total world exports grew by a multiple of five.

The European Commnuity now is the world's largest trading unit. Japan now stands second only to the United States in the free world in terms of total output. Reserves of the six Common Market countries are more than two and one-half times our own and Japan's more than half as large as ours.

These countries, along with the rest of Western Europe and Canada, can produce and compete with us on an equal footing, and they are doing so. We should not shrink from their competition—but we do need to assure a fair balance in responsibilities as well.

We should not anticipate finding monetary solutions to problems rooted in other factors. Improvements in the monetary system are important in their own right. But we must beware of proposals for sweeping changes that would threaten the basic stability and integration of the world financial system upon which all countries depend. I believe we are working to deal with the points of monetary pressure, but these improvements must be accomplished by changes in other directions.

Moreover, there is no use looking abroad for remedies to those problems that started at home. We are not simply a victim of external events or international policies rooted in the past. The most critical and fundamental need is to restore our own economy to the path of vigorous, sustained, non inflationary growth.

We fell down on that job in the late 1960's. Only by dealing with our inflation can we meet the basic requirement for strengthening our trade position—to make us more competitive in international costs. Our high standard of living goes hand-in-hand with relatively high labor costs. Our trade patterns will naturally reflect a comparative advantage in agricultural goods, certain natural resources, and high technology and capital-intensive products rather than labor-intensive industry. But restraint on overall costs and prices is essential if our total trading position is to be strong.

Government can and should help by providing competitive export credit facilities, by equitable tax policies, and by supporting our technological leadership. We cannot expect to compete effectively if we fail to provide this essential support; certainly our trading partners have long done so. The administration has proposed legislation to strengthen the Export-Import Bank, better assuring its ability to match the facilities available to our competitors. Our proposed Domestic International Sales Corporation would change tax treatment of exports to achieve a better parity of treatment with that provided foreign production and encourage our companies to develop markets overseas. We need to emphasize research and development efforts in both the public and private sector.

The private sector has a role in this effort as well. Our private industry must rise to the challenge of competitive marketing. Business and labor, alike, must realize their mutual responsibility to temper wage and price increases to the realistic facts of the tough, competitive world of the seventies.

These efforts are basic, but they cannot be fully effective without bringing our network of international economic policies into accord with the evolution of the world economy. Recognition of this need and of the fact it cuts across so many aspects of our policies and the work of so many executive departments was made explicit in the formation of the Council on International Economic Policy some months ago.

While the solutions are never easy, the nature of the problem is clear enough. In a number of areas, we have acquiesced in arrangements and policies that, taken together, give rise to competitive burdens and costs that simply do not fit the facts of today's balance of economic strength. For instance:

Is not the current practice of the European Community in negotiating preferential trading arrangements with an ever-increasing number of third countries a form of trading discrimination, contrary to the most favored nation principle embodied in GATT?

Is it appropriate that Japan, with an enormous trade surplus, should maintain widespread restrictions on imports? Does not the rapid penetration of the American market by Japanese industry to some extent reflect limitations by European countries on a variety of imports from Japan?

With Canadian payments in a strong position and upward pressures on its exchange rates, can presumably "transitional" barriers to U.S. auto exports to that country any longer be justified?

Is it an appropriate sharing of defense burdens that the United States pays some $5 billion for military spending abroad, half of it in the industrial countries of Western Europe, Canada, and Japan, with less than half of that offset by military purchases and other offsetting payments in this country?

Is our natural competitive advantage in important agricultural commodities blunted and distorted by widespread efforts to protect agriculture abroad, such as the EC's Common Agricultural Policy?

Reorientation of foreign economic policies will not be achieved overnight. In the process, we must realize that the United States is not free of trade and other restrictions. If we expect others to recognize the need to restore a better balance in international economic relationships, we must ourselves maintain an outward orientation and seek solutions not in protectionism but in a context of expanding trade and liberal payments.

I do not underestimate the difficulties. But the alternatives are not acceptable. On the one hand, we cannot permit our international economic position to be further eroded by failing to recognize the changed capacities and responsibilities of our trading partners. But, in vigorously seeking a better balance, we cannot, on the other hand, find an escape in protectionism, where we would all end up losers—Americans and Europeans, farmers and laborers, producers and consumers. In recognition of these dangers on both sides, we must emphasize the need for calm and dispassionate discussion of the issues with our friends abroad in appropriate channels.

We welcome the efforts of this subcommittee to insure understanding of our changing economic relationships and the need for updating our foreign economic policies. Only with this understanding at home and abroad can we steer our way through this difficult period.

Thank you, Mr. Chairman.

Chairman Boggs. Thank you, Mr. Volcker, for a very fine statement. Senator Percy.

Senator Percy. Mr. Chairman, wouldn't you want to go ahead?

Chairman Boggs. No, please go ahead.

Senator Percy. I do not know whether you were in the room when I had a little colloquy with Nate Samuels on balance of payments problems with respect to NATO. But through my years in Washington, the Treasury Department has been the staunchest friend of the attitude and position I have tried to take on this issue and has been most helpful for the work I am trying to do in Europe on this question.

I wonder if you could comment on your feeling about offset loans? Mr. Samuels did mention the possibility that loans might be a part of an offset agreement. I thought that we were not enamored of loans any more. The problem with them is they become due and payable.

I will admit that given the choice between a loan with interest and no interest, I will take the no interest loan. But given a choice between that and budget sharing, there is no choice, really. What is the Treasury Department attitude on loans as part of this whole offset settlement?

Mr. VOLCKER. I think you have just succinctly expressed about what our attitude would be, Senator. Loans in these agreements in the past have not had a happy record. In the early years, the loans were essentially on ordinary commercial terms. They were not of any appreciable assistance in handling the problem. I think there was an advance last year in the acceptance of a substantial concessionary rate, as Mr. Samuels was saying.

Certainly, the emphasis this year should be, and we have been urging this, on straightforward support that does not give rise to these future problems of repayment that you referred to. Whether in the end one rules out every type of loan as a part of this package, I would not be prepared to say at this point. But certainly, a loan can't be considered simply a substitute for the direct payments that I think are required here. If we can take it out of the framework of a substitution, I think that would be desirable, because they are not substitutes for the very reason that you have suggested.

Senator PERCY. Can you give us some approximate idea as to what the total amount of bonds are that the West German Government holds that they have purchased as a means of offset?

Mr. VOLCKER. My recollection is that we still have outstanding some $600 to $700 million of the type of bonds negotiated in the earlier agreements. There were over a billion dollars of such bonds negotiated, but some of them have been repaid in the interim. In addition, there would be $250 million of the long-term interest-concession dollar bonds negotiated last year that were loans from the Government of Germany rather than these more——

Senator PERCY. Could I ask that that schedule be provided to the subcommittee, and inserted in the record at this point?

Mr. VOLCKER. We would be glad to.

(The information referred to follows:)

NOTE PURCHASES AND LOAN TRANSACTIONS CONNECTED WITH MILITARY OFFSET ARRANGEMENTS BETWEEN THE UNITED STATES AND THE FEDERAL REPUBLIC OF GERMANY

[In millions of dollars]

	4½ year Treasury notes [1] amount	10 year loan with 3½ percent interest amount
Fiscal year:		
1962–67		
1968	625	
1969	500	
1970	[2] −500	75
1971		175
Balance	625	250

[1] At values prior to change in exchange rate of German mark October 1969; amount outstanding totals $675,000,000 after adjustment for exchange rate change.
[2] Redeemed prior to original maturity, January 1970.

INTEREST RATES ON 4½ YEAR TREASURY NOTES [1]

Issued	Amount (millions)	Outstanding (millions)	Interest rate (percent)
July 3, 1967	$125	$125	5.28
October 2, 1967	125	[2] 0	5.38
January 5, 1968	125	[2] 0	5.46
April 1, 1968	125	125	5.73
June 24, 1968	125	125	6.25
August 19, 1968	125	125	[3] 3.05
October 2, 1968	125	[2] 0	5.25
January 16, 1969	125	[2] 0	6.125
April 2, 1969	125	125	[4] 4.43
Total	1,125	625	

[1] At values prior to change in exchange rate of German mark October 1969; amount outstanding totals $675,000,000 after adjustment for exchange rate change.
[2] Redeemed prior to original maturity, January 1970.
[3] 5.20 percent prior to August 19, 1969.
[4] 6.23 percent prior to October 2, 1969.

Senator PERCY. I would like very much to see the schedule with the rates of interest and perhaps the history of what we have paid off and when, because it certainly adds to our balance-of-payments problem as they become due and payable.

Mr. VOLCKER. I believe the only ones we have paid off to date, and they were paid off in advance of maturity, was at a time late in 1969, when the Germans were losing reserves rapidly.

Senator PERCY. That is when they called in half a billion dollars' worth.

Mr. VOLCKER. Roughly a half billion dollars' worth, as I recall the number.

Senator PERCY. Which I think I uttered a cry of outrage about, because I never even knew they had that power to do that. I was very interested to talk it over a few days later in Germany with the Chancellor and he said he did not know they could call on them. He said he didn't consider it a political problem. The Bundesbank considered it a financial problem.

Mr. VOLCKER. I think there is a significant difference between those bonds sold to the Bundesbank at a commercial rate with an early trigger clause in them and a true long-term loan, let's say, at a zero interest rate.

Senator PERCY. You mentioned in your testimony that less than half of our military deficits overseas are offset by military purchases and other offsetting payments in this country. What is your feeling as to what proportion of the military purchases made by West Germany in these arrangements are really additional purchases and items they never would have bought otherwise? I cannot imagine that when the Germans buy planes or guns they are not going to buy the best planes or the best guns they can at the lowest price, taking into account spare parts availability, and so forth. I am not overly impressed by these military purchases as real additionality.

Mr. VOLCKER. I think in some cases a certain amount of domestic preference may enter in as well, when you say the best equipment, the best deal at the best prices.

I think the question you ask is impossible to answer with any precision.

Senator PERCY. I realize the difficulty.

Mr. VOLCKER. I would have a certain amount of skepticism as to how many of these purchases would be truly additional. On the other hand, I think it is a fair observation to say to some extent, whether they are additional or not, this is an expenditure that Germany, in this case, is making in the common NATO interest, and it happens to be an expenditure which does fall in the United States. And in that sense, it should not be ignored, whether or not it is additional in this context. I think it is a fair computation in that sense.

Senator PERCY. Is it an unfair suggestion of mine in your judgment, as Mr. Samuels goes over this weekend, that he negotiate on the cost we are bearing for the 71,000 European nationals that we hire and pay in dollars? They could be paid in foreign currency. I think 62,000 of them are in Germany alone. We have a capital budget for improvement of barracks and infrastructure of all types: Roadways, runways, et cetera. We purchase supplies in Europe used in Europe. We pay taxes that we do not pay in this country, but we pay taxes to provincial and local governments over there in England and Germany, millions of dollars. We pay the German Government, actually, the cost of power, the cost of transportation. Is it unreasonable to say that these are items that could and should be picked up directly on their budget and should be without embarrassment to them and with no embarrassment to us, because they are not troops that we are asking they pay for?

Mr. VOLCKER. I do not think there should be any embarrassment on either side. Whether or not in the end it is desirable to designate particular German expenditures and associate them with particular items, I think, can be an open question. It is important that the support be provided in adequate amounts. I personally would be quite willing to identify the need with particular items, or not to do so, so long as the money is there.

Senator PERCY. My last question relates as to whether the international monetary system can really find equilibrium if the parity value of the yen remains unchanged?

Mr. VOLCKER. Well, there is clearly an important question in that area. Let me phrase your question in the opposite way, which I think is at least equally relevant and perhaps more relevant. Can an equilibrium be found without all those other things being done in the way of removing import restrictions, relaxing restrictions on outward investment, and redirection of export efforts that do not raise, and are in a sense prior to, any question of the exchange rate? I think it is an illusion to think that we can solve all these problems simply through the exchange-rate mechanism when there are other problems, deep-seated problems, that enter into the situation. In fact, it would be very difficult even to say by what degree the yen might be undervalued without reaching some conclusion about all these other restraint measures that affect the equilibrium value of a currency. It simply is in accord with the whole direction that a liberal trading and investment order should take, that those priority problems be worked on aggressively and promptly. I hope the Japanese will do so. I think some progress is being made. The question is the speed and the extent, and there is obviously room for a great deal more in terms of extent and speed.

Senator PERCY. My time is up. I would just like to thank you directly for the action Treasury has taken on the amortization and depreciation schedules. I think it is eminently right and a major step forward in rectifying a discriminatory practice which has put us way behind every other industrialized nation in the world. I really hope that organized labor sees the value in this, that this is job-creating action that you have taken and one of the most constructive things that can be done in the long run to help us make our products competitive in the world market.

Mr. VOLCKER. I think you are quite right, Senator, and thank you very much for that compliment.

Chairman BOGGS. Mr. Volcker, I would like to enlarge on the question Senator Percy asked you about currency. I think we all understand the problem that our position in world markets has deteriorated; we continue to have a very large balance-of-payments deficit. How do you solve this unless you take a look at exchange rates generally? Not only in Japan but elsewhere.

Mr. VOLCKER. Leaving aside Japan at the moment here and assuming that we do these other things that are necessary and desirable in their own right, I would not be at all certain, Mr. Chairman, that there is any great evidence of disequilibrium in currency values. Again, we cannot expect to find equilibrium and lasting equilibrium, unless we control our own domestic inflationary situation and encourage the degree of competitiveness that is necessary in our own industry. And that is not a problem you can solve by any change in currency values. It is a perpetual problem, unless one wants to assume that currencies are constantly depreciating, and I simply think that is not an alternative that anyone can reasonably consider. So I say first of all, let's pay attention to our domestic homework. In a world of inflation, I would say that if we can show decided improvement in that area, it would not only directly help our competitive position in the best possible way over a period of time, but it would also be a rather dramatic signal to the world that the dollar indeed remains and will remain in the future the prime currency and a currency they can rely upon. We will then have and maintain the kind of confidence that I think is really essential—there is no escape from it—in a world dependent upon very complex, highly developed financial markets, money markets, and financial arrangements that in turn really rest on the assumption of a stable dollar.

Chairman BOGGS. What was the Treasury's reaction to the adjustments made in May in Europe?

Mr. VOLCKER. That was a situation that arose, as you know, primarily from large capital flows, predominantly out of the United States and predominantly into Germany, with the Eurodollar market acting as intermediary. This created difficult problems eventually in terms of Germany's internal monetary management. In an effort to restore more scope for their domestic monetary policy, they chose to let their exchange rate float, which of course, in turn, created some problems for some of their immediate neighbors. They let their exchange rate float primarily in an effort to obtain some insulation for domestic monetary policy.

I think our reaction to that action is that it points up a very important difficulty in the present monetary system. In a sense, this is a difficulty that grows out of our success in developing fluid and broad international capital markets, which have very many benefits and advantages. But it also facilitates flows of funds between countries to a marked degree and we have found in this incident, as we knew before, that these flows can create very real difficulties. So I certainly think that this does indicate a point of strain in the monetary system, which is of real concern. In a real sense, we are not happy to see a country or countries being forced to take this kind of extraordinary action in response to this kind of problem which has become potentially recurrent. So I certainly think we should take this as a warning that this is an area, in particular, that needs considerable work and effort. It is a problem for all countries, certainly all countries with developed money and capital markets. And I do not think there is any easy answer to it. I am convinced it will have to be attacked from a number of directions.

One of those directions may potentially be a bit more flexibility, by which exchange rates, at least for some countries, might be permitted to fluctuate. By introducing a bit more uncertainty in this area without introducing so much that it distorts trade, we may be able to exert some dampening influence, either on interest-induced flows or speculative flows. But again, this is a problem that needs to be attacked from other directions as well.

As you know, we have undertaken some borrowings directly in the Eurodollar market as a way of diverting some of these short-term capital flows back to the United States. We have discovered in the course of the past year that the problem was considerably aggravated by the reserve management practices of some other central banks that were putting money back into the Eurodollar market as fast as it flowed into their own countries. With the given relative levels of interest rates, as they put it back into the Eurodollar market, it tended to flow right back into their hands again. You got a kind of recycling that exacerbated the problem. That is a matter that has been under very considerable discussion and actions have been taken to avoid a repetition of that particular aggravating influence.

Some countries have found it useful and desirable, necessary to some degree, to control the access of their banks and companies to international markets. That is a tendency which we would not like to see go too far, but as a technical matter, in some cases, this can be part of the solution, too.

What happened in Germany, to take that particular case, is that their domestic industry was doing a very heavy amount of financing externally because the rates were a little bit cheaper. That is the kind of problem that we have to find some solution to, consistent, I think, with the overall stability of the system.

Chairman BOGGS. There have been some suggestions of some type of regulation of the Eurodollar. Is that practical?

Mr. VOLCKER. There have been a number of suggestions. The Eurodollar market is a kind of homeless market in the sense that no national authorities regulate it. The question does arise as to whether this lack of regulation is appropriate. I do not want to suggest that the market should be stifled through regulation. There is sometimes a tendency to overregulate. But we still have a situation in which virtually every country in the world has found it desirable and necessary to have some regulations on its domestic banking system. It is logical to ask whether there is not some need for canvassing the possibility of regulation of the Eurodollar market, for several reasons.

The Eurodollar market has a competitive advantage, in a sense, over every domestic bank, because it is entirely unregulated. It can work on narrower margins. Some bankers have expressed concern as to whether a degree of surveillance over lending practices might not be appropriate. There is always a danger, when the parent bank thinks this is a marginal area of activity, whether the standards are quite as high as they should be—and we have here a market that was truly a marginal area of activity only a few years ago, but it is no longer so marginal. When it reaches an amount of $50 or $60 billion, that in itself, I think, raises questions.

So I think this is something that should be reviewed. I must say I do not think there is much danger of overregulating this market. One of the problems is that there is so much dispersion of authority over the market because it is located all over the world. There is so much competition between jurisdictions that it would be very difficult to have any effective regulation.

Chairman BOGGS. Mr. Volcker, one final question. I read in the press that the Williams Commission on Trade and Investment might recommend a uniform import tax and uniform export subsidy as a measure to help the balance of payments. What is your reaction to that?

Mr. VOLCKER. I do not know, myself, what they are going to recommend, but I would be reluctant and opposed to that kind of direct unilateral action. I think there are other areas in which we can and should move. We should be pressing in those areas before we think of resort to that kind of action, which I think could very easily invite retaliation and other difficulties and which would be difficult to reverse. So I would urge that we move in other directions. There are a lot of directions in which we can work that are perfectly consistent with the kind of liberal, open trading order we all like to see, and our first effort must be to go in that direction and not encourage moving in an inward direction.

Chairman BOGGS. Thank you very much, Mr. Volcker. I thank your assistants as well.

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

(Whereupon, at 11:55 a.m., the subcommittee was adjourned until 10 a.m., Friday, June 25, 1971.)

A FOREIGN ECONOMIC POLICY FOR THE 1970'S

FRIDAY, JUNE 25, 1971

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

The subcommittee met, pursuant to recess, at 10 a.m., in room G-308, New Senate Office Building, Hon. Hale Boggs (chairman of the subcommittee) presiding.

Present: Representatives Boggs, Widnall, and Brown.

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

Chairman BOGGS. The subcommittee will come to order.

Today we continue our testimony from administration witnesses on foreign economic policy.

Today we have the Secretary of Commerce, the Honorable Maurice Stans.

Mr. Secretary, we will be glad to hear from you.

STATEMENT OF HON. MAURICE H. STANS, SECRETARY OF COMMERCE, ACCOMPANIED BY ROBERT McLELLAN, ASSISTANT SECRETARY FOR DOMESTIC AND INTERNATIONAL BUSINESS; LAWRENCE A. FOX, DEPUTY ASSISTANT SECRETARY FOR INTERNAL ECONOMIC POLICY; STANLEY NEHMER, DEPUTY ASSISTANT SECRETARY FOR RESOURCES; AND MICHAEL BORETSKY, SENIOR POLICY ANALYST

Secretary STANS. Thank you, Mr. Chairman. I have a statement which will take about 20 or 25 minutes to read, but I think it quite important that I do so rather than try to brief it.

Chairman BOGGS. Oh, yes, you have plenty of time.

Secretary STANS. I appreciate your invitation to appear here today to discuss some of the problems the United States faces in its international economic relationships. The equations of international economics are changing rapidly and profoundly—and are seriously affecting the United States. Three of the major problems facing the United States in its future international economic relationships are of particular concern to all of us—but especially to the Department of Commerce. These are: export competitiveness, import adjustment, and overseas investment. By concentrating on these three, I do not mean to downgrade other things such as East-West barriers, quotas, and others, but by concentrating on these three, I can give them more attention than they might otherwise get.

It is no secret that our trade performance has been deteriorating. The U.S. trade surplus has dwindled to levels far below the $4 to $7 billion trade surpluses enjoyed in the first half of the sixties. In 1968 and 1969 our trade surplus averaged only about a billion dollars. It temporarily recovered to $2.7 billion in 1970, but has fallen again. It now appears that in 1971 we will have a trade surplus of a billion dollars—or less than that. As a matter of fact, for the first 6 months of the year, I estimate that it will be zero or may even be in deficit.

The United States has been losing, and is continuing to lose, its competitiveness in world markets for a number of reasons. In the crucial area of manufactured goods, for instance, U.S. exports have grown roughly 40 percent since 1967. During that same time the manufactured goods exports of Canada, France, Germany, and Italy each grew about 60 percent. Japan did even better, with an 85-percent increase.

This slippage in manufactured goods has been going on for some time. In 1960, the United States enjoyed 25 percent of the world market for manufactured goods. By 1970, that share had fallen to 21 percent. In dollar terms that share loss means $6 billion in lost exports. The United States, in fact, is no longer the world's largest exporter of manufactured goods. That position was lost in 1970 to Germany. In 1970, Germany's exports of manufactured goods totaled $30.7 billion, while U.S. exports of such products were $29.7 billion.

Basically, the loss in our competitiveness stems from two factors which have been growing in importance over the past decade: (1) We have been losing our competitive advantage in terms of price, productivity, and technology; and (2) our competitors have been trying harder than we have to make export sales.

Both factors are important—and both must be dealt with. Over the longer run our competitiveness in world markets can be regained only by restoring the competitive ability of the American economy. We are fooling ourselves if we think that our competitiveness was lost exclusively through domestic inflation and that it will be regained automatically once inflation is lower. The slowing of inflation will, of course, help; but it will not, in itself, be enough.

A more significant factor, in my opinion, has been the adverse structural shifts that have taken place in this country's trade patterns. Looking back at the composition of our exports and imports, we find that in goods and products that do not involve high technology, our trade balances have deteriorated sharply as other countries have increased the pace of their industrialization and taken quick advantage of developments in technology.

I want to show you some statistics, prepared in the Commerce Department, that indicate significant trends in our exports and imports. For this purpose, we have deviated from the normal classifications of trade commodities and have classified exports and imports into four categories:

1. Agricultural products.—Both food and nonfood items.

2. Raw materials.—Minerals, crude oil and unprocessed fuels, and other nonagricultural raw materials such as iron and steel scrap.

3. Manufactured products not technology intensive.—Steel and other metals, textiles and textile products, shoes, paper, and a wide variety of other industrial and consumer goods.

4. Technology-intensive manufactured products.—Machinery (including jet planes and automobiles), instruments, and chemicals.

The agricultural and raw material categories are self-explanatory and need no further elaboration. The distinction in manufacturing between products that are or are not technology intensive is based on two specific measures—employment of scientific and engineering manpower and expenditures for research and development. The technology-intensive industries account for over 80 percent of all U.S. nondefense industrial R. & D., and about 60 percent of all U.S. scientific and engineering manpower employed in manufacturing outside the ordnance industry.

Table 1 and figure 1 show the trends in our foreign trade from the fifties to 1970. Agricultural exports have generally been higher than imports during the past decade or so, with no tendency for the modest favorable balance to change very much.

Mr. Chairman, I would like to refer next to the charts which are shown in figure 1 and ask that the portion of my text containing the table and charts be included in the record at this point.

Chairman BOGGS. Without objection, they will be included.

(The table and charts referred to follow:)

TABLE 1.—TRENDS IN U.S. FOREIGN TRADE

[In billions of dollars]

	1957	1964	1969	1970
Agricultural products:[1]				
Exports	4.7	6.3	6.0	7.3
Imports	3.9	4.1	5.0	5.7
Trade balance	+.8	+2.2	+1.0	+1.6
Raw materials:				
Exports	3.3	3.4	4.8	6.1
Imports	5.0	5.5	8.1	8.4
Trade balance	−1.7	−2.1	−3.3	−2.3
Manufactured products, not technology intensive:				
Exports	4.0	4.4	6.2	6.8
Imports	2.9	6.0	11.7	12.9
Trade balance	+1.1	−1.6	−5.5	−6.1
Manufactured products, technology intensive:				
Exports	8.8	12.1	20.6	22.6
Imports	1.6	3.1	11.3	13.0
Trade balance	+7.2	+9.0	+9.3	+9.6

[1] Includes exports of agricultural products under Public Law 480 and similar programs. If these are excluded, the trade surpluses on agricultural products are largely eliminated.

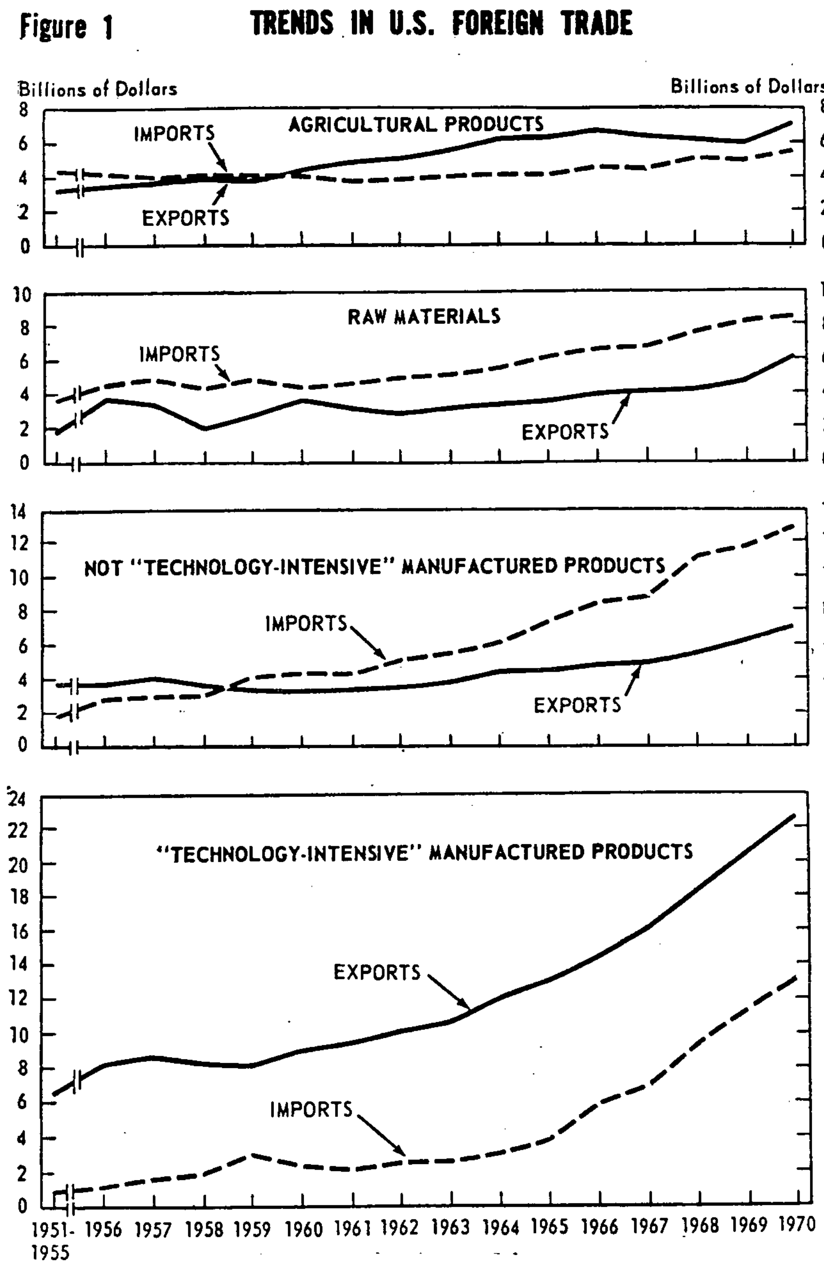
Figure 1
TRENDS IN U.S. FOREIGN TRADE
Billions of Dollars
Billions of Dollars
AGRICULTURAL PRODUCTS
IMPORTS
EXPORTS
RAW MATERIALS
IMPORTS
EXPORTS
NOT "TECHNOLOGY-INTENSIVE" MANUFACTURED PRODUCTS
IMPORTS
EXPORTS
"TECHNOLOGY-INTENSIVE" MANUFACTURED PRODUCTS
EXPORTS
IMPORTS
1951-1955
1956
1957
1958
1959
1960
1961
1962
1963
1964
1965
1966
1967
1968
1969
1970

Secretary STANS. I would merely wish to refer to the chart itself.

In our agricultural products, our exports exceeded imports in 1957 by $8 million and grew in our favor to about a billion dollars by 1970, but is now somewhat less than that. I see no likelihood of any significantly greater spread in exports over imports in the coming years because many countries of the world are becoming more and more self-sufficient.

In the case of raw materials, which is oil and minerals and so forth, our imports are substantially in excess of our exports and although there was some improvement in 1970, my best information is that we can expect the deficit in raw materials to increase as we need more oil and more raw materials.

In goods of low technology manufacture, the most striking change has taken place. In about 1958, for the first time, our imports exceeded our exports and that spread has been growing at a very rapid rate to the point where, in 1970, it was in excess by $6 billion. In other words, our trade deficit in low technology goods was $6 billion and that almost certainly is going to get worse.

The only element of our trade in which we have an advantage is in technology-intensive goods, goods of high technology. Here, as you will see from the chart over the last 4 or 5 years, we have held a balance of about $9 to $10 billion. But it is no longer growing and there are indications that competition is increasing in many categories of these goods and there is a reasonable expectation for believing that our trade surplus balance will begin to decline. That being the case, I can only project the fact that over all of the four categories, there is no expectation of improvement in our overall trade position and a substantial possibility of decline.

This sector-by-sector approach does not reflect all factors determining our trade performance. Business cycle developments, at home and abroad, are obviously relevant. I believe, however, that this approach gives proper emphasis to the important structural changes in our trade position that are often overlooked.

It is not difficult to find out why we are losing our technological advantage. I would like to refer now to the matter of research and capital investment. It has been calculated that private research and development in 1968 in the United States was only $13 billion—about 1.5 percent of the GNP. In Germany 2.7 percent of the GNP was spent on research and development and in Japan, 2.2 percent. Now, in addition to this, these countries purchase large amounts of technology by licensing and royalty agreements, particularly in Japan, and if those factors were taken into account in some way or other by capitalizing research expenditures, it would be found that Germany and Japan are on the average spending more than twice as much as we are in technology research and development.

Other countries give incentives for research and development. In Canada, companies receive grants equal to 25 percent of capital expenses on scientific research and development. In addition, they can receive government payments of up to 50 percent of the cost of individual research and development projects. In Britain, companies can write off as much as 100 percent of their new investments in productive facilities in the year they are made. In Germany, companies receive special tax writeoffs of up to 50 percent of corporate research and development investment—plus a 10 percent cash investment subsidy. Special developmental assistance, furthermore, is provided by Germany to industries vital to its future competitiveness—such as the aircraft industry, for which the government subsidizes up to 90 percent of the cost of developing civilian aircraft.

These are just a few examples. There are a great many more. Foreign companies are responding to these incentives—not just in research and development, but also in modern and efficient productive facilities. The United States—and this is the important point—gives industry none of these direct incentives.

Tomorrow's productivity and competitiveness are functions of today's investments. Here we again are at a disadvantage. Private investment in fixed assets (defined as durable equipment and nonresidential structures for business purposes) is a key indicator. In Japan in 1969 such private investment was about 30 percent of GNP; in Germany 19 percent; France 18 percent; and the United Kingdom 13.5 percent. The figure for the United States was only 10.7 percent of GNP. Unless we can increase our investments—and especially our research and devlopment—I do not see how we can maintain our present competitive situation, much less regain lost ground.

I am becoming increasingly convinced that we must explore ways, as have our foreign competitors, to obtain the investments needed for future competitiveness. We should weigh the effectiveness of an appropriate investment credit, or accelerated depreciation allowances, or research and development incentives—especially if they were concentrated on those industries which will provide the bulk of tomorrow's exports. There are long-run actions and short-run actions that might be taken.

We are moving as rapidly as possible to identify the long-run actions which are necessary, especially in the field of technology. Naturally, such programs take time to produce results. In the meantime we must also take interim action to get the most out of our present competitive abilities. I believe the best near-term actions we can take are those which will increase the attractiveness of exporting—those which will induce American companies to put more resources in export marketing.

As a much larger proportion of their GNP, exports have been immensely more important to our competitors than to ourselves. Our competitors have designed and evolved their domestic economic policies taking full cognizance of their impact on exports. They have consciously attempted to favor their export sectors—and have created special export environments by insulating their export sectors from policies intended for domestic purposes.

The United States has never seriously considered an export environment distinct from the domestic environment. Financial, fiscal, tax, labor, transportation, antitrust, and other policies were framed to meet the needs of a continental domestic economy, with little thought given as to their impact on exporting. The changing nature of America's international economic position has, in my opinion, called into question this approach.

Last year, the administration proposed establishing domestic international sales corporations (DISC's) in the United States. These would permit tax deferral on the income of corporations formed to handle export sales of U.S. goods, so long as that income was reinvested in export trade. This would be a major step in improving the exporting environment for U.S. firms. As you know, it was incorporated in the trade bill that passed the House last year, but did not pass the Senate. Similarly, the proposal now before the Congress to exempt the Export-Import Bank from the restrictions on budget totals and net lending ceilings must, in my opinion, be adopted if we are to meet our exporters' most basic requirements to compete effectively. I believe that the Export-Import Bank should have the opportunity to compete on equal terms with those offered by any other nation.

Greater export promotion efforts, coupled with a more aggressive and expanded program for improving the export environment, would help put American businessmen on a more equal footing with their competitors in world export trade. Canada, Italy, Japan, and the United Kingdom each devote a much larger proportion—as much as 15 times—of their government budgets to export promotion than does the United States.

We need also to examine our antitrust philosophies. These were developed in another era—when the United States was virtually isolated from foreign competition. They may no longer be appropriate for industries competing against foreign producers free of such restraints.

Now I would like to move on to the second subject of the three that I have selected, and that is import adjustment. The problems we have been experiencing from rapid import growth are not distinct and separate from our export problems. They stem from the same cause—the declining competitive ability of American industry. In taking steps to increase the competitive ability of American industry in export markets, we would be simultaneously acting to strengthen the domestic ability to compete against imports.

The basic steps needed to restore price competitiveness, to increase research and development, and to spur more rapid increases in modern plant and equipment will take time to have an effect on imports—just as they will take time to have an effect on exports. We must therefore also take interim action to increase our abilities to compete against, and adjust to, imports.

Adjustment assistance is one such action. It is not a panacea, and it is not a permanent cure—but it will help buy time for the longer run actions to take effect. Last year, the administration recommended changes in the law relating to adjustment assistance to make it more workable. These changes have not yet been enacted, and they are very important.

Under current legislation we have some authority to assist firms and workers injured by imports. Although present authority is limited, the Government is now taking a vigorous approach to adjustment assistance cases. The Tariff Commission has found a number of cases in which that type of relief should be granted. Since 1969, 11 firms and 31 worker groups have been certified as eligible for such assistance. Our resources, however, have been too small. The President's budget request for fiscal year 1972 provides for $100 million for direct adjustment assistance funds and another $10 million in guaranty authority which could permit up to $100 million in actual guarantees. The House Appropriations Committee has reduced this request to $65 million.

Foreign governments take a vigorous and comprehensive approach in facilitating adoptions and structural adjustments to imports—while they simultaneously seek to strengthen their overall future competitive abilities. We have not done either. In view of the clear requirement for a more effective approach to the problem of adjustment assistance, we have set up a task force within the Commerce Department to study a broad range of adjustment assistance issues, including examination of innovative ways to improve industrial adjustment assistance, the possibilities and limitations of Government's role in helping injured industries and firms adjust to import competition and development of an early warning system to deal with difficulties before they become overwhelming problems.

The third subject which I want to discuss is overseas investment. This committee has received considerable testimony concerning the impact of multinational corporation investment on exports and imports, on domestic income and employment, and on other aspects of our national economic life. Lacking from much of this discussion are the data to support often-conflicting observations. The Department of Commerce has a project underway which is intended to provide the statistical data needed to clarify such analysis. We expect to have a first report late this year which will indicate the scope of multinational investment, the exports that are created as a result of it, the imports that are created as a result of it, and other factors.

Also lacking from much of the current discussion is an appreciation of the realities which underlie the development of the American-based multinational corporation and the expansion of foreign investment.

A first reality is that an overriding reason for much overseas investments by American firms is defensive—to preserve, protect, or develop markets for U.S. products. Without such investment by U.S. firms in other countries, local industry or other foreign investors would displace U.S. sales. This issue is, therefore, whether U.S. firms should abandon the field to competitor investments and thereby give up existing or prospective markets for U.S. products, or whether they should undertake the preemptive foreign investment needed to retain—and possibly extend—these markets.

A second reality is that many countries, particularly those endeavoring to develop home industries, require local investment by foreign firms as a condition for new or continued access to their markets and resources. Foreign firms are prepared to undertake such local manufacturing, thereby threatening to depose the U.S. firms from those markets. The question, again, is whether U.S. firms should make the investment and supply American-made components or leave the field to others.

A third reality is that world capital markets have the resources needed to finance international corporate investments—witness the phenomenal growth of the Eurodollar market. The question is whether U.S.-based multinational firms can employ American investment resources, so that principal, interest, and dividends are paid to U.S. citizens, or whether these firms are to be required to borrow abroad, with the corresponding payments flowing to other countries.

A fourth reality is that technology transfers associated with multinational investment cannot be contained by political boundaries and are by no means in only one direction. The United States is both a source and a recipient of new technology. Over $1 billion of new investment was made in the United States by foreign companies last year, and these firms bring with them much valuable technology. The origin of magnetic tape, on which so much of our computer industry is based, for example, represents imported technology—as is the case with radar, antibiotics, and the jet engine. All began overseas. To restrict the outward flow of technology to any meaningful degree would require embarking on the obviously unacceptable course of censoring the thousands of technical journals and articles that the scientific community prepares, and even keeping U.S. technicians from participating in international scientific and technical meetings where, in fact, they gain as much as they impart.

Regarding the multinational role in the development process, let me now comment briefly on what I consider a neglected aspect of multinational corporate investment: its role in accelerating development in the lower income countries. We have invested vast amounts of human and material resources in this endeavor, and we have organized complex bilateral and multilateral programs and institutions to work on these problems. But, from a global viewpoint, progress at best is modest and disappointing.

In view of these results, it is logical to seek better solutions to the problem of stimulating development in the less-developed world. Increasingly, attention is focusing on the fact that our past programs in this area were deficient in one crucial respect that is basic to self-sustained economic progress: the development of a viable private-sector economy.

The vehicle that is uniquely qualified to make a major contribution to the development of market institutions in the less-developed countries is the multinational corporation.

Most developing countries lack a structured capital market, and local investors are interested mainly in short-term investments with quick returns. The consequence, of course, is an absence of long-term venture capital for financing indigenous industry. The multinational corporation is able to use its global borrowing power to overcome this problem—in effect, serving as a conduit for financial resources from the advanced to the developing countries.

Another widely recognized problem in the developing countries is their inability to undertake product research and development and to impose the quality standards needed in order to sell in overseas markets. Further deficiencies in these countries typically are lack of research into local and overseas markets, inability to mobilize local resources, and failure to develop adequate marketing and distribution systems at home and abroad. The multinational corporation can put its entire international apparatus to work on these questions. In the process, it can develop export products and markets which can go far in relieving chronic imbalances in developing country import needs and export capabilities.

A major weakness of the low-income countries is an extreme shortage of indigenous managerial and technical capability. In my view—and in the view of many experts who have examined development efforts—this deficiency is perhaps the major barrier to energizing development. Our bilateral and multilateral programs are, by their very nature, unable to deal effectively with this problem. It is precisely in this area that the multinational corporation can make its most valuable contribution.

Now, and I think this is very important, all of this does not rep-

66-850—71—pt. 7——4

resent a one-way benefit to them. To the extent that a U.S.-based multinational corporation establishes operations in a developing country, it also is a continuing market for exports from the United States. This is proved by the fact that the largest part of our trade surplus in high-technology products now comes from sales to the developing countries. And, of course, not only do we develop exports, we develop a return on our investment in those countries.

The benefits of U.S. multinational investment, in sum, are these: The multinational corporation is a bold and imaginative—and necessary—response of U.S. business to the inexorable pressures of international commerce. While the growth of multinational investment should not be viewed uncritically, and there certainly are problems that it presents, the effort that it represents to maintain our position in the international commercial community should not be subjected to criticism that fails to take account of the realities that I have outlined. Rather than erect barriers that can ultimately force U.S. multinational corporations to become multinational corporate emigrants, rather than force them out of the country, we should bend our efforts to insuring that their activities are supportive of broader national and international objectives.

Foreign investment, particularly by means of the multinational corporation, holds the key to both unlocking development in the low-income countries and to permitting the United States to strengthen its economic ties with the countries involved. This approach, moreover, does not require elaborate governmental and international aid machinery or increased levies on the U.S. Federal Treasury.

This concludes my prepared remarks. I would be pleased to answer any questions that the subcommittee may wish to ask.

Chairman BOGGS. Thank you very much, Mr. Secretary, for a very fine statement.

Mr. Brown, would you like to inquire?

Representative BROWN. Thank you, Mr. Chairman.

Mr. Secretary, I am rather excited, as always, by your testimony, particularly that specific area of recommendation which you have given us in your statement. I consider this to be one of our most significant problems in the United States, perhaps one which everything else in our future hinges upon. Perhaps I should ask this question. Is Secretary Shultz going to be with us this morning?

Chairman BOGGS. No.

Representative BROWN. He is not? Then, I will ask this of you, because this is the sort of question that perhaps could be best answered by a professor rather than somebody with a more direct business background. I have the impression that in the past, our society has developed its industrial capacity and its technological growth to meet essentially domestic needs; that we have grown as a nation not which has imported raw materials and exported manufactured goods such as some of the island nations—Great Britain and Japan—but rather have developed as an international power because the growth of our domestic industry and domestic power developed to meet essentially domestic needs. And the question is, I guess, a theoretical one: Is that time for us now past as a society in the world? Are we more dependent now upon requirements of our international trade than we have been in the past, and is that likely to be a continuing trend for us into the field of international trade?

Secretary STANS. I would answer you by saying yes, I think that time is past and we are at a point at which the United States has to take off in an entirely different direction in quite a number of ways.

The United States only exports about 4 percent of its gross national product. Most of the other countries of the world export very much larger proportions—some like Belgium and the Netherlands export 30 and 35 percent of their product.

Representative BROWN. Could you indicate Germany? You have indicated that Germany has taken over as the leading export nation in the world. What is the relationship in terms of its national production?

Secretary STANS. Germany exports about 19 percent of its gross national product. The result of that is that the United States never became export oriented and exports were almost incidential to American business until recent years. The multinational corporation moving into other countries has, in effect, increased considerably our exports by reason of drawing back on their markets in the United States for parts or most of their components. We are now in a situation, however, where imports, by reason of a number of factors, are moving into the United States at a rate at which our export growth cannot keep up. Our imports are moving into the United States because many countries have the same technology we do and have much lower labor costs with which to produce it. To an extent, our imports represent American technology borrowed or developed overseas or purchased overseas to produce goods that serve world markets and also, in part, serve markets in the United States.

We have been able to live with the increasing imports through the years by developing the technology ahead of the rest of the world so that our exports could keep pace and maintain a margin. That margin in the early years of the 1960's and up until 1968 ran about $5 billion a year.

But our technology is not keeping pace any more; first, because we are not spending proportionately as much for research and development; second, because we are not spending proportionately as much for capital plant and equipment, and with all of those factors, it is our conclusion that our trade position at the present time does not represent its lowest point in deterioration, but will continue to deteriorate unless we decide that the United States—if it is going to continue to be a free market and is going to continue to import goods in the quantities which we are now importing and allow that to increase—is going to have to develop an export environment and a series of programs to induce greater technology in this country. Otherwise we are going to be in a very disastrous position in our balance of trade and our balance of payments.

Representative BROWN. The result of that would be, I suppose, that in self-defense, in order to keep our industrial physique in shape, we would close our doors to foreign trade here in the United States. In other words, we would close up a lot of U.S. markets for industries and activities which have developed abroad?

Secretary STANS. That would be the natural instinctive reaction. In many cases, it would obviously not be in our national interest in the long run.

Representative BROWN. And even less in the interest of a nation which has, for instance, 30 to 40 percent of its economy dependent upon its exports. Is that correct?

Secretary STANS. You mean—well, we only export 4 percent.

Representative BROWN. Well, the point I am trying to make is that as a part of our industrial strength, this 4 percent of exports is not as relatively significant for us as the 30 to 40 percent, say, that Belgium and the Netherlands export. I do not know what the figure is for Japan, although I would be interested in having that.

Secretary STANS. Japan is about 10 percent.

Representative BROWN. And Germany, 19 percent. So for the Germans and the Japanese, our near East rivals as international industrial powers, that percentage of their foreign trade which is American becomes much more significant to their total national economy than does our foreign trade to our national economy.

Now, is that a fair statement?

Secretary STANS. Yes, I follow you now and I agree.

Representative BROWN. If the United States is forced into a position of defending its own industrial status and saying, we cannot export some of our products, so we will not permit imports to come into this country, and we decide that we are going to live within the United States on what we manufacture without much trade—while we could be hurt in some critical areas of natural resource shortage that we do not have in this country, generally, we would survive better than would other nations if they were also forced to a totally domestic industrial development. Is that not correct?

Secretary STANS. Well, I would say that if we got to that improbable situation, yes; we would be able to survive better than some of the heavy, high exporting countries. No question about that.

Representative BROWN. So we are faced with that choice, apparently, which is isolation, and in that area, we would survive perhaps more quickly than the other nations might.

The other choice, I suppose, is some kind of regional development not unlike the European economic market which would divide up the world into trading regions, but close those regions between each other —that is, one region would be closed to another region. If you did that, I suppose that we would be in a similar position because of our domestic situation. We would be able to survive domestically and in a regional sense, depending upon what region you might select to work with, we could go ahead and develop either underdeveloped countries such as Latin America to our trade benefit, if we could get those countries closed off to the rest of the world. But none of this, perhaps, works for what is our ultimate objective, and that is international peace and the most efficient use of world resources.

Would you concur in that?

Secretary STANS. I would concur in that and all of our programs that we are talking about are designed to achieve that objective, which is simply to try to permit the situation in which we have a free market, relatively, in the United States for the goods of other countries that they can produce more effectively, and at the same time, maintain a technological and industrial competence to export enough to pay for those imports. That is really our problem. We need to have enough exports to exceed our imports by a margin which will take care of the other elements in our outgoing balance of payments accounts such as tourism, which runs a deficit of over $2 billion a year, foreign investment, which now is more than compensated by returns on previous foreign investments; and of course, our oversea security expenditures.

At the present time, I think we need a trade balance of $4 to $5 billion a year and we are a long way from that. We have to find ways to provide the incentives to American companies to export. We have to take away the barriers that exist in other countries against our goods, and we have to maintain a program of technological incentives so that we do keep that edge that we need.

Representative BROWN. I just want to conclude this section of my questioning with conclusion on what I have been driving at here and then get into some other areas later. The point I have been trying to establish is that if we go into either national or regional isolation in the world, the United States, in an economic and industrial sense, is perhaps still in a pretty strong position with reference to its ability to survive nationally, while some of the other industrial nations in the world perhaps may not be in as strong a position relatively because of the nature of their economies. The conclusion of that would be that we are still dealing in the world situation from a position of strength, are we not, in our effort to bring about world international cooperation in the trade field? Is that a fair conclusion?

Our position may deteriorate in the future, but at least at this point, our effort is from a position of some strength in the situation.

Secretary STANS. Oh, our position as a nation is a very strong one and we do deal with these problems from a position of national strength. I would not like to contemplate at all the kind of circumstances you pose as options, such as putting barriers around the country or even around the hemisphere. I think that is both politically and——

Representative BROWN. Well, regional barriers, for instance, in the European Common Market. That is one position——

Secretary STANS. Exactly, for the same reason.

I think what we are saying here is we are kind of a watershed in which it is necessary for the United States to change its policies from the relaxed attitude we have had over many years, particularly during the period when we were actually lenient in our international dealings while other countries were recovering from the war, to an attitude in which we have to be strong and intense in our foreign relationships in economic matters, and also have to take some very definite steps at home that we have not even taken before along the lines that I have discussed, incentives to exporters and so on.

Representative BROWN. Perhaps I will be able to get into those if other members of the panel do not. But I want to put it a little more bluntly than you have put it. The Japanese and Germans and some of the other nations in the world have perhaps as much and maybe even more to gain in the long run from continued international cooperation in trade than the United States has to lose from the isolationism that might be the other alternative if there is not international cooperation. The danger implied in that isolationism is the possibility of repeating some pretty unpleasant and tired international history that we have gone through in generations past.

Secretary STANS. I would agree.

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

Mr. Secretary, in line with the questions of Mr. Brown, we, of course, have a much larger base when we talk about gross national product than Japan and Germany have; is this not correct?

Secretary STANS. Oh, yes; no question about it.

Chairman BOGGS. So our export percentage would be smaller than either of those nations. If we remove that amount from the gross national product, it would be rather devastating to our economy, would it not?

Secretary STANS. Well, if we removed $45 billion worth of exports from our economy, it certainly would have a very serious impact.

Chairman BOGGS. So that the notion that we can rely on protectionism because of the dependence of Europe and Japan on exports is not very consoling, is it?

Secretary STANS. I do not think it is very consoling. It is an interesting exercise to say we could eliminate $45 billion of exports and $45 billion of imports and rely on our internal capability to stand alone, but it would also mean that in many respects, we would be denying our people the benefits of improvements in life in other countries, improvements in commodities, in technology. And I think that is a kind of world that none of us wants to consider.

Chairman BOGGS. Well, in truth and in fact, among those items in the $45 billion trade are raw materials and agricultural commodities that we do not produce in this country. Is that not so?

Secretary STANS. That is true to a considerable extent—many minerals, of course. And certainly, we are importing oil that is necessary in increasing amounts, not to mention such common day-to-day things as tea and coffee and items of that type.

Chairman BOGGS. What does the administration propose by way of legislation? I know that last year we did approve in the House a bill for the liberalization of the benefits for adjustment assistance. Do you propose to send up recommendations for legislation?

Secretary STANS. The legislation that passed the House last year has been reintroduced by Mr. Mills. And the President on March 11 indicated support for the textile provisions of that bill. The main thing that we now have before the Congress is the Export-Import Bank bill which passed the Senate and is now before the House, and is a very essential part of improving our trade position. Beyond the things that we have already mentioned, the administration is studying very seriously the question of what can be done to provide incentives for technology and, as you know, is negotiating with other countries on a continuing basis to try to find some moderation in the rate of imports until we can deal more effectively with our trade balance.

Chairman BOGGS. The list in figure 1, low technology-intensive manfactured products, what are the biggest import items in that category?

Secretary STANS. Well, that is principally textile, textile products, apparel, shoes, steel and other metals, paper, and a wide variety of goods which do not depend upon a considerable amount of research and development. Consumer goods generally of low scientific requirement.

Chairman BOGGS. Are talks still going on between your department and the Japanese on textiles?

Secretary STANS. There are no talks going on with the Japanese at this time. The Japanese have decided to put into effect the voluntary plan offered by the textile industry in Japan; that is to go into effect July 1. There are talks going on at this time between the United States and Taiwan, Korea, and Hong Kong.

Chairman BOGGS. Are you hopeful?

Secretary STANS. I am always hopeful, Mr. Chairman. This is something that just must happen. There has to be a sense of reasonableness on the part of these other countries that does not exist today.

For example, in the first 4 or 5 months of this year, the imports from the four countries of textiles and apparel made out of synthetic fibers increased 75 percent over last year. Now, I, like a lot of other people, can be a believer in free trade, but I certainly think it is incumbent upon the other party to allow us time to adjust to the kind of circumstances that are involved in that policy. Our industry can't adjust to import increases of 75 percent year after year.

Chairman BOGGS. I am very much interested in your position. I have always felt our policy was based on reciprocity.

Secretary STANS. I certainly would agree with you, and I have expressed that many times, that in the search for a world of free trade, we have a long way to go. The first thing that has to take place is total reciprocity and fair trade between all the countries. In this, I think the United States is very seriously handicapped by restrictions of other countries.

Chairman BOGGS. Mr. Brown touched on this, but I do not know whether he asked this specific question or not. With the accession of the United Kingdom and other countries to the EEC, there may be violations of the GATT and of our rights under GATT. What remedies does the United States have?

Secretary STANS. Well, the United States always has, as it has now, the ability to cite the other countries under GATT and ask for the remedies and compensations that are specified in the GATT arrangements. Now, obviously, in the future as well as in the past, diplomatic and political considerations can sometimes enter into the handling of commercial matters. The Japanese have been in violation of GATT rules on import restrictions for a long time. The United States has attempted to negotiate with the Japanese to remove those restrictions rather than to cite them in GATT because of the desirability of maintaining the cordial and close diplomatic relationships with Japan. These are matters of national policy and I think again, we are at the point at which these policies have to be reconsidered.

Chairman BOGGS. Well, that leads to another question. Has anyone protested the violation of GATT by the Japanese?

Secretary STANS. Oh, yes; many people have, many businessmen have.

Chairman BOGGS. Officially in the GATT, though.

Secretary STANS. I will ask Deputy Assistant Secretary Fox to reply directly.

Mr. FOX. The United States has undertaken over a period of several years, even before the end of the Kennedy Round, to induce the Japanese to eliminate their remaining import quotas and other restrictions on imports. In the course of the discussions pursuant to the consultation procedures of GATT article 23, the United States formally informed the Japanese that we would be prepared at the appropriate time, if we were not satisfied with the steps taken by the Japanese, to begin more formal proceedings under GATT article 23. No formal proceeding was ever instituted in the GATT, however.

Instead, the Japanese at each stage have speeded up the pace of their liberalization. We are not satisfied with the degree of liberalization achieved to this date, but on the record, there has been a significant reduction in the number of illegal quotas maintained by the Japanese. On the first of July, they have a list of approximately 60 items remaining that they admit to be illegal. However, they have another 48 items which they defend as being legal under State trading and the national security provisions of the GATT, including what we would consider civilian aircraft.

In addition, there is a licensing system so that virtually everything entering Japan requires a license. A certain portion of that, a large portion of it, is automatically licensed, but the existence of a licensing provision raises a question as to whether market forces are always fully at play.

Discussions with the Japanese in several different forms continue; and at this time, the United States, so far as I am aware, has no plan to pursue the matter in the GATT, instead prefers to rely on the continuing pressure on the Japanese by ourselves and other important trading countries.

Chairman BOGGS. Mr. Brown had a question.

Representative BROWN. What you are saying is that you are relying on diplomatic pressures with the Japanese rather than formal approaches. I am interested—you say the Japanese indicated that they had 40-some that they conceded were illegal restrictions?

Mr. FOX. Well, the number—I am sorry; I would not like to cite the number as conclusive, but the numbers have been going down.

Representative BROWN. I do not care about the numbers. What I am interested in, really, is examples of those the Japanese have considered are illegal.

Mr. FOX. The number today is 80. On July 1, they have told us that they will have 60 categories of remaining restrictions. Some of those categories are quite broad, including computers. After October 1, the Japanese will have 40 items left.

Representative BROWN. Could you give us some specific examples of those they have considered illegally restricted? You have mentioned civilian aircraft as one that they concede are restricted, but feel that it is not an illegal restriction because of our national security arrangements with the Japanese. Could you give me some other examples?

Mr. FOX. I think I would like to give you a list for the record. I think I would like to summarize the numbers better, and my colleague has given me this note. The number of items admitted to be illegal today are 80.

Representative BROWN. Eight or 80?

Mr. FOX. Eighty. On July 1, that number will be 60; and on October 1, 40.

Representative BROWN. What I am interested in is the kinds of categories, not just the numbering. If you could give us either now or for the record some examples of things that fall into each category, not of the 80 categories, but of those which are conceded to be illegal per se and those which are conceded to be in violation of the GATT understanding, and which the Japanese consider as being within the province of the national security arrangements that we have with them.

Mr. FOX. I will have to supply that for the record.

Representative BROWN. Thank you.

(The information referred to follows:)

JAPAN'S LIST OF ITEMS SUBJECT TO IMPORT QUOTAS ILLEGAL UNDER THE GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT)

Number of items	Description of goods	BTN tariff No.
1	Live horses [1]	ex 01.01
2	Live animals of the bovine species, excluding buffaloes [2]	ex 01.02
3	Live swine [2]	01.03
4	Meat and offals, of bovine animals, fresh, chilled or frozen, excluding tongue and internal organs.	ex 02.01-1
	Meat and offals, of pigs, fresh, chilled or frozen, excluding tongue and internal organs [2]	ex 02.01-2
5	Ham and bacon	02.06-1
	Meat and edible offals, of bovine animals and pigs, salted, in brine, dried or smoked	ex 02.06-2
6	Herring, cod (including Alaska Pollack), yellow-tail, mackerel, sardines, horse-mackerel and sauries excluding roes of yellow-tail, of mackerel, of sardines, of horse-mackerel and of sauries, fresh (live or dead), chilled or frozen.	ex 03.01-2-(2)
7	Hard roes of cod (including Alaska pollack) and of herring, salted, in brine, dried or smoked.	ex 03.02-1
	Cod (including Alaska pollock), herring, yellow-tail, mackerel, sardines, horse-mackerel and sauries, salted, in brine, or dried; "Niboshi" (small boiled and dried fish for seasoning use).	ex 03.02-2-(1)
	Cod (including Alaska pollock), herring, mackerel, sardines, yellow-tail, horse-mackerel and sauries, smoked.	ex 03.02-2-(2)
8	Scallops and cuttlefish, live; scallops, adductors of shellfish and cuttlefish, fresh, chilled or frozen.	ex 03.03-2-(1)
	Scallops, adductors of shellfish and cuttlefish, salted in brine or dried	ex 03.03-2-(2)
9	Sterilized or frozen milk and cream and other cream with fatty content 13 percent or more, fresh, not concentrated or sweetened.	ex 04.01
10	Milk and cream, preserved, concentrated or sweetened (excluding sugared condensed whole milk, sugared condensed skimmed milk, skimmed milk powder, whole-milk powder, buttermilk powder and whey powder).	ex 04.02
11	Processed cheese	04.04-1
	Other cheese (excluding natural cheese) and curd	ex 04.04-2
12	Small red beans	07.05-1
	Broad beans and peas, excluding seeds for growing vegetables	ex 07.05-2
	Other dried leguminous vegetables, excluding seeds for growing vegetables	ex 07.05-4
13	Manioc, arrowroot, salep, Jerusalem artichokes, sweet potatoes (excluding fresh sweet potatoes) and other similar roots and tubers with high starch or inulin content, fresh or dried, whole or sliced: sago pith.[2]	ex 07.06
14	Oranges, fresh	ex 08.02-2
	Grapefruit, fresh [1]	ex 08.02-3
	Tangerines, fresh	ex 08.02-4
15	Apples, fresh [1]	ex 08.06
16	Pineapples (whether or not cooked), preserved by freezing, not containing added sugar.[1]	ex 08.10
17	Oranges, provisionally preserved by sulphur dioxide gas or other preservative gases.	ex 08.11-2
	Limes, grapefruit, tangerines, grapes (Vitis vinifera) and apples, provisionally preserved by sulphur dioxide gas or other preservative gases [1] (except grapefruit and tangerines not liberalized June 1971).	ex 08.11-3
18	Black tea, put up for sale by retail [1]	09.02-1-(1)
	Other black tea [1]	09.02-1-(3)
19	Kao-liang and other grain sorghums, excluding such purchased by the Government and such to be used as materials for compound feeds under the supervision of the customs.[1]	ex 10.07-3
20	Wheat flour	11.01-1
	Rice flour, barley flour (including naked barley flour) and flours of Kao-liang and grain sorghums.	ex 11.01-2
21	Groats and meal of wheat and rice, excluding germs thereof; other worked wheat and rice (for example, rolled, flaked, polished, pearled or kibbled, but not further prepared), except husked, glazed, polished or broken rice, excluding germs thereof.	ex 11.02-1
	Groats and meal of barley (including naked barley) and kao-liang and other grain sorghums; other worked barley (including naked barley and kao-liang and other grain sorghums (for example, rolled, flaked, polished, pearled or kibbled, but not further prepared).	ex 11.02-2
22	Flour and meal of sago and of manioc, arrowroot, salep and other roots and tubers falling within heading No. 07.06 of the Customs tariff schedules.[2]	11.06
23	Malt, roasted or not	11.07
24	Starches; inulin	11.08
25	Groundnuts (groundnuts for oil extraction) [1]	12.01-2
	Rapeseeds and mustard seeds [1]	12.01-3
26	Edible seaweeds, formed into rectangular papery sheets not more than 430 square centimetres per piece.	12.08-2-(1)
	Seaweeds of genus Porphyra and other seaweeds mixed with genus Porphyra, edible, excluding those falling within heading No. 12.08-2(1) of the Customs tariff schedules.	12.08-2-(2)
	Other edible seaweeds (genus Enteromorpha, Monostroma, Kjellmaniella and Laminaria).	ex 12.08-2-(3)
27	Tubers of Konnyaku (Amorphophallus) whether or not cut, dried or powdered	14.05-1
	Other seaweeds (genus Porphyra, Enteromorpha, Monostroma, Kjellmaniella and Laminaria).	ex 14.05-2-(2)
	Dates, denatured	ex 14.05-4

See footnotes at end of table.

JAPAN'S LIST OF ITEMS SUBJECT TO IMPORT QUOTAS ILLEGAL UNDER THE GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT)—Continued

Number of items	Description of goods	BTN traiff No.
28	Soyabean oil [1]	15.07-1
	Groundnut oil [1]	15.07-2
	Rapeseed oil and mustard seed oil [1]	15.07-3
	Cottonseed oil, excluding such to be used for manufacturing mayonnaise [1]	ex 15.07-5
	Corn oil, safflowerseed oil and sunflowerseed oil [1]	ex 15.07-14
29	Sausages and the like, or meat, meat offal or animal blood [1]	16.01
30	Other prepared or preserved meat and offals, of bovine animal or pigs; other preparations chiefly consisting of meat and offals of bovine animals or pigs.	ex 16.02-3
31	Rock candy, cube sugar, loaf sugar and similar sugar, of beet sugar and cane sugar.	17.01-1
	Other beet sugar and cane sugar	17.01-2-(2)
32	Grape sugar not containing added sugar	17.02-1
	Malt sugar not containing added sugar	17.02-2
	Milk sugar (not containing added sugar), less than 90 percent pure milk sugar content.	ex 17.02-3
	Rock candy, cube sugar, loaf sugar and similar sugar	17.02-4-(1)
	Other sugar	17.02-4-(2)B
	Sugar syrup	17.02-5
	Caramel	17.02-6
	Artificial honey	17.02-7
	Sugars and syrups, other	17.02-8
33	Molasses, whether or not decolourized [2]	17. 03
34	Chewing gum [1]	17. 04-1
	Other sugar confectionery (excluding cough drops)[2]	17. 04-2-(2)
35	Flavoured or coloured sugars and molasses, but not including fruit juices containing added sugar in any proportion.[2]	17. 05
36	Chocolate confectionery [2]	18. 06-1
	Othe rfood preparations containing cocoa and added sugar, in powder, plate or lump.[2]	ex 18.06-2-(1)
37	Cookies, biscuits and crackers, containing added sugar [2]	ex 19.08-1
	Cookies, biscuits and crackers, other [2]	ex 19.08-2
38	Tomato puree and tomato paste	20 .02-2-(1)
	Mashed potatoes and potato flakes [2]	ex 20.02-2-(2)
39	Pineapples preserved by freezing, containing added sugar [1]	3ex 20.03
40	Fruit puree and fruit pastes	ex 20.05
41	Pineapples containing added sugar or spirit	20.06-1-(1)
	Fruit pulps containing added sugar or spirit	ex 20.06-1-(2)
	Pineapples, other	20.06-2-(1)
	Other fruit pulps and roasted ground nuts	ex 20.06-2-(2)
42	Fruit juices containing added sugar	20.07-1-(1)
	Other fruit juices, excluding sloebases	ex 20.07-1-(2)
	Tomato juice, the dry weight content of which is less than percent	ex 20.07-2
43	Tomato ketchup and tomato sauce	21.04-1-(1)
	Mixed seasonings chiefly consisting of sodium glutamate	ex 21.04-2-(2)
44	Food preparations containing added sugar, excluding rations, peanut butter and Korean ginseng tea [2] (except for canned corn).	ex 21.01-1
	Bases for beverages, nonalcoholic, excluding Korean ginseng tea.[2]	ex 21.07-2-(1)
	Ice-crean powder, prepared milk powder for infants and other preparations chiefly consisting of milk; food preparations of seaweeds (genus Porphyra, Entermorpha, Monostroma Kjellmaniella and Laminaria); "mochi" (rice cake), cooked rice, roasted rice flours, enriched rice with vitamin and other similar food preparations of rice, wheat and barley (including naked barley).	ex 21.07-2-(2)
45	Lemonade, flavoured spa waters and flavoured aerated waters, and other non-alcoholic beverages, containing added fruit juices, not including fruit and vegetables juices falling within heading No. 20.07 of the Customs tariff schedules [2] (except canned nectar).	ex 22.02
46	Ethyl alcohol neutral spirits, undenatured, of an alcoholic strength of less than 90 degrees but not less than 80 degrees.[2]	22.08-1(2)
	Denatured spirits, including ethyl alcohol and neutral spirits, of an alcoholic strength of less than 90 degrees.[2]	ex 22.08-21
47	Flours and meals, of whale meat or of fish, and residues of fish, unfit for human consumption.[2]	ex 23.01
48	Oilcake and other residues resulting from the extraction of soyabean oil [1]	23.04-1
	Oilcake and other residues resulting from the extraction of rapeseed oil or mustard seed oil.[1]	ex 23.04-2
49	Compound feeds, excluding those of more than 70 yen per kilogramme in c.i.f. value (put up for sale by retail, in containers of a capacity not more than 25 kilogrammes in net weight) (excluding those containing not less than 10 percent by weight of lactose or not less than 35 percent by weight of crude protein) and residues falling within heading No. 23.03 of the Customs tariff schedules (excluding residues of starch manufacture) (pelletized by the addition of molasses); and fish soluble unfit for human consumption.	ex 23.07-2
50	Unroasted iron pyrites [1]	25.02
51	Sulfur of all kinds (excluding insoluble sulfur), other than sublimed sulfur, precipitated sulfur, and colloidal sulfur.	ex 25.03
52	Other natural graphite, amorphous [1]	ex 25.04-2
53	Tungsten ore [1]	26. 01-5
54	Coal, except heavy coking coal, briquettes, ovoids, and similar solid fuels manufactured from coal.	27.01
55	Lignite, whether or not agglomerated [2]	27.02

See footnotes at end of table.

JAPAN'S LIST OF ITEMS SUBJECT TO IMPORT QUOTAS ILLEGAL UNDER THE GENERAL AGREEMENT ON TARIFF AND TRADE (GATT)—Continued

Number of items	Description of goods	BTN tariff No.
56	Gas oils, excluding those in containers of a capacity less than 300 litres	ex 27.10–1–(3)
	Heavy fuel oils and raw oils, excluding those in containers of a capacity less than 300 litres and raw oils for refining.	ex 27.10–1–(4)
	Other petroleum oils and oils obtained from bituminous minerals, excluding those in containers of a capacity less than 300 litres.	ex 27.10–1–(6)
57	Soda ash [1]	28.42–1
58	Menthol [2]	ex 29.05–2–(1)
59	Sodium glutamate [2]	29.23–3
60	Preparations with a basis of antibiotics, other (preparations of chloramphenicol, tetracycline and cycloserine, excluding preparations of derivatives of chloramphenicol or tetracycline) [2].	ex 30.03–1–(2)
61	Peppermint oil (excluding peppermint oil of mitcham type) and crude peppermint oil. [2]	ex 33.01–1–(3)
62	Dextrins and dextrin glues; soluble or roasted starches; starch glues [2]	35.05
63	Prepared dressings for starching [2]	ex 38.12–2
64	Bovine cattle leather (includng buffalo leather) and equine leather, except leather falling within heading Nos. 41.06, 41.07, or 41.08 of the Customs tariff schedules.	41.02
65	Sheep and lamb skin leather, dyed, coloured, stamped or empossed	41.03–01
66	Goat and kid skin leather, dyed, coloured, stamped or embossed	41.04–01
67	Patent leather and imitation patent leather, excluding imitation patent leather manufactured from leather falling within heading No. 41.05 of the Customs tariff schedules.[1]	ex 41.08
68	Articles of apparel of leather or of composition leather, containing furskin or combined or trimmed with precious metals, rolled precious metals, metals plated with precious metals, precious stones, semiprecious stones, pearl, coral, elephants' tusks, or "Bekko".[1]	ex 42.03–1
	Articles of apparel of leather or of composition leather, other [1]	ex 42.03–2
69	Wood charcoal (including shell and nut charcoal), agglomerated or not, excluding coconut-shell charcoal.[1]	ex 44.02
70	Footwear (excluding those for sports and slippers), with the uppers or whole leather or of furskin and leather in part.	ex 64.02–1
	Footwear (excluding those for sports and slippers), with outer soles of leather and with the uppers of leather in part.	ex 64.02–2–(1)
71	Parts of footwear of leather [1]	ex 64.05–1
72	Steam turbines, with a rating of more than 400,000 kilowatts [2]	ex 84.05–1–(1)
73	Internal combustion piston engines for motor vehicles (those for motor vehicles (excluding 3-wheeled motor vehicles) falling within heading No. 87.02 and 87.03 of the Customs tariff schedules).[1]	ex 84.06–1–(1)
	Parts of internal combustion piston engines (pistons, connecting rods, and cylinder blocks for internal combustion piston engines).[1]	ex 84.06–2
74	Digital type electronic computers and the machines of following descriptions, if imported with digital type electronic computers: Input units, output units, input-output units, and memory units, designed to work in electrical connexion with the computers above, and controllers belonging to the machines of all the foregoing.	84.52–1–(1)
75	Digital type electronic computers and the machines of following descriptions, if imported with digital type electronic computers, excluding electronic calculating punches with self-contained mechanism for reading and punching cards: Input units, output units, input-output units, and memory units, designed to work in electrical connexion with the computers above, and controllers belonging to the machines of all the foregoing.	84.53–1
	Input units, output units, and input-output units designed to work in electrical connexion with digital type electronic computers (other than those specified in heading No. 84.53–1 of the Customs tariff schedules).	84.53–2
76	Input units, output units, input-output units, and memory units designed to work in electrical connexion with digital type electronic computers; magnetic tape converters and magnetic tape printers used together with those machines.	84.54–1
77	Parts suitable for use solely or principally with machines of a kind falling within heading Nos. 84.51–1–(1), 84.52–1–(1), 84.53–1, 84.53–2 or 84.54–1 of the Customs tariff schedules.	ex 84.55
78	Telephone switchboards and exchanges (electronic system) [2]	ex 85.13
79	Mounted transistors and similar mounted devices incorporating semiconductors (digital type integrated circuits; linear type integrated circuits with not less than 100 elements in circuit).	ex 85.21–2
80	Controllers for digital type electronic computers or for the machines of following descriptions: input units, output units, input-output units or memory units designed to work in electrical connexion with the computers above, and magnetic tape converters or magnetic tape printers used together with the machines of all the foregoing.[2]	85.22–1
	Other electrical goods and apparatus (those suitable for use solely or principally with machines of a kind falling within heading No. 85.22–1 of the Customs tariff schedules).[2]	ex 85.22–2

[1] To be liberalized by the end of June 1971.
[2] To be liberalized by the end of September 1971.

Note: A 4-digit BTN (Brussels Tariff Nomenclature) item is counted as one item, e.g., 12.08–2–(1), 12.08–2–(2) and 12.08–2–(3) are counted as one item, edible seaweed. The prefix "ex" indicates that only part of the item is subject to import controls.

ITEMS SUBJECT TO QUANTITATIVE RESTRICTIONS WHICH JAPAN CONSIDERS LEGAL UNDER THE GATT

Item	BTN tariff No.
State traded items (9):	
Sugared condensed whole milk, sugared condensed skimmed milk, skimmed milk powder, whole-milk powder, and whey powder	ex 04.02
Butter	04.03
Wheat and meslin	10.01
Barley	10.03
Rice	10.06
Alcohol, alcoholic strength 90 degrees or higher	ex 22.08
Unmanufactured tobacco	24.01
Manufactured tobacco	24.02
Salt	ex 25.01
Narcotics (9):	
Coca leaves, canabis plant and poppystraw (poppystraw State traded)	ex 12.07
Resin, extracts and tinctures of cannabis, raw opium (raw opium state traded), and crude cocaine	ex 13.03-9-(2)
Phenyl-aminopropane and its salts	ex 29.22-5
Methadone group of narcotic drugs	ex 29.33-4
Aniline group synthetic narcotic drugs	ex 29.25-6
Methadone group of narcotic drugs, excluding those with morpholine nucleus	ex 29.27-3
Aminobutane group of synthetic narcotic drugs	ex 29.35-11
Opium alkaloids, cocaine, ephedrine, and their compounds	ex 29.42
Preparations containing phenyl-amino-propane, preparation of opium alkaloids, etc	ex 30.03-4
Fissionable materials (5):	
Ores of radioactive elements	ex 25.32-1-(2)
Fissile chemical elements and isotopes, compounds, etc	ex 28.50
Compounds of thorium or uranium depleted in U235	28.52-1
Uranium, thorium and articles thereof	es 81.04
Nuclear reactors and parts	84.59-6
Gold (3):	
Gold ore and metal ores of radioactive elements	ex 26.01-8
Slag of gold	ex 26.03-2
Goldsmith's sweeping residues, waste and scrap of gold	ex 71.11-2
Sera and vaccines (1):	
Microbial vaccines and anti sera	ex 30.02
Explosives (4):	
Propellant powders	36.01
Prepared explosives other	36.02
Mining, blasting, and safefy fuses	36.03
Percussion and detonating caps	36.04
Aircraft, aircraft engines, and parts; radar and radio navigational aid apparatus for aircraft; arms and ammunition (17):	
Engines for aircraft and parts	84.08
Radar and radio navigational aid apparatus for aircraft	ex 85.15
Tanks	87.08
Balloons and airships	88.01
Flying machines, gliders, rotochutes	88.02
Parts of goods in 88.01 and 88.02	88.03
Parachutes and parts	88.04
Catapults; ground flying trainers	88.05
Warships	ex 89.01
Instruments for measuring or detecting alpha, beta, etc., radiations (those containing nuclear fuel)	ex 90.28-3
Side-arms (swords, etc.)	93.01
Revolvers and pistols	93.02
Artillery weapons, machineguns, etc	93.03
Other firearms	93.04
Arms of other descriptions, including air and spring rifles	93.05
Parts of arms	93.06
Bombs, grenades, torpedos, etc	93.07

Chairman BOGGS. Mr. Secretary, how is the bilateral arrangement with Canada on automobiles working?

Secretary STANS. Well, it is generally believed to be working out fairly well for both parties and for the automobile industry. It gives a flexibility that they did not have before. In terms of trade, however, it has resulted in shifting our trade balance with Canada from a surplus on our part to an apparently substantial deficit. We are negotiating with the Canadians to cause them to remove some of the so-called temporary inhibitions that they applied initially. I don't think that will have a significant effect on the trade balance. But at the present time, it is favorable to Canada in a fairly substantial amount.

Chairman BOGGS. So if you have a Canadian-plus and a Japanese-plus, you add much to our deficit figure?

Secretary STANS. That is exactly right.

Chairman BOGGS. What is the Japanese figure now,

Secretary STANS. The Japanese figure last year was about $1.2 billion. It is running at a rate of over twice that this year so far, which would put it up in excess of $2.5 billion.

Chairman BOGGS. And a decade ago, it was just the other way around; was it not?

Secretary STANS. Yes.

Chairman BOGGS. Mr. Widnall.

Representative WIDNALL. Thank you, Mr. Chairman.

Two weeks ago, the House Banking Committee reported out a bill, H.R. 8181, which, among other things, would remove export credits from the restrictions imposed by the Federal Reserve voluntary credit restraint program. Does the Commerce Department support this provision?

Secretary STANS. Yes, we do. We testified for it and we think that it is time for that action to take place.

Representative WIDNALL. What effect do you believe it would have on our trade balance?

Secretary STANS. Well, to the extent that we apply the provisions of H.R. 8181 that remove export credit restrictions to individual countries among the Eastern nations, it could open up markets to a further degree. There will still remain an impediment to trade with those countries because of the fact that they do not have most-favored-nation status under other sections of the law. I could not possibly quantify how much more goods we would sell if we had the ability to extend credit to those countries, but I think it would be important over a period of time and it is something that is essential to the improvement of our trade position.

Representative WIDNALL. Through the years I have been in Congress, we have continually been negotiating with other countries with respect to our trade and we have arrived at a number of agreements with which there seemed to be satisfaction at the time. Yet in review, it seems to me that we have gotten further and further behind the eight-ball after we have finished our agreements and when we have gone into actual operations. Have there been any positive gains that you can point to that have been of real beneficial interest to the United States?

Secretary STANS. I would like to discuss that just a little bit, because I think we have to accept the fact that agreements negotiated in the past have been in terms of the international environments of those times. The United States, for many years, has been a super nation, far ahead of all of the others in economic progress and the capacity to yield concessions to other countries, particularly in the period of the last 25 years, when many of the other countries of the world were recovering from the destruction caused by World War II. I do not criticize those agreements, even though in today's light, they did look considerably disadvantageous to the United States. I think the problem that we face, rather, is to establish a policy and a position of determination to demand and receive reciprocity in all of our trade relations, recognizing that we are no longer a super power to that extent, that there are many strong nations in the world quite well able to take care of themselves.

So my answer is that I do not believe we should condemn necessarily any previous agreements. I think we should recognize that the time has come for new agreements and new conditions.

Representative WIDNALL. I think one of our greatest problems today is the fact that many members of the Congress and many of our citizens do not realize that we have lost the ability to call the shots that we used to have just a few years ago. This certainly necessitates a different approach than we have had in the past and a willingness to recognize some factors that apply to other countries which we have not been willing to recognize in the past.

All I know is that you are in a tough position when you try to improve the entire setup.

Secretary STANS. I think that is right and I think the executive branch has been ahead of the Congress for a few years now in recognizing the changing situation and the concerns that are developing. I welcome this hearing and the other hearings that have been going on in the Senate and in the House on our international trade position, because we are now at a point at which we require total cooperation between the executive branch and the legislative branch to meet with a set of circumstances that is entirely unique in the history of this country. We may end up this year—I am not predicting this—we may end up this year with a trade deficit for the first time in 75 or more years. And I think we need a great deal of determined attention on the part of both the executive and the legislative to cope with that kind of situation before it gets worse.

We have in the last 2 years proposed a number of the things that we are talking about—increased Eximbank credit, the DISC, the foreign incentives for exporters and so on, and we need not only to get those but to determine what else it is that we have to have in the way of legislative authority to cope with all these problems.

Representative WIDNALL. Would you discuss briefly your views on the current proposal by the Export-Import Bank to take their operation out from under the Federal budget?

Secretary STANS. Well, as a former Budget Director, I acknowledge that there are a number of implications of that action. But I think the overriding one, again, relates to our international trade position. The Export-Import Bank has been impeded considerably in its operations in the past and currently because budget figures are fixed 18 months in advance of the year, of the end of the year, and many times it finds that the authority that it has under the budget to make commitments or to invest its funds will expire long before the end of the year.

Now, it is my position that the Export-Import Bank should have all the funds that it needs in order to finance proper export transactions; that it should also have all the authority that it needs to be able to meet the competitive financial terms that are offered by other countries. Therefore, I support and have supported very strongly the proposal to remove the Export-Import Bank from the budget.

This does not mean in any sense removing congressional oversight from the operations of the Export-Import Bank, but it does mean that we will do one of the things that is necessary to equalize the position of an American businessman with the businessman in another country; that is to give him the credit that he needs to make the transaction.

Representative WIDNALL. What is your opinion about granting most favored nation treatment to the Eastern bloc countries?

Secretary STANS. This is a matter, obviously, which has not only commercial significance but has diplomatic significance. I think that the proper answer to this lies with the executive branch. If the Congress sees fit to give the executive branch authority to use this in its relationships with Eastern countries. I think it will be used carefully by the President in circumstances which recognize the political and diplomatic factors as well as the commercial factors.

Representative WIDNALL. In your statement, you make some statements about the need to examine our antitrust philosophies, to embargo greater export promotion, and to induce American companies to allocate more resources to the export market. What has the administration done or proposed besides the DISC that would make a significant impact on our export capabilities?

Secretary STANS. Well, we have proposed changes in the provisions of the law relating to the escape clause and adjustment assistance last year. We have proposed the change in the authority of the Export-Import Bank. We proposed various other changes in our trade laws last year, giving the President authority to adjust tariffs in certain cases, to take actions against other countries in cases of unfair trade practice, and so on.

We have not made any proposals in the field of antitrust. This is a matter which is under study at the present time. Similarly, the question of additional incentives to exporters beyond the DISC proposal is under study.

We have been negotiating with other countries, including Secretary Rogers recent efforts in the OECD, to bring about a procedure to reduce the discriminations against American goods in other countries. And as I said, we are engaged in a very substantial study of the technology problem to see what we can propose to the Congress this year to provide incentives to improve our technology.

We have legislation before the Congress which is very important in the field of international standards, technical standards, because we have been disadvantaged in trade opportunities by actual and proposed activities in other countries to find standards of measurement and performance that would be detrimental to American products, particularly since, in some cases, this is being done without our participation in the setting of the standards. That is a very important piece of legislation.

Representative WIDNALL. Do any of the other countries have similar antitrust legislation, similar to the United States?

Secretary STANS. I cannot answer for all countries. I would say that those who are important trading partners do not have antitrust legislation of the scope that we do. Many of them, as you know, permit cartels and other working arrangements that would be in violation of our antitrust laws. This is a study which is underway now and generally, I would say that we are disadvantaged by the fact that our antitrust laws are much more severe than those that do exist in other countries.

Representative WIDNALL. That is what I was leading to, that we are at a disadvantage because of the fact that they do not have the restrictive factor of antitrust laws in these other countries that we are competing against.

Secretary STANS. That is right, and where they do have antitrust laws, in many cases, they exempt foreign trade from the antitrust laws; in other words, have a different standard for exports than for local domestic transactions.

Representative WIDNALL. Do you believe that we should continue to distinguish in our laws between adjustment assistance for industries and workers affected by imports, which you say we should make more effective, and adjustment assistance to industries and workers substantially affected by domestic competition, a distinction which is recognized only obliquely in EDA legislation? Do you believe we should develop stronger programs in adjustment assistance which might be required as a result of domestic competition?

Secretary STANS. I think there is a distinction between adjustment assistance for companies affected by imports and adjustment assistance for companies that are affected by domestic competition. We not only need the proposals that we made to the Congress last year to permit us to deal more effectively with import problems through adjustment assistance and larger amounts of money to deal with them, as we have proposed in the budget for this year; we probably need other means of providing adjustment assistance to companies affected by imports.

Except in extreme cases, I am not very much of the opinion that we need adjustment assistance to help companies in the United States that are affected by domestic competition exclusively. I think the free enterprise system requires us to face up to the fact that there will be success and failures and only in the cases that are of sufficient significance to have an impact on the national economy should we seriously consider adjustment assistance.

In other words, I would go along with a proposal similar to that made by Mr. Arthur Burns that we set up procedures whereby the executive branch can provide assistance in cases of major significance, but not as a general rule.

Representative WIDNALL. Could you bring us up to date as to the present status of the recommendations that you made last February?

Secretary STANS. In what respect, sir?

Representative WIDNALL. Well, I am talking now about the suggested measures that you offered on more effective adjustment assistance, reduction of the nontariff barriers to U.S. exports, establishment of trade development centers in developing countries, the Domestic International Sales Corporation, the review of antitrust laws. I think you said that you were reviewing those at the present time.

Secretary STANS. Yes.

Representative WIDNALL. Maritime policy, and taking the Eximbank out of the Federal budget and establishing the Council on International Economic Policy. Now, we partially discussed taking the Eximbank out of the Federal budget, but your comment on the other things would be appreciated.

Secretary STANS. Well, you see, the President has created a Council on International Economic Policy under Peter Peterson and it is very actively engaged in studying many of the issues we have been talking about here. The Department of Commerce is cooperating in providing its resources and data to that Council and I think it will have a very significant impact in the determination of a uniform administration policy on a great many of the international trade and economic issues.

The DISC proposal which we sent to the Congress last year passed the House, but was not accepted by the Senate—in fact, was eliminated from the bill before it came out of committee.

The Treasury Department is restudying the DISC question to determine whether or not any modifications of it are desirable or whether any alternative forms of incentive for exporting can be adopted. I am not exactly sure what status that study is in, but I would hope we could have some public action on it relatively soon.

In the matter of adjustment assistance, there has been no change legislatively. The proposals that we made last year have not been enacted.

There has been quite a difference in the approach of the Tariff Commission on these cases. Although the adjustment assistance provisions were enacted in 1962, there were no cases giving relief to corporations until almost the end of 1969, when the first case of adjustment assistance relief was granted. There have been quite a number since then. I think my statement mentions 11 specific cases in which adjustment assistance relief was authorized. We are in the process of dealing with each of these cases. A few of them have gotten to the point of financial assistance.

Unquestionably, there will be a lot more of these cases as time goes on under the present policies of the Tariff Commission and there should be many more if the Congress will enact the modifying provisions of the law that we proposed last year.

Now, in the nontariff barrier issue, there has been a considerable number of meetings in the GATT, in the OECD, and other frameworks, trying to induce the other countries to agree with us on a series of negotiations to put these barriers at least on a reciprocal basis so that they apply equally in our behalf as they do against us. Secrteary Rogers raised this issue in the OECD a few weeks ago and as you know, an international task force or group has been appointed by OECD to study this question and to try to make some progress on it.

In some respects, in the meantime, the progress has been very little. We have been trying for a long time to get other countries through GATT and through OECD to agree with us on uniform procedures for Government procurement. We have the Buy American Act which spells out the range of preferences given to American producers as against foreign producers. The other countries have much less open processes of determining how their government procurement should take place. In many cases, it is impossible for an American company to bid on procurement by a government agency in a foreign country. Reciprocity there would solve that one.

We have been talking with other countries meantime about border taxation, which I consider to be a very heavy discrimination against the United States, with no progress whatsoever.

In the field of international standards, we have arranged, after considerable effort, to be a party to discussions that are taking place right now in London on electronic standards and I hope that we can continue to convince these countries that we are entitled to full participation in the setting of any international standards.

So there have been a number of movements in the questions that have been raised and those that I have mentioned last February. Movement in international affairs is always relatively slow, as it is in legislative matters. But I think we are at a point now where we cannot tolerate delays of the kind that have taken place in the past. As I have said earlier, I welcome all of the consideration that is taking place in the Congress now on these various matters, because the time has long passed where we need to take action.

Representative WIDNALL. Thank you, Secretary Stans.

That is all.

Chairman BOGGS. Mr. Brown, do you have anything else?

Representative BROWN. Yes, sir; if I may, just a couple of questions.

Mr. Secretary, in the July 1970 issue of Foreign Affairs, Raymond Vernon writes about problem areas of multinational business activities which are suitable for some form of international control. One such problem area includes subsidies and tax concessions which countries use as incentives to attract foreign industry to their shores. He says:

> The competition among advanced countries in making lavish capital grants to industry and among less developed countries in extending broad tax exemptions to industry should be brought under some measure of control.

Do you agree with that analysis and recommendation? Are we facing a problem here?

Secretary STANS. Well, I would like to discuss this in a little larger context, if I might, because several things are happening to multinational corporations. Some countries are offering them tax concessions, capital grants, and subsidies to induce them to come into the country, because they do bring in employment, technology, and capital. It is very helpful in the development of the country.

On the other hand, the opposite kinds of things are happening in some countries: nationalization, confiscation, changes in the rules of the game, reducing the authorities or the ownership interests and so forth, of the foreign companies.

Now, I do not think we can generalize, then, on the whole problem of the multinational corporation. I think here again, the United States is in need of a national philosophy and a national policy for dealing with the multinational corporations. There is a serious question as to whether we should not take a stronger position when the rights of American companies in foreign countries are invaded, or when they unilaterally change the contracts that they have made with American companies.

I can understand the position of the foreign country, the developing country, which is offering inducements to multinational corporations, not only those from the United States but from Japan and Germany and other countries. I visited 29 countries as Secretary of Commerce and if there is one characteristic that exists in every one of them, it is the intense desire for economic development for increasing the standard of living of the people, increasing the per capita income. And in every sense, the terms are made in comparison with the United States. They want to be at the same level of standard of living as the United

States or they want to be up to half of the level of living in the United States, or some other measure.

Now, this is what leads them to offer the subsidies and tax concessions, because the country that really looks to its future realizes that they cannot possibly generate internally the capital and the technology that they need to accomplish those national goals.

I would not necessarily condemn those practices at this time. I certainly do feel very much concerned about the actions of the countries when they move against capital that is already within the country. I think that is something to which we need to address ourselves much more severely than we have in the past.

Representative BROWN. Well, to pick up another angle of that same problem, in another part of the same article, he describes some multinational corporations that have been able to juggle their books so as to yield the best tax advantages for the business. He says:

> The curiosity of governments over how allocations are made and how they affect tax liabilities is growing speedily. Questions of international transfer pricing, overhead allocation, the use of debt in lieu of equity and similar esoteric issues are rapidly becoming familiar concerns of many national tax offices.

Vernon's approach is to get international agreements, either to accounting principles which will be applicable to all tax jurisdictions or to formulas for prorating a multinational corporation's total profit among the countries in which they do business. And there are other possibilities, too, I suppose.

What is your opinion of the prospects of getting any kind of agreement in the tax area or perhaps even more broadly, any kind of international understanding as to how we might deal with this problem of multinational investment. Can we get, perhaps, tax treaties, economic investment treaties, and so forth?

Secretary STANS. I think there is some truth in the contentions that are made in that quotation. I believe in some respect, they may be exaggerated, because I do not believe that a very major U.S. corporation is in a position as a practical matter to juggle its books as between 30 or 40 countries in which it operates. But nevertheless, the suspicion does exist and there is some basis for it.

Here again, there are other problems that are created by the actions of the various countries that in a sense induce that type of action. For example, there are some countries that restrict very significantly the fees that can be paid for the use of patents and processes. They inhibit the movement of payment for royalties, and so on.

Now, I think what is really necessary here to cope with all of that and similarly, to cope with changes in the rules of the game to take place with the subsidies and tax concessions and capital grants, is some kind of an international investment treaty or international investment code whereby the developed countries might agree on how these things should be done in their mutual interest. Certainly, all the points that have been raised are essential to that kind of a consideration and the one that is most important in my mind is that of dealing with the question of a country that induced capital to come in and then once it is in, either takes it over, with or without payment, or changes the rules of the game in such a way as to make it very disadvantageous to that operation.

Representative BROWN. In an historic sense, we have been reasonably successful, have we not, in controlling the patent arrangements? I was just in Geneva and a friend of mine, with whom I graduated from Harvard Business School in this country, is now a French banker operating in Geneva. As we discussed this whole problem of the United States falling in its technological development and perhaps being not the leading nation in the world in an economic sense, he said you have a great reservoir of strength as long as you maintain the patents which you now possess in many fields of technological development. This supports your contention that technology is extremely important in our trade situation.

I said, yes, but what happens if we get a piracy philosophy going in the trade area with respect to the patents in addition to some of the other aspects, as seizing a company once it is in and contributing to the economy of the developing nation?

The response was that very effective way the French have of shrugging. We did not really get into an answer to that question.

It occurs to me that there is in this whole area of economic interplay which is now increasingly important, not only for the rest of the world but for us, as we have established earlier, a feel for the expansion of international law and international treaty understandings and, in effect, international government. Would you concur in that?

Secretary STANS. I would say that the arragements for the protection of patent rights of intellectual property are improving around the world. There is a treaty to come before the Senate soon that was negotiated last year which improves very considerably the international arrangements on the granting of patents. Just last month, the Commissioner of Patents, who is in the Department of Commerce, was in Russia and received assurances from the Russian Government that they would respect American patents filed in Russia. So I think the arrangements generally for the protection of patent rights and know-how are improving considerably.

The one area in which there is still a great deal of trouble expressed by American businessmen is in the tendency of countries to try to regulate the rate of royalties that may be paid for the use of patents in those countries. Where normally, in ordinary commerce, the licensing rate may be a 5-percent royalty, there is a tendency on the part of these countries to restrict that to a lower figure and considerable difficulty on the part of American companies in working out the problems that come up in cases like that.

Representative BROWN. I am reluctant to ask what committee has the technical standards legislation, because I am afraid you are going to tell me it is a committee on which I serve.

Secretary STANS. I believe it is the Commerce Committee.

Representative BROWN. Well, that hit it.

We will see if we cannot encourage their interest.

Secretary STANS. Please do.

Representative BROWN. The U.S. balance on investment account—that is, repatriate earnings versus foreign investment—I am told in 1970 was $3.5 billion surplus in our favor. A member of the Brookings Institution has postulated that the net surplus will grow steadily throughout the 1970's to something like $15 to $20 billion. If that is in the cards, is our traditional trade surplus really as important a goal in the 1970's under that circumstance as we have previously felt it was?

Second, if we restore our traditional large trade surplus and we continue to have this large surplus on investment account, will we not have a substantial disequilibrium in our favor in the future?

Secretary STANS. I have not seen that analysis. I would like to get it to determine whether I would agree with the possibilities of building up the investment returns to that extent. I think I would be quite skeptical of that possibility unless we allow free movement of capital out of the United States. Now, we do not allow that now because there are restrictions on foreign direct investment.

Representative BROWN. Is my first bit of information correct, a $3.5 billion surplus?

Secretary STANS. That is approximately correct; yes. The point I am questioning is whether it is likely to go to $15 or $20 billion, particularly in view of the present restrictions on foreign investment.

I would agree arithmetically that if we had a $15 or $20 billion return on foreign investments, we might not need that $5 billion trade surplus. But these factors have a tendency to adjust themselves in any relationship and I would think that if we had a very large trade surplus and a large return on investment, then other things would happen; we would increase our investments overseas, our tourism would increase, foreign aid would increase, and other factors would evolve. So that I think the statement is an oversimplification of the situation.

Representative BROWN. You mentioned earlier, and I do not want to probe into areas of developing policy if they have not fully gestated as yet for fear of creating stillbirth, but with reference to antitrust laws, you indicated that some countries have an arrangement where foreign trade is exempted. I am curious to know how that works out technically, how they do that. I think I understand, but I would like you to comment on it.

Also, I would like to ask for the status of the possibilities of the revision of U.S. antitrust laws. It occurs to me that it is very difficult for a Republican administration to propose modification of the antitrust laws that would work in the interest of the business community, because of course, that is necessarily suspect if a Republican administration does it. Now, if a Democratic administration does something like that for the benefit of business, such as the proposal made in the Kennedy administration for the improvement of the investment tax credit situation, why, is it not taken with the same jaundiced view as one might see it taken by the public if it were done under the Republicans?

I do not say this with any partisanship. I am sure if the Democrats proposed labor legislation, there would be a lot of cynical comment about whether that was a sort of inhouse love fest or whether it was meant for total improvement in the society. I want to say this is not said in any partisanship. I think it is a fact of life in our media-ridden society that there is a good deal of suspicion here.

So could you explore a little bit what might be under consideration or will you obliquely discuss what some other nations do that we ought to be giving some consideration to?

Secretary STANS. Well, our considerations of antitrust policy are in a very preliminary stage in the executive branch. I think the Department of Commerce might have some views which have not yet been disclosed or agreed to by other agencies.

Representative BROWN. I think you probably are talking about the Justice Department in particular?

Secretary STANS. You are correct.

Now, these things will go through the usual considerations. I am not in a position to say that there will be any proposals to the converse contained in the legislation when we get through, but other possibilities of adjusting our trade balance will be of so much greater importance that we will discuss the antitrust matter. So I cannot really answer, and I would just express the one hope that if we do come to the conclusion that something should be done, we can take it out of politics because the situation that we are in is one that involves the future of this country to a very great degree and we are going to need all the help we can get from both parties in order to see that we adjust the affairs of the United States to cope with the new kind of world that exists.

Now I am going to ask Mr. Fox to comment on the question of what antitrust advantages or what the absence of antitrust restrictions are in other countries.

Mr. FOX. Mr. Brown, the principal feature of those few foreign governments which have regulations in the antitrust field is that they regard the competitive situation in their own country as quite a distinct thing from the competitive situation in world trade. In general, most countries have a more relaxed attitude toward the antitrust implications of competition within their own countries than we do. So we start out with a much higher standard, even for domestic business.

With respect to international business, they simply generally regard that as not relevant to their antitrust objectives. Therefore, it is possible in most instances for foreign companies to combine for purposes of export market development.

Representative BROWN. May I interrupt you just for a minute and go back to the analogy I drew from my original question about our historic background as opposed to historic backgrounds of certain other island nations such as England or Japan, where they import, manufacture, and export. Is that not a contributing factor in our tendency to develop a strong antitrust legislation as opposed to other nations not being as concerned about trust monopolies?

Mr. FOX. Well, I really hesitate to comment in quite this global way. I think the history of development of antitrust in our country reflects no concern at all for the international side in the assumption that all the competition that was needed to regulate prices and markets had to be developed domestically and therefore, the domestic side of the regulation had to be complete. Further, it was then viewed that if American companies got together even in connection with their foreign markets, there would be the possibility or the likelihood that that cooperation in foreign marketing would affect their competitive position and actions in the domestic market. So therefore, the approach in the United States has been, with one exception that I will mention, really to look at competition in the United States as a whole picture and to disregard the fact that American companies in competing abroad were dealing with foreign companies which were permitted by their own countries to engage in cartels and other practices that simply were not possible, to the competitive disadvantage of the American companies.

The only exception to that generalization is under the Webb-Pomerene Act, where it is possible with the approval of the Justice Department for American firms to get together under the specified conditions to market products abroad, form a Webb-Pomerene Corp., in effect. The application of that law has been rather limited and generally to homogeneous products where the marketing of the product could be allocated among the various American producing companies on an arithmetic basis. A typical example would be sulphur, a very limited application.

In foreign countries, the approach is sort of the opposite.

Representative BROWN. I just want to underscore that this is a marketing provision. I mean this permits a marketing cartel, but not a manufacturing or production cartel or even—does it permit the vertical integration of a——

Mr. FOX. You are correct, Mr. Brown. I would not use that word "cartel." The Department is not authorizing a cartel. It is a marketing group, usually through a separate corporation. And the Justice Department, I think, is satisfied that there is no price fixing insofar as the domestic market is concerned.

Representative BROWN. What about the vertical integration? In other words, it does not permit a combination of products, transportation, marketing and so forth, or does it? It does not permit vertical integration?

Mr. FOX. It does not permit vertical integration.

It would permit the Webb-Pomerene corporation to permit transportation of the objects, obviously, in a foreign market. Now, the conditions under which the transportation takes place in the United States would be determined by the Webb-Pomerene corporation. I suppose it would have to be demonstrated to be non-market-disruptive if that question were raised.

Insofar as other countries are concerned, for example, in Japan, there is positive encouragement given to companies to combine for the purpose of foreign sales. So therefore, there is not a matter of several companies in a highly competitive field competing at the expense of the ability of the country as a whole to market certain products. Encouragements are given to consolidations of companies and then encouragement is given to marketing efforts through combinations. I think the practice varies greatly from one country to another and I think among free world countries, probably the Japanese attempt the least to provide any surveillance with respect to the foreign operations of companies as far as antitrust is concerned.

Secretary STANS. I have a few examples of combinations in other countries that would not be permitted in all probability in the United States. For example, the German machine tool industry has a joint institute for research and development. Japan has a central research and development activity in computer technology. Neither of these, I believe, would be permitted under the antitrust laws in the United States.

Mr. Fox. I might give another example. The French, under their Plan Calcul, which is in the computer field, has positively given incentives to merge French companies in the computer business. In order to induce that, not only do they have no fear of antitrust type implications, but they have been given assurance of government contracts to produce, to purchase computers.

A similar plan not so highly developed has been encouraged in the UK, with the purpose of inducing the development of one or two major computer manufacturing companies. So you see, there is an example where the domestic aspect is definitely altered so as to produce a combination that is more competitive with respect to imports in the home market and more competitive in its ability to export.

Representative Brown. I want to observe as a former Methodist that there used to be a comment that a church needed from time to time a preaching minister, a membership development minister, a building minister, and then a stewardship minister to pay off the debt. It occurred to me that perhaps this is also true of the United States in its problem areas. Perhaps from time to time you need a wartime president, a domestic social problems president; now maybe we need a foreign trade president who will have the courage to lead the country into some new thought patterns with reference to our need in foreign trade. If it is possible that this could be organized within the Cabinet under one President, it would be fine. But I am a little concerned that probably you will run into some opposition about these problems within the Justice Department, which may be thinking along traditional lines about our domestic problems and not looking at the international aspect.

I would assume that the same thing might exist with reference to your approach to tax incentives vis-a-vis the Treasury Department and its concern about the elimination of tax resources for the Federal Government.

We have recently been through the mill—I think that is not an overstatement of the case— with regard to the SST, which provided a national subsidy for the development of a highly technology-oriented product in a highly technology-intensive industry. The Congress has said, in effect, no, that is not for us at this time. I, of course, in a personal sense, and I think I speak for other members of the committee, feel that was a bad decision. I would gather from what you said, Mr. Secretary, with reference to the importance of the development of our technology-intensive industries, that you would share concern that that was a bad decision and that the approach of subsidy is one that must be balanced against the question of tax incentive, since you would be doing the same thing in a different way through a tax incentive approach.

This is a long question, but in an era when we seem to be spooked—maybe that is an unfair word, too—but spooked politically by environmental concerns or the word "priorities" and some other things, should we, as a society, be putting our economic organization of such things as incentives for technological development into a process that permits their being vetoed someplace along the line, such as a subsidy was in the case of the SST, or should we put them into tax incentive areas fundamental in the law so that this kind of thing can continue to develop without closer scrutiny so that we can have a continuing program rather than have each one of these things subject to congressional review or direct review?

Secretary STANS. There are two things you discussed that I would like to comment on. One is the business of bringing together all of the viewpoints of the various departments of the Government in the resolution of policy. This is always a difficulty for any administration. This is the reason the President has organized the Council on International Economic Policy under Peter Peterson, to bring the kind of problems that you referred to in a forum in which all the parties participate and then get a decision and make that national policy. I think you will find this to be, in the months to come, a very effective means of reconciling the various viewpoints.

Now, we go to the SST and the implications of that and I certainly would agree with you that it was a very unfortunate thing that the Congress decided not to permit this to go ahead. It is probably the first time in the history of the United States that the Congress has said we want to stop our technology at this point; we are not in the least bit concerned about whether some other country picks up the technology and gets that advantage on us. If that philosophy is ever permitted to extend to other products, I think it will mark the day of the beginning of the real decline of the United States as a major Nation.

We should have gone ahead with the SST. The potential damage to the environment by the building of two prototypes, in my opinion, is completely insignificant in relation to the economic potential of the SST. The difference between our having an economically viable supersonic transport and having some other country have it is somewhere in the range of $20 billion in U.S. trade position over the next, over the 12 years after the first one is on the market. That is a benefit, among other things, not only for the balance of payments but a tremendous number of jobs for American workers. I think it is almost disastrous that the Congress took that action.

Now, when you go beyond that, I think there is only one position that must prevail, that there must be a balance between national objectives. We cannot let the environmental consideration overrule all questions of the economic impact or of the technological impact. If we do, we will take all the automobiles off the street tomorrow, because they pollute the environment. We know that we cannot do that, so we try to find other ways of resolving the problem of improving the environment, for which we are all in agreement.

One of the great concerns I have is that the legislation passed by the House in clean air and clean water does not contain any provision for consideration of the economic impact, and until we do find a way of considering the economic impact, we may find that we are taking an awful lot of steps in the country that will lead to eventual serious decline in the American economy.

Representative BROWN. Let me push that just one step further, because it was implicit in my question. Would we not be better off with a tax incentive program for technological development, rather than a subsidy program which must be reviewed and occasionally get spooked by these questions that are contradictory political issues of the moment—perhaps of the moment, perhaps of long range? Should we not balance these things down within the system rather than bringing them all to the fore so that they can be impacted by media arguments that may not be substantive in terms of real balance?

Secretary STANS. Well, I think I understand your point and I think I would agree that there might be a greater permanence in a program of tax incentives for research and development than there is in the case of subsidies which come up individually. I suppose the Congress could nevertheless, under certain conditions, decide that a tax incentive should not apply to a particular project. If you are going to get into a matter of really fundamental research that is beyond the competence and capability of industry—by competence, I mean financial competence——

Representative BROWN. A single industry, you mean?

Secretary STANS. Of a single company or a single industry, such as, for example, solar power, I think it is going to be necessary either that there be subsidies or tax incentives. And there are 20 other subjects similar in scope to that, that I could mention, where business can't do the job because it does not have the resources and where Government is going to help. Whether it is done by tax incentives or by subsidies is probably not very relevant so long as we get the job done. But I would agree that there might be more permanence to a tax incentive structure than to a subsidy-type arrangement that requires individual consideration.

Representative BROWN. I would go back to your question about domestic failures. We currently subsidize to some extent domestic failures, not just through EDA but through, to some extent, generous bankruptcy laws. We subsidize them through business loss tax write-offs. We do not have to approve any specific legislation to assist a domestic industry in those areas. That sort of undergirding is there now. It seems to me that if we write into law the undergirding of the research and technical development, we would be benefited from it.

I have gone well past my time and I appreciate the generosity of the chairman in permitting me to do so. I would just like to suggest two other thoughts which you may or may not wish to respond to.

First, with reference to labor legislation. It seems to me to be particularly difficult for the Secretary of Commerce to recommend in the area of labor legislation in the same way that it may be difficult for a Republican administration to recommend in an area of assistance to business developing international trade or antitrust procedures. I hope that will not stop you from presenting your suggestions in this area to the current administration for their consideration, or publicly for public consideration, because who knows, maybe some subsequent Democratic administration will then pick up the cudgel and do something about it.

Finally, it occurs to me that the road to peace can be substantially benefited by some of the things we have discussed this morning—trade cooperation agreements, international corporate ownership agreements to clarify that problem, and technical agreements. I have recently come back from an International Telecommunications Union consideration of the laws affecting the radio and television communications spectrum for the next 10 years and one of the things that occurs to me is that we are in a lot more fluid, quickmoving situation simply because we have done so well in communication. There are very few trade secrets, there is very little technological development that we can undertake and have very much leadtime in seeking markets or trade advantages because almost as soon as we have done something, it is in trade publications and those trade publications are available around the world. I would personally not like to see us get into the situation of isolation and censorship and that sort of thing which is, perhaps, a one-way ticket to more serious problems. Rather, I would like to see us keep making developments, because it seems to me that speeds the development not only in this country but elsewhere in the world. That, of course, expands our markets and everything else.

Mr. Secretary, thank you very much. It has been a pleasure to have this opportunity to exchange these ideas with you this morning.

Chairman BOGGS. Mr. Secretary, I would like to ask one final question. What do you see ahead in trade with China?

Secretary STANS. It is a little difficult to appraise that, Mr. Chairman, at this time, because while we have made a number of overtures to China, there is no public evidence of the extent to which they want to reciprocate at this time. We do not know what they want to buy from us, we do not know what their means of payment will be, we do not know what they have to sell to us that is usable in the U.S. market. I can only give you a personal impression, which is that the situation will slowly open and that we will begin to do more and more trade with mainland China. It will not mean a sizable amount of money in either direction for a number of years.

Chairman BOGGS. Thank you very much, Mr. Secretary, and thanks to your associates. We appreciate your coming. You have been very helpful.

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

(Whereupon, at 12 noon, the subcommittee was adjourned until 10 a.m., Monday, June 28, 1971.)

A FOREIGN ECONOMIC POLICY FOR THE 1970'S

MONDAY, JUNE 28, 1971

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

The subcommittee met, pursuant to recess, at 10 a.m., in room G-308, New Senate Office Building, Hon. Hale Boggs (chairman of the subcommittee) presiding.

Present: Representative Boggs and Senator Percy.

Also present: John R. Stark, executive director; Myer Rashish, consultant; and George D. Krumbhaar, Jr., minority counsel.

Chairman BOGGS. The subcommittee will come to order.

Today we continue hearings of the subcommittee on a foreign economic policy for the 1970's.

Our first witness is the Honorable Carl J. Gilbert, Special Representative for Trade Negotiations.

We are happy to have you here, and we will be glad to hear from you.

STATEMENT OF HON. CARL J. GILBERT, SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS, OFFICE OF THE SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS, ACCOMPANIED BY HERBERT PROPPS, ASSISTANT SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS; JOSEPH MULLANEY, GENERAL COUNSEL; AND ALLEN H. GARLAND, CHAIRMAN, TRADE INFORMATION COMMITTEE

Mr. GILBERT. Good morning, Mr. Chairman. It is a great pleasure to be here.

Mr. Chairman and members of the subcommittee, it is a pleasure to appear before your subcommittee to discuss our foreign trade policy, my chief area of responsibility within the executive branch. Since the extensive debate and consideration of foreign trade in the Congress in 1970, I am sure that a great many of us have given considerable thought to the issues that caused so much controversy.

Today I will attempt to place our trade policies and problems in perspective. What are the problems? Perhaps one way to describe them is to repeat the many charges which have been made in recent years about our foreign trade policies. For example, it is alleged that we can't compete with low-wage countries; that we are exporting jobs; that we never get reciprocity and our negotiators are weaklings who give everything away; and that the General Agreement on Tariffs and Trade (GATT) is some kind of an ingenious trap which prevents us from doing as we please but permits others to do as they please; that all countries have all kinds of trade barriers while the United States is the only good guy wearing a white hat; that multinational firms are moving our industries abroad and ruining the country; and finally, that the only answer to our problems is a new kind of "fair trade," which is basically a method of limiting imports. There are many other criticisms and complaints which I am sure, Mr. Chairman, you and other members of the subcommittee have heard time and again.

All of these expressions of dissatisfaction with one or more aspects of our trade policies indicate that we have some serious problems, but perhaps not as many as some claim. Before discussing them further, I think we should stop and consider what was happened, where are we, and what should we do.

Let me try to summarize what has happened. First, our postwar policies of assisting countries devastated by World War II, and of a "trade not aid" approach, have been successful beyond anyone's imagination. Our very success helped create very strong economies and trading competitors in Western Europe and Japan as well as in other areas. We are startled by the growth rates attained in those countries which exceed the more normal growth in our own economy.

Second, until recent years we have encouraged American companies to invest aboard to help other countries as well as ourselves in promoting economic progress and prosperity.

Third, we are all aware of the technological revolution in almost all phases of manufacturing and the speed with which this technology can be transferred from one country to another.

Fourth, the development of almost instantaneous communications combined with jet travel has made the conduct of foreign trade for us and our competitiors only slightly more difficult than trading at home.

Fifth, the developing countries, in order to earn foreign exchange quickly, have been devoting their attention intially to making products which are the easiest to produce for the mass markets. These countries have been aided by American businessmen who have supplied capital, management, and of great importance, the means to reach the U.S. consumer.

Sixth, in six mutilateral tariff conferences held since 1947, trade barriers have been reduced to rather low levels. Markets of most developed countries are relatively open to competition for most industrial products and a very wide range of agricultural products.

Seventh, U.S. industry over the last few years has been caught in a price-wage spiral which makes our exports more costly and less competitive in world markets and provides increasing opportunities for lower cost imports. As the spiral continues, competition in foreign trade becomes more intense, the trade balance declines, and the rhetoric becomes louder for all kinds of measures to restrict imports; all of this against a backdrop of a chronically unsatisfactory balance of payments situation.

To sum up what has happened, I think, that as a result of our policies and programs and the advances in science over the last 20 years, we find that we have been largely responsible for creating a growing number of very competitive traders who are now as efficient, or perhaps more so in some cases, as we are.

This brings me to the question of where are we in our foreign trade. First, free-world exports have increased from $56 billion in 1950, to $113 billion in 1960, to $278 billion in 1970. Over the same period, U.S. exports, excluding military goods, have grown from $10 billion in 1950, to $20 billion in 1960, to $43 billion in 1970. The U.S. share of the world market has declined by 3.8 percentage points over this 20-year period; that is, from 21.9 percent in 1950, to 18.1 percent in 1970. The significance of this decline should be considered in relation to the economic base from which the United States was operating in 1950 in comparison with those of Western European nations and Japan where the enormous growth has taken place. If one goes back to 1937, the United States had 16 percent of world exports, or 2 percent less than it has now.

Second, our foreign trade remains a very small portion of our gross national product (GNP). Our exports are now roughly about 4 percent of total GNP. However, a great part of our economic activity depends on a continuous flow of needed imports so that the importance of trade to us is greater than one would think.

I think it is worth noting here that there is one important point that is frequently overlooked when we examine what foreign countries do. As I just mentioned, our exports are about 4 percent of GNP. But in Canada, the percentage is 20 percent, in West Germany 19 percent, in Italy and the United Kingdom about 15 percent, and in France and Japan about 10 percent. Thus, in those countries foreign trade is given constant attention by governments, legislatures and the general public. The economic and tax policies of these countries reflect their dependence on exports for economic prosperity. In the United States, on the other hand, we are more concerned with the effects of our social, economic and tax policies on our domestic scene. On occasion we become irritated when foreign countries amend or change their policies to promote their exports. It is rare indeed in this country for a policy to be tested against the standard of its predictable effect on the competitive position of U.S. industry in the world market place.

Third, the large trade surpluses of $5 to $7 billion we enjoyed during the early and midsixties may never occur again as a continuing phenomenon, in part because we have built into our economy an enormous and flexible demand for raw materials, fuels, and other products which we must obtain from foreign sources. Moreover, I should note the growing role of services in our GNP, most of which are nonexportable. For example, services now comprise 42 percent of our GNP whereas it was only 30 percent in 1950.

Last, our trade surpluses in the past few years have been relatively small. By making certain statistical adjustments in our export totals, the claim can even be made that we are in a deficit trading position. While we would not agree with that claim, the important point is that regardless of whether we have a deficit or a small surplus, we have to work hard toward a large surplus.

Overall, I find it impossible to conclude that our foreign trade policies have been terribly deficient nor have they been wildly successful. They certainly have not brought the country to the brink of ruin as some allege, nor is there any indication that they will do so. Looking back over 30 years, I think they have served us well. They have helped to bring about an enormous increase in the interchange of goods and services that has made the world a somewhat better place in which to live. More products are available to more people than ever before. They have also brought competition, which may be considered good or bad depending on your point of view.

In regard to the extent of this competition, Mr. Chairman, you may recall that in response to a question you raised in the Ways and Means Committee hearings in May 1970, we made a study of competitive and noncompetitive imports. We concluded from the most conservative estimates that 32 percent of our imports were goods not produced in the United States or not produced in sufficient quantities to meet demand. Another 13 percent could not be classified, leaving a balance of 55 percent that we termed clearly competitive. We think the latter figure may be too high but consider it a fairly good ball-park estimate of the area of import competition.

At home our basic problem is inflation and its after effects. There are also special problems of import competition affecting individual products and particular industries. Abroad, our problems vary from country to country but they are not of the magnitude that should lead to panic or despair. We do have one general problem abroad, however, and that is that our industry is not sufficiently export oriented and many of our exporters do not research markets thoroughly enough or tailor our products to local demand.

What is being done and what remains to be done?

A first order of priority is to establish within the executive branch greater consistency and coordination of the various elements of our foreign economic policy. As long ago as 1964 I served with a number of other business and professional men on a Presidential task force which reported on programs to improve the worldwide competitive effectiveness of American business. One of the major recommendations of that group was that the President create a new position in the White House, a Presidential Coordinator for International Economic Affairs, reporting directly to the President and responsible for Government policy relating to the international trade and investment. Having long felt that this was a crying need, I was particularly pleased when President Nixon announced on January 19 of this year, the formation of the Council on International Economic Policy and the appointment of Peter Peterson as Assistant to the President to serve as Executive Director of the Council. In my judgment, this was an essential step in the development of a coordinated and consistent foreign economic policy.

A related consideration is that of the importance that must be attached to foreign economic matters. It is recognized, of course, that other domestic and foreign policies and national security interests must at times override economic considerations. It is essential, however, that the economic interest be clearly defined and forcefully presented at the highest levels of our Government. These matters require the continuing personal interest and attention of the President himself. Again, I am pleased to be able to report to you that President Nixon has that interest and chairs the new Council himself.

Another matter of high priority is the completion of the task of reviewing our foreign economic policy and formulating a realistic policy for the seventies. A little over 1 year ago the President established the Commission on International Trade and Investment Policy, the so-called Williams Commission. That Commission was given the job of developing recommendations for a foreign trade and investment policy for the seventies. Its report, I understand, will be available to the President sometime in July. Hopefully, the report will be a useful tool in the development of a coordinated policy.

Your committee will also provide valuable inputs as it has in the past to the process of foreign economic policymaking. In the volumes published by the committee there are many valuable insights and a variety of views. We look forward to the report of the committee and the guidance it may offer.

Internationally, we recently supported the establishment in the OECD of a small, high-level group to study trade matters. The purpose of this effort will be to pave the way toward new international initiatives on trade.

Aided by these various reports and studies, it will be the task of the administration, under the guidance of the International Economic Policy Council and its staff, to formulate a clear, comprehensive, and consistent foreign economic policy. The work has begun, I look forward to significant results. I won't say completion because this obviously will be a continuing problem to be faced over the years ahead.

It is somewhat premature for me to speculate at this time on what new policies might be recommended or adopted as a result of the work now being done. I do not think it would be out of line however, to note briefly some of the issues that must be examined as part of the overall review of our foreign economic policy. Specifically, I believe that consideration should be given to the following:

(*a*) Adjustment assistance. Adjustment assistance is an important underpinning of our trade policy and should provide a viable alternative to restrictions on trade. Unfortunately, the adjustment assistance provisions of the Trade Expansion Act have not served the purpose intended. We should continue to review our policies with respect to adjustment assistance to make those policies effective and meaningful.

(*b*) Antitrust policies. It has become a rather common complaint that our antitrust policies and laws should be changed to permit U.S. businessmen to compete more effectively on the international scene. Obviously the types of changes considered must be consistent with our economic system. We should hear from the business community the specific changes it would suggest and give them full and fair evaluation.

(*c*) Tax policies. We should review our tax system as it applies to business activities to determine whether we are inadvertently penalizing those activities and placing them at a disadvantage in relation to our foreign competitors in our domestic market. In addition, we should determine whether changes can be made in our tax policies to promote and encourage international competitiveness. The administration's DISC proposal was a significant step in this direction. That proposal, and others, should be given continued consideration.

(*d*) Government—business cooperation. We should review the entire question of cooperation between the Government and business in developing and implementing trade policies. At one extreme we have the now much publicized story of "Japan, Inc." Although I have heard some suggestions to the contrary, I doubt whether American businessmen would long endure such deep involvement by the Government in their business affairs. The advantages of direct Government support of business must be weighed against the disadvantages. As a former businessman who has been in the Government for about 2 years, I can say with complete confidence that there are few U.S. businessmen who would not be driven to distraction if they were forced to depend to a greater extent upon Government decisions and actions before business plans could be made.

The whole question of communication and cooperation between the business community and the Government should be reviewed. I was delighted to see this same question discussed by Chairman Mills in his remarks prepared for a recent business conference at Johns Hopkins University.

(*e*) Role of the GATT. In the development of our foreign economic policy, we will have to consider what role we can expect the GATT to play in our international trade relations. As you know, the GATT is the multilateral instrument applicable to U.S. trade relations with other countries. Since the agreement was completed in 1947, it has been subject to criticism on a variety of grounds, and in some cases, the criticism has been weighty.

Without attempting to describe or evaluate these criticisms which should be considered on the merits, I would like to make a few observations to put the matter in what I believe to be a more balanced and proper perspective. First, I think you should understand that if the GATT did not exist, we would, in my judgment, have to invent it or something very much like it. There is a demonstrable need for the GATT, or a similar agreement, to establish the fundamental principles governing trade—in effect, to lay out the rules of the game. There is also a need, which the GATT fills, to have a forum for negotiations on trade matters and for consultations to resolve trade disputes. In addition, despite its defects, the GATT is an instrument under which we have rights, as well as obligations. There is no other international arrangement under which we have similar rights with respect to trade matters.

Second, I think it should be recognized that an international institution, such as the GATT, has certain built-in limitations. The enforcement of rights and obligations under the GATT depends upon the will of the countries who are parties to it. There is no disinterested, independent court of law to which GATT disputes are carried. There are no policemen to arrest GATT violators and enforce compliance with its terms. The ultimate weapon to encourage compliance is the threat of withdrawal of trade benefits granted to an offending country. However, the use of retaliation means that the trade injury which led the complaint has not been healed and retaliation provides no benefit whatsoever to that segment of our trade which was injured.

Third, the suggestion has been made that the GATT should be rewritten and made more suitable to our present age and trading practices. In evaluating this suggestion, we should consider whether the problem lies in the provisions themselves or in the ability and will to try to enforce compliance with those provisions. We should also be mindful that the original 23 contracting parties now number 78. Further, the GATT was written at a time when the United States was by far the largest and strongest trading country in the world. The point is that we can now have no assurance that a rewritten GATT would be more in keeping with the U.S. trade interests. In fact, the contrary may well be the case.

While the GATT system may be subject to criticism and to the limitations of the kinds I have suggested, it is well worth preserving and building upon. To see that this is done we should be able to rely, not only on our own self-interest, but also on that of others. For it is in the interest of all trading nations to see that the rules of GATT are followed.

At their most recent formal sessions the GATT contracting parties unanimously reaffirmed their intention to continue, despite temporary difficulties, to pursue the liberalization and expansion of international trade and to move progressively toward the further reduction of trade barriers. A comprehensive work program concerning tariff and nontariff barriers in both industrial and agricultural trade is underway. Even now the contacting parties are actively exploring the possibilities of joint action to deal with nontariff barriers hitherto not dealt with adequately in GATT trade negotiations. Priority attention is being given to the possibilities of easing the burden on international trade of import and export licensing requirements, of customs valuation regulations and procedures, and of differing standards requirements and specifications.

Within the GATT framework, we should be able in the future to cope with international trade problems more effectively. This cannot be accomplished by us acting alone; the major trading countries working together can, however, obtain the desired result. We must join with our trading partners in that effort.

In conclusion I would suggest that liberal trade policies have made a significant contribution to our prosperity and that of the whole free world. We cannot now turn back to the policies of the thirties—nor should we want to. President Nixon has made clear his commitment to liberal trade policies. In his foreign policy message to the Congress he stated:

> This Administration is committed to the principles of free trade. We recognize that our preponderant size in the world economy gives us an international responsibility to continue on this path just as we have an international responsibility to manage our domestic economy well. I am convinced that liberal trade is in both our domestic economic interest and our foreign policy interest.

Our trade policies must be balanced. They will take into account the legitimate interests of business and labor, but in the broader context of the interest of the Nation as a whole. Those policies will provide for the adjustment problems that can arise in their wake. For just as the benefits of liberal trade policies are enjoyed by the Nation as a whole, so also the cost and burden of those policies should be borne by the Nation as a whole. Those policies will recognize that trade cannot be completely "free." Some restraints, in some areas, may sometimes be justified, and in fact, necessary. However, protection for some is paid for by all. Special interests seeking special protection should realize that their claims must be evaluated in the light of our national interest.

Living in the modern world is not simple as compared to the "good old days." The disciplines which international competition imposes on us are seldom welcome but I know of no way to escape the discipline of the marketplace except at an unacceptable cost to our economy.

Chairman BOGGS. Thank you, Mr. Gilbert.

Mr. Rashish of the staff may inquire.

Mr. RASHISH. Let me put a broad philosophical question to you to start with.

How would you define the objective of the United States as far as trade policy? Is it the progressive liberalization of foreign trade from all restrictions? Is it the maximization of exports, is it the maximization of export surplus; is it the maximization of imports? What is the end objective of what we call our foreign trade policy?

Mr. GILBERT. That is an extremely good question and one to which I hope and expect that many people in, out of, and around the U.S. Government will be devoting a good deal of attention over the next few months.

To make one quick comment, I doubt that any one of these single purposes should be the dominant purpose. I believe that the objective of our foreign economic policy should be the creation and preservation of the best for the U.S. economy and for U.S. citizens, the best that is consistent with the national or international interests and obligations of the United States.

That is a pretty broad, loose answer, but I think it is probably the best I can give off the cuff.

Mr. RASHISH. You mentioned in your statement that there were a number of aspects of policy being considered in the field of foreign trade, including taxation, such as the DISC proposal. There have been other proposals such as investment credit, various types of proposals to promote research and development, adjustment assistance, antitrust proposals and so on. A number of these proposals would involve budgetary costs. Most of them would involve legislation.

These proposals have been put forward because there is a general perception that our foreign trade position is relatively weak, weaker than we would like to see. Yet there is another proposal that none of the witnesses that we have from the executive branch has really considered—a proposal to right the balance of payments and the trade position of the United States, and that is exchange rate adjustment. This has considerable appeal as a fairly simple, direct, inexpensive, uncomplicated way to solve the problem.

How would you assess the balance of advantages and disadvantages as between exchange rate adjustment, on the one hand, to solve the U.S. balance of payments or balance of trade problem and this array of proposals which has been under discussion?

Mr. GILBERT. Let me say first that I am delighted that 2 days from now Mr. Arthur Burns will be a witness here, and I think his competence to comment on that question is unquestioned. Mine would get very little hearing either within or without the Government.

Mr. RASHISH. We will wait for Mr. Burns.

Mr. GILBERT. I think you will find him a better witness.

Mr. RASHISH. Let us turn to a more traditional trade policy subject, the imminent enlargement of the European Economic Community to include the United Kingdom and three other countries and the prospective arrangement that is being talked about to accommodate the neutral EFTA countries, Sweden, Switzerland, and Austria. These developments will no doubt raise problems for the U.S. foreign trade position and involve potential abridgment of our rights under the GATT.

Could you address yourself briefly to that subject. What sort of problems do you envisage for U.S. exports and how do you see GATT as an instrument for helping to resolve those problems?

Mr. GILBERT. Of course, you are absolutely correct that it is a certain prediction that problems will arise. The question as to the degree of these problems and their net effect on the United States is something that economists and econometric types can drive themselves crazy with.

I find it very difficult to believe that in the short term, absent any other international action, the results could in a net sense be good for us. I say "in the short term" advisedly, because a strengthening of the economy of Europe and new life in the economy of the United Kingdom could have dynamic effects, which over the years could result in the same sort of impact on our trade in industrial products as has occurred following the formation of the Community itself.

I am sure you all will remember that in 1962 the concern over the height of the wall that was about to be erected around the European Economic Community was one of the real driving forces behind the Trade Expansion Act of 1962. It was a source of the pressure for the Kennedy Round which was to try to reduce the wall to a level we could jump in.

I think in estimating the future effects of an enlargement of the Community one has to do some guessing as to the dynamic effects, and also, what the level of the wall will be and how effective it will be in the future, and that is a pretty hard subject to guess on.

The one area I think I look on with special apprehension is in the field of agriculture. It is hard for me to see how the accession of the United Kingdom to the Community could do anything other than damage to U.S. agriculture.

One can be concerned about these things, but there aren't very many platforms other than a speaking platform where one can do much about it. As you know, in the event of the enlargement of the Community, the ground will have been laid for procedures under GATT, article XXIV: 6, presumably, for discussions to rectify the balance of interests of the various countries involved. It is pretty hard to see how that rectification could take place in the field of agriculture because there is very little in the field of agriculture that Europe wants to export that is very suitable for this market. Also, we have the basic problems of the incompatibility, if you like, of domestic agricultural support programs. I am sure my friend Mr. Palmby, who follows me this morning, would be prepared to talk on these at much greater length.

However, I think in evaluating the seriousness of this problem, one has to do some guessing as to what we might be able to accomplish internationally in the field of agriculture. We have had indications from the European Community that if we are ready to talk and really discuss our agricultural programs—as we have made clear that we are—they may eventually be prepared to discuss theirs as well.

Now, of course, I think the most casual look at international trade in agriculture makes it clear that the problems, the really difficult problems, all arise out of the interface between incompatible domestic agricultural support programs. Pretty much every industrialized developed country has its own support system. Some have copied from others. I have always had the suspicion they have usually copied the worst features. But somewhere ahead of us, if we can keep our sights high enough, we may find ourselves in a position where we could negotiate—not the same, not identical domestic support programs, that is too much to ask—but a degree of compatibility between competing domestic support programs.

Mr. RASHISH. Do I understand you to say that you have the understanding that the European Economic Community would at some future date and under appropriate circumstances be willing to negotiate its common agricultural policy?

Mr. GILBERT. That is my opinion based on many discussions with them, but I should make it clear I do not have a pledge of their vote.

Mr. RASHISH. That is your judgment?

Mr. GILBERT. That is my judgment. And, of course, you are familiar with the fact that Commissioner Dahrendorf and others have said this publicly. For example, in Chicago on March 26, 1971, Commissioner Dahrendorf said, "The preparations of a set of rules for agricultural trade should begin soon." I have no question in my mind that if we were each ready to be realistic in discussion of this subject, useful agreements might be adopted. It would not be an easy task.

Mr. RASHISH. You have mentioned the GATT. There is, I think, a feeling in some quarters in the United States that the U.S. Government has not been as vigorous in pursuing its rights under GATT as it might have been. One case in point would be the illegal, that is to say, in terms of GATT, illegal import restrictions which the Japanese maintained.

To my knowledge, the U.S. Government has not at any time brought an action within GATT charging the Japanese with violation of their GATT obligations and our GATT rights in respect to those legal import restrictions.

Mr. GILBERT. If my memory serves me correctly, in 1968 the United States initiated formal consultations under article XXIII:1 on these so-called illegal residual quantitative restrictions. At the time these restrictions were imposed, they were legal, being justified by Japan's adverse balance of payments. However, retention of the restrictions became illegal under GATT, once the balance of payments straightened out. Following these consultations under article XXIII, which I might say have had succeeding chapters every time there has been occasion on which a representative of the Japanese Government and U.S. Government have gotten together, ever since then there has been a gradual reduction of the imposing list of quantitative restrictions which were in effect in 1968.

For the purposes of this hearing, I think it might be enough to say that the scheduled removal of quantitative restrictions by Japan at the end of this month and the end of September would reduce that list, in terms of numbers, to a list of restrictions not far different from that maintained by Germany or France.

Chairman BOGGS. What is the number now?

Mr. GILBERT. I think it is down now, Mr. Chairman, to about 80, and the expectation is that by the end of September it will be down to 40 or less.

The Japanese have given very clear indications recently that they are concerned about trying to reduce it still further.

I emphasize that my comment is in terms of sheer numbers, because this is one of the areas where it is very hard to get your hands on any appraisal of how significant any one of these restrictions is. They all seem the same size once they get into a list of 80, but it may be that only about five of them are really significant while the other 75 are like dried seaweed. I don't regard the removal of the quantitative restriction on imports of dried seaweed as of very great trade significance to the United States.

What we are trying to do is to assess these restrictions not only in terms of numbers, but of their trade significance to the United States. This is not an easy task. It is one of the areas, one of the many areas, in which we need far more effective communication, in my opinion, between the business community and the Government.

Mr. RASHISH. You mentioned the Williams Commission. I noted in the press a week or so ago a brief story to the effect that one of the proposals the Williams Commission is considering making—you may have seen the story yourself—is a proposal to apply a uniform import tax and a uniform export subsidy as a device to help right the balance of payments. What would your reaction be to that proposal; particularly how would that fit in with GATT obligations?

Mr. GILBERT. Let me make a facetious comment first.

The fact that there is speculation in the press as to what they will report is a very good confirmation of my statement. I look for a report to the President sometime early in July, because this sort of rumor usually turns up when things are in draft.

The practicality of such an action—apart from any reasonable respect for GATT considerations—seems to me a very difficult problem. Perhaps my friend Mr. Burns could comment on it Wednesday. But, of course, to move into trade restrictions as an answer to balance-of-payments problems would not only trigger formal action in GATT, but we would also be required to ask the advice of IMF as to whether there really is a need for such action and whether they consider the proposed action consistent with the degree of the need. But officially I have had no reason to be concerned with this at all when the same sort of proposal was made earlier. It seemed to me that a very serious question could be raised as to whether any such action was consistent with our position maintaining the major reserve currency in the world. I don't think you have much confidence in your banker if he is indicating to creditors he can't pay his bills.

Mr. RASHISH. I think this subcommittee is probably the only subcommittee or committee of the U.S. Congress that has interest in foreign trade that has never taken testimony on the question of f.o.b. versus c.i.f. valuation of imports. Would you care to speak to that?

Mr. GILBERT. I think you know that in terms of balance-of-payments considerations there really is no issue because invisibles are now in the balance-of-payments computation. It is a question of what the purpose of the trade balance figures is. There are different views as to what figures best reflect relative competitiveness and actual trade movements. In the May 1970 trade hearings of the Ways and Means Committee we submitted a fairly detailed statement on that subject. It was published in a committee print, "Written Statements and Other Material Submitted by Administration Witnesses" (pp. 234–241).

I think I might, if I could, just volunteer some additional comments on nontariff barriers. This is a long, drawn-out, complicated process, as you know, to try to get restrictions of this sort eliminated.

We were greatly encouraged and stimulated, I think, throughout the administration by the very pertinent comments from the Ways and Means Committee report on the subject of standards and the similar comments in the Finance Committee's report.

This is one area where I honestly believe we are making some real progress. It has been under discussion for several years in the GATT at the technician's level. A great deal of promising work has been done looking toward a formulation of a code of international conduct on standards which I think national representatives might find possible to agree to.

We heard a great deal of conversation, I think it was in the spring of 1969, about a tripartite agreement on electronic components and how this was working to the disadvantage of the United States by excluding us from participation in the standards operation.

A realistic look at it showed that American industry wasn't really ready to participate in the spring of 1969, but I am happy to say the industry has been working hard and would like to participate. I had a telephone call on Friday afternoon from a colleague in London. It has been agreed in London that when the United States is prepared to participate it will be welcome, and I also expect later this week an announcement of a much broader availability to the United States in this area.

I would like to just mention the fact that the ability to participate really depends on the enactment of a bill which Commerce has submitted, S. 1798, which would authorize the Commerce Department to work with private industry to set up the sort of machinery which would be necessary for full participation in these standards operations. I hope that this legislation will get the support it deserves.

Mr. RASHISH. Mr. Gilbert, one further question. Did you by any chance see the statement before the Ribicoff subcommittee of the Senate Finance Committee of Mr. Borch, president of the General Electric Co.? I can summarize the thesis, I hope, without doing violence to it, that he advanced. His proposition was that the U.S. price level over the decade 1960–70, had fairly well kept pace with price increases by some of our major trading partners. In fact, in the case of Japan, United Kingdom, and France, price increases in those countries over this period were greater than the United States. Germany and Canada had about the same rate of inflation. He then compared the changes in the export price index over the same period for these countries and found that export price indexes for these other countries had risen substantially less than the export price index for the United States.

I don't know whether he drew this conclusion but the conclusion suggests itself there was a prima facia case of broad-scale dumping.

Do you have any comment about those data?

Mr. GILBERT. Well, I did read it. I read whatever Mr. Borch had to say with a great deal of interest and usually a great deal of stimulation because he is a very independent-minded, very forceful gentleman. I have no reason to question his statistics, but I think we might differ on the conclusion, because a similar analysis, using wholesale price indexes rather than consumer price indexes, gives a very different picture of the relative changes in export and domestic prices. Our preliminary conclusions from an examination of the national indexes for major trading countries suggests that it would be more appropriate to compare export prices with the wholesale price indexes, although even wholesale price indexes are not entirely comparable from country to country. We are currently working on a further analysis of the figures.

In comparing export prices I think we must consider how much of the problem is due to what I mentioned in my formal testimony, a difference in the keenness and enthusiasm on the part of exporters in the United States and exporters in other countries. I think to some degree some of our people may not only be a little less aggressive in this area, they may also be the captives to their own cost accounting department, and I think perhaps short of actual technical dumping, a more aggressive pricing approach in export markets would characterize some of the high export level countries than would characterize our own.

I think Mr. Borch has a very interesting point. I think it should stimulate a good deal of thought and consideration.

While I find it a little hard to draw the same conclusions that he does from the data, the study is a useful contribution.

Mr. RASHISH. Thank you.

Chairman BOGGS. Mr. Gilbert, just one or two questions.

How do you fit into the new council headed by Mr. Peterson?

Mr. GILBERT. I am a member of it and Mr. Peterson and the staff of the Council are now my route of access to the White House. There has, as far as I know ever since President Kennedy's death, always been something between the special trade representative and the White House.

Chairman BOGGS. Is this Council set up by Executive order?

Mr. GILBERT. By Presidential memorandum.

Chairman BOGGS. What is its function, briefly?

Mr. GILBERT. Well, that I refer to in my earlier testimony, but its function briefly is to try to pull together the various policies and proposals for action that exist within the executive branch and try to put together a composite, consistent policy rather than people moving in divergent directions, which I am afraid sometimes has happened.

Chairman BOGGS. Who else is on the Council?

Mr. GILBERT. The Council is made up of the Secretaries of the traditional Departments interested in trade, the Secretaries of State, Treasury, Agriculture, Commerce and Labor, the Director of the Office of Management and Budget, the Chairman of the Council of Economic Advisers, the Assistant to the President for National Security Affairs, the Executive Director of the Domestic Council, the Assistant to the President for International Economic Affairs, and the Special Representative for Trade Negotiations. Since this original announcement the President has added Ambassador David Kennedy.

Chairman BOGGS. Is it planned for the Council to submit legislative recommendations to Congress?

Mr. GILBERT. I don't think this has specifically been considered. To venture a guess on it, I would think that the Council would be the arena in which various recommendations were worked out, approved or disapproved as administration policy, and then they would be advanced to the Congress by one of the appropriate members of the Council. But that is speculation on my part. The issue has not arisen.

Chairman BOGGS. Well, we weren't able to pass a bill last year which includes some of the things you touched on here today. What is planned for this year?

Mr. GILBERT. I think I am sitting quiet, sir.

Chairman BOGGS. I didn't quite get your answer.

Mr. GILBERT. I think there are no concrete plans for action this year.

Chairman BOGGS. Do you think there should be?

Mr. GILBERT. I see no particular reason to believe that there would be any greater possibility of legislation this year than there was last year. I understand that the House Ways and Means Committee calendar has been announced as being full. I think it would be a bare minimum to see some clearing up of the specific problems to which so much attention was given last year.

Chairman BOGGS. With respect to all of the recommendations you set forth in your statement, most of them require legislation?

Mr. GILBERT. That is correct, sir. Not all of them require legislation.

Chairman BOGGS. I didn't say all of them, I said most of them.

Mr. GILBERT. I agree.

Chairman BOGGS. So that means that you won't have any amendments to the adjustment assistance programs or the tax structure.

Does this Council deal exclusively with trade policies or does it go beyond that and cover the whole realm of foreign economic policy?

Mr. GILBERT. The whole realm, sir.

Chairman BOGGS. In that connection, the one really significant plus in our balance of payments is the return on investments abroad?

Mr. GILBERT. Yes, sir.

Chairman BOGGS. Which was about two and a half billion dollars last year net and some of the people who study these things think this will continue to grow and in a relatively short period of time will reach $10 billion. If that is the case, why wouldn't we concentrate somewhat more on investment abroad than turning most of our attention to trade? I am not trying to derogate trade but I would like to get your response to that.

Mr. GILBERT. I think I can make one pertinent comment off the cuff on that, Mr. Chairman, and that is that I would be hopeful that the increased return on foreign investment would at least be a significant offset to the shift in the emphasis in our gross national product toward the service area. I gave a figure of 42 percent in services. I think there are figures floating around at a much higher level than that and the statistics would be very confusing. I suspect that the wide differences between 42 percent and in excess of 50 percent, which may have been given by others, lies in the place where you put construction, because construction costs are certainly nonexportable except for those great international construction companies which earn a very substantial return by their overseas activities. If one weighted the 42 percent I had with construction I suspect you would get up to a much higher figure.

Chairman BOGGS. One final question as we do have an Agriculture Department witness waiting.

You talked considerably about GATT. Do you think in light of this tremendous increase in investment abroad and the growth of so-called multinational corporations, GATT might be amended to give us some jurisdiction in the case of multinational corporations?

Mr. GILBERT. I am afraid my answer may be quite unresponsive.

As to the so-called multinational corporations, I use the word "so-called" advisedly because I am not sure what one is. I think I may have run one for a great many years, but the only multi-thing I knew about was the multinational sort of headaches in running it, trying to operate between conflicting jurisdictions of national governments. But as to applying or seeking to expand the GATT to get into industrial activities, there are only two lines that occur to me in which it could go. One would be to get the GATT to move in areas to counter expropriation activities on the part of other countries and somehow or other this seems to me a bit foreign to the whole place of GATT. The other area which I think some people are concerned with is to try to limit freedom of investment, and I would hate to see anything involved in the GATT turned in a direction to try to limit or regulate investment. I think these are peculiarly national problems. There are vehicles in existence now for discussion of these, for example, the OECD. I am sure the IMF also has some interests in this area as well. It is very hard for me to see how one could utilize the GATT appropriately in this connection.

Chairman BOGGS. Senator Percy, do you have any questions?

Senator PERCY. Thank you, Mr. Chairman.

I certainly want to welcome my colleague from business and rate the very important contribution he is making to the Government now.

I would like your comment, Mr. Gilbert, on the importance that you attach to the new Treasury schedule for increased flexibility on amortization and depreciation schedules with a 20 percent extra allowance either way.

How important is that to the ability of American industry to maintain its competitive position in world markets?

Mr. GILBERT. Of course, you realize this is way outside my area of official responsibility, but I can comment on it as an intelligent layman.

Senator PERCY. I would consider it very much in your area. Your area is the responsibility for keeping us strong in trade markets around the world and for reducing barriers. How can you reduce barriers if we don't have the ability to compete on a free and open market? If these other countries let manufacturers write off 50 to 60 percent of the cost of their machine tools sometime in the first year, and we allow 7½ percent, how can we possibly compete? The Government is cooperating extensively with the foreign manufacturer if it doesn't recognize that in order to produce competitively you have to keep your unit costs down, which enables you then to use high priced labor backed up by high cost machinery which makes that labor more efficient. So I consider it very much not your direct area of responsibility but certainly an area of deep concern of yours.

Mr. GILBERT. I can follow that. I think there is no question but that the long-run improvement and maintenance of high productivity of American labor is essentially a function of the extent to which improved tools are given to labor and that, in turn, is heavily influenced by the tax treatment either by depreciation or investment allowances.

I think that these recently announced changes should have a good effect on productivity as industry moves to take advantage of them.

Senator PERCY. I know the administration has not taken any position recently at all on the 7 percent investment tax credit as to whether it should be restored or not. Would you care to make a personal comment? Are you personally favorably inclined or disinclined to recommend the restoration of that? Do we need that stimulant to get our machine tool industry going and also to continue this process of encouraging American industry to invest in capital equipment to stay competitive?

Mr. GILBERT. My personal comment on this is anything that serves to encourage the improvement of the tools of our industry is good. My own feeling at the time the 7 percent credit was first proposed was that I never would rely on it because I was afraid it would be repealed in a few years. As it turned out, I was quite prophetic. I believe that we will do better in the long run by less dramatic but more consistent treatment through depreciation policy than we will by these temporary shots in the arm, but certainly on the basis of history any businessman should have to——

Senator PERCY. In other words, if we restore it we ought to do it on the premise that it becomes a permanent part of our tax structure, not a spigot to be turned on or off, because the leadtime is much too great?

Mr. GILBERT. That is right. And, of course, the history is such it will be quite a little while before people would believe it isn't the spigot.

If I recall, Mr. Mills some years ago referred to it in the same fashion as the hemline of ladies' dresses, it went up and down at the whim of the designer.

Senator PERCY. Mr. Gilbert, do you feel any new legislation is required to help industries adversely affected by imports to adjust; for example, training of workers, as some sort of adjustment payments to companies that are harmed where it can be proven that the harm is directly related to imports? Or do you believe we have adequate legislation on the books now?

Mr. GILBERT. I think improvements in the adjustment system that provide both for industry and labor are very much indicated as we stressed very strongly before the Congress last year.

I think improvements in the administration of existing law which is a complex, difficult thing to handle, and I have been delighted myself to see a recent addition to the staff of the Department of Commerce of a man with experience which I think is compatible with his responsibility in this area. I think we can foresee some improvements in administration.

Senator PERCY. I notice that you comment that the first order of priority is to establish within the executive branch greater consistency in coordination of various elements of our foreign economic policies.

As a man who has spent most of his life in this field, do you get the feeling now that the reorganization that has taken place with the appointment of a Council for Foreign Economic Policy is a basic fundamental change that now will steer us in a more consistent direction in the future?

Mr. GILBERT. I certainly think this is a very sound and long needed step. I think what has been done thus far is encouraging as to its ultimate results. I suppose I am old enough so that I never liked to count all of the chickens before they are hatched. I think the step is an essential one and I think it is well staffed and I think we are on the way toward establishing the type of consistency that is needed. It won't happen overnight, it won't be a miracle.

Senator PERCY. Is there anything you can tell us about the success of Ambassador David Kennedy's trip to Asia, for instance? Do you feel that some sort of agreement can be worked out with the South Korean Government and textile manufacturers? Do they realistically recognize unless we work out something on a voluntary basis it may bring on restrictive legislation which could begin a trade war?

Mr. GILBERT. I think I should limit my comments in this to saying that I think if anyone can do it that very quiet, very wise man David Kennedy will be able to do it.

Senator PERCY. From your standpoint how important do you feel it to be that South Korea and other countries in Asia recognize some action should and must be taken on their initiative to work cooperatively with us to voluntarily have a steady increase rather than this tremendous influx which doesn't permit domestic industry to have a chance to adjust?

Mr. GILBERT. I consider it very important.

Senator PERCY. Would you want to expand as to what consequences may flow, what possibly could result if we don't reach a voluntary agreement mutually worked out between these parties with whom we want to have a long-term trading relationship and therefore must have a solid foundation to build on?

Mr. GILBERT. I think you well indicated the risk.

Senator PERCY. Pardon.

Mr. GILBERT. I think you have indicated the risks very well.

Senator PERCY. I have tried to impress upon our friends in Japan the fact that those of us who have stanchly defended and supported freer trade believe also that it can't be a one-way street; those restrictions have to be torn down at the borders of Japan for the inflow of capital and inflow of goods, if we are to really have any sense of fairness in our relationship. It was fine during the developing periods but you can't say Japan is a developing nation any longer.

Mr. GILBERT. No; you can't.

Senator PERCY. What progress is being made in Europe to remove some of the restrictions in the European Economic Community against Japanese products so that all of the pressure does not bear on us rather than being shared equitably by the developed nations of the world that are the markets for the products of Asian countries?

Mr. GILBERT. Of course, the Europeans and many of the smaller countries do maintain discriminatory restrictions against Japanese products. There have been extensive discussions between the European communities, for example, and the Japanese to which, of course, we are not privy, as to the removal or alleviation of these restrictions. I would be optimistic that substantial progress in this direction may occur.

Senator PERCY. Thank you very much.

Chairman BOGGS. Thank you very much, Mr. Gilbert, you and your associates.

We will now hear from the Assistant Secretary of Agriculture, Mr. Palmby.

STATEMENT OF HON. CLARENCE D. PALMBY, ASSISTANT SECRETARY, DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY HOWARD WORTHINGTON, DEPUTY ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE

Mr. PALMBY. Mr. Chairman, Senator Percy, I appreciate the opportunity to appear before your subcommittee. We, in agriculture, appreciate the continuing attention that you and your committee members have given to trade and the Nation's trade policy. No group has a greater stake in trade policy than do America's farmers and ranchers.

In recent weeks I have had many occasions to recall this truth. Two weeks ago, for example, I represented U.S. agriculture at the OECD Ministerial Meeting in Paris and at the United States-European Community consultations in Brussels. In both forums future directions in trade policy were much discussed. And just last week I attended the Congress of the International Seed Crushers in Copenhagen. During these trips, I have had constantly to talk and think about the problems we face and where we should be going in international agricultural trade policy. This morning I want to share some of my thoughts with you. Let me start with a foundation—our agricultural policy direction.

U.S. AGRICULTURAL POLICY

To begin with, U.S. agricultural policy is built on the proposition that our agriculture is a growth industry.

Our agriculture has demonstrated its ability to grow. In 20 years, while our national population was expanding by a third, farm output so far exceeded this growth that we now produce crops on fewer than 300 million acres compared with 336 million in 1950. Average acre yields have risen by almost half. Total output of meat animals has gone up by 41 percent and poultry and eggs by 89 percent.

Second, it is only fair that the people in agriculture—and all of rural America—be able to share fully in our Nation's growth. In this country, we are beginning to look at the need for a national growth policy, with particular attention to the development of nonmetropolitan areas. Agriculture, as the major economic support of many hundreds of counties, must have an important place in any policy of balanced growth. That is what we are seeking.

Third, agriculture can help materially in the solution of our international economic problems. In 2 consecutive fiscal years, farm exports have contributed in a record way to the U.S. commercial trade balance. In the fiscal year just ending, agricultural trade is contributing a net positive balance of over a billion dollars in commercial trade. And few economic sectors can make that statement.

New programs now going into effect for cotton and the grains, provided in the Agricultural Act of 1970, are directed toward allowing flexibility for growth in the market—at home and abroad.

They remove the old commodity-by-commodity planting restrictions so that farmers have maximum latitude in their planning of production and marketings. Instead they provide for a participating farmer to have general "freedom to plant" once he has made a single acreage "set aside" as his contribution to the overall adjustment need.

They avoid rigid price support loans at artificial levels that provide an umbrella for overseas production and thus stimulate competition. Instead, the programs provide for commodity loans at levels permitting free movement of commodities into markets; and they include a system of direct payments to bring farmer returns up to a specified goal without stimulating unneeded production.

Thus, the domestic programs are written in a way to permit overseas market expansion—and in fact they rely on export expansion as an essential "growth factor" in the farm economy. This is why we must actively seek long-term growth in our overseas markets for grains, soybeans, cotton, and the other major export commodities.

This fiscal year, our exports are doing very well. They are at a record high level of some $7.7 billion—about a billion dollars above last year and $2 billion above the year before. But there is no assurance of such continued success in the years ahead. We face many problems—but also many opportunities.

POLICY PROBLEMS IN MAJOR MARKETS

It is a matter of great concern to us that the developed countries of Europe, as well as Japan, follow policies which restrict trade growth. These are the countries where historically we expect to find our major markets.

The shift from multilateralism based on most-favored-nation treatment to regionalism or bilateralism is also of serious concern to us in agriculture. It is not difficult to see why this should be so. We must compete with other exporters in practically every agricultural product we sell and our competitive position is based strongly on price.

When our competitor is given a price advantage, he usually makes the sale. Although full MFN has never been a reality because of the commonwealth preference system, Europe's relations with its colonies, and our own preferences with Cuba and the Philippines, the GATT barred the extension of these preferences and sought to move the world toward full MFN.

As this past decade has progressed, however, the GATT consistency of the arrangements entered into has become increasingly tenuous and threatens the remaining basis for MFN.

EUROPEAN COMMUNITIES

Developments are most striking in the Common Market countries and in the applicants for admission to, or association with, the European Community, although they are by no means limited to them. The enlargement of this trading bloc is one of the most serious problems facing American agriculture over the coming decade. Dealing with the consequences of enlargement, therefore, must be one of our highest priorities.

To put this priority in perspective, let me point out, as President Nixon has in his report to the Congress of February 25 of this year that:

> * * * The United States has always supported the strengthening and enlargement of the European Community. We still do. We welcome cohesion in Europe because it makes Europe a sturdier pillar of the structure of peace.

In a subsequent section of this same report, President Nixon said further:

> * * * Our full support for the European Community continues but it policies—including those related to the expansion of its membership, which we also support—must take full account of our legitimate economic interests.

The story of the development of the European Community's Common Agricultural Policy and how it works has been told so often that I need not detail it here. The high rigid internal prices stimulate uneconomic production. These prices are protected by variable levies and other devices which deprive outside exporters of the competitive advantage they might have, and reduce imports. Products that cannot be disposed of on the internal protected markets are moved into export almost automatically through export subsidies. Thus, outside countries lose export markets two ways.

This system has been expanded so that it now occurs over 95 percent of the value of community production. During 1970, for example, the community implemented common agricultural policies on wines and tobacco. The tobacco policy raised support prices and provided for buyer's premiums—discounts for the purchase of domestically grown leaf. Both of these provisions of the tobacco policy, we believe, will restrict imports.

Already there are indications that EC tobacco production will be significantly increased in 1971. So far Italy, the major tobacco producer of the EC, has increased its acreage for 1971 by 10 percent. West Germany has also increased its acreage by 10 percent. And we expect an increase in Belgium's production of about 70 percent.

Tobacco is covered by EC tariff concessions negotiated with us and we are seeking to deal with this situation.

The impact of the CAP's, however, can be seen most spectacularly in grain. Between 1961 and 1969, EC production of wheat and coarse grain increased from 49.6 million metric tons to 69.7 million metric tons—a gain of over 40 percent—while EC consumption grew from 64 million metric tons to about 77 million tons. Over this period, intra-

EC trade increased sharply, imports from outside increased for a time then trended downward, exports expanded and net imports from third countries dropped from 13.3 million tons to about 2.5 million—a decrease of about 80 percent.

These figures are given below:

EUROPEAN COMMUNITY GRAIN PRODUCTION, 1961, 1966, AND 1969

[In million metric tons]

Crop year	Wheat	Coarse grains	Total grains
1961-62	23.1	26.5	49.6
1966-67	23.3	31.7	55.0
1969-70	31.5	38.2	69.7

EC TRADE IN ALL GRAINS, 1961-69

[In million metric tons]

Crop year	Intra-EC trade	3d country trade		
		Import	Exports	Net imports
1961-62	2.5	17.0	3.7	13.3
1966-67	3.3	20.0	8.1	11.9
1969-70 (preliminary)	7.6	14.9	12.4	2.5

In the 1970/71 crop year this situation improved considerably from our point of view, but only because of adverse weather in Europe, depleted EC stocks, and expansion in EC pig production. EC net imports returned to nearly 10 million tons. This coming crop year, with a resumption of decent weather in Europe, the outlook is for net imports of only 5 to 7 million tons. We now have our first estimate of EC grain production this year, and the prospect is for a record 73 to 74 million tons—an increase of 10 percent.

Very recently, also, the EC Commission agreed to propose, for the second consecutive year, increases in grain support prices. If these are adopted, support prices for wheat and barley would increase 3 percent, and corn prices would increase by 3 percent in each of the next two marketing years. These increases would further stimulate grain production.

Let me stress that the European Community continues to be our largest single market for agricultural products. U.S. exports to the community for the same years I have discussed above were:

[In millions of dollars]

Year	Variable levy	Fixed duty	Total
1961-62	596	688	1,184
1966-67	526	984	1,510
1969-70	356	1,027	1,383

You see they reflect the changes in EC grain imports. In the 12-month period ending June 30, because of Europe's adverse weather and the other factors I mentioned, our exports to the EC will be the highest ever. They should go to $1.7 billion or even higher. The above export figures also reflect the striking growth of our trade in oilseeds and products, which enter the EC duty-free and which have benefited to some extent, also, from the EC high price policy on grains. In fiscal year 1961–62 our exports to the EC of these products amounted to $203 million. In the year just ending they are likely to be well above $700 million.

The European Community recognizes that its policy of relying on high prices for farm support is not working. In Germany, for example, internal subsidies to farmers have been granted since 1965 as a response to income losses resulting from the reduction in German grain prices and the German market revaluation.

For some years now Mr. Sicco Mansholt, the architect of the EC's Common Agricultural Policy, has also tried to supplement price policy with policies of structural reform involving payments to farmers. He has been only partly successful in having his programs accepted.

UNITED KINGDOM

United Kingdom entry to the EC would heighten the need for reform in agriculture. Like the EC, the United Kingdom is a major market for world agriculture. Total United Kingdom imports of agricultural products amounted to $5.6 billion last year.

The United Kingdom traditionally has had lower agricultural prices than most of the countries on the Continent, and until very recent it had a different kind of farm price support system. The United Kingdom uses deficiency payments. That is, the internal market price for most agricultural products is the world price. Products enter free of duty or at modest duties, and the farmer is given a payment by the Government to make up the different between what he receives from the market and a preset producer guaranteed price.

A considerable amount of work has been done both in and outside of governments to try to assess the impact on United Kingdom production, consumption, imports, and exports of extending the common agricultural policy to the United Kingdom. The result of all of this work is disturbing. Many observers see trouble ahead for outside countries—and on a variety of products—unless the EC policy is changed. It is significant that special arrangements have had to be made in the policy for the United Kingdom to preserve for its traditional preferential suppliers at least part of the United Kingdom sugar and butter markets—both of which would otherwise be taken over by its new partners. In our case, the major adverse impact will be on grains and tobacco, although other products will be affected also. The Europeans realize this system entails heavy burdens for everyone, and we hope that United Kingdom entry will lead to its reform. We also hope that the recent agreement which we entered into with the United Kingdom carrying forward our GATT rights on grain will help make possible needed reforms.

This is not to say that agricultural trade problems with the United Kingdom would disappear were the United Kingdom not to join the EC. Quite the contrary. Since 1964 the United Kingdom on its own has been moving away from its traditional policies. For a variety of reasons it has been shifting toward an EC type of policy, and away from the deficiency payment system. With the recent coming to power of the conservative government this shift has been accelerated. Thus, we would in any event be facing unfavorable and restrictive changes in United Kingdom agricultural policy.

JAPAN

Nor are agricultural policy problems limited to Europe. Japan's agricultural policy has led to a most troublesome rice surplus. High support prices have contributed to increased production for outrunning use. Japan's rice support price was this year raised to over $390 per ton. By way of contrast, the U.S. rice support price is $107 per ton. Japan's stocks of rice are greater than estimated total world trade in rice in 1970.

Japan, however, has been a spectacular success story for American agriculture. This present fiscal year we will ship Japan over $1.3 billion worth of our farm goods. We could ship even more if Japan's import policies were corrected.

Japan has delayed removing its restrictive quotas in imports far too long. There is no justification at all for the continued quotas on fresh grapefruit, on citrus juices and a number of other products. We also have problems with high duties on our exports, the Japanese pattern of increasing duties on products when they remove quotas, and with their administrative guidance practices. Nevertheless, I will readily acknowledge that Japan is a good, large, and growing market for U.S. agricultural products, and a bright spot for future growth.

Senator PERCY. Before you leave Japan, could I ask a question as to what the duty on soya products is? You mentioned they are duty-free in Europe. It has been cut in half recently in Japan. What is it now?

Mr. PALMBY. Roughly cut in half. I believe the duty in yen per kilogram figures out about 16 cents per bushel.

Senator PERCY. Would there be a chance they could eliminate that too as a gesture toward adjusting some of the problems we have with Japan now to see if we couldn't increase a little more some of their imports of soya products?

Mr. PALMBY. Senator Percy, we have not only suggested but we have suggested in as strong language as we can that the present 16 cents per bushel duty on soybeans is duty upon which they would be very wise to take unilateral action. It would be wise for them to do so because first, they have a very, very small domestic industry. Second, it is a commodity which they need in increasing volume not only for the oil but for feed for an expanding poultry and swine industry, and, third, we think the goodwill and the economic benefit that would be created between the two countries would far outweigh what inconvenience or slight cost it would cause them, keeping in mind they now import a little over 100 million bushels a year, so the income to their treasury is around $16 million or more.

But in answer to your question, I wish they do it. Maybe they will.

Senator PERCY. Well, I would like to reinforce your position. I think symbolically it would be very important. It is an area where they can act unilaterally, as you say, without any injury to the domestic market and with benefit all the way around, and I think your position is right and I hope you put increasing emphasis on this.

Thank you very much.

THE UNITED STATES

Mr. Palmby. I have been critical of the production and import policies of the other major developed country markets; what about our own? Even though we are a major exporter, we are also a major importer of agricultural products. Imports this fiscal year will amount to $5.7 billion. About three-fifths of this will be directly competitive with U.S. production.

We have import controls, certainly. But comparatively speaking, our agricultural support system is a relatively liberal one. Let me explore four areas usually singled out for criticism—meat, sugar, dairy and the other section 22 restrictions.

BEEF AND VEAL

The United States takes nearly 40 percent of world imports of beef. The EC takes 20 percent and the United Kingdom 20 percent. Until a few years ago, the United States had no restriction on imports of beef, veal and mutton and a very low, fixed duty. For the past few years we have had a voluntary restraint program under which the major supplying countries have agreed to put limits on what they send us in chilled and frozen form. We have no price support system. Under the voluntary program these imports, even with restraints in effect, are at a record high level. They are higher than in 1963, a year of rising imports that brought passage of the Meat Import law in 1964.

This program has worked reasonably well. Last year, there was a major loophole because transshipments of Australia and New Zealand meat through Canada were not subject to restraints. However, this loophole was closed by Executive action and remains closed.

For 1970, the estimate of imports based on the voluntary restraint program was 1,160 million pounds. Actual imports were a few million pounds below the estimate. Although the responsibility for enforcing restraint levels rests with the foreign country, agreements with those countries permit the United States to apply import controls if these are needed to enforce restraint levels. This authority was delegated by the President to the Secretary of Agriculture. In 1970, the Secretary issued regulations to control imports from five countries when it appeared that they might exceed their individual restraint levels.

For 1971, the Secretary has estimated imports at 1,160 million pounds—the same level as the final estimate for 1970. As was the case in 1970, this estimate is based on voluntary restraint arrangements by the principal exporting countries.

SUGAR

The Sugar Act is before the Congress right now, and I do not intend to say much about it. I would note, however, that even though imports are tightly regulated this year, the United States will import about 45 percent of its sugar requirements at a value of about $750 million.

DAIRY PRODUCTS

The United States has tight quantitative controls on most dairy imports. These protect a price support system. In recent years we have had to extend these controls to new products on a number of occasions. We have also increased the level of price support. In the late sixties, world supplies of dairy products, especially in Europe and Oceania, were in surplus to commercial market demand. Milk going to fluid use did not keep pace with increased production and the surplus production was diverted to the manufacture of dairy products. Surpluses of these products, particularly butter, became enormous and outlets were sought at almost any price and in almost any form not specifically restricted by importing countries. The heavy subsidization left the world dairy market in a state of turmoil and disorganization. Imports into all major world markets were tightly controlled.

The past year has seen a sharp readjustment in world butter stocks that has removed the burdensome surpluses that demoralized the butter market for the past several years. This was the result of lower production in Western Europe and in New Zealand, which suffered a severe drought. The reduction in world butter supplies was most evident in the United Kingdom market and led to the temporary suspenson of import quotas by that country. As a consequence, the United States has been able to release a limited amount of its surplus stocks of butter for sale to that market. This has been useful since U.S. production has increased this year, after having declined for several years, and price support purchases have been up. Our exports were made only after a full consultation with the traditional suppliers.

World market prices are still below U.S. support prices, however, and cheese and other dairy product imports continue to seek the U.S. market. A few months ago, the President directed the Tariff Commission to investigate whether controls should be imposed on imports of certain cheeses which are not now under quota if the f.o.b. price is 47 cents per pound or more, in order to prevent material interference with the price support program for milk. We expect a report on this investigation shortly.

SECTION 22, AGRICULTURAL ADJUSTMENT ACT

The charge is frequently made that the United States, as much as any other country, maintains strict control over all competitive agricultural imports, and that the United States is free to continue to do this by reason of a waiver given us by the contracting parties to the GATT in 1955. Our section 22 waiver has been raised as an excuse for continued restrictive policies of other nations.

These charges do not stand up. As I said earlier, I am confident that under any test, our agricultural support system will show as a relatively liberal one. These charges are likely the result of lack of accurate information, both on the extent and nature of our import controls under section 22 and the nature of the section 22 waiver.

Import controls are currently applied on only three commodities—cotton, wheat and wheat flour, and peanuts—beyond the ones I have specifically talked about. These three products are controlled under authority of section 22. The domestic production of all three of these commodities, is also controlled.

All other agricultural imports of the United States which include pork, lamb, poultry, a large variety of canned meat products, wines, vegetable oils, fruits and vegetables, tobacco, and feed grains, to mention only a few in which there is major U.S. production, are permitted unrestricted entry into the country and are subject to only fixed and generally moderate tariffs.

Significant features of the section 22 law are frequently overlooked or misunderstood. In the first place, the authority is limited in scope. Import controls may not be imposed to protect domestic production, as is done in the case of other countries, but only to protect price support and other programs of the Department of Agriculture. Even the existence of a program does not mean the automatic application of import controls. For example, we have price support and production restraints for feed grains, rice, and for tobacco, but there are no import controls beyond fixed import duties. There must be a showing that imports will materially interfere or render the program ineffective. Experience over the last thirty years shows this condition of the statute is not easily met.

Further, there is no "automaticity" of the application of import controls on agricultural imports under section 22. The action is taken by the President after thorough investigation, including public hearings by an independent agency—the Tariff Commission.

The act requires also that a share of the U.S. market be made available for foreign suppliers. Existing quotas under section 22 will illustrate this. The much publicized controls of dairy imports still permit for certain cheeses from 200 to 400 percent of the quantities entered into during a prior representative period.

Also, in the case of wheat, cotton and peanuts—as well as sugar under the Sugar Act—the domestic production is likewise restrained. When programs are in effect to control production by domestic producers, it is not unfair to impose a limit on the amount which other people may market in the United States. This is a recognized principle in the GATT.

PROPOSALS

Mr. Chairman, I have set out the major problems facing world agriculture and the United States and I want to turn briefly now to the opportunities for dealing with them.

I want to look at matters in the traditional time frames—long range, medium, and short run—and to say a few words about the General Agreement on Tariffs and Trade. This is especially important, it seems to me, in light of the work the OECD is embarked upon; and in view of the comments I have made earlier in this testimony respecting agricultural price and production policies, subsidies, MFN, and the continued use of restrictions which are inconsistent with GATT.

Contrary to much opinion, the GATT is not silent on agricultural trade in its general rules, nor is it without specific negotiated commitments on agricultural products. Practically every agricultural item in the U.S. Tariff is negotiated and bound against increase in the GATT, and we continue to hold some very valuable bindings abroad—such as our duty-free entry into the EC on soybeans and meal.

The GATT is, however, a charter and most of its rules are drawn broadly. They require constant interpretation, and they require enforcement. Unfortunately, in my judgment, both of these have been lacking. Much of the interpretation we have had has been faulty. There are reasons for this, of course. Take price support programs. The drafters of GATT were not ignorant of the fact that internal price support policies influence trade and can lead to export subsidies and undercut commitments made at the border on tariffs. The GATT links such support policies to tariff bindings and provide for the usual GATT sanction—retaliation—if they are allowed to impair negotiated concessions. But this GATT provision was not used in its early years, and not enough attention was paid to obtaining and keeping specific negotiated tariff concessions. There was not the sharp concern in these early years over agricultural self-sufficiency. Today, we know better.

Thus, in my judgment, we should not now reject the GATT or seek to replace it with a new institution. We should instead work within it—reform it.

THE LONGER RANGE PROSPECT

OECD ministers 2 weeks ago at the meeting I attended "affirmed that their governments will pursue policies aiming at greater liberalization of world trade" and they set up a small, high level group to see how best this can be done.

As I hope my testimony has made clear, agricultural trade liberalization must be given a high priority. This group will be successful only if countries take its work seriously and put the full weight of their governments behind it. For our part, we in agriculture will strongly support its work, and we will do our best to see that it is successful. We firmly believe that world agriculture should return to the original promise of the GATT—the promise of a market-oriented agricultural trading world. Export subsidies should be eliminated. Present protective systems, such as variable levies and quotas, should be replaced by fixed duties. Farm income obectives should be met through programs that have a minimum effect on output.

THE MEDIUM TERM

For the medium term there is also a specific task—to move ahead with the necessary work looking toward the GATT negotiation to conform the existing EC and applicant country tariff concessions to the new situation which will exist after EC enlargement takes place. I am speaking here of what is known as the article XXIV:6 negotiations, which I would expect to take place in 1972, if the United Kingdom does enter the EC. As I mentioned earlier, we have specifically preserved for this negotiation certain GATT rights on grain which we held from the United Kingdom. We expect to combine these with similar rights we have long held from the Community, and to use them in protecting the interests of our trade in grains. Other specific and general GATT rights exist which must be protected and used to enhance our trading position.

THE SHORT RUN

Finally, in the short run, we must all try more seriously to make specific adjustments in domestic and import policies that are urgently needed in most countries now. We should not allow the longer term perspective of a broad negotiation to deflect us from this. And as we pursue our work we must keep in mind that if a new major negotiation is to deal with the agricultural problems I have discussed, it must break with the old patterns. It must deal with GATT's shortcomings on price and production policies, subsidies, variable levies, and MFN. Also, we can no longer tolerate the practice of withholding some products—like grains—from negotiation.

We should more vigorously shield our domestic market from unfair competition. We should more aggressively advance our interests in export markets abroad. There are statutes on the books which give us authority to do both of these and there are provisions in the GATT which allow their use. They should be used.

Thank you.

Chairman BOGGS. Thank you very much, Mr. Palmby. I just have a question or two. What do you specifically see—I know you talk about it in your statement—with the accession of the United Kingdom and other countries to the Common Market as far as agriculture is concerned?

Mr. PALMBY. Well, as we sit here today, Mr. Chairman, really the deal has already been struck, of course. The countries that are proposed to become a part of the Community have already accepted the common agriculture policy. This being the case, and accepting that the Community becomes larger, the question then becomes what chance is there in negotiation with the then-enlarged Community keeping our GATT bindings in mind, as I explained, what chance is there for modification of their policy? Putting it simply, what chance is there to move them away from a variable-levy system to a fixed-duty system?

Mr. Chairman, I think we have to push them. Many of us feel that while it may have been necessary in the early years to have common prices bring the Six together, this type of system is not necessary now to hold the Community together or to carry out what this Nation too would like to see take place; namely, an expanded Community.

Chairman BOGGS. Have the Common Market countries had the same movement away from the farms and to the cities that we have had in this country?

Mr. PALMBY. Very much so.

Chairman BOGGS What effect has that had upon production?

Mr. PALMBY. Unfortunately from our standpoint, this causes production to increase rather than decrease.

Chairman BOGGS. The reason being that the policy——

Mr. PALMBY. The reason being that when small units are put together, they make a larger, more efficient unit. There are many exceptions to the rule. This is so in Japan and on the Continent particularly where the land area is limited and where land is required for industrial expansion. What I said will not always hold true because of the demand for land for other use, even including recreation purposes, I might hasten to add.

Chairman BOGGS. Thank you, Mr. Palmby.
Senator Percy.

Senator PERCY. I have just one question, Mr. Chairman. Mr. Gilbert in his previous testimony just said the accession of the United Kingdom to the Community could not do anything but harm the U.S. agriculture, but that our policy has been to encourage entry by the United Kingdom if it wanted to do it. We haven't tried to interfere in the operation, and I think wisely so.

I wonder, Mr. Palmby, if you could comment on that? You seem to agree with this comment of Mr. Gilbert. Would you care to respond to that, and to what steps we need to take to minimize the danger and injury to our own economy?

Mr. PALMBY. Yes, Senator; I can't help but agree with Mr. Gilbert. With the common agriculture policy as it is presently structured, and with the price levels as they have come into being, and with no modifications, every study we have made shows that U.S. agriculture must suffer. I have mentioned the problem of a common agriculture policy for tobacco. This is an example. We do have a $150 million market in Britain. I don't think we should take our bindings lightly on grain, for instance, or on corn and wheat, in Britain. Also our bindings with Community countries which have been in suspension for many years must be used effectively.

I think that it behooves us to get something in the grain area from these bindings. The temptation will be, Senator, to settle, make a settlement on these bindings, and to take compensation, perhaps in the industrial sector or some related area. This is not the answer in our opinion, certainly not for U.S. agriculture, and I doubt if it is the answer for the Nation as a whole.

To go on one bit further. There is always a case made, you know, for more freedom for financial investment and more freedom for returns of profits, and I am not about to quibble with that because there is much to be said for it. I think we must not let ourselves be lulled into believing that this is the answer to our entire trade imbalance because we have some very real efficiencies in the agriculture sector; and when our trade in those items or the policies governing those items is not put on the negotiating table with all of the other problems, then I just know as a nation that we will suffer.

Senator PERCY. Along that same line, can you give us the feeling as to how amenable you feel the Europeans are on the subject of negotiating liberalization of the common agriculture policy in the future?

Mr. PALMBY. I will comment on really one commodity without going into many of the others, and the big one is grain, because at a price level near the world price, the utilization of grain in Europe would go up very rapidly. The market would expand because of their present very low consumption of quality beef and other reasons. At the moment they are very inflexible, and any reasonable man can understand their problems. They have a small farm problem, and the several countries have attempted to work out their income policies for their small farms through a high-price support mechanism which we know leads to a restrictive agricultural policy and does not result in higher incomes to those producers in relation to the rest of the society.

It can best be illustrated in this way: Our farm income in this country, while it has not gone up as rapidly as we like in relation to the industrial income in the last years, 10 years, has done fairly well. The biggest single reason it has done so well is that we have expanded so much the expansion and consumption of beef and other quality meat. As long as the system in Europe is tailored so that this production cannot increase, then I maintain that the farmers of the common agricultural policy is not serving their producers well.

Senator PERCY. Taking into account some of the real problems that we face in agriculture, and we have done well in the past, I think you have wisely looked with caution to the future. Do I understand that the Department of Agriculture would vigorously oppose any attempt of the Common Market to impose a tariff or tax on the importation of soya beans and soya products? It has been threatened in the past.

Mr. PALMBY. Not only the Agriculture Department. I would hasten to say this is one good case in point where we have maximized the importance of our duty-free bindings. And by "we" I mean our entire Government, and I must say that we have had support from the Congress on many occasions, and this has proved to be very, very helpful to us.

Senator PERCY. And you see no danger now? Is it not a matter of current conversation or current pressure in Europe to impose such a tariff or a tax as they threatened a year or two ago?

Mr. PALMBY. The pressure is not near as great today, and we keep being told that this problem is behind policymakers. But I have to wave a flag of caution because the higher EC cereal prices are established in relation to world prices; and with meal and oilcake prices moving at competitive world prices, the greater the problem becomes. It is greater with each passing year because their feed industry is computerized as is ours. As the price relationship gets further out of line with each passing year, the demand for the feed industry for oilcakes becomes greater in relation to cereals. We realize they have this problem, this price relationship between feed and grains, but it is man made. If they continue this policy of higher and higher grain prices, we must remember that the problem becomes worse rather than less. But I must say that we every day will continue to talk about our duty-free bindings on the oilseeds.

Senator PERCY. I appreciate that very much and I know every time I go to Belgium, our Ambassador to the EEC over there probably gets tired of hearing me singing the same song. I am glad to have your reaffirmation for it is a very important area. It is one of the areas farmers can move into, and it has met a great world need. The export of soybeans and soya products is exceedingly important to certain Midwestern agriculture and I might say if I can be provincial, Illinois.

Chairman BOGGS. Thank you very much. Thank you, Mr. Palmby, and we thank you and your associates.

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

(Whereupon, at 12:05 p.m., the hearing was adjourned until 10 a.m., Tuesday, June 29, 1971.)

A FOREIGN ECONOMIC POLICY FOR THE 1970'S

TUESDAY, JUNE 29, 1971

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

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

Present: Representatives Boggs, Conable, and Brown; and Senator Javits.

Also present: John R. Stark, executive director; Myer Rashish, consultant; John R. Karlik, economist; Lucy A. Falcone, research economist; George D. Krumbhaar, Jr., minority counsel; and Leslie J. Bander, economist for the minority.

Chairman BOGGS. Today the subcommittee is pleased to hear from the Honorable Paul W. McCracken, Chairman of the Council of Economic Advisers.

We are very happy to have you, Mr. McCracken. We appreciate your coming to testify.

STATEMENT OF HON. PAUL W. McCRACKEN, CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS, ACCOMPANIED BY MARINA WHITMAN, SENIOR STAFF ECONOMIST

Mr. McCRACKEN. Thank you, Mr. Chairman. I do appreciate very much the opportunity to be here this morning to discuss the interrelationships between domestic economic policy and the world economy.

I have Mrs. Whitman with me, who is our senior staff economist and works in this area.

If I may, Mr. Chairman, I might summarize orally some part of this statement, since the full statement itself, I think, is a little long.

It is well to begin by recognizing that on the whole, the world economy has functioned rather well in the quarter of a century since World War II. International trade has been growing at a fairly rapid pace. When we look at the decade of the 1960's, for example, we find that the volume of international trade was rising at the rate of about 7.5 percent per year. This is a little larger than the growth in output which would have been at roughly a 5 percent per year pace. I might add that the growth in world trade last year was a little more than the 7.5 percent trend.

This tendency for trade to rise somewhat more rapidly than economies themselves were expanding is the kind of development that would be expected if the world economy were functioning well. As purchasing power in real terms and levels of living rise, it is to be expected that businesses more and more would find markets that might well be beyond the national boundaries. And of course, consumers themselves could enrich their levels of living, the pattern of living, by having increasing access to products produced abroad.

I think it is important to bear in mind as we move on into the subject that the United States has the obvious problem, one that is well to flag, that our foreign trade is relatively small for us, but it is nonetheless quite large in the international economic picture. Our exports are about 13 percent of GNP originating in "tradeable merchandise" categories. The figure would be well over twice that for Japan, about 30 percent. It is over 60 percent for Canada. But at the same time, our foreign trade is, of course, very large in the world scene; indeed, we are the largest trader.

During this period, international investment also has grown rather rapidly. Our foreign direct investment has increased from about $32 billion in 1960 to about $70 billion in 1969 and foreign direct investment in the United States has also grown, although the figures are of somewhat smaller proportion.

Our own foreign direct investment, of course, has made it possible to have a substantially larger flow of earnings from royalties, dividends, interest, and so forth, a flow which amounted to close to $8 billion last year.

This expansion of the world economy has, of course, created strains and stresses. One of these that we saw increasingly come into the picture as the decade of the 1960's ended was a tendency for the rate of inflation to move at a substantially higher pace. The consumer price index of a list of seven major countries was rising about 6 percent last year, substantially higher than for the preceding decade as a whole.

It is also true that we have seen not only in the United States but elsewhere some tendency toward growing protectionist sentiment for a variety of reasons. And of course, we have also seen rather recently some of the problems involved in the workings of the international monetary and financial system, as indicated, among other things, by the developments that occurred in May.

I would like to continue now with the discussion of some of the ways that would seem to be inappropriate to deal with the problems that we see in the international picture. I think it is important first of all to recognize that we cannot expect to achieve balance in our internal accounts by adopting severely deflationary domestic economic policies here at home. Indeed, there are persuasive reasons for believing that a reinvigorated American economy would actually contribute to the strength of the world economy while conversely, an American economy stranded on the path of stagnation would certainly pose fundamentally different problems for the international trading and financial system as well as, of course, having adverse effects in the domestic economy in terms of employment and production.

At the same time, it is obvious that a policy of going all out for maximum expansion without regard for the ultimate consequences on the price level at home or to the displacement effect that might occur in the international economy would also be inappropriate. Establishing the foundation for a better U.S. price level performance has, in fact, been an essential requirement for external as well as for domestic reasons. The acceleration of inflation was halted here about a year ago, and there is some evidence that the rate of inflation has moved to a lower level. Indeed, the United States today seems to be somewhat further along the disinflationary road than are most of the other leading industrial nations. This progress seems to be reflected in relative price performance here and abroad.

What is clearly indicated for both domestic and external reasons at this juncture is the resumption of sustained and orderly domestic expansion. Both logic and the facts of experience give us strong reasons to believe that as expansion gets underway, it will be accompanied by improvement in our underlying balance of payments position. A positive relationship between the strength of the balance of payments and the rate at which the economy is growing has repeatedly characterized swings in economic activity in the United States. Any temporary weakening of our current account as we move into a period of stronger expansion tends to be more than offset by changes in private capital movements, which tend to respond strongly to changes in domestic economic conditions. I would expect to witness this pattern in the coming months once the flow of funds associated with developments earlier this year have settled down.

The main reason that there seems to be a positive relationship between the position of our balance of payments, our overall balance of payments, and the operating rate of the domestic economy—is, if I may emphasize, that we get these counterswings, on the current and the capital accounts. Changes in the surplus on current account respond in a rather orthodox way to changes in the operating rate of the domestic economy. In our case, however, there tends to be a counterswing on the capital account that, at least historically, has tended to more than offset reductions in the trading balance. This is pretty well documented in several studies.

The least we can say is that there is little reason to expect that sustained employment in our balance of payments can be achieved through policies that would lead to chronic underutilization of our caapcity. And looking beyond these cyclical patterns to the longer run, it is clear that the most important requirement for international competitiveness on which a strong external position ultimately depends is a sustained and substantial increase in productivity. Experience has shown that strong productivity improvements are more likely to occur in periods of healthy growth than in periods of stagnation.

Another route which would lead the world economy away from rather than toward its common goals would, of course, be a retreat into protectionism, into the reciprocal erection of barriers to trade and payments which could not help but reverse the progressive integration of the world economy that characterized the 1960's. Rather, our policies should be designed to go the other way.

I have indicated in my statement—I will not go through all of this—some obvious things, but I think they are things that are worth remembering: That imports, of course, play a vital function in our economic life as well as exports. There are obviously some things that we have to import if we are going to have them.

It is, I think, worth remembering also that imports do impose a price-cost discipline in a competitive economy and this is a particularly important consideration in this era of concern about the difficult problem of trying to achieve a greater stability of prices and costs.

It is also important for us to bear in mind that any tendency for one country to move unilaterally toward restrictionist measures to correct its own balance of payments is apt to have a feedback effect on our export position. Just what the nature of that relationship would be would, of course, be difficult to judge in advance, but it is true that any tendency for us to restrict our own imports is certainly bound to have some adverse effect in two ways: By reducing the earnings of other countries from their own exports, and perhaps more importantly, through retaliation against the actions which we tave taken.

Clearly, more rapid economic growth is not likely by itself to eliminate all of the problems associated with the adjustment to import competition, although in my judgment, a more vigorously expanding economy is certainly not inconsistent with our external position and our responsibilities in the world economy. But, in some cases, where there are disruptions caused by relatively large and sudden increases in import penetration into specific markets, certainly agreements on the part of foreign exporters to limit the rate of growth of their shipments can provide an essential breather for modernization and whatever adjustments have to take place.

More generally, of course, expanded programs of adjustment assistance are clearly required to facilitate the transfer of labor and other resources to more productive sectors of the economy. The Secretaries of Labor and Commerce are far better equipped than I to discuss the specifics of this, but I did want to flag this aspect of the problem.

Now, if I may turn to developments during the last year or so, because these are very much on our minds, I think there are some things that are worth saying here. The year 1970 was a particularly difficult one for the exacerbation of trade and international economic tensions generally. The stubborn domestic inflation contributed to a relatively greater import penetration than would otherwise have occurred, particularly in some markets, although it is true that foreign export prices rose, on the average, even more rapidly than our own export prices or prices in our domestic economy. The sluggish domestic economy made it more difficult to adjust to this increased foreign competition. Moreover, the relationship between imports and domestic income in 1970 was inconsistent or out of line with previous experience. Normally, the pattern has been for a change in the level of real income to be accompanied by a change in the level of real imports in the same direction, but, of course, with a greater change in magnitude for imports than for our income.

Between 1969 and 1970, however, after adjustment for price increases which accounted for about two-thirds of the growth in the value of our imports, the volume of total U.S. imports rose by 3 percent, despite the fact that real output fell by four-tenths of a percent. Virtually all of the aberrant behavior of imports in 1970 seems to be accounted for by the behavior of the finished manufactures category, a category of industries in which increased import penetration was particularly pervasive last year. We simply do not have the evidence yet to know what caused this development, nor whether it is simply a one-shot abberation or the signal of a new and important trend.

I might mention that while this relationship tends to be a fairly tight one statistically, there have been one or two other years that seemed to be quite out of context with normal experience. As I recall, 1958 was one of them.

There are preliminary indications that 1970 saw a similar development on the export side—that is, a somewhat unusual change in exports relative to the change in economic conditions. U.S. exports expanded more rapidly than would have been expected on the basis of the rate of economic growth experienced by our major trading partners. To the extent that these developments were symmetrical for exports and imports, they may simply indicate the increased integration of the world economy referred to earlier, an intergration suggested by the fact that import expansion has tended to outstrip the general rate of economic growth in many industrial countries, particularly in 1970. There is some possibility, however, that the developments of 1970 were not completely symmetrical, that the apparently changed relationship between trade and aggregate income was more marked on the import side than on the export side, although we cannot yet be sure of that. Some explanation of the unusual behavior of exports can be found in the particular nature of the recent slowdown in the U.S. economy. A major factor was the decline in Federal Government purchases of goods and services, which probably has less direct impact on imports than other components of gross national product.

Whatever the explanation, two courses of action seem to be indicated. One is clearly to work with our partner countries toward the elimination of the wide variety of policies and programs which handicap our exports and often prevent them from competing in foreign markets. With such considerations in mind, a high level group is being set up under the auspices of the Organization for Economic Cooperation and Development to analyze world trade problems in longer term perspective and to suggest effective means for liberalizing international trade.

A second indicated course of action is in cooperation with other members of the International Monetary Fund to find ways to increase the flexibility of the international financial system in order to enable it to cope more effectively with the strains and stresses that are imposed on it. These strains have led a number of important countries lately to operate outside certain of the rules established at Bretton Woods by allowing their currencies to float, and have also given rise to some feeling that the Bretton Woods system itself may be obsolete and unable any longer to cope with the problems of the modern world.

The evidence, of course, does not support such a pessimistic view, as I indicated earlier. The system has served the world well over the past 25 years, underpinning the impressive growth of world output in trade and investment which I mentioned at the outset. It can continue to serve us well if a capability to take account of new demands placed upon it is developed.

The founders of the Bretton Woods system did not, obviously, see all of the forthcoming developments in the world economy. When they did their work, virtually all currencies except the dollar were inconvertible and international flows of private capital were virtually nonexistent. Naturally, they did not give recognition either to the importance of freedom of international investment as well as trade or to problems which would be posed for the conduct of independent national economic policies by increasing flows of interest-sensitive liquid capital across international boundaries. At a time when memories were dominated by the disastrous episodes of competitive exchange-rate depreciations of the 1930's, it was of course natural that there was more concern with insuring the stability of exchange rates than with insuring adjustment when the need for change arose.

In a recent report on exchange-rate flexibility, the Executive Directors of the International Monetary Fund discussed three possible modifications of the present exchange-rate system—provision for prompter and therefore probably smaller changes in parities; legalization of periods of "transitional float"; the kind of condition we now see with the deutsche mark; and the third was the widening of the bands or margins around parity within which exchange rates are free to move without Government intervention in support of the rate.

In considering the possible effects of such measures, which were discussed in more detail in the President's 1971 Economic Report, it is worth noting that there are two related but analytically distinct problems underlying recent concerns about the international monetary system and the resulting discussions of exchange rate reform. One is the use of exchange rates as tools of adjustment; that is, as a means of correcting fundamental disequilibria in countries' balance-of-payments positions. The second is the use of exchange rates as a means of preserving independence for national economic policies directed at domestic goals, particularly, of providing some insulation for monetary policy against the impact of large flows of interest-sensitive funds, the kind of problem that we saw earlier this year.

The IMF's report is receiving careful discussion and attention, though it is premature to speculate about the nature of any consensus that may emerge regarding these proposals. It is clear, however, that the modernization of the international monetary system to meet the needs of the 1970's has become an urgent matter.

Recent experience also indicates both the need for and the complexity of the problem of improving the internal and external coordination of economic policies in the major countries. This matter also is receiving increased attention. Some of our problems this year arose because economic policies in the United States and in Germany, aimed in each case at domestic economic conditions, produced different interest rate levels, and interest-sensitive funds began to move in response to these differences. If these interest rate differentials had been narrower, the initial forces starting these flows would have been weaker. Now it is sterile to ask who was the villian. When two people are not in step, who is out of step? Each country understandably was concerned about the problems as they existed in its own domestic economy. Nor would the mechanical alignment of interest rates have been the answer. In that case either Germany, faced with an overheated economy, would have had to pursue even easier monetary policy or the United States, faced with excessive slack, would have had to deflate still further through substantially tighter money. If, however, ways could be found to use fiscal policy more flexibly each country might then find the combination of fiscal and monetary policies that would be responsive to its own domestic economic conditions while at the same time keeping interest rate levels more in line internationally.

The phrase, "flexible use of fiscal policy" is, of course, another of those that have a profound tone and are easy to utter but exceedingly difficult to implement in practice. At the same time, we are in the early stages of these efforts, and no reasonable person would say that we have exhausted the potential for progress. Indeed, the need for more coordination and harmonization of economic policies within and among nations will become even more important as the European Community enlarges itself and ways must be found to keep other economies and the Community's economy reasonably meshed. It is reassuring that the OECD is now becoming more active in some of these matters.

Well, I might summarize very briefly, Mr. Chairman. It seems to me as we look down the road at the developing world economy, and the role of the United States in this economy, at least three considerations suggest themselves as important for us to keep in mind. First, our international trading and financial system has generally served us well in the quarter of a century since World War II, and the statistics are broadly a picture of an international economy, generally performing reasonably well. Second, resumption of more vigorous economic expansion in the United States is as essential for the international as for the domestic economy, but the United States must have due regard for external effects in the strategy and mix of its economic policies. Finally, some modifications and changes in the international financial and economic system need to be explored if our trading and financial systems are to be in tune with the world of the 1970's. This is particularly important since some of the problems often mistakenly attributed to improper American economic developments and policies are really systemic in nature, and they will not be resolved until adjustments are made in the international system itself.

Thank you very much.

(The prepared statement of Mr. McCracken follows:)

PREPARED STATEMENT OF HON. PAUL W. MCCRACKEN

Mr. Chairman, I appreciate this opportunity to appear before you this morning to discuss the role of the United States in the world economy, and to explore some important issues raised for foreign economic policy in 1971 by the economic interrelationships between this, the world's largest single economy, and the rest of the world.

I

Any such review should begin with some recognition of the impressive growth and progress which have characterized the international economy during the past two decades. World output and income have been expanding at substantial rates during those years, averaging 5 percent in real terms in the non-Communist countries during the 1960's. During this same decade, the volume of international trade grew even more repidly, at an average annual rate of 7½ percent, and in 1970 the real growth in trade was about 8½ percent.

The fact that the growth of world trade has been larger than that for world output in recent years is what might be expected in a generally well-functioning international order. As consumers become more affluent, items produced abroad can be expected to show up more frequently in their purchases, and businesses can be expected to find enlarging opportunities for markets beyond national boundaries. This relatively rapid development of world trade also reflects the

66-850—71—pt. 7——8

steady reduction in international barriers during the post-war period. By the beginning of 1972, when the final phase of the "Kennedy Round" tariff reductions is completed, industrialized countries will have reduced their tariffs on imports of manufactured good by more than one third.

For the United States, of course, the foreign sector does not loom nearly so large as it does for most other countries, simply because of the fact that we have a large and highly diversified domestic market. U.S. exports, for example, are equal to about 13 percent of GNP originating in "tradeable merchandise" sectors, as compared with 30 percent for Japan, 63 percent for Canada, and even higher figures for small countries. But, though it is small, the share of the foreign sector in our economy is growing. In recent years imports have been growing faster than GNP in the United States as they have in industrial countries in general. We cannot forget, furthermore, that what seems small to us may seem large to others, and our "small" foreign sector still represents the largest single national share of total world trade. U.S. exports accounted for some 15.5 percent of the total exports of the non-Communist world in 1970, as compared with 12.3 percent for Germany and 7.0 percent for Japan, the next largest of the world's exporters.

International investment has also been growing faster than output as a whole, at least for the United States. The book value of U.S. direct investment abroad was more than $70 billion at the end of 1969, as compared with about $32 billion 9 years earlier. At the same time, the book value of foreign direct investments in this country at the end of 1969 was $11.8 billion, also representing a high rate of growth from a total of $6.9 billion a decade earlier. This internationalization of investment has, of course, contributed to substantial flows of dividends, interest, fees and royalties across international boundaries. The total inflow into the United States associated with direct investments was $7.9 billion in 1970, having doubled since 1963. In 1970 foreigners received comparable inflows totalling $0.6 billion, arising from their investments in this country.

II

As is true of any system in the process of rapid growth and change, the expansion and integration of the world economy has inevitably created strains and problems for participating countries. These difficulties, although virtually world-wide in both origins and impact, impinge in particular ways on the economy and the economic policy-making of the United States.

The acceleration of the rate of inflation in industrialized countries is one problem of widespread concern. The average rate of increase of consumer prices in seven major industrial countries was almost 6 percent in 1970, as compared with an average anual rate of 2.8 percent for the period 1960–1969. For the United States, with our small foreign trade sector, one can hardly think of inflation as being "imported" to any significant degree, although the prices of our imports rose significantly faster than either the prices of our exports or of our domestic prices in general last year. But the fact that the United States is only one among a number of countries where an undesirably high inflation rate is combined with an unsustainably high unemployment rate suggests the existence of a widespread and stubborn problem. Furthermore, the combination of inflation and unemployment poses a particularly difficult problem. High or rising unemployment increases domestic pressures for protection against imports, while stubborn inflation underscores the importance of imports as a factor inhibiting tendencies for domestic costs and prices to rise.

Indeed, the danger of a widespread revival of protectionism is itself another problem posed with increasing intensity recently. The protectionist pressures we feel in this country have their counterparts in other industrialized nations, and threaten a resurgence of the barriers to international trade and investment which have been so painstakingly reduced over the past 25 years. Such a reversal would lead to a loss of economic benefits and opportunities in all industrialized countries, including the United States, and would pose particularly painful barriers to the economic progress of the world's less-developed nations.

Finally, there are the problems associated with the workings of the international monetary system, which most recently came to a head with the events of early May. The year 1970 was one of relative tranquility in the foreign exchange markets, but the pressures were building up. These pressures generally took the form of large flows of interest-sensitive short-term capital from one country to another, caused by differences in monetary conditions and monetary policies among countries, and they in turn caused difficulties for the conduct of domestic economic policy in a number of the recipient countries. For the United States, which stands at the center of the international monetary system created at Bretton Woods, the problem is not a choice between neglect—benign or otherwise—on the one hand and a narrowly conceived concern with our balance of payments on the other. Rather, the problem has been the development of effective means to have regard for our international responsibilities in the monetary sphere while dealing with our domestic economic problems. This has required that we discover, in cooperation with other nations, ways to reduce the strains inherent in the international financial system as presently constituted and to make it function more effectively in a manner consistent with the domestic economic needs of all nations.

III

The United States plays a particularly crucial role in the world economy, by virtue of the large size of our economy and of the unique international roles of the U.S. dollar—as standard, reserve, and intervention currency. The international economy faces a range of problems involving protectionist trade policies and practices, the systematic shortcomings of the international payments system as presently constituted, and such related issues as sharing the common defense burden and the encouragement of exports of lower income countries. The mutually satisfactory resolution of these problems would have a beneficial impact on our relations with our partner countries in the industrialized world, an impact which would be felt in the non-economic as well as in the economic areas of foreign policy. This is a tall order, of course, but even the beginnings of effective progress toward the resolution of these problems would be extremely helpful. It is in order to find the best way of making such a beginning that these Hearings are being held, as the Subcommittee's Chairman, Mr. Boggs, has pointed out in his own summary of problems we face in today's rapidly-changing economic relations among increasingly interdependent yet sovereign nations.

In seeking solutions, or approaches to solutions, of the problems posed by our international economic relationships, it is crucial that we find in terms of actions which strengthen rather than weaken the capability of the system to achieve the common objectives of the participating countries—freedom of international transactions and access to foreign markets; an equitable sharing of the common costs of partnership among non-Communist industrialized nations; and the maintenance of each nation's ability to pursue effectively its own domestic economic goals without impinging on the ability of other countries to do the same. Although these domestic goals (and the weights assigned to each goal) differ from country to country—and that is a fact of life which our international systems must handle if they are to function in an orderly way—the achievement of high employment, increases in real output and purchasing power, and reasonable price stability are common to all.

It is not easy, of course, to offer a blueprint for action to bring about the goals we all seek, and that is not the specific problem with which this Subcommittee has been concerned. There are, however, some courses of action which we know would be inappropriate. First, we cannot expect to achieve balance in our external accounts by adopting severely deflationary domestic economic policies. There are, in fact, persuasive reasons for believing that a reinvigorated American economy would actually contribute to the strength of the world economy while, conversely, an American economy stranded on the path of persisting stagnation would pose fundamental difficulties for the international trading and financial systems.

At the same time, a policy of going all out for maximum expansion of the U.S. economy without regard to the ultimate consequences for the price level at home or to the displacement effects in the international economy would also be inappropriate. Establishing the foundation for a better U.S. price-level performance has, in fact, been essential for external as well as for domestic reasons. The acceleration of inflation was halted in this country about a year ago, and there is some evidence that the rate of inflation hsa moved to a lower level. Indeed, the United States today seems to be somewhat further along the disinflationary road than are most other leading industrial countries, progress which is reflected in what appears to be some improvement in the price-competitiveness of American goods.

What is clearly indicated for both domestic and external reasons is the resumption of sustained and orderly domestic economic expansion. Both logic and the facts of experience give us strong reason to believe that, as expansion gets underway, it will be accompanied by an improvement in our underlying balance of payments position. A positive relationship between the strength of the balance of payments and the rate at which the economy is growing has repeatedly characterized swings in economic activity in the United States. Any temporary weakening of our current account as we move into a period of strong expansion tends to be more than offset by changes in private capital movements, which tend to respond strongly to changes in domestic economic conditions. We would expect to witness this pattern in the coming months, once the flows of funds associated with the speculative anticipations which dominated exchange markets in recent months have settled down.

By and large, the demand for investment funds tends to swing more widely with changes in domestic business conditions than does the supply, or flow of savings out of income. (That, of course, is why interest rates move pro-cyclically.) This means that when the economy is sluggish and domestic demand for financing is weak, funds tend to move out of this country to other financial centers where demand is stronger. A policy leading to sustained slack in the American economy which would also produce soft demand conditions in our financial markets would tend toward a seepage of funds out of the United States on capital account. Vigorous expansion, on the other hand, encourages a strong demand for the domestic employment of funds, producing financial-market conditions which tend to keep a larger share of domestic funds at home and to attract funds from abroad.

All in all, there is little reason to expect that sustained improvement in our balance of payments can be achieved through policies which would lead to chronic underutilization of capacity. And, looking beyond these cyclical patterns to the longer run, it is clear that the most important requirement for international competitiveness, on which a strong external position ultimately depends, is a sustained and substantial increase in productivity. And experience has shown that strong productivity improvements are more likely to occur in periods of healthy growth than in periods of stagnation and slack in the economy.

Another route which would lead the world economy away from rather than toward its common goals would be a retreat into protectionism, into the reciprocal erection of barriers to trade and payments which could not help but reverse the progressive integration of the world economy which characterized the 1960's. Rather, the world's international economic policies in the 1970's should be designed to encourage the further growth of trade. During these Hearings others have discussed with you the benefits of expanding our exports, and the challenges we face both at home and abroad in achieving this objective. Let me focus for a moment, therefore, on the other half of the trade picture, on the importance—indeed, the advantages—at home of maintaining the growth of imports. The two are, of course, intimately related. Without export growth, our imports could not expand, and if we did not have expanding imports, other countries would not have the purchasing power or the exchange to pay for our exports.

Imports, of course, make available goods that we cannot produce at all or only at prohibitive cost—such things as coffee and bananas. Nearly one-third of our imports fall into this essentially non-competitive category. Moreover, many of our imports take the form of raw materials and intermediate goods which accounted for nearly 38 percent of our 1970 imports.

Imports do also impose price-cost discipline on competing domestic industries. This is particularly important, in an era of pervasive concerns about the stubborn problems of re-establishing the more stable price-cost level that we lost in the 1960's. Moreover, there is some evidence of relatively greater economic concentration within our domestic import-competing industries. For industries where import competition is important, the percent of sales accounted for by the four largest firms in each industry averaged 51 percent in 1967. In comparison, the average for all U.S. manufacturing industries was 37 percent.

We must also remember that imports also enable other countries to purchase U.S. exports. Recent estimates suggest that, if the U.S. were to adopt general restrictions on imports the decreased purchasing power in other countries would lead to a substantial reduction in their imports from the United States, quite apart from any retaliatory restrictions they might adopt against U.S. exports. It should be added that the outcome of restrictions which directly reduced our imports and exports by equal amounts would very likely be unfavorable to the

U.S. because the subsequent responses in purchasing power here and abroad would have a much larger secondary impact on our exports than on our purchases from other countries.

The greater danger, of course, would be that the initial restrictions would set off a sequence of trade restrictions harmful to all countries in the end. Actions that adversely affect U.S. exports would certainly lead to serious adjustment problems in the impacted industries, many of which are heavily dependent on exports. In 1967, the most recent year for whcih complete data are available, 60 percent of U.S. manufacturing exports came from industries where exports were a significant component of total sales. These particular industries are the ones that would be apt to be hurt by new trade restrictions, since manufactured products are more sensitive to changes in purchasing power, and they are likely candidates for retaliation.

Because economic growth tends to lubricate the reallocation of resources among industries, made necessary by changing circumstances, a resumption of orderly and sustained domestic expansion is essential also to moderate excessive protectionist pressures. In an expanding economy, foreign producers can develop a large market here with less danger of a cutback in production by domestic competitors. If domestic markets are stagnant, increased imports necessarily imply cutbacks in domestic productions. Hence, workers must be released and, without rapid growth, they may find it difficult to locate positions elsewhere. It seems reasonable to suppose that the recent growth of protectionist sentiment in the United States has been related in part to the softness of the domestic economy. Furthermore, if the domestic economy were to remain stranded at stagnation level, this could reasonably be expected to aggravate demands that our markets be protected for domestic industries and labor.

Clearly, however, more rapid economic growth is not likely by itself to eliminate all the problems associated with adjustment to import-competition. In some cases, where there are disruptions caused by relatively large and sudden increases in import penetration into specific markets, agreements on the part of foreign exporters to restrict the rate of growth of their shipments can provide an essential "breather" for modernization and adjustment. More generally, expanded programs of adjustment assistance are clearly required to facilitate the transfer of labor and other resources to more productive sectors of the economy. The Secretaries of Commerce and Labor are far better equipped than I am to describe just what is required in this area, so I shall not pursue this further here.

IV

The year 1970 was a particularly difficult one for the exacerbation of trade tensions. The stubborn domestic inflation contributed to a relatively greater import penetration than would otherwise have occurred, although import prices rose even more rapidly, and the sluggish domestic economy made it more difficult to adjust to the increased foreign competition. Moreover, the relationship between imports and domestic income in 1970 was inconsistent with previous experience. Normally, the pattern has been for a change in the level of real income to be accompanied by a change in the level of real imports in the same direction, but greater in magnitude. Between 1969 and 1970, however, after adjustment for price increases (which accounted for two-thirds of the growth in the value of imports), the volume of total U.S. imports rose by 3 percent, despite the fact that real output fell by 0.4 percent. Virtually all of the aberrant behavior of imports in 1970 is accounted for by the behavior of the "finished manufactures" category, a category of industries in which increased import penetration was particularly pervasive last year. We simply do not have the evidence yet to know what caused this development, nor whether it is simply a one-shot aberration or the signal of a new and important trend.

There are preliminary indications that 1970 saw a similar development on the export side, in that U.S. exports expanded more rapidly than would have been expected on the basis of the rate of economic growth experienced by our major trading partners. To the extent that these developments were symmetrical for exports and imports, they may indicate simply the increased integration of the world economy referred to earlier, an integration suggested by the fact that import expansion has tended to outstrip the general rate of economic growth in many industrial countries, particularly in 1970. There is some possibility, however, that the developments of 1970 were not completely symmetrical, that the apparently changed relationship between trade and aggregate income was more marked on the import than on the export side, although we cannot yet be sure. Some explanation of the unusual behavior of imports can be found in the particular nature of the recent slowdown in the U.S. economy—in the fact, for instance, that a major factor was the decline in Federal government purchases of goods and services which probably have less direct impact on imports than other components of GNP. . .

Whatever the explanation, two courses of action seem to be indicated. One is to work with our partner countries toward the elimination of the wide variety of policies which handicap our exports and often prevent them from competing in foreign markets. With such considerations in mind, a high-level group is being set up under the auspices of the Organization for Economic Cooperation and Development to analyze world trade problems in long-term perspective and suggest effective means of liberalizing international trade. . .

A second indicated course of action is, in cooperation with other members of the International Monetary Fund, to find ways to increase the flexibility of the international financial system to enable it to cope more effectively with the strains imposed on it. These strains have led a number of important countries lately to operate outside certain of the rules established at Bretton Woods, by allowing their currencies to float, and have also given rise to some feeling that the Bretton Woods system itself is obsolete, unable any longer to cope with problems of the modern world. The evidence, of course does not support such a pessimistic view. The system has served the world well over the past 25 years, underpinning the impressive growth of world output, trade and investment mentioned earlier. It can continue to serve us well if a capability to take account of the new demands placed on it is developed. The founders of the system did not, of course, see all of the forthcoming developments in the world economy. When they did their work virtually all currencies except the dollar were inconvertible and international flows of private capital were almost non-existent. Naturally they did not give adequate recognition either to the importance of freedom of international investment, as well as trade, or to the problems which would be posed for the conduct of independent national economic policies by increasing flows of interest-sensitive liquid capital across international boundaries. At a time when memories were dominated by the disastrous episodes of competitive exchange-rate depreciations of the 1930's, it was natural that there was more concern with ensuring the stability of exchange rates than with ensuring adjustment when the need for change arose.

In a recent report on exchange-rate flexibility, the Executive Directors of the International Monetary Fund discussed three possible modifications of the present exchange rate system—provision for prompter and therefore probably smaller changes in parities; legalization of periods of "transitional float"; and the widening of the bands or margins around parity within which exchange-rates are free to move without government intervention in support of the rate.

In considering the possible effects of such measures, which were discussed in more detail in the President's 1971 *Economic Report*, it is worth noting that there are two related but analytically distinct problems underlying recent concerns about the international monetary system and the resulting discussions of exchange rate-reform. One is the use of exchange-rates as tools of adjustment, that is, as a means of correcting fundamental disequilibria in countries' balance of payments positions. The second is the use of exchange-rates as a means of preserving independence for national economic policies directed at domestic goals, particularly, of providing some insulation for monetary policy against the impact of large flows of interest-sensitive funds.

The IMF's report is receiving careful discussion and attention, though it is premature to speculate about the nature of any consensus that may emerge regarding these proposals. It is clear, however, that the modernization of the international monetary system to meet the needs of the 1970's has become an urgent matter.

Recent experience also indicates both the need for and the complexity of the problem of improving the internal and external coordination of economic policies in the major countries. This matter also is receiving increased attention. Some of our problems this year arose because economic policies in the United States and in Germany, aimed in each case at domestic economic conditions, produced different interest rate levels, and interest-sensitive funds began to move in response to these differences. If these interest rate differentials had been narrower, the initial forces starting these flows would have been weaker. Now it is sterile to ask who was the villain. When two people are not in step, who is out of step? Each country understandably was concerned about the problems as they existed in its own domestic economy. Nor would the mechanical alignment of interest rates have been the answer. In that case either Germany, faced with an overheated economy, would have had to pursue yet easier money or the United States, faced with excessive slack, would have had to deflate still further through substantially tighter money. If, however, ways could be found to use fiscal policy more flexibly, each country might then find the combination of fiscal and monetary policies that would be responsive to its own domestic economic conditions while at the same time keeping interest rate levels more in line internationally.

The "flexible use of fiscal policy" is, of course, another of those phrases that have a profound tone and are easy to utter but exceedingly difficult to implement in practice. At the same time we are in the early stages of these efforts, and no reasonable person would say that we have exhausted the potential for progress here. Indeed, the need for more coordination and harmonization of economic policies within and among nations will become even more important as the European Community enlarges and ways must be found to keep other economies and the Community's economy reasonably meshed. It is reassuring that the OECD is now becoming more active in these matters.

V

As we look down the road at the developing world economy, and the role of the United States in this economy, at least three considerations suggest themselves as important for us to keep in mind. First, our international trading and financial system has generally served as well in the quarter of a century since World War II. The vigorous expansion of world trade and investment is the record of a well-functioning international economy, and all nations have a stake in its continued good performance. Second, resumption of more vigorous economic expansion in the United States is as essential for the international as for the domestic economy, but the United States must have due regard for external effects in the strategy and mix of its economic policies. Finally, some modifications and changes in the international financial and economic system need to be explored if our trading and financial systems are to be in tune with the world of the 1970's. This is particularly important since some of the problems often mistakenly attributed to improper American economic developments and policies are really systemic in nature, and they will not be resolved until adjustments are made in the international system.

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

Mr. Conable.

Representative Conable. Thank you, Mr. Chairman.

Mr. McCracken, nice to have you back here.

Mr. McCracken. Thank you, sir.

Representative Conable. I noticed that the United States had a trade deficit for the second month in a row in May. I am wondering if our balance-of-payments problems can become so bad that we have to take additional short-term measures to alleviate the short-term pressures that develop as a result of this. If so, what steps are we likely to take and how counterproductive are they likely to be in the long run?

Mr. McCracken. That is a very important question. As you indicate, our trade balance showed a deficit last month and it was the second in a row. Indeed, the trade deficit was only moderately lower in May than in April. The detailed figures are not yet available to see to what extent there may have been special factors that are involved. This is always a question, of course, that comes up when one sees something like this. It looks as if there may have been some run of large imports, of steel and certain other types of manufactured products. But that is an open question. We just have to wait until we get more detailed information on that.

Now, if we go beyond that to the further question you raise—that is, suppose it is something more than just some kind of aberration or concatination of special factors that seem to converge at this particular time. Would it be desirable, for example, to impose more generalized quotas to limit imports? I think that is the kind of thing that we would want to look to very reluctantly. It has been used occasionally—very infrequently—in the postwar period. There is a real question as to whether the results are counterproductive; that is, if by some kind of brute force you keep things in equilibrium, then the other kinds of adjustments that ought to occur in order to achieve a basic equilibrium, which we want, may be somewhat slower in coming.

In sketching out the landscape there are other things, of course, to bear in mind. Obviously, the whole array of things which tend to impede our exports and flows of investment capital and that sort of thing would have to be on the list.

I think that it is too early to make any judgment as to whether this is fundamental or a more short-run problem.

Representative CONABLE. Mr. McCracken, I have heard it said that we have a particularly bad balance-of-trade problem with Japan at this point. That has been ascribed, at least in part, to the fact that there has been some slack in the Japanese economy, with the result that they have not been importing as many raw materials from us as they did previously. At the same time, they have been pushing their exports more aggressively.

Now, I take it from what you say in your statement here that it works somewhat differently from the U.S. viewpoint. At least, the slack in our economy resulted in quite a different relationship of imports and exports than that of Japan in relation to its internal domestic problems. Can you comment about that?

Mr. MCCRACKEN. I would be glad to.

I wanted to emphasize the relationship between our overall balance-of-payments performance and our own operating rate, precisely because it is somewhat different from the usual view regarding the typical country, which would be that the balance of payments tends to move the other way around. If they disinflate, their imports go down and, if this has some effect on their price level, their exports, at least after a period, may strengthen and they strengthen their position.

I think the key difference here is that the U.S. dollar, being a major international currency, and investment flows for us being as important as they are, we tend to find that, while our trade account may respond in somewhat the same way as others, that swing tends to be more than offset by capital flows. We have seen that within the last 2 or 3 years when, in 1969, there were major flows of funds to the United States and, of course, in 1970, with slack economic conditions, the flows went the other way.

Now, to turn to the Japanese situation specifically, the Japanese do describe their current economic situation as a recession. I think I recall one description labeled it a depression. In this case the term "recession" means a reduction to a rate of growth which, for most countries, would still seem to be rather impressive. But in any case, it is a slowing down, a deceleration of the economy. That may well be a part of our problem.

Of course, there is a good deal of feeling that part of this may reflect an excessive sluggishness on the part of Japan in moving toward more liberalization in regard to trade and investment restrictions. Japan now is the free world's second-largest economy. It is a major economic force on the world scene, and its trade and investment policies will have to reflect this.

I would like to make just one or two other points here. One of them is that, of course, our exports to Japan have increased more in the last 5 years, I believe, than to any other major country. They have more than doubled in that period.

The other point is that, in a well-functioning multilaterally trading world, we do not try to balance out bilaterally between countries. The key question is whether the imbalance that we see in this one case is so large that it suggests some kind of problem.

Representative CONABLE. We have recently had an increased emphasis, perhaps because the good news has been there in the balance of payments surplus we get from our investment account and as the trade balance has gone down, we have tended to focus on this a little more.

Mr. McCRACKEN. Yes.

Representative CONABLE. However, the overall balance of payments has been pretty bad. I am wondering if there is likely to be any change in policy with respect to the repatriation of dividends from abroad and with respect to short-term flows of capital out of the country in the light of the self-congratulation we go through on occasion for having been wise enough to have a policy stimulating long-term foreign investment.

Mr. McCRACKEN. That is, policies, you mean, which would require a more rapid repatriation?

Representative CONABLE. Yes, or policies that would further limit the expansion of our capital investment abroad because of these short-term pressures I have been talking about.

Mr. McCRACKEN. I would hope that we would not have to move down that road. I think that is in the category of actions which may seem to be attuned to the near term problem, but tend to be counterproductive, and they tend to stay in the picture indefinitely.

Representative CONABLE. I worry about this a good deal, about how we survive in the short-term and take advantage of the long-term benefits of sound policies. It seems as though the pressures on our short-term problems become more intense all the time.

Mr. McCRACKEN. I think that we have made some progress and we have taken some steps probably the full effects of which are yet to be realized. For example, the changes that we have seen in exchange rates in the last month or so, I think, have been moves in the direction of equilibrium. There have been certain other actions which have been taken which have helped to mop up some of the dollars. These ought to help.

You are, of course, touching on the very difficult problem, how does one try to handle the short run without starting down a longer run road that you do not really want to travel? This is always a difficult problem.

Representative CONABLE. That is all, Mr. Chairman.

Chairman BOGGS. Thank you, Mr. Conable.

Mr. McCracken, I want to get back to the question that Mr. Conable asked you about the decline in the balance of trade. In this morning's Washington Post, there are several quotes attributed to you and also to Mr. Herbert Stein. I will read one of them:

"Speculation about such a policy shift"—the reporter asked Mr. Ziegler whether there would be a policy shift in President Nixon's economic policies and he denied it. But reading back again:

> Speculation about such a policy shift intensified after Chairman Paul W. McCracken of the Council of Economic Advisers, conceded 12 days ago that the present pace of economic recovery is insufficient to reduce unemployment materially. His associate on the CEA, Herbert Stein, was more explicit. The administration is pondering some kind of additional stimulus if the economy still appears sluggish by mid-July, he said.

Would you mind elaborating on that?

Mr. MCCRACKEN. Yes. I would be delighted.

The statement that I actually made in that interview was, I thought, a rather innocuous statement, namely, that the present pace of the expansion has not been rapid enough to eat into the unemployment. Now, that was simply a statement of fact. The unemployment rate, I believe, in February was 5.8; I think in March, 6.0; in April, 6.1; in May 6.2, so it was just a statemment of fact. This was not meant as indicating what may happen in the future. We do, I think, have to recognize that a good deal of expansionist fiscal and monetary coal, if I may use that metaphor, is already under the boiler. It is a question of judgment as to what that will do.

I would really have no furmther comment in regard to further possible actions beyond the President's comment in San Clemente that we will monitor this closely, and he will make his decision.

Chairman BOGGS. You do not have to answer this question, but we are rather curious here about what the President is going to do about two bills. One is the accelerated public works bill and the other is the public service employment bill. Would you mind commenting on that?

Mr. MCCRACKEN. I believe I will take advantage of your statement. I think I would rather not comment at this point.

Chairman BOGGS. Do you feel that if the economy remains as it is with something over 6 percent unemployed and a considerable amount of industrial capacity unused, would you mind indicating what type of measures, additional measures you might recommend?

Mr. MCCRACKEN. I would like to make two comments about this. One of these is the general comment that, of course, in the management of economic policy, one has to monitor developments as they go along, and it is always necessary to be watching what seems to be shaping up and be prepared to modify one's strategy or one's program as new evidence comes into the picture. At the same time, of course, bearing in mind that in economic policy we do not want to be the man who winds up carrying the donkey. You have to have a degree of stability in this process also.

Without in any sense indicating that any one of these is necessarily on an active list, if one could indicate, of course, broadly speaking the kinds of programs or actions that might be appropriate if it were decided at some time in the future that something more needed to be done. And of course, they fall, broadly speaking, into the area of fiscal and monetary policy.

Some kind of action on the tax side—a good many suggestions have been made such as accelerating the scheduled reductions in personal income taxes or other actions to try to encourage more investment. In the monetary area, of course, it would include measures which might have an impact on interest rates, the availability of credit, and that sort of thing. We do, of course, already—I want to emphasize this—we do have a quite expansionist combination of monetary and fiscal policies now. The evidence seems clear to me that there are substantial lags in this and my guess is that to a substantial extent, the results or the effects from these policies are yet to come into the picture.

Chairman BOGGS. How do you describe this inflation that we are in?

Mr. MCCRACKEN. How do I describe it?

Chairman BOGGS. Yes.

Mr. MCCRACKEN. Well, the first word that comes to my mind is it is a very stubborn one. But the question you are probably posing is, is it demand inflation or cost inflation.

Chairman BOGGS. Right.

Mr. MCCRACKEN. I see the inflationary process as a sort of unfolding process, taking somewhat different forms at different stages. This started out, unquestionably, as a demand pull-type inflation. When we had an economy already at full employment, we overloaded it with heavy increases in Federal outlays for defense and of course for nondefense programs, too. This was the process that got underway toward the end of 1965 and 1966. I think there is general agreement that if outlays were going to move on that course, we could have held things in better equilibrium if we could have had a tax adjustment more promptly in order to keep the budget in a better state of balance.

Now, as demand inflation moves along, wages naturally start to respond to the fact that the cost of living is rising. In other words, we tend to move from there into a cost inflation, which we started to get—well, there is no discrete date. It starts to come in a little later. Once this type of inflation gets underway, it is, of course, a very difficult thing to try to counter.

I think, myself, that disinflationary monetary and fiscal policies, of course, ought to be put in place. They are painful, and they court the risk of unemployment, as we indicated at the outset before the Joint Economic Committee two and a half years ago.

I think we do need to recognize that there does come a time when even with the concern about achieving a more stable price level still existing, there does come a time when more expansionist policies and a quickening of the pace of the economy is still consistent with our concern about inflation. I think we have seen this last year and this year. Last year, under the pressure of disinflation, businesses took very stern actions to cut their costs and try to get the water out of their operations. Now, once that is done, it is, I think, important to achieve a renewed expansion in order to get the better operating rate for the economy, which will give us the kind of abnormal gains in output per man-hour that we usually get and relieve the underneath pressure on labor cost per unit of output, even if you are not seeing the impact on wage rates that, of course, ultimately has to occur. It seems to me we are in the stage now, therefore, where a better performance with better operating rates for the economy is consistent with concern about inflation.

The cost-push aspect of this is, of course, the major problem, really, in many ways of the whole industrial world at the present time. A wide variety of things has been tried. No country, I think, would say they have found the answer. It is a very difficult problem.

Chairman BOGGS. Well, in that connection, what accounts for our performance in exports and imports, assuming that the rate of inflation has been as great in Japan and some countries in Europe?

Mr. MCCRACKEN. You mean the deterioration in our balance, in our trade balance?

Chairman BOGGS. Yes.

Mr. MCCRACKEN. This is a puzzling phenomenon, because the rise in imports last year was out of context with the normal import response to what was happening in the domestic U.S. economy. I gave the specific figures in my statement here, but in terms of current prices, as I recall the chart, I think the rise in imports was something like double the percentage rise that one would have expected in view of the change in our own gross national product.

Now, the question is: Is this reflecting a deterioration in our competitive position? This could be.

The puzzling thing is why it would seem to come into the picture in 1970 in such a discreet way; that is, one would expect that sort of think to be dribbling out more: evident in 1969, a little more so, perhaps, in 1970. In 1969, as I recall it, I think, was not particularly out of line with this context.

Now, we do need to bear in mind that in one or two other things—I think it was 1958 we did have this experience which was just out of context with our domestic economy.

I think the jury is still out on this question. I do not think we are sure; I do not think we can be sure what it means, but it has to be watched very closely.

Chairman BOGGS. Well, a little closer to events of the day, in the first quarter we had a rather healthy balance of trade. What has happened here in the last several months? Do you have any idea?

Mr. MCCRACKEN. In the merchandising trade surplus—the interesting thing there is that the merchandising trade surplus did start to move about the way one could expect; that is, going back to 1968, we had our trade surplus average $70 million a month, which, of course, was pretty small. As the economy became subject to the disinflationary pressures, one would expect the trade balance to start to improve, and it did. The trade surplus was $107 million in 1969, and it was $225 million last year.

But last year seemed to consist of sort of two periods. The trade surplus was quite high through about the first half of the year. Then that balance started to close, and by the first part of this year—it is erratic here—but by the first part of this year it was below the pace of the middle part of last year.

Then we got April and May. I think we will just have to look at this in great detail in order to see if we can see any kind of special factors that must have come into the picture.

One can think, of course, obviously, of steel imports incident to hedging against the possibility of steel shortages later. But I do not, myself, yet have the detailed facts such that I would be prepared to pass judgment on that.

Chairman BOGGS. Just one final question, Mr. McCracken. The Bank of International Settlements said in a recent report that the United States had no plan to resolve the balance-of-payments problem. What do you think of that statement?

Mr. MCCRACKEN. That we have no plan?

Chairman BOGGS. That is right.

Mr. MCCRACKEN. Well, I do not accept that. Indeed, I am disappointed that there is not a little more perspective summary of that than that indicates.

The United States has faced up to its domestic inflationary problem, which is certainly a part of this. We are farther along in our disinflation than is true through most of the industrial world. There is some evidence that our own price performance now is better than that for the industrial world generally, as measured by the consumer price index of our export price index, or the relationship between our export and import price index. So, I think we have moved rather far in that direction.

The Ex-Im Bank, of course, there have been a series of actions there. We have tried to mop up dollars. I think it seems to me the U.S. Government has moved rather strongly in that direction.

Representative CONABLE. Mr. Chairman, I would like to ask one question about the steel situation.

Chairman BOGGS. Go ahead.

Representative CONABLE. Fifteen years ago, we were producing half the world's steel. Now, we are producing about 20 percent. I guess Japan will probably pass us in steel production next year. Does this mean that we simply cannot afford the effects of a long steel strike?

Does it mean that we are lucky to have a very severe deterioration of our balance of trade in the event of a prolonged steel strike?

Does it mean that we are going to have to accept a very substantial wage increase for steelworkers or suffer very disastrous short-term consequences?

Realizing that whenever we do have a prolonged strike of this sort, many of our people in our markets turn to foreign steel?

It just seems to me that we have a rather pressing short-term problem, and I am wondering what you see, as we go down the road here into major negotiations on steel?

Mr. MCCRACKEN. Well, I certainly do not welcome a strike in any major industry. As we saw again the latter part of last year, in the case of the automobile industry, this can have a significant displacement effect, although probably the effect would be far less in the case of steel unless it were very long and drawn out.

Our steel industry has seen its competitive position eroded rather seriously over the last 15 years that you talk about, from a net export position back—well about that time—into a net import position now. We face a difficult problem in the case of the steel industry and the steel negotiations, because we have here an industry such that if there is a further deterioration in its competitive position financially, there will almost certainly be reduced employment opportunities in our own industry, and it is not the kind of problem one can even avoid by trying to shore-up or to keep our own domestic market for our own steel industry, because if we were to go too far down that route, then we would simply see that the foreign steel comes in the form of automobiles and finished steel products. In other words, we would simply transfer the problem into the steel-using industry.

So, this is a very difficult problem that we are looking at here. It is an industry that has lost its competitive position seriously in that 15-year span that you alluded to.

Representative CONABLE. Thank you, Mr. Chairman.

Chairman BOGGS. Just to elaborate on that a bit, if you do not mind. What has accounted for that loss of competitive position?

Mr. MCCRACKEN. My impression is that there are several things. The steel industry has, of course, invested an enormous amount of money in its own facilities, upgrading its facilities in the last decade or so. As one looks at the evidence, the import of that on productivity and costs does not yet seem fully to have emerged.

Now, it may come. It may be that this will occur more slowly and we may still get it. This is, I think, a part of the problem.

Of course, we obviously have to face the fact that the Japanese steel industry, for example, is technologically very advanced and with basic wage costs per hour substantially below those in the United States. We have to understand that the almost overwhelmingly dominant industrial position that we had in the world only 15 years ago was not going to continue as other economies recovered and built their own potential.

If you take the 15 years, I suspect the dominant question before the Joint Economic Committee would have been the dollar shortage during the early part of that period, with the concern: "Will it ever end?" We were not far away from it at that point, but the discussion was very relevant at that time.

Representative CONABLE. Mr. McCracken, back when the steel increases were announced and subsequently partially rescinded, the President said he would have a study made of the steel industry, and I think the Council has been working on that.

What is the status of that study, and is there anything you can tell us about it?

Mr. MCCRACKEN. Well, that study is virtually concluded at the present time. It is not yet ready to see the light of day, but we are practically through with the basic work.

Representative CONABLE. It may have some tiny impact, I suppose?

Mr. MCCRACKEN. Well, that is possible.

Representative CONABLE. Yes.

All right. Thank you.

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

You have been very helpful to the subcommittee.

Mr. MCCRACKEN. Thank you.

Chairman BOGGS. We would like now to hear from the Deputy Under Secretary for International Affairs of the Department of Labor, Mr. George H. Hildebrand.

STATEMENT OF HON. GEORGE H. HILDEBRAND, DEPUTY UNDER SECRETARY FOR INTERNATIONAL AFFAIRS, DEPARTMENT OF LABOR, ACCOMPANIED BY EDGAR EATON, DIRECTOR, OFFICE OF FOREIGN ECONOMIC POLICY

Mr. HILDEBRAND. Mr. Chairman, I have a prepared statement to submit, but I do not know whether you want me to read it or simply to summarize it for your subcommittee.

Chairman BOGGS. I think you may as well read it.

Mr. HILDEBRAND. Very well, sir.

The topic that I shall deal with is foreign trade, productivity, and employment.

The relationship between trade and employment has become one of the more critical isues on the American scene. The issue is not economic but social and political because whatever significantly affects employment also affects our social gains and change in both social and economic conditions affect the political scene. Changes in trade patterns are of course only one source of economic dislocation. However, because of their high visibility and because of their concentration in certain areas and in certain products, trade-generated dislocations offer a ready excuse on which to blame what may be the effects of much broader problems.

The past decade has witnessed startling rapid economic development both in the European Economic Community and in Japan; it has witnessed the high development of corporations functioning in many places and seemingly based no place—the multinational corporation. The period has also witnessed a considerable number of revolutions in the less developed countries—political, economic, and the much publicized "green revolution" in agriculture. All of these changes affect the U.S. competitive trade position and accordingly U.S. income and employment.

This relationship between trade and jobs provides the fundamental basis for Department of Labor involvement in the formulation of U.S. trade policy. The Labor Department has the primary responsibility of assuring that U.S. foreign economic policy takes full account of U.S. employment and manpower programs, and, specifically the impact of U.S. foreign trade and investment on jobs, income, and the standard of living of American workers.

The United States has made important contributions to the growth of the international economy of the free world over the past quarter century in two major ways. First, it contributed leadership and resources to the reconstruction of war-torn economies, the furthering of international trade and investment and the promotion of an increasingly open economic environment. Second, the U.S. contributed by maintaining a generally high level of domestic activity. Its growth of productive capacity was the source of exports on a hugh scale, and its development of a relatively open domestic market was both an attraction and a challenge to foreign suppliers.

During the period 1950–1969, real output in the United States more than doubled; the annual rate of change in the 1960's was even faster than in the 1950's—from 1961 to 1969, it was in excess of 5 percent a year. From 1958—the end of the post-war reconstruction and the beginning of active international competition—to the present, the growth of the annual real output of the U.S. economy amounts to $280 billion expressed in 1958 dollars.

The achievement of this growth has been made possible by a considerable expansion of the labor force and at the same time by a substantial increase in the efficiency of labor, capital, and management.

In 1958, the civilian labor force was 67.6 million; in 1970 it was 82.7 million, an increase of 15.1 million or 22 percent.

The distribution changed more sharply. The long downward trend in farm employment continued while nonagricultural employment increased from 1958 to 1970 by 17.7 million persons or 31 percent.

Personal consumption expenditures on services in 1970 exceeded expenditures on nondurable consumer goods for the first time and accounted for over 42 percent of total personal consumption expenditures, as compared with only one-third in the immediate aftermath of World War II. This movement reflects both the increased demand for services as per capita real income grows and above-average increases in the price of services where labor productivity may be harder to raise but where wage rates tend to follow the general upward trend.

It is the nature of mature economic development that later productivity gains are harder won than earlier gains, since initial gains are in some measure derived from economies of scale and from lower starting points. Nevertheless, the U.S. postwar record has been highly creditable, averaging an annual increase of 3.1 percent in output per man-hour in the private economy over the 20 years ending in 1969.

The achievement of industrial maturity by many other countries has enabled them to record productivity gains far in excess of U.S. gains. In some cases, this result arises from the very low output base from which they began a quarter century ago, and the attendant benefits from new technology and increasing scale of output. With much lower earnings levels, these countries have in recent years been able to increase their payments for labor and yet to record only small rises, or even a few declines, in labor costs per unit of output. By contrast, the United States in the 1965–69 period has had an annual average increase in unit labor costs of 3.6 percent, which is higher than that of all the other major industrial countries except Canada. Yet in that same period, the annual average of 5.8 percent rise of compensation per man-hour in the United States was lower than in any of these countries, with the exception of Italy.

As the foreign trade of the United States grows and changes, employment in domestic industries is affected in a number of ways. Just as exports comprise a significant part of total demand for many domestic industries, export-related jobs are an important part of the labor force in these industries. The Bureau of Labor Statistics has estimated that 2.7 million jobs were involved in producing the goods that were actually shipped out of the country in 1969. In all, the jobs related to merchandise exports represented 3.8 percent of the private labor force in 1969.

Imports that compete directly with domestic products may limit job opportunities in the industries producing those products. However, imports of items not produced in the United States, or produced in insufficient quantities, are entirely consistent with expanding job opportunities in consuming industries. While it is extremely difficult to determine the employment effect of imports, the Bureau of Labor Statistics has estimated that in 1969 it would have required about 2.5 million domestic jobs to produce the value of competitive imports.

I must emphasize that the 2.5 million is neither the number of jobs lost to U.S. imports nor the number of new jobs which would be created if we did not import. It is the best available estimate of the number of man-years which would have been required in 1969 to produce the value of replaceable imports in that year. It assumes that both the physical and human resources would have been simultaneously available to produce these goods, that any decline in imports would not have affected exports and export-related employment, that productivity would have remained constant despite import changes, and that there would have been no effect on U.S. price levels.

There has been a significant change in the pattern of U.S. trade over the past 10 years. In 1960 our imports were concentrated in raw materials and semimanufactures; about 20 percent were finished products. By 1970, the balance had swung heavily in favor of finished goods whose imports have risen to nearly half of our trade. The concentration of finished goods in our exports has also increased (largely in the form of high-technology capital goods items like computers and aircraft) but not as rapidly as the increase in imports of finished goods.

Recent import increases have been concentrated in a few industries such as footwear, electronics assembly, and certain other consumer goods. These are relatively low-wage labor intensive industries.

There has also been a significant change in the sources of U.S. imports. In 1962, imports from Japan and East and South Asia were $2.7 billion and accounted for about 16 percent of total U.S. imports. In 1970, imports from the Orient had jumped to $9.3 billion, almost one-fourth of our trade. The change to Far Eastern sources is particularly significant. Labor costs in that area in most cases are considerably lower not only than those in the United States but those in European countries.

Since the time of Adam Smith, most economists have tended to support a liberal trade policy. This prescription is largely based on the theory of comparative advantage, which says that freedom of goods to move around the globe will lead to the most efficient use of the world's resources. For each nation the prescription is the same: if you want to export, then freely admit imports. If you do, in the long run you will concentrate your resources on what you can make more efficiently, buying from others what they can make more efficiently. In this way, workers will earn the highest real wages, capital will earn its optimum return, and consumption possibilities will be maximized.

Unfortunately, the argument from comparative advantage requires a number of rigid assumptions, many of which are unrealistic in the second half of the 20th century. The theory requires stationary conditions, allowing for very little change in production and consumption patterns. It assumes that all factors within a country—capital, labor and natural resources—are perfectly mobile and fully employed, and that adjustment takes place instantly. The model also presumes perfect compensation and the absence of barriers to trade.

The problems with comparative advantage theory have been stated clearly by our Nobel laureate, Prof. Paul Samuelson, in his textbook:

"Perhaps a more serious defect of comparative advantage is the static assumptions. The theory is stated in terms of barter and relative price ratios. It disregards all stickiness of prices and wages, all transitional inflationary and over-valuation gaps, and all balance of payment problems. It pretends that when workers go out of one industry, they always go into another more efficient industry—never into chronic unemployment" (1970 Edition: "Economics").

Perhaps the most interesting change for foreign trade theory has been the recent practical maturation of the multinational corporation. Multinational corporations respond to a diversity of influences and constraints, many of which are nonmarket in nature. Direct foreign investment is affected by such factors as differences in tax laws, trade barriers, antitrust policy, and political conditions. The size of many of these companies indicates that they have substantial market power, and some observers believe they will often behave like oligopolists, that is, under conditions in which the number of sellers is small.

Thus, with the multinational corporations, the theory of comparative advantage has broadened from a country orientation to a corporate orientation. There has developed a supranational comparative advantage residing in the multinational corporation—wherein the corporation, transcending boundaries, utilizes those elements that are advantageous in each country but focuses the benefit upon the corporate entity rather than in the geopolitical entity.

These corporations enable a speedy transfer of capital, technology, and managerial experience among countries. To the extent that direct foreign investment consists of moving labor-intensive operations to countries with particularly low labor costs, the size and rate of growth of this investment will have a substantial impact, both positive and negative, on employment and job opportunities in the United States and abroad. We can obtain some idea of the relative magnitudes involved by noting that the book value of U.S. investment overseas rose from approximately $29 billion at the beginning of 1960 to approximately $71 billion at the beginning of 1970. In one recent year for which data is available, 1966, U.S. exports of goods and services were valued at $43 billion while overseas production by U.S. interests were estimated at $110 billion, or 2½ times as much.

There are many things we do not know about multinational corporations just as there are many things we do not know about the true employment effects of trade. Obviously, more research could effectively be directed toward these two areas. There is, for example, need to develop accurate data on the movement of production to overseas sources; the effect of such movement on domestic employment and collective bargaining; the volume of both imports and exports which reflects intracorporate transfers, including transfers between nonsubsidiary affiliates. Without such data, we have no good basis for attempts to define, evaluate, or affect actions of multinational corporations.

The goal of trade liberalization is obviously long run. In its pursuit we cannot overlook the short-run consequences for some domestic import-competing industries and their workers. When imports increase rapidly and are concentrated in product sectors, economic dislocations occur—the normal adjustment process has no opportunity to operate. Where imports contribute to the displacement of workers, our trade and manpower programs should jointly provide for appropriate corrective measures. One of the central tasks of manpower policy is to cushion the shocks of both temporary and limited structural displacement by providing for adjustment. In this sense, adjustment policy and trade policy must go hand in hand.

Since as a general rule the United States has benefited from increased trade, the use of restrictive trade measures is not desirable and should be considered only in extraordinary cases and as a last resort. To the extent that measures of domestic adjustment asssistance and improved international labor standards can meet the problems, we remain in a position to move further in the direction of expanded reciprocal world trade.

The Trade Expansion Act of 1962 established a program of adjustment assistance for particular firms or groups of workers injured or threatened with injury by competitive imports. Between 1962 and 1969, this program was all promise and no performance. In November 1969, the situation suddenly changed and the Tariff Commission rendered its first favorable determination. The Department of Labor has now issued certifications in 48 cases, permitting about 20,000 individual workers to apply for adjustment assistance. We have already allocated more than $32 million to the States to finance this assistance. The certifications issued by the Department of Labor to date include workers in 18 States in industries such as steel fabrication, shoe production, sheet glass, pianos, textiles, flatware, and electronic assembly operations. The largest number of workers certified have been in the footwear, consumer electronics, and sheet glass industries.

About 10 more cases involving assistance to firms are being handled by the Department of Commerce.

Assistance now available to workers under the Trade Expansion Act of 1962 includes monetary payments to help tide them over between jobs; training to help prepare for alternative employment; counseling and job placement; and, if necessary, and where the workers are willing, relocation to places where jobs are available. The emphasis is on training and job placement rather than on income maintenance. The obstacles are formidable to speedy permanent placement in a job as good as the one which was lost, but a concerted Federal-State effort is now showing signs of significant progress.

It would appear, however, on the basis of recent actual experience, that the program could be improved. In this regard we are currently conducting an intensive study of the implications of a number of possible changes in the statutory authority underlying the present program.

To some extent import competition reflects lower labor costs abroad. In turn, some lower costs for labor may reflect undesirable working conditions or wages that are below normal for the industry or even the whole economy of the exporting country. Cost advantages of the latter types tend to undermine labor conditions in the importing country, posing the question of whether international minimum labor standards should be sought.

In its report on the Proposed Trade Act of 1970 the Ways and Means Committee suggested that the President take steps with respect to trade agreements which would lead to the elimination of unfair labor conditions which substantially disrupt international trade. They suggested that machinery be set up in such trade agreements to provide for (1) the international recognition of basic principles with respect to earnings, hours, and conditions of employment; (2) the development of complaint procedure—presumably in the GATT—under which situations of unfair labor conditions affecting international trade could be brought before the parties to the agreement for appropriate remedial action; and (3) the establishment of a system of periodic reports, by all parties to the agreement, on earnings, hours, and conditions of employment for workers in the exporting industries and countries involved.

This is a possibly fruitful approach that has the special advantage of reflecting awareness of the need of the poorer countries for increased employment opportunities, in many cases, through exports. Ideally, such opportunities, however, would provide for an equitable sharing by those workers in the output of their labor while avoiding or tending to minimize the adverse effect of lower wage/cost imports on the importing country.

In conclusion, I want to reiterate the thought with which I started: The relationship between trade and employment is highly complex and must be examined against the background of a broad scope of events in both the domestic economy and the international economy. Trade-generated dislocations offer opportunities for special treatment, but we should be positive that special treatment is merited before we grant it.

Thank you, Mr. Chairman.

Chairman BOGGS. Thank you, Mr. Hildebrand.

Mr. Conable.

Representative CONABLE. Mr. Hildebrand, welcome before the committee.

Mr. HILDEBRAND. Thank you, sir.

Representative CONABLE. I am an old Cornellian myself.

What kind of trade can make adjustment assistance more appropriate?

It seems to me what we have now is a substitute for unemployment insurance that, with respect to the adjustment assistance given the industries, we are talking for the most part about things that could be handled by the Small Business Administration in the way of retooling and redirecting. So, I am a little skeptical about adjustment assistance being the real assistance to the industries involved.

One of the members of my Ways and Means Committee called it a burial allowance.

I am wondering if you could show me, just suggest some ways in which it could be made more appropriate to the problems proposed by an increasing volume of imports?

Mr. HILDEBRAND. Well, sir, I think that on the statutory side one of the problems has been the association under the 1962 act between an increase of imports and major tariff concessions as the factor producing the increased imports.

Representative CONABLE. Yes. It is very difficult to prove the positive connection there, I know.

Mr. HILDEBRAND. And this has been an obstacle to getting a positive affirmation by the Tariff Commission. Within the program itself, I think there has been some tendency to regard it as simply transitional income payments, or what we call "income maintenance," and to overlook the larger objective of this program, which is to help workers to equip themselves to find jobs as good as or better, after they have been displaced.

Now, to do that requires the careful development of a program involving not only the Federal Government through our own Department but the local offices of the Unemployment Insurance System and our local manpower training arrangements, as well as the relationships with the trade unions and the employers who are in the firms involved. We are in the course of developing that arrangement, and this is going to, I think, strengthen the program. But it is difficult to develop this in the short time we have had to gain experience with the work.

I would guess that those are the main things that we have in mind: Make the program a retraining and reemployment program and not merely, as you put it, burial insurance for workers.

Representative CONABLE. I note with considerable interest your comments about the multinational corporations, and I assume that that is going to be a major target for American labor over the next few years. I know many people in the labor movement feel that they are on sounder ground there than they are in dealing with restrictive trade policies. And I notice your implication that perhaps the deterioration in our balance of trade may be somewhat related to the development of the multinational corporation.

We have had a more serious deterioration in the balance of trade with the Orient, have we not, than we have had with European Economic Community?

And yet, in the Orient, we have had a major obstacle to investments, particularly with respect to our major trading partner there, Japan, which has had a restriction on investmments in that particular country, while the multinational corporation has been functioning in full flower over in the European Economic Community; there has not been the same restriction on investments for Americans in that particular area.

So, I wonder if we are really dealing with a causative effect between the multinational corporation and deterioration of the balance of trade?

Mr. HILDEBRAND. There is a relationship. It is very complex. We just do not know enough to be able to be dogmatic about it.

For example, a multinational corporation can go abroad simply to mine copper because copper is somewhere else outside the United States. On the other hand, if it is manufacturing television sets and it finds domestically the costs far exceed what it has to pay for assembly if it did it in Taiwan or South Korea or somewhere in that area, than it may go out for that reason. There you have a direct impact which is different from going out to mine copper, because God put the copper someplace outside the United States.

We have both these cases.

I would agree with you that probably the multinational corporation, since the war, has expanded more into Europe than it has into Asia;

more recently, it has been the other way around, particularly in these labor-intensive industries such as electronics assembly and so on. There has been a substantial development of that kind of industry under U.S. auspices or with U.S. funds in parts of the Orient.

Representative CONABLE. In the developing countries out there?

Mr. HILDEBRAND. That is correct.

Now, I would say that still another factor in the oriental trade problem vis-a-vis ourselves is that the Japanese are not only restricting very strongly access of U.S. capital for investment in Japan, but through a variety of devices beyond ordinary traditional tariffs. The Japanese have also blocked sales by the United States of its exports in Japan. A recent figure of a couple of years back indicated that, of all of Japan's imports, over 90 percent were in the form of food and raw materials, and the balance in finished goods. Now, this indicates that the trade is being managed by the Japanese Government in order to deny access by outsiders. So that is an additional factor, besides the one of our firms going to the Orient for assembly operations.

Representative CONABLE. One last question. I notice in your statement about the relationship between the jobs. American jobs, involved in the export trade and the American jobs threatened by imports or foreclosed by imports. The figures you have are 2.7 million and 2.5 million. Roughly comparable. You did not state, however, what these jobs were. It must be that the jobs related to the export trade are considerably higher technology jobs for the most part than those affected by the import trade. Is that not correct?

In other words, are we not dealing with computers or high-level electronics as compared to textiles or low-level electronics?

Mr. HILDEBRAND. Yes; I would agree with that.

Representative CONABLE. Has there been any study made of what the economic impact, therefore, on these jobs is?

It cannot be a comparable economic impact if you are dealing with a much higher level, higher technology jobs on the export side.

Mr. HILDEBRAND. We have various studies underway in various parts of the Government for submission to the Williams Commission, which is looking into trade; also the Peterson Committee at the White House, which has just been set up to coordinate trade policy. So, there are studies underway.

As to what we can say at this point. I think it is probably safe to conclude that the wages paid these export trades of the United States tend to be higher than the wages paid the import, competing trades in the United States. They do tend to be high-technology jobs: Computers, aircraft, and so on. It is not a case that the 2.7 million jobs are solely in just production. In my understanding, they include supportive activities to move the goods, which involves U.S. jobs as well.

The 2.5 million "jobs" on the import side, however, is a much trickier figure to interpret, because this is not the number of jobs actually lost because we import; it is an estimate of the——

Representative CONABLE. Of the number of jobs required to produce the comparable goods in this country?

Mr. HILDEBRAND. Exactly.

Representative CONABLE. And you do not know whether they would ever be produced or not if you did not have those imports?

Mr. HILDEBRAND. Yes.

Representative CONABLE. Thank you, Mr. Chairman.

Chairman BOGGS. Thank you, Mr. Conable.

Senator Javits.

Senator JAVITS. Thank you, Mr. Chairman.

I have just arrived, and I am, naturally, very deeply interested in the problem which is here being dealt with.

Just glancing through your statement, Mr. Hildebrand, I wonder what you would recommend in two respects that interest me greatly: (1) In the adjustment assistance line, in order to make adjustment assistance more available, and (2)—which is a matter I think of great importance to us—the range of authorities available to the President so that we may deal with import problems on the basis of very great flexibility like practically every other foreign nation does.

In other words, is there too much rigidity in the adjustment assistance system, and is there too much rigidity in the amount of authority we give the President?

Let me just enlighten you as to what I have in mind.

It is one thing to pass a law establishing quotas on flexibility; it is a very different thing if the President has various types of authority respecting dumping, cost factors, representation factors, even retaliation factors, and he uses these powers flexibly on an ad hoc basis. There is no law on the books which fixes it so that you have to repeal a law in order to make a change et cetera.

Now, has the Department in any way involved itself in that type of an alysis on both these critical points?

Mr. HILDEBRAND. We have given a lot of thought on how to make the adjustment assistance for workers, that program, more effective. The second part of your question is a little outside our immediate concern, and while we have thought about it informally, I would not want to get into any specific recommendations there.

I did state, in response to an earlier question, that if we could get the statutes simplified to get around what we call the problem of proving double causation—that you make a tariff concession and that leads to the increase of imports—if we could get around that by a revision, it would increase the availability of adjustment assistance for the worker and the firms that are affected by sudden jumps in imports.

The other side is that we think in the Department that—and we have worked a good deal on this—it is a problem partly of funding and partly of Federal-State cooperation. We want to see that the adjustment assistance program for workers becomes a program for training, retraining, and relocation in new jobs in place of those that have been lost, and to reduce the present inevitable emphasis upon simple income maintenance payments. That is what the program has largely been up to now, because we have only been in the business for about 2 years and we never had any cases prior to them that we could use to develop experience. We would like to see this as a part of our manpower policy. We would like to see it regularly budgeted for, and we would like to have a program that would involve the Department working closely at the State and local levels.

That is our general response to this question.

Senator JAVITS. Have you estimated the funding which you believe to be required with this new and revised operation of adjustment assistance?

Mr. HILDEBRAND. We have made estimates that are pretty rough, but approximately $75 to $100 million is what we are talking about.

Senator JAVITS. Per year?

Mr. HILDEBRAND. Per year, and that has been based upon the average cost per beneficiary under a limited amount of experience up to now. And also a guess as to the number of potential workers who will be displaced in a given year. And that, we say, is $75 to $100 million.

Senator JAVITS. And that has to be juxtaposed to its impact which you consider will be stabilizing on how much are imports and how much are exports?

Mr. HILDEBRAND. I am sorry, sir?

Senator JAVITS. I say, I was trying to get the relevant figure of imports and exports which you feel only $75 to $100 million would outstabilize.

Mr. HILDEBRAND. A total trade turnover of about $40 billion.

Senator JAVITS. $40 billion?

Mr. HILDEBRAND. Yes.

Senator JAVITS. Trade turnover?

What are your imports?

Mr. HILDEBRAND. $40 billion each.

Senator JAVITS. Your exports and imports are $40 billion each in this country?

Mr. HILDEBRAND. Total trade each way in 1970 was approximately $40 billion on the import side and $44.8 billion on the export side.

Senator JAVITS. That is right. So that it is $81.8 billion in trade.

Mr. HILDEBRAND. Right.

Senator JAVITS. Correct.

Mr. HILDEBRAND. That is the turnover.

Senator JAVITS. That is the turnover.

And you believe with $75 million a year you can have a material effect on dealing with the worst evidence that hurt workers?

Mr. HILDEBRAND. As best we can gage that from our existing limited knowledge and experience; yes.

Senator JAVITS. And that is against the present expenditure of an average of $16 million a year?

Mr. HILDEBRAND. It will be $32 million this year.

Senator JAVITS. I thought you said you have reallocated more than $32 million and you say you have operated for 2 years.

Mr. HILDEBRAND. This is based on a program that began in the fall of 1969 and has been going up since then.

Senator JAVITS. So, at the rate of $32 million a year that you are operating on now?

Mr. HILDEBRAND. Yes.

Senator JAVITS. And you go to $75 to $100 million, and you think that would take care of the major worker dislocation?

Mr. HILDEBRAND. That is what we think.

Senator JAVITS. What about the payments which would be correlative?

Mr. HILDEBRAND. Business payments?

Senator JAVITS. Yes; to the firms themselves that are being unduly hurt by imports.

Mr. HILDEBRAND. That is the problem that is dealt with by the Department of Commerce. I am not sure we have that information here. The $100 million a year is what they are talking about.

Senator JAVITS. So for $175 million a year as compared to what? What are they spending now?

Mr. EATON. I do not know, sir; I am sorry.

Senator JAVITS. Can we have that supplied? Will you get it for us?

Mr. HILDEBRAND. We will get it for you.

(The information follows:)

TRADE ADJUSTMENT ASSISTANCE

The dimensions of the Trade Adjustment Assistance Program for workers are subject to many variables which makes predictions beyond the immediate future difficult. This difficulty is increased when a change in the criteria or procedures for access to the program is anticipated. Some of the factors which will materially affect the number of workers seeking assistance include changes in the pattern of import trade, production—location decisions by multinational companies, international agreements on voluntary controls of exports of products like steel and textiles, as well as the basic unemployment rate in the United States.

Assuming improved access to the program comparable to that contained in the President's proposed Trade Act of 1969, we estimate that in the first year about 25,000–30,000 individual workers would receive adjustment assistance. On the basis of current costs, this would entail expenditures of between $75 million and $100 million. To the extent that adjustment assistance replaces unemployment insurance, the net cost would be reduced.

Senator JAVITS. For $175 million a year, both the Departments feel, I gather—and please get an authoritative statement from Commerce—that you can deal with the worst effects upon both business and labor of an undue concentration within a short period of time of imports; is that correct?

Mr. HILDEBRAND. That is correct. Also given, sir, the statute as it is drawn, which determines the cases that we are going to get and who can qualify and who cannot.

Senator JAVITS. Well, it is not the statute as drawn. You are going to have the statute changed, you say, to avoid this double effect; that is, the effect of first of finding by the Tariff Commission and then relief.

Mr. HILDEBRAND. That has not happened. We have to make our predictions on what is being done.

Senator JAVITS. Well, is the $75 million and the $100 million prediction based on this law or the way you want it changed?

Mr. HILDEBRAND. The way it is now.

No: based on the President's bill as put in in 1970.

Senator JAVITS. That is, in other words, on the law the way you want it changed, which will be a more liberal law; is that not correct?

Mr. HILDEBRAND. Yes.

Senator JAVITS. So the $175 million is based upon a more liberal approach as recommended by the President. And both Departments feel that this would alleviate the worst of the pressures of an undue concentration of imports; is that correct.

Mr. HILDEBRAND. That is correct.

Senator JAVITS. Well, Mr. Chairman; I must say that it certainly gives us—it certainly gives me and I thought I knew a great deal about this—a much clearer picture of what is at stake, and I hope the American people will take due notice of what claims, which will cause fantastic trade wars, and dismantle the whole world's liberal trading structure, what they are to be compared to in terms of cost in order to obviate the worst of their effects in the United States.

I think it is tremendously illuminating, Mr. Hildebrand.

Now, this is so important, sir, that I have no desire—I know our chairman so well—none of us would have any desire to get you into some spot and hold you to it, so I hope you will feel completely free to review this testimony and make any changes. We want a definitive idea as to what it really will cost to put us in this kind of shape.

Mr. HILDEBRAND. Thank you, sir.

Senator JAVITS. And if there is any change, you have no inhibition or compunction and you will not be held to account, certainly by me, and I do not think by anybody else. We really want to know. But on the face of it, it seems unbelievable that you have that much clamor when what you say is all that is involved, considering the tremendous benefits of liberal international trade to our country.

I thank my colleague very much.

Chairman BOGGS. Thank you, Senator.

Mr. Hildebrand, I just have one or two questions.

How much thought has been given in the Labor Department to international fair labor standards?

Mr. HILDEBRAND. A great deal of thought over the last several years, and this thought is determined both through our involvement in the work of the International Labor Organization, which has an interest in this matter, and also through our following of the work of the GATT, General Agreement on Tariffs and Trade. So we have an interest in the question.

It is very difficult, I might say, to work out an international agreement of this kind, but other countries also share this interest. It tends to depend upon whether the other countries are highly industralized, such as our own, or are developing countries. There is a difference of interest here in this matter.

Chairman BOGGS. In that connection, what has been the impact of certain international labor union attempts to negotiate with multinational corporations?

Mr. HILDEBRAND. I cannot say that any great developments have occurred so far. The one case I am informed about involved, I believe, the chemical industry recently, within the last year. An effort was made to form a coalition among different trade unions in the different countries involved in dealing with these companies in the international chemical business. I am not aware of any great achievement having resulted from that effort. That is the one case I know of.

Chairman BOGGS. Mr. Hildebrand, in connection with Senator Javits' question, how much unemployment does the Labor Department attribute to imports in the last 3 or 4 years?

Mr. HILDEBRAND. The Department of Labor does not attempt to identify the number of people who have lost their jobs through imports. The only way we know anything about that is through these cases that come in to us. As I indicated, we have about 20,000 workers involved cumulatively up to now starting in fall 1969. But in the statistics of unemployment which the Bureau of Labor Statistics puts together, there is no attempt to identify them in terms of the import problem.

Chairman BOGGS. Let me put my question on the other side of the coin. Do not certain of the imports improve the quality of American labor, the jobs that they have?

Mr. HILDEBRAND. Yes, certainly.

Chairman BOGGS. Do you have any breakdown on that?

Mr. HILDERBAND. No, I do not. I can say, of course, that certain kinds of imports of materials—chrome would be an example, and manganese—are those of which we have little or none ourselves. If we do not have these imports, we cannot produce things that use chrome or manganese. There are other factors, too, that have led to the rise of imports. The inflation itself—inflation produces this.

There is also the longrun gain in real income of our people. We know that the higher people's incomes become, the more they want imports.

We know also that our trade patterns have been affected by other things. Technology can be spread quickly today with the multinational company in many types of manufacturing.

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

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

(Whereupon, at 11:05 a.m., the subcommittee recessed until 10 a.m., Wednesday, June 30, 1971.)

A FOREIGN ECONOMIC POLICY FOR THE 1970'S

WEDNESDAY, JUNE 30, 1971

CONGRESS OF THE UNITED STATES,
JOINT MEETING OF THE
SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY
AND THE SUBCOMMITTEE ON INTERNATIONAL
EXCHANGE AND PAYMENTS OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

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

Present: Representatives Boggs (presiding), Reuss (chairman of the Subcommittee on International Exchange and Payments), Widnall, and Brown; and Senators Humphrey, Javits, and Percy.

Also present: John R. Stark, executive director; Myer Rashish, consultant; John R. Karlik, economist; Lucy A. Falcone, research economist; George D. Krumbhaar, Jr., minority counsel; and Leslie J. Bander, economist for the minority.

Chairman BOGGS. The hearing will come to order.

Mr. Burns, we are happy to have you here this morning. Today we are combining the Subcommittee on Foreign Economic Policy and the Subcommittee on International Exchange and Payments. Our able colleague, Mr. Henry Reuss, is here as chairman of that subcommittee.

This subcommittee has been working over the past year and a half to develop foreign economic policy guidelines for the 1970's. The Subcommittee on International Exchange and Payments has been conducting a very productive series of hearings on the situation with respect to international finance and likewise is attempting to develop guidelines for U.S. policy in that important area.

We are very happy to have you here, Congressman Reuss. Would you like to make a statement?

Representative REUSS. None other than to thank you, Mr. Chairman, for letting us share this excellent witness with you.

Chairman BOGGS. Well, Mr. Burns, we are very happy to have you here and we will be very pleased to hear from you.

STATEMENT OF HON. ARTHUR F. BURNS, CHAIRMAN, BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM

Mr. BURNS. Thank you very much.

I am very glad indeed to come here today to discuss with you how we at the Federal Reserve see the problems that are the subject of your hearings.

My major theme this morning will be the persisting imbalance in our international economic accounts. After considering that, I shall turn to the special problem of short-term capital flows, and conclude by discussing some of the policy actions that need to be taken by us and other countries to deal with these two problems.

THE PERSISTING IMBALANCE

As you well know, our balance of payments is not in a satisfactory condition. Indeed, a deficit in our international accounts has turned up almost every year since 1949. There are several ways of judging the balance of payments—through the balance on official reserve transactions, the balance on the liquidity basis, or the balance on current account and long-term capital. Whichever of these concepts we may adopt, the practical conclusion is the same: a stubborn, persistent deficit has characterized our balance of payments.

We should not, however, be misled by the staggering magnitude of the balance of payments deficit during the past year and a half. In 1970 the deficit on the official settlements basis reached $10.7 billion before allowing for the special drawing rights (SDR's) allocated to us, and the deficit has continued at an extremely high rate in the first 5 months of this year. These recent deficits exceed anything we have hitherto experienced, but they also greatly exaggerate our true underlying condition. Thus, the official settlements deficit over the 13 years from 1958 to 1970 averaged only slightly more than $2 billion per year. Moreover, the deficit on current account and long-term capital movements, while larger in 1970 than in immediately preceding years, has been for several years in the $2 to $3 billion range. Of late, this underlying imbalance has been overshadowed by extraordinary short-term capital movements, and it is this that has made our balance of payments position appear much worse than it basically was in 1970—just as it made it appear much better than it basically was in 1968 or 1969.

It is also worth noting, as some European countries have recently discovered, that a surplus in the balance of payments is not always a blessing. Nor, for that matter, is a deficit always bad. We cannot remind ourselves too often that the postwar U.S. deficits experienced through the late fifties were welcome deficits. The balance of payments problem in those days was called the world's dollar shortage.

As our deficits persisted through the 1960's, however, it became increasingly clear that further large deficits could prove troublesome to us and to other countries. For the counterpart of the persistent deficit has been a gradual erosion of the U.S. international reserve position.

Our reserve assets—which include, besides gold, our reserve claim on the International Monetary Fund, holdings of convertible foreign currencies, and more recently SDR's—declined fairly steadily from a level of about $25 billion in 1957 to less than $14 billion at the time of the gold crisis in the spring of 1968. Since then our reserve assets at first rose somewhat; but they have fallen back more recently to the previous low point of 1968. In sharp contrast, U.S. liabilities to foreign central banks and governments have increased rather steadily in the postwar period. These claims on U.S. reserve assets grew from an average level of some $4 billion in 1949–51, to about $12 billion in 1960. By the end of this April, they amounted to $31½ billion, and there was a further substantial increase during the foreign exchange crisis in May.

Once welcomed by all concerned, these trends in our reserve position have gone on much too long. Continuation of the decline in U.S. reserve assets and any excessive buildup of our reserve liabilities are neither desirable nor sustainable. If we wanted to finance further sizable deficits by reducing reserve assets, it is obvious that we could not continue doing so very long. On the other hand, if we sought to finance persistent deficits by increasing our liabilities to foreign central banks and governments, we might well find that some countries no longer wish to add to their dollar reserves. Certainly, a continued accumulation of unwanted dollars would make our friends abroad more and more dissatisfied with the workings of the present international monetary system.

Now that SDR's are being created, there is also less reason for large, persistent U.S. deficits. Before the advent of SDR's, our deficits played a major role in supplying monetary reserves to other countries. There is now general agreement, however, that growth in the reserve liabilities of the United States should be much smaller and that the major part of future growth in world monetary reserves should take the form of SDR's.

The most disappointing feature of the U.S. balance of payments in recent years has been the weakness of our foreign trade account. Since a more viable overall balance of payments in the future will require a substantial improvement in our trade balance, I would like to discuss this sector of the balance of payments with you in some detail.

The U.S. surplus on trade of nonmilitary goods averaged $5.6 billion in 1956–57, dropped sharply during the late 1950's, then returned to a robust $5.2 billion average in 1960–61. Despite the strong recovery of the economy between 1962 and 1964, the surplus increased somewhat. Since 1965, however, the trade surplus has been shrinking. In 1968 and 1969, it virtually disappeared. Though rising cyclically to an annual rate of some $2 to $3 billion in the first three quarters of 1970, the trade balance has in recent months been in actual deficit. The data for April and May of this year are particularly unfavorable.

The most important factor contributing to the post-1964 deterioration in our trade position was the emergence of excess demand in our economy and the accompanying inflationary conditions.

To be sure, export receipts—while affected adversely by high demand pressure at home—did increase at a rate of about 10 percent a year in the period 1965–70. This growth, however, was not as rapid as the growth rate of imports by the rest of the world. Hence, the U.S. share in world markets continued its gradual decline.

Data on prices in the United States and foreign countries support the view that our trade balance during 1965–69 was weakened by the inflation. By 1969, export unit values for the United States had risen by 17 percent from the 1963–64 average. Export unit values for countries such as Germany, Japan, and Italy rose much less. A comparison of wholesale price indexes again shows a significantly faster rate of increase for the United States in 1965–69 than for most other industrial countries.

Imports have grown since 1964 at an annual rate of almost 14 percent, much faster than the growth rate of GNP. As a consequence, the ratio of imports to the gross national product has risen by roughly one-third since 1964 to a current level of about 4 percent. The impact on imports of the excessive demand pressure in 1965–69 goes far toward explaining this rise in the propensity to import. Shifts in the character of our imports also played a role. Finished manufactures have become an increasingly large proportion of total imports, rising from 37 percent in 1960 to 56 percent in 1970. Moreover, imports of finished goods have also been rising rapidly relative to domestic production. These trends were already in evidence in the 1950's, but only in more recent years have they had a major effect on the ratio of imports to the gross national product.

No analysis of our trade position would be complete without reference to the fact that some U.S. products are not freely admitted to foreign markets. They are subject to quantitative or administrative quotas (for example, consumer goods imports into Japan), to variable border levies and other special import taxes (for example, EEC restrictions on the import of agricultural goods), to special marketing agreements, and so on. Such restrictions limit our exports of agricultural products, coal, and a wide range of manufactured products including computers, autos, heavy electrical equipment, drugs, and fabrics.

I shall come back later to the outlook for our balance of payments and to policy actions that can be taken to deal with the underlying imbalance. Before doing so, let us focus on the special problem of short-term capital flows, particularly our experience of the last 2 or 3 years.

SHORT-TERM CAPITAL FLOWS

Troublesome flows of capital often develop when the business cycle is in a different phase in different countries, and the monetary policies of the countries are accordingly out of phase.

Thus, the massive flow of short-term funds to the United States in 1969 was a byproduct of the tight monetary and fiscal policies here at that time, while in most European countries the policy response to the rising boom was less advanced. Major American banks experienced increasing difficulty in accommodating the credit demands of their customers as their time deposits shrank because of the rise of market interest rates above the regulation Q ceiling for CD's. The foreign branches of our banks came to the aid of their parent institutions by raising funds in the Eurodollar market from foreigners whom they induced to shift out of assets in their own currencies into dollars. The Eurodollar market thus served as a channel for large flows of capital to the United States. In a narrow view, this was not unwelcome as an offset to our underlying payments imbalance. But it was troublesome to some European countries. Moreover, the flow was bound to turn around sooner or later—as in fact it did in 1970.

In the latter part of 1969 and in 1970, many European countries found it necessary to tighten their monetary policies. In the United States, on the other hand, excess demand for goods and services vanished during 1970, and monetary policy shifted away from severe restraint toward moderate ease. It therefore became cheaper for American banks to attract funds at home than to maintain large Eurodollar borrowings. The branches, getting repayments from their head offices, had additional funds to lend abroad. In turn, business firms in Germany and other countries where credit conditions were tight, found Eurodollar loans readily available at lower cost; so the Eurodollar market now served as a channel for a flow of short-term capital from the United States to other countries. As a result, the official settlements deficit of the United States increased very sharply, other countries experienced large reserve gains, and the efforts of European countries to fight inflation with restrictive monetary policies were to some degree undermined.

This year, the flow of short-term capital to European countries, particularly to Germany, was at first simply a continuation of the earlier flows arising from national differences in credit conditions. In April and May, however, the international flow of funds—whether through the Eurodollar market or directly from country to country—expanded enormously. Interest differentials could not be the main factor in these new and massive capital movements, for interest rate spreads were then actually in process of narrowing. What happened was that a speculative movement developed in the expectation, which was stimulated by widespread reports concerning intentions of the German Government, that the D-mark and some other currencies would soon be revalued. As everyone knows, a monetary upheaval of some dimensions did occur in Europe in early May.

This recent experience with speculation on foreign exchanges underlines the fact that short-term capital flows are not independent of persistent payments imbalances. Had there not been a long experience with U.S. deficits and German surpluses, it is doubtful if the flow of short-term funds to Germany and other countries would have reached such huge proportions.

Incidentally, it is important to recognize that some part of the large reserve gains of European central banks during the past year is directly attributable to the practice of major European central banks in depositing funds, usually through the Bank for International Settlements, in the Eurodollar market. Typically, the banks in which these central bank funds were placed lent them out to European borrowers, who in turn often converted the funds into their own domestic currencies. These conversions into domestic currencies expanded the money supply of the affected countries and eased the liquidity positions of their commercial banks, thereby frustrating to some degree the restrictive policy of central banks. In the end, central banks, serving as residual buyers of dollars in their exchange markets, reacquired—in whole or in part—the funds that they themselves had initially lent to the Eurodollar market. By this process, increases in official dollar holdings were magnified far beyond what they would otherwise have been. Yet the whole blame for the rapid increase in foreign dollar reserves was widely, but incorrectly, attributed to the U.S. deficit.

OUTLOOK FOR THE BALANCE OF PAYMENTS

For the near-term future, a repetition of capital flows such as we have recently observed is highly unlikely. The liabilities of U.S. banks to their foreign branches fell from a peak of over $14 billion in 1969 to about $2 billion in recent weeks. Clearly, they are now at or close to rock bottom. Moreover, the voluntary foreign credit restraint program inhibits the banks in increasing their foreign assets. Thus the large outflow of short-term funds which began in 1970 is now behind us. For this reason alone, we can expect the official settlements deficit to fall back sharply from the unprecedented rates of 1970 and early 1971.

What about the prospects for other categories of transactions? As I try to look ahead, I see some significant areas of strength. First, growth in our receipts of investment income from abroad has been rapid and fairly steady. This trend can be expected to continue.

Second, foreigners have in recent years stepped up their purchase of equities in the U.S. stock market. This trend, too, may well continue in the future—especially if corporate profits pick up and we make reasonable progress in restoring full employment.

Third, the reduction of troop levels in Southeast Asia is mitigating the drain on our balance of payments from oversea military expenditures, and further reductions in the foreign exchange cost of our oversea operations are expected.

To be sure, these favorable trends could be offset by weakness in other categories of international transactions. I have already noted that our trade position is not nearly as strong as it needs to be. The fact that our price performance since 1969 has been better than that of many other industrial countries suggests that we may be on the road to regaining at least part of the competitive strength that we lost in the second half of the 1960's. Any such conclusion, however, would be premature.

On balance, it appears that while we can look forward to a very substantial reduction in the official settlements deficit over the coming months, we need to recognize that economic policies since 1958, or thereabouts, have been entirely insufficient to achieve equilibrium in our international accounts. Some decisive steps will need to be taken to correct the situation.

POLICY GUIDELINES FOR THE FUTURE

The obvious place to begin is at home. Let us therefore consider the question: What policy actions can and should the United States take?

The first and foremost requirement for improving our trade position and the overall balance of payments is to restore and maintain general price stability while we continue to strive for a healthy rate of economic expansion. That reliance on monetary and fiscal policy may prove insufficient to realize this objective is attested by our own recent experience as well as that of Canada and Great Britain. In all three countries a substantial increase of unemployment has failed to check the rapidity of wage advances or to moderate appreciably the rise of the general price level.

With increasing conviction, I have therefore come to believe that our Nation must supplement monetary and fiscal policy with specific policies to moderate wage and price increases. As I have noted on previous occasions, I am not unaware of the pitfalls that could accompany governmental involvement in the determination of wages and prices. I also recognize that previous experiments with incomes policy have hardly been a huge success. At the same time, I attach great weight to the moral force that strong government leadership could at the present time bring to bear on private decisions in key industries. If we are to restore price stability with high employment in our economy, I see no immediate alternative to a cogent incomes policy. Over the longer run, we may well need legislation to deal with abuses of private power in our labor and product markets.

While the restoration of general price stability is basic to the correction of our trade position, other measures that can improve our exports deserve consideration. The recent decision of the administration to remove some of the restrictions on trade with mainland China might be followed up by some liberalization of trade with the Soviet Union. A proposal for establishing domestic international sales corporations, whereby taxes on earnings from exports may be deferred, has been put before the Congress. And so too have some proposals for strengthening the Export-Import Bank, such as providing it with increased program authority to extend loans, guarantees, and insurance. All these measures may prove helpful.

But far more important than these specific measures for stimulating exports, as I have already tried to suggest, is the restoration of general price stability and improvement of the economic climate in our country. Restoration of general price stability is vital to the return of a healthy trade balance, while larger profits than American corporations have achieved in the past few years from their domestic enterprises are vital to improvement in the long-term capital account of our international transactions.

Since the United States has experienced a persisting imbalance in its international payments, it follows that the rest of the world has been in persistent surplus. Thus the rest of the world must be prepared to see its surplus decrease if the U.S. deficit is to decrease. This simple thought leads me to ask: What actions should our trading partners take?

There are at least two areas in which they can be very helpful. First, as I have already intimated, other nations need to review their trade policies and relax restrictions on their imports. A timely initiative by Japan and some European countries to open up their markets more freely to the products of others is overdue. Trade liberalization should be accompanied by relaxing the heavy restrictions that nations often impose on investments abroad by their citizens.

Second, foreign countries can and should undertake a significantly larger contribution to the defense of the free world. The United States is not going to cast off its responsibilities for leadership in this area. But the nations of Western Europe and Japan, where oversea military expenditures by the United States are very large, now have strong economies and a capacity to contribute significantly more to the financing of the military shield from which they as well as we benefit. A more equitable sharing of the defense burden would require them to do so.

Clearly, neither the problem of persisting payments imbalances nor the problem of destabilizing short-term capital flows can be dealt with effectively by the United States on a purely unilateral basis. Neither can other major countries effectively deal with these problems by unilateral action. Since we are all parts of a community of nations, perhaps the most important question we have to ask ourselves is: What policy actions can the major countries take cooperatively? There are four areas of joint policy action I would like to stress.

First, we should try to work with other nations to bring about smaller divergences of interest rates. More effective use of fiscal policy by each major country in the interest of its own economy could reduce international differences in credit conditions, thus limiting short-term movements of funds and payments imbalances.

Second, there is a need to work closely with other countries on devising methods to mitigate the undesirable impact of capital flows on international reserves and domestic monetary conditions. Both the United States and other countries have already taken some significant steps in this direction. For example, we recently sold $3 billion of special Export-Import Bank and U.S. Treasury securities to foreign branches of U.S. banks, thereby absorbing funds that probably would otherwise have moved through the Eurodollar market to foreign central banks. We have also indicated our readiness to consult with other governments on the question of providing suitable dollar investments for their reserves held in the United States, and 2 days ago the Treasury formally announced a $5 billion funding of U.S. liabilities to the Bundesbank in Germany.

I am also pleased to report that the placement of central bank reserves in the Eurodollar market has now been halted by the central banks of the major industrial countries. This was done at a meeting held in June in Basle. Furthermore, discussion is proceeding among leading central banks on the question of when and how a gradual withdrawal of central bank reserves from that market might be accomplished. The problem of short-term capital flows is also being studied intensively now by the International Monetary Fund and the Organization for Economic Cooperation and Development.

Cooperative management of world reserves is the third area in which all the major countries need to take joint policy action. Looking to the long future, it is essential to maintain an adequate rate of growth in world monetary reserves and to insure that there are no destabilizing shifts among countries' holdings of gold, SDR's, and reserve currencies. The nations of the world took a significant step forward with the amendment to the IMF Articles of Agreement providing for the creation of SDR's. The recent rapid buildup of dollars in central bank reserves should not divert us from prudent steps to increase the future role of SDR's in world monetary reserves.

Finally, we should continue to participate actively with other nations in discussions of ways in which the balance-of-payments adjustment process can be improved. The question of greater flexibility in exchange rates has been extensively discussed in the IMF and elsewhere in the past 2 years. Thinking has centered on the possible advantages of some widening of the margins for exchange rate fluctuations around their parities, of a "transitional float" from an old to a new parity, and of smaller but more prompt changes in parities. A widening of margins, for example, holds considerable promise as a device for permitting greater divergences in monetary conditions to exist among countries without those divergences giving rise to excessive flows of short-term capital. The turbulent events in exchange markets this May have underlined the need for informed discussion and reconsideration of the international rules governing exchange rate policies.

CONCLUDING OBSERVATIONS

In closing, let me say that I hope I have made it clear that the Federal Reserve Board rejects an attitude of complacency about the U.S. balance of payments. We also reject any radical courses of action that would imperil the institutional arrangements and good will among countries that have been carefully built up in the quarter century since the Second World War. What we need is measured, deliberate steps to resolve the problems that confront us.

We can go about this task in a mood of confidence. For our economy is larger and more productive than that of any country in the world. Not only that, the foreign assets of the United States far exceed our foreign liabilities, and this excess has grown steadily since World War II. It is the liquidity aspect of the U.S. debtor-creditor position, not the overall international balance sheet, that causes us concern. In considering the balance-of-payments problem, we should not lose sight of our fundamental strength.

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

Mr. Reuss.

Representative REUSS. Thank you, Mr. Chairman.

Senator JAVITS. Would you yield to me 1 second?

Representative REUSS. Surely.

Senator JAVITS. Mr. Chairman, I ask unanimous consent that if I cannot remain until my turn comes that I be allowed to submit questions to Mr. Burns, whom I am delighted to see and congratulate on his statement, in writing, and ask that the answers appear in the record.[1]

Chairman BOGGS. It is so ordered.

Representative REUSS. Mr. Burns, you made what I thought was a fine address at Pepperdine College in Los Angeles last December, in which you recommended, among other things, a price and wage review board which, while lacking enforcement power, would have broad authority to investigate, advise, and recommend on price and wage changes. I note that, happily, your views have not changed, because today you say in your remarks:

> With increasing conviction, I have therefore come to believe that our nation must supplement monetary and fiscal policy with specific policies to moderate wage and price increases.

That is still your view?

Mr. BURNS. That is still my view, very definitely so.

Representative REUSS. I noticed that, yesterday, the President commissioned, as primary economic spokesman, Treasury Secretary Connally, and his first point of the new economics was no price and wage review board—precisely those words. You would not agree with that order of priorities, would you?

Mr. BURNS. No, I do not.

[1] The response of Mr. Burns to additional written questions posed by Senator Javits may be found on p. 1422.

Senator Javits. Mr. Chairman, would the gentleman allow me to join in his disagreement, that is that I thoroughly agree that that is wrong, that complacency is not in order, and we need a new fiscal policy.

Representative Reuss. Would you agree with me, Mr. Burns, that the kind of incomes policy you are talking about, which Senator Javits has recently spoken about and which I and others have mentioned, would be useful not only in fighting inflation—its effect there is obvious—but also in lowering unemployoyement in at least two ways. In the first place, I think you will agree that one of the elements in high interest rate costs is the expectation of inflation. Remove, at least partially, that expectation by leveling off inflation through methods such as you suggest, and you produce lower interest rates and more home building, more of everything that is stimulated by lower interest rates; all in a noninflationary way.

Secondly, from the standpoint of consumer demand, the lack of which is in some part responsible for the 6.2 percent unemployment rate we are now experiencing, I suggest that firming up prices and preventing further price increases would enable more units to be produced. Consumers would be able to buy more and in addition, the removal of part of the inflationary expectations, which bedevils us now, would in my view inspire consumer confidence. Would you agree with this curbstone analysis that doing something about inflation not only does something about spiralling prices but also attacks the other aspect of the Phillips Curve—unemployment?

Has anything I have said disturbed you?

Mr. Burns. Not at all. I agree with your analysis, Mr. Reuss. I would only add a little to it.

Representative Reuss. Please.

Mr. Burns. You spoke of an enhancement of the confidence of consumers. I think that an incomes policy would also serve to enhance the confidence of businessmen and financiers.

A typical businessman these days, as he looks to the future, sees wage costs rising and rising sharply. He anticipates that he will be able to charge a higher price as well for his products. But he is fearful that he will be unable to raise prices as much as his wage costs go up.

A typical businessman these days knows that his profit margins are low; in fact, they are almost at the lowest point that they have been since the end of World War II. He fears a further shrinkage in profit margins.

Fearing inflation, he is hesitant about making those long-term capital investments on which this country's economic growth is going to depend very heavily.

In this expansion, business capital investment is lagging. In real terms, it has actually gone down, whereas typically business capital investment is the driving force of economic recovery. Therefore, to conclude, I accept your analysis, Mr. Reuss. But I also add the confidence factor as far as the business community is concerned.

Representative Reuss. I welcome that addition and completely agree with it. It seems to me not very wise to sit still for an economy that is smitten by stagnation and inflation at the same time and then worry because there seems to be inadequate capital investment. Why try to give all sorts of inducements to businessmen to make productive capital investments, when the best inducement to productive capital investment would be the restoration of a full-employment-without-inflation economy. Would you not agree?

Mr. BURNS. Heartily.

Representative REUSS. I have not been one of those who have been critical of your institution, the Federal Reserve, for its rate of monetary creation in this year of 1971. Indeed, if anything, and paradoxically, I wonder if you have not gone a little overboard. What is the rate of monetary creation, narrowly defined, since January 1? My friends in the press give me horrifying figures like 12, 15, and 17 percent.

Mr. BURNS. Well, it has been high. It has been much too high. This month it is likely to be 9 percent. Last month, it was 15 percent. Since January—I will have to check my memory—I would guess it has been perhaps 10 percent. These are all annual rates, of course.

Representative REUSS. Have you not about come to the conclusion that it is unfair to ask the Fed to crank out money like a drunken sailor and expect monetary expansion alone to make the economy go, that what we really need is the kind of price-wage policy that we are talking about?

Mr. BURNS. I think, as I have thought for some time, that the Fed has done its job and done its job fully.

Representative REUSS. How do you account for the fact that with this fantastic amount of new money creation, way beyond the so-called guidelines issued by the Joint Economic Committee—though you will recall I did not entirely join, myself, in those guidelines—how do you account for the fact that with all this money creation, nothing much has happened? Interest rates are going up; unemployment is going up? The stuff must be lying around not turning over.

Mr. BURNS. Well, I think there is hesitation on the part of businessmen and on the part of consumers in using the very ample supplies of money which they have.

Now, as far as interest rates are concerned, there is a widespread expectation that the fires of inflation which have been running strong may become stronger still. I think this is having and has had a very significant influence on recent interest rate developments.

Representative REUSS. Do you share my apprehension that with all this new money lying around not turning over at the moment, it could be like a can of gasoline spilled on the ground and that a careless pipe smoker who threw his match away might ignite it?

Mr. BURNS. No, I do not share that apprehension because the very sharp rate of increase in the money supply that you spoke of covers only a very brief period. I assure you this rate of increase will not last indefinitely.

Representative REUSS. Mr. Burns, back in April 1968, you made another good speech at the Town Hall at Los Angeles called "The Perils of Inflation," in which you pointed out that unless the deficit in our balance of payments is soon corrected, this would mean devaluation of the dollar. You spelled that out, saying either we have to raise the price of gold or let the dollar depreciate by a float. In fact, 3 years-plus afterward, the deficit in our balance of payments has not been corrected. It is, if anything, worse, is it not?

Mr. BURNS. Yes.

Representative REUSS. We are talking about the basic deficit.

Mr. BURNS. Yes, there has been deterioration.

Representative REUSS. Does this not reinforce everything that you and I have said earlier in our colloquy about the imperative of getting inflation under control?

Mr. BURNS. I agree.

Representative REUSS. Mr. Chairman, I have a good many more questions but I know that Senator Javits has to leave and I would be delighted to yield.

Chairman BOGGS. We will come back.

I want to ask Mr. Burns one question.

Prior to yesterday, there were quite a few people, including Mr. McCracken, who were indicating that some tax adjustment might be necessary if we were to achieve the result Mr. Reuss is talking about. What is your opinion about that?

Mr. BURNS. I do not think I would reduce taxes at this moment. I would keep my mind open on that subject, however, and I would feel a little more sanguine about the effectiveness of a tax reduction if we took strong, definite measures to restore price stability.

Chairman BOGGS. You would think that both measures should go hand in hand?

Mr. BURNS. Let me put it this way: I think price stability is essential. I am uncertain about the wisdom of reducing taxes now. If we took measures to stabilize the price level, I would feel a little more favorably inclined toward a tax reduction, but I cannot tell you definitely that I would favor it. I would have to examine the evidence at the time.

Chairman BOGGS. Thank you, Mr. Burns.

Senator Javits.

Senator JAVITS. Thank you.

Mr. Chairman, I am very grateful to Congressman Reuss and will only take 5 minutes if Mr. Burns will cooperate with me.

Mr. Burns, I think the country places a great reliance upon your views. I think it is a blessing to America that at this moment you are the Chairman of the Federal Reserve Board and are expressing in the most gracious way, but nonetheless very decisively, your views as to the economy. I would like to ask you this question. Please feel free to say you will not answer it if you feel it will be inimical to what the country ought to know. But do you believe that if we do not have an incomes policy which will have the Government support—a real restraint on wages and prices—then we are bound to continue the present syndrome of inflation in prices and persistent unemployment at an unacceptable rate?

Mr. BURNS. I do not think I can say that definitely. I do fear, however, that this may happen.

Senator JAVITS. You fear—I did not get that word—f-e-a-r, right?

Mr. BURNS. Yes.

Senator JAVITS. So would you place as the first priority of the economic policy of our country an incomes policy as you have defined it?

Mr. Burns. Yes, I do.

Senator Javits. I have just one or two other things to ask you. I must say, Mr. Burns, I do not want to use you as the reason for my saying it, but I cannot begin to comprehend how the President can contemplate an economic policy which is not based upon an incomes policy much firmer and more decisive than any that we have which would endeavor to stabilize the price level, including the wage level. It is absolutely beyond me.

Mr. Burns. I would like to say one word. I am here to state my views and the views of my colleagues on the Federal Reserve Board. I am not here to defend anyone and I do not think the President needs my defense. But I do think we should keep our minds open about his position.

He has rejected a wage and price review board. That does not necessarily mean that he will not take other steps in the direction of an incomes policy. Therefore, I, for one, continue to be hopeful.

Senator Javits. Well, Mr. Burns, I would like to join you in that. I have been hopeful for a very long time. I must say that yesterday's announcement by the administration's spokesman was very dismaying to me on that ground. But if you still feel that there is reason to hope that we may not use the method but attain the result, I certainly would lend myself in every way I could to achieve such a result. But I must say, after months and months of hoping, that I was dismayed by what seemed to be the coup de grace yesterday.

Now, may I ask you just one or two other questions?

I notice you said nothing in your statement about a travel gap in terms of our balance of payments which now, I believe, is running close to $3 billion. That is a difference between what our tourists spend and what is spent in this country.

Mr. Burns. You are probably right. It was about $2.5 billion in 1970 and I would not be surprised if it is higher now.

Senator Javits. Is there anything that we can do about that? As you know, with Senator Magnuson, I was responsible for the U.S. Travel Agency which may have decreased the imbalance somewhat. However, do you feel that we ought to take further measures? Other countries, for example, have restricted the amount their tourists could spend. We have never seriously considered that. Yet, as far back as President Kennedy, I talked with him about this personally and he contemplated the possibility that such measures might have to be used. But naturally, I consider it anathema myself to restrict Americans' opportunity to travel. But can you give us any thought or suggestion on that?

Mr. Burns. I am afraid I cannot. I feel as you do, Senator. Many of our people save for years, looking forward to a European trip. To take that opportunity away from hard working, earnest, saving people, or to restrict that opportunity, would be most unfortunate. We may have to come to that, but I hope it does not happen in my lifetime.

Senator Javits. I agree with you, so we have to find other ways of reducing the imbalance, though we must recognize that travel represents a big piece of the imbalance.

Mr. Burns. It is indeed.

Senator Javits. And lastly, Mr. Burns, I notice you said nothing about productivity. You implied it, but is it not a fact that it is an erosion in the productive power of our country in terms of cost-benefit relationships that is endemic in the situation in which we are unable to compete in many world markets with Japan, and others? What should we do about it?

Mr. BURNS. Senator, in the last 2 or 3 years, the rate of improvement in productivity has been very unsatisfactory. It has picked up recently and that is a good sign. How far it will go, it is difficult to say.

I do think that some steps should be taken deliberately to enhance our Nation's productivity; that is, the rate of increase in output per man-hour. You and I have discussed over the years the potential usefulness of setting up local productivity councils.

Senator JAVITS. As we did in World War II.

Mr. BURNS. That is right. My recollection is that the contribution to our economy of these local councils, community by community, establishment by establishment, was enormous. That is my impression.

That is one thing we can definitely do. There are not many things we can do, as you know, without running up budgetary costs, but this is one of them.

Now, second, as I suggested in answer to Congressman Boggs' question, I do not think this is quite the time for tax reduction. But I felt unhappy when we eliminated the investment tax credit. I think the investment tax credit was very helpful to this country by stimulating investment in modernized equipment and machinery. We should give thought to reinstating this tax credit in the future. At the moment, I would not suggest it.

Senator JAVITS. Well, it seems to me, and I close on this, Mr. Burns, the difficulty with the investment tax credit was that it was not adequately set up with criteria which would contribute affirmatively to the productivity of the country. I agree that we ought to seriously consider it and I would favor it if we could establish basic criteria, which leads me to this question: Would you feel it improper to give the subcommittee some concept of what the Board would consider to be truly constructive criteria for an investment tax credit which would contribute to the efficiency and productivity of the economy?

Mr. BURNS. That is very difficult for me to promise, Senator. I think we at the board will have to ponder that, study it, and we might or might not be able to reach an early conclusion.

My feeling is that while you are quite right that the investment tax credit was not pinpointed, it did serve to increase profits, without changing adversely the distribution of incomes. Now, when the level of profits rises and at the same time the level of earnings of our working people rises, that increase in profits will spread out its effects. People feel better about the future. Much of the profits of corporate enterprise in this country, as you well know, is reinvested in productive plant and equipment. Therefore, I am not sure that we can improve matters much by the process of pinpointing. But I think you have raised a question on which economists ought to be working very hard.

Senator JAVITS. Well, if you do come to any conclusions, Mr. Chairman, I hope that the subcommittee may have them.

Thank you very much, Mr. Chairman.

Thank you, Congressman Reuss, for your courtesy.

Chairman BOGGS. Thank you, Senator.

Senator Humphrey.

Senator HUMPHREY. Mr. Burns, just one or two questions of detail. I have the copy of your statement and I wanted to ask this question: If the profits levels are down, as you have indicated, in corporate business and the unemployment rate remains rather high and consumer attitudes are somewhat conservative or restrictive, does not this have or does this have the effect of raising prices in order to improve profit levels?

Mr. BURNS. I think that we are living in an inflationary environment and that expectations of inflation now enter into the decisionmaking process at every stage. Working people looking to the future fear that inflation will continue; they rather expect it. When they sit down at a bargaining table, they want to be compensated for the loss they have suffered during the past 2 or 3 years on account of inflation; they want to share a little in the hoped-for improvement in the Nation's productivity; and they want an insurance policy, understandably, with regard to inflation in the future.

The thinking of businessmen is also very seriously affected by inflation. Businessmen may find that they have excess capacity, a good deal of it. Under noninflationary conditions, competition would drive prices down in such an environment. Things are not working that way now. Why? Because businessmen expect their wage and other costs to go up. They therefore feel that they must try to raise their prices even in the presence of a good deal of excess capacity and that their competitors, being in the same position, will be thinking the same way and will act the same way. In fact, that is what has been happening.

Senator HUMPHREY. So you have in a sense inflation anticipation built into both wage structures and price structures?

Mr. BURNS. Yes.

Senator HUMPHREY. As a part of the economic environment?

Mr. BURNS. Yes.

Senator HUMPHREY. Mr. Burns, I have heard it said, and there is some information that will verify it, that when a nation's plant capacity is being utilized as ours is at, say, 75 or 76 percent, whatever it is—anywhere from 20 to 25 percent below capacity—this tends to promote a higher unit cost rather than a lower unit cost. Do you have any observations on that?

Mr. BURNS. Well, yes, I think that is true in a sense. Depreciation charges, if spread over a larger number of units, would be smaller per unit of output. Depreciation charges do not decrease when output in the shortrun decreases, so the cost of production per unit goes up.

Senator HUMPHREY. What I seem to sense, and I ask you to bear with me for a moment on this, is that there is a feeling of uncertainty in the economic community, both from the capital side and the labor side, as well as consumer, that the tendency is to be more protective all the time, to build in price increases, to build in wage increases, when plant capacity is not being used fully to try to protect profits by less flexibility in price, less competitiveness. I gather this is what you mean by the inflation environment in which the economy now operates.

Mr. BURNS. Yes, and I think it affects every market. It affects the market for labor, the market for consumer products, and the market for capital, for money.

Senator HUMPHREY. Is it not true that when unions negotiate a contract, like a 3-year contract, what they seek to do in the first year is to catch up for what they think has been the erosion of inflation the last year; to build in in the second year a substantial improvement in what they think will be their net gain; and then anticipate that in the third year, they are going to run behind again?

Mr. BURNS. There is some such tendency, yes, and it is powerful.

Senator HUMPHREY. I have been looking over some of the wage contracts of different unions and I find that this is the pattern: year 1 is the tendency to catch up; year 2 is the insurance year, hoping to hold on and maybe make a little net gain; and year 3, they know they are going to run behind anyway. All of which makes the bargaining process, at least for the moment, be more inflationary. Would you find yourself in some agreement with that?

Mr. BURNS. I do not think I would make the precise year-by-year allocation which you have, Senator. But your general conclusion I would agree with, yes.

Senator HUMPHREY. Mr. Burns, you said that you do not think we ought to be too hasty in our judgment of the President's actions. It is difficult not to be, both from the point of view of the economy and as a partisan. I am sure that you understand that from this side of the table.

Now, if the President is not going to establish a wage-price review board, which I happen to think is about 4 or 5 years late, if not 3 years late, what other steps do you think the President might take or could take that would be somewhat effective? You said he might take some other steps.

Mr. BURNS. I think I should not try to speculate in that area, Senator.

Senator HUMPHREY. What steps would you take, Mr. Burns?

Mr. BURNS. Well, my position is so clear. I have stated it time and again. People must get tired of listening to me.

Senator HUMPHREY. I do not get tired of it. As a matter of fact, I think a little redundancy here and repetition might carry a little farther than you think. I happen to think some of the things you have said about this might be worth doing. I just have the idea that the walls might reverberate with this wisdom, you never can tell. It might even get out of these precincts.

You strongly feel for a wage-price review board, do you not, Mr. Burns?

Mr. BURNS. I do.

Senator HUMPHREY. Do you see any reason to believe that things are going to be so much better that we do not need something like that?

Mr. BURNS. I wish I could answer that in the affirmative.

Senator HUMPHREY. I wish you could, too. So we both have come down on the other side.

Well, one other thing, Mr. Burns; my friend, Senator Javits, before he left, emphasized the travel deficit. This was a matter of some concern in the years that I served in the Vice Presidency. I was chairman of a travel committee that tried to do something about it. We really were not very effective, I must confess. But there was a deep concern about the outflow of U.S. capital. Now, we all believe in freedom of movement of persons and capital. I would just like to ask you, do you see any reason to be overly concerned about the outflow of U.S. capital into foreign markets?

Mr. BURNS. I am concerned about that; yes. We have some restrictions now, and I think these restrictions must be retained. I do not find it easy to say that because I am an old free enterpriser, as you know. But there are times when the rules of free enterprise prove inadequate and some governmental restrictions are necessary. And I feel, therefore, that the capital controls that we have must be retained for the present. I include not only our direct investment controls, but also the so-called voluntary foreign restraint program being administered by the Federal Reserve Board. I might add there is legislation now before the Congress which would weaken that program. I hope that the Congress will look very carefully at that legislation before it reaches a final decision.

Senator HUMPHREY. It would appear to me that a good deal of leadership on the matter of voluntary restriction from high offices—the President, the Federal Reserve Board, Treasury, Congress—would be very helpful. I think that when we talk about this trade deficit of ours, I mean this deficit of payments, we have two or three factors to face up to now. I notice last month we had a deficit for the first time in a number of years, which may be only temporary.

Second, I think we are depending entirely too much on agricultural exports. We deluded ourselves last year when, because of bad crops in Europe, we got an extra flow of agricultural exports from the United States.

I might also add as a member of a committee concerned about agriculture, there is no assurance you will have much to export next year if the corn blight continues and some of the other problems on our wheat production continue; we may not have very much to export.

And finally, I think that we just are not really taking a good hard look on this outflow of U.S. capital, travel, and investment. I think we just have to do more about it. I hope that your persuasive eloquence, Mr. Burns, will be used along these lines and that you will keep after that incomes policy. I think it is essential.

Thank you.

Chairman BOGGS. Thank you, Senator Humphrey.

Senator Percy.

Senator PERCY. Mr. Burns, I welcome you this morning. I will limit myself to 5 minutes, because I am due on the floor of the Senate at 11:15 a.m.

I would like to take 30 seconds to commend our chairman, Mr. Boggs, for these hearings. They have been extremely helpful. We have had fine witnesses and I think it is a great testimony to you that we have a larger quorum here today than we have had at any other time, and a larger audience. I think, therefore, that this is testimony to the fact that we always value highly your advice and counsel.

I concur with Senator Humphrey when he indicates support for a stronger incomes policy. I find, in the business community, that support for this is growing all the time. In fact, I am shocked at the number who, today, tell me that there is no answer other than wage and price controls, which I would resist. But there is a middle ground in between where we must be more aggressive.

I would like to just address myself to the part of your testimony where you indicate that foreign countries can and should undertake a significantly larger contribution to the defense of the free world. I assume that when you are talking about balance of payments, you mean that we can do certain things unilaterally, but there are certain things that other countries should do to help solve this problem which is a free world problem; is that correct?

Mr. Burns. That is correct, Senator; yes.

Senator Percy. We are engaged now in offset negotiations with West Germany. It is the third round. They are going unsatisfactorily so far. Do you feel that loans are any kind of an answer as an offset for a balance-of-payments deficit caused by our troop costs in NATO? Loans are due and payable, bear interest, and are only a temporary solution, I feel.

Mr. Burns. I think loans are a very weak instrument. I think that the German Government should contribute, and contribute on a substantial scale, to the actual dollar cost of keeping our troops in Germany. This would help our Federal budget and would also help our international financial accounts by reducing the foreign exchange cost.

Senator Percy. So loans are an inadequate and unacceptable answer. Military purchases should be clearly additional, not just purchases others might make anyway, and the best offset is a direct budget assumption by the European nations.

Now, I think it is logical that some items such as the payment of European nationals—74,000 of whom we employ for NATO causes—the payment for all infrastructure, roadways, runways, barracks, buildings, that we are not going to bring back here, supplies that we use only in Europe and do not bring back here, taxes we pay European countries—should be taken on European budgets, not on our budget. I hope Mr. Samuels has good luck in his negotiations with West Germany.

Another colleague, David Kennedy, is in Asia now and from what I can understand, he has gotten a very cold shoulder in Korea. South Korea has been a good friend of ours, we have been a good friend of theirs. We have tried to mutually understand each other's problems. Do you fear that if we simply have a door slammed on us with no restraint of any kind voluntarily on the rate of textiles coming into this country that there is a possibility that legislation might be enacted that could lead to a trade war?

Mr. Burns. Our negotiations have gone very poorly, and that is such a long and complicated story, such an unhappy story, that I will remain silent on that subject.

Senator Percy. In another area, some economists have recommended the establishment of an international federal reserve to regulate the supply of international reserves in ways similar to the operation of our own Fed. I know that Senator Javits has supported this concept and Japanese Finance Minister Fukuda has also supported it. Would you give us an opinion on this?

Mr. BURNS. I think the general concept certainly deserves the most sympathetic consideration, but the concept will have to be articulated with some precision before one can examine its feasibility. That, I think, is a task which still remains to be done. But I do believe that it is a very fruitful line of thinking and we should try to pursue it.

Senator PERCY. Thank you very much, Mr. Burns.

Chairman BOGGS. Thank you, Senator Percy.

Mr. Widnall.

Representative WIDNALL. Thank you, Mr. Chairman.

Mr. Burns, it is always a pleasure to have you before any committee of the House or the Senate. The one thing that we do know is that we are going to get a very human report as to what has taken place, a clear and understandable one. And I find that of the people with an economic background, you can present things in a much more lucid manner than any others. We are grateful for your testimony these days.

Do you accept the argument of many Europeans that the United States has exported inflation to their shores? Do you see the Europeans' attempts to control inflation as being any more successful than we have been?

Mr. BURNS. Well, let me answer your second question first.

No, they have not been more successful. In fact during the past 12 to 18 months, the rate of inflation in most industrial countries of the world has been faster than our own.

As for your first question, there is some validity in the European charge, but I think the Europeans are exaggerating the difficulties that we cause them. They have caused themselves plenty of difficulty on top of the difficulty that we have caused them.

They have been less effective in pursuing fiscal policy or in moderate wage advances, for example, than they could be. And also the practice that the European central banks engaged in which I described in my testimony—that is, placing deposits in the BIS, which in turn placed those funds in the Eurodollar market, which in turn generated new dollars—that practice intensified the difficulty of the Europeans.

To put the last point in another way, our balance of payments deficit has led to increases in the money supply of European countries. But the way they have managed their central bank reserves has intensified their difficulty. Thus you find that reserve assets of European countries have gone up a great deal more than our deficit has added to their dollar holdings.

Representative WIDNALL. Would you attempt to pinpoint any one thing that has definitely blocked or hampered our attempts to control inflation? Who would be the guilty one; which part of the economy? I know it is a very difficult question.

Mr. BURNS. It is a very difficult question. Originally, I think the fault was clearly that of our Federal Government. The present inflation got underway in 1964. The year 1965 was a disastrous year from the viewpoint of economic policy. In that year, we had the second installment of the reduction of the personal income tax, the second installment of the reduction of the corporate income tax, a sizable reduction of excise levies, a substantial increase in expenditures on Great Society programs, a rapid easing of credit conditions by the

Federal Reserve Board, and a great outpouring of additional supplies of money. And on top of that, we had new financing without taxes for the war in Vietnam. In short, every possible way of inflating the economy was resorted to in that year.

So, I would say the Federal Government was the initial culprit. Since then, all of us have joined in the procession—labor and business are playing a very large role in the present inflationary spiral.

Representative WIDNALL. So what you say is that 1965 was the cradle of our current inflation.

Mr. BURNS. It was, but we had opportunities to check it and we did not utilize them fully. And we are still not utilizing fully the opportunities that we have.

Representative WIDNALL. Well, enumerate one or two of the opportunities again.

Mr. BURNS. As I testified earlier at this hearing and as I have commented time and time again, I think that we need to supplement our monetary and fiscal policy by wage and price policy. I outlined a possible program in a speech I gave in California in December of last year. And I stressed particularly in that speech, and since then, the desirability of setting up a wage and price review board which would explore prospective price and wage changes in key industries. The Board would make recommendations to the parties concerned and, by a case by case process, develop guidelines for prices and wages.

To my mind, that is the best single thing that we can do now in our effort to check inflation. It may not work. But I fear that conditions may become worse if we do not make the effort.

Representative WIDNALL. This morning, we read that short-term interest rates are still inching up to the point where they are almost 2 percent above their 1971 lows. How can this be so in view of the rapid increase of the money supply?

Mr. BURNS. You might add to the puzzle by pointing out the weakness of loan demand at the banks. We are living in a time when financial markets are very nervous and when the inflationary psychology is pretty much in control of what happens. In the past 2 months or so, fears of a reigniting of the inflationary fires have become stronger and this has been a dominant force in our money markets.

And it is troublesome because this country needs lower interest rates. After all, the recovery that we are having now is being fed very largely by the expansion in home building and by the expansion in State and local construction expenditures. These activities are particularly sensitive to interest rates—the long-term interest rate, not the short-term rate to which you addressed your remarks, Mr. Widnall. But what happens to rates in one part of the money and capital markets always has some effect on other parts.

I think that with the profit rate as low as it is and with much idle capacity in this country existing now, we need lower interest rates. There is no way that Government can really bring that about directly. We have to create an economic climate in which inflationary expectations will play a much smaller role, if not vanish entirely. I think that is the problem.

Representative WIDNALL. Did I understand you to say that there is no way that Government can bring that about?

Mr. BURNS. Oh, I think so. I think it can, by a wages and price policy.

Representative WIDNALL. What you spoke about before?

Mr. BURNS. Yes.

Representative WIDNALL. Just one more question, Mr. Burns.

In your statement you state that, and I quote, " * * * we may well need legislation to deal with abuses of private power in our labor and product markets."

Can you be more specific?

Mr. BURNS. Let me try to be a little more specific. We have had a vast growth of trade unionism in the field of public employment during the past decade. We have also had innumerable strikes by Government employees, most recently at the Federal level, a postal strike. These strikes have been preponderantly successful in a sense, for those who went on strike got pretty much what they demanded. The opinion has grown that the Government lacks the power or the will to do anything about this problem.

Now, I think that compulsory arbitration in the case of public service industries is something that the Congress may well want to consider. That is one example of legislation the Congress may want to take under consideration.

Representative WIDNALL. Do you recommend wage and price controls at this time?

Mr. BURNS. No; I do not. That is something that we must try very hard to avoid. We should try milder medicine, certainly, before turning to such a drastic measure.

Representative WIDNALL. Are your own remarks directed more toward a substantial revision in our antitrust laws?

Mr. BURNS. I think it is high time to reexamine our antitrust laws; yes. And I am sure there are some abuses of power that a thorough investigation will disclose. But I am not prepared to recommend any legislation in that area. I do not know enough about the subject.

But there is another area in which I do hope we may get legislation. I think the Congress is now considering an increase in the minimum wage. If you go that route, I hope that you will draw a distinction between teenagers and the rest of the working population. By maintaining a uniform minimum wage for all employees, we have priced many of our young people out of the labor market; and that legislation is responsible, in my judgment, for a large part of the unemployment among teenagers.

You know, it is very interesting. The Russians have tried to protect teenagers, just as we have, by mandatory legislation; and while they do not talk about it, they have a good deal of unemployment among their young people. They have overpriced the labor of young people relative to their productivity, just as we have.

Take the Japanese on the other hand. In their paternalistic wage system, an employee will be kept on by a firm indefinitely until he is ready for pasture when he is 55. As part of this system, the Japanese underprice the work of young people, relative to their productivity. Therefore, the demand for young people by industry exceeds the supply, and there is no such thing as a teenage unemployment problem.

I am going too far in discussing this one specific thing; but I do hope that if the Congress proceeds to raise the minimum wage, it will make an exemption as far as the increase is concerned for teenagers. If the Congress does not, then I say flatly to you that we run the grave danger of further raising the unemployment, which is already very high, among our teenagers.

Representative WIDNALL. Mr. Burns, one last question. In attempting to find in my own mind the solution for some of our trade problems and competing in the world markets today, I have noted that our country seems to be the only one that is hampered by restrictive antitrust laws. I do not think any other country has that hampering factor in its operations. The people within the countries are encouraged to operate in cartels or groups in order to better present their merchandise, in order to be able to more effectively price merchandise. Would you care to comment on that?

Mr. BURNS. I will be glad to say a few words, but I must tell you I know much too little about this subject. I once did look into the operations of the Webb-Pomerene Act, which I think should be the starting point of an inquiry along these lines. The purpose of the Webb-Pomerene Act was to enable American corporations to get together in their foreign trade operations and not be subject to our antitrust laws.

Now, I believe that the scale of operations under that act has not grown and that the act has not fulfilled its purpose. Why that is so, I cannot tell you, but I think that should be the starting point of an answer to your general question: Why has not the Webb-Pomerene Act fulfilled the expectations of the Congress? Unhappily, I cannot answer that question.

Representative WIDNALL. Thank you, Mr. Burns.

Thank you, Mr. Chairman.

Chairman BOGGS. Mr. Brown.

Representative BROWN. Mr. Burns, I would like to pursue some of the questions that have already been discussed to some degree but in a little more depth. I am always delighted to see you in any event, but I am particularly delighted at this touchy time in our economic circumstance to see you in the role which you now occupy. I do not know whether you have been promoted from being counselor to the President to the position you now hold, or whether that is a demotion. Suffice it to say that it does change the orientation of your considerations in making public statements. You are now in an apolitical situation where you can say what is best for the economy without giving much thought to whether that is good or bad politics for anybody in particular.

I want to ask you about the current situation of inflation in our country, and whether labor and wages or profits and prices may be the area of most responsibility currently. Where is the pressure greatest now in terms of pushing us to a further inflationary level?

Mr. BURNS. I think the pressure is greatest in the labor field. We no longer have excess demand in our economy. That has been eliminated. Proof of that is clear: We have substantial unemployment of men and substantial idleness as well of machinery and equipment. The inflation that we are now having is a cost-push inflation, and the main, the preponderant part of business costs is, of course, the labor cost.

Representative BROWN. It strikes me as strange that labor would still be pushing in this regard, when you have a 6-percent unemployment rate. Does that have something to do with the monopolization of labor in some areas?

Mr. BURNS. I think that is undoubtedly a factor. You have an element of monopoly in the labor field, and in some areas that element is strong.

But I must say that once people become inflation minded, inflationary expectations will enter into the demand side and also into the supply side even of a competitive market.

Representative BROWN. Now, you have recommended, with reference to the minimum wage law, that we loosen it up; that is, if the minimum wage is to be increased, to allow more free market play in setting wages by making the amount different for young people. I would assume that that is breaking into labor's negotiating position in an economic sense. You do not break up the labor union that has a monopoly control, but you do make it possible to hire young people at a lower price than the minimum wage. That opens up the competitive situation in wages. You also mentioned compulsory arbitration, which breaks the monopoly control to some extent of unions. Is there an area where the very monopolistic position of unions should be given some consideration for a legitimate look in this interest of controlling inflation?

Mr. BURNS. Well, you know the difficulty with our railroads. Unquestionably, trade unions are very powerful in that industry.

Representative BROWN. Work rules are certainly a consideration in some of the strikes. It is not just wages; it is also work rules.

Mr. BURNS. Oh, yes; all the factors surrounding the job.

In the construction industry, too, trade unions have a monopoly in some local labor markets. As everyone knows, increases in construction wages have been exceptionally sharp, in spite of the fact that the unemployment rate for construction workers is well above the national average. But once again, if I may, I would want to emphasize that while monopolistic factors are playing a role in the inflationary process, the critical factor is the inflation psychology that now exists and which permeates competitive markets as well as markets characterized by monopolistic factors.

Representative BROWN. Let me talk about the antitrust angle, then, if I may, for just a minute. When Mr. Stans was here, Secretary Stans of the Commerce Department, we got into a colloquy which discussed the basis by which the American economy had grown so rapidly and I presented a contention that in the past, our Nation had not been a nation where foreign trade was much of a factor. When you consider it in reference to countries like the Netherlands and Belgium or Japan and Germany, it still is not a nation where foreign trade is that much of a factor in our general economic circumstances. Much of our economic growth, therefore, has resulted from our serving ourselves, or our local needs, and that has generated economic growth in our balanced internal society. Perhaps that is the genesis of our antitrust laws. We want to keep competition within the country because that is the best way to keep the prices low domestically. But I gather from the comments made by Secretary Stans and from the comments that you have made this morning touching upon this subject, that it may not be the best way to keep our prices low with reference to foreign trade now that we have become more of a trading nation and more of an open nation with reference to trade. I was going to say a free trading nation, but that comment was made earlier and someone corrected it. It is not an adequate term for the circumstance in which we find ourselves with reference to trade today.

Perhaps these antitrust laws would have now become a restriction on our ability to trade abroad. Is this what you are telling us in your comment about the antitrust law?

Mr. BURNS. I wish I knew more about that than I do. As I noted before, the Webb-Pomerene Act was passed by the Congress with a view to permitting business firms to get together and act in concert as far as their foreign trade operations are concerned. Now, that statute has apparently not proved very effective. What legislation is needed in this area to strengthen the ability of Americans to sell abroad I am not able to say. I hear people talk about it and I listen with interest; I have not studied the matter and I have no proposals to put before you except to look into the problem, starting from the Webb-Pomerene Act.

Representative BROWN. I might say that I have just begun to get a little theme in these hearings from what I have heard from you and Secretary Stans and others. Our antitrust laws with reference to business may in effect be restricting our capacity to trade effectively abroad, and the monopoly situation in labor may conversely or may in the same way be affecting our ability to trade abroad. Perhaps we need to bring about some kind of a change here in both of these areas.

With reference to inflationary psychology, the availability of money, which is rather directly in your area, certainly might have an effect on the interest rates and the inflationary psychology. Have we reached the point where further expansion of the money supply is really not going to change anybody's attitude about inflationary psychology in the interest rate?

Mr. BURNS. I think that expansion of the money supply at a faster rate than we have experienced recently would greatly strengthen inflationary psychology and would be dangerous for that reason.

Representative BROWN. And the effect on the interest rate by further expansion of money supply?

Mr. BURNS. The immediate effect on interest rates would be favorable in the sense that interest rates would tend to come down immediately. But after a short period, perhaps a few weeks, the effect would be perverse and they would go higher than they would otherwise have gone in my judgment.

Representative BROWN. Do you want to take a minute to tell why you think the expansionary policy would have a further effect on inflationary psychology?

Mr. BURNS. The rate of expansion of the money supply in recent months has been extraordinarily large. When you keep on creating money at a fast rate, it may lie idle for awhile. But 3 months later, 6 months later, 12 months later, 2 years later, it will be put to work. It may be put to work on the stock exchange, it may be put to work in commodity markets. Over the long run, the main factor in inflation has always been the rate of increase in the money supply. And therefore, we must watch this factor very closely.

Representative BROWN. Just one final question, and that is with reference to your suggestion about trade with Red China and Soviet bloc nations. Is your suggestion related to the expansion markets? Do you think it would be a beneficial thing from our balance of trade and payments situation simply because it opens new markets, or are there other factors involved?

Mr. BURNS. No, simply for that reason.

Representative BROWN. Thank you, Mr. Burns. It is always a pleasure to have a chance to visit with you.

Mr. BURNS. Thank you.

Representative REUSS (presiding). Mr. Burns, in commenting on the sorry state of our trade balance, or rather, deficit at the moment, you pointed out that inflation is a partial cause, at least. You also pointed out that restrictive practices by other countries—Japan, the Common Market—also contribute. Would you not agree with me that there is a third cause for our bad trade position in general and our balance of payments deficit also, specifically the undervaluation of certain other important currencies vis-a-vis the U.S. dollar?

Mr. BURNS. Mr. Reuss, as I think you know, I recognize that the Federal Reserve Board is a creature of the Congress, that it is responsible to the Congress, and that I personally am under a legal as well as a moral obligation to answer any question put to me to the best of my ability. But I must also say this to you, that central bankers never talk in public about possible changes in exchange parities. It is a long-standing rule and I hope, and I would like to observe that rule, if I may.

Representative REUSS. I shall respect your wishes.

I have one other question. In response to a question from Mr. Widnall, I believe, you pointed out what a paradox it is that with an abundance of lending power in the banking system today, interest rates are nevertheless going up. Do you not think that one of the reasons for this phenomenon is that just as when times are bad in industry, businessmen, particularly in administered price industries, tend to raise their prices so as to protect their profit margins, could it not be that in banking, which is not without oligopolistic impulse, some institutions are jacking up the prices of their inventory, money? Is there not price leadership, in short, in banking? It seems to me that is what I read. They recently, the big banks, raised their rates and the little ones went along.

Mr. BURNS. Well, in my judgment, Mr. Reuss, the banking industry is perhaps the most competitive of our industries outside of farming. Let me remind you that the one price that you and I know about quickly, can think of quickly, that went down in the past year was the price of money. The prime rate came down from 8½, I believe it was, to 5¼ in successive stages.

Now, the prime rate rose recently, rose a little. I am explaining, I am not defending. I am in no way justifying.

Representative REUSS. Nor am I saying that rates always go up. But I am baffled at why they should go up at a time when banks are looking for borrowers. I should think they would go down some more.

Mr. BURNS. Well, I will give you as good an explanation as I can of the recent prime rate advance. No. 1, the interest rates on money market instruments began rising in mid-March.

No. 2, expectations of rising interest rates became fairly widespread.

No. 3, in the month of May, there was a spurt in loan demand in that particular month.

Since then that spurt in loan demand has not continued. Loan demand in the month of June was by no means strong.

Thus, the small rise in the prime rate appears to be due in large part to the higher cost of raising money that the banks find they must pay.

On the demand side, it is very much less clear why the rise in the prime rate should have taken place at all.

Representative REUSS. You do not think it is necessary, then, that the Fed set up a TVA-type yardstick operation to keep the banking industry on its toes?

Mr. BURNS. I think we have in the banking industry an extraordinarily competitive industry at the present time.

Representative REUSS. Thank you very much. As always, we have enjoyed your testimony. It has been a real contribution. Chairman Boggs sends his apologies. He has had to go to the floor, where I have to go. We do appreciate your being here.

The subcommittee will now stand adjourned subject to the call of the Chair.

Mr. BURNS. Thank you very much.

(Whereupon, at 11:45 a.m., the subcommittee was adjourned, subject to the call of the Chair.)

(The following information was subsequently supplied for the record:)

RESPONSE OF HON. ARTHUR F. BURNS TO ADDITIONAL WRITTEN QUESTIONS POSED BY SENATOR JAVITS

Question 1. In your testimony you recommend liberalization of trade with the Soviet Union. Along the same lines, would you favor granting most favored nation treatment to Yugoslavia and Roumania?

Answer. My testimony suggested that liberalization of trade with the Soviet Union might result in some improvement in our export performance. I have no comment at present on the broader question of most favored nation treatment for Communist countries.

Question 2. Your analysis, in your testimony, of policy actions which the major countries could take cooperatively to solve our international monetary problems sets forth an ambitious agenda which might require powerful new international instruments for, for example, coordinating interest rate policies and mitigating massive capital flows. Would you favor the convening of a new Bretton Woods conference to sort some of these major problems out? Do you believe that the IMF charter needs a substantial overhaul?

Answer. As I noted in my testimony, both the problem of short-term capital flows and the question of greater flexibility of exchange rates are now being studied and discussed intensively in several international forums. Such discussions are essential to resolving the problems that confront the world community, and we therefore should continue to pursue these issues actively in the International Monetary Fund, in the Organization for Economic Cooperation and Development, and in the Basle meetings of central bankers.

Changes in the international rules governing exchange rate policies such as those I mentioned would presumably require some amendments to the IMF charter. They would not, I think, require any substantial overhaul of that charter. I see no advantage in a new Bretton Woods Conference at present.

***Question 3.* In increasing the future role of SDR's in world monetary reserves, as you recommend in your testimony, should we consider striking the "gold clause" of the SDR amendment, so as to untie the value of SDR's from gold?**

Answer. The first allocation of SDR's was made less than two years ago. Their use as a component of international monetary reserves, while quite satisfactory, has been brief. It is my view that any substantial change in the legal character of SDR's at this time would be inadvisable.

Question 4. In view of the massive dollar deficits in the past year and a half, and in view of the fact that the initial allocation of SDR's contemplated a much smaller dollar deficit, do you believe that agreement on the second allocation of SDR's, which is coming up next year, should be the occasion for changes in the system?

Answer. The fundamental considerations which led to the creation of SDR's have not changed. It was desired to provide a rationally managed mechanism for international reserve creation, independent of fluctuations in gold production, private demand, of Communist bloc sales. This concept remains valid and I see no need for any change in the system.

The large additions to official reserves in dollars during the past year and a half do not alter my view. As I noted in my testimony, much of the foreign reserve gains in 1970 and early 1971 resulted from repayments by U.S. banks of borrowing from their foreign branches. Also, some part of the large reserve gains reported by European central banks during the past year is directly attributable to their former practice of depositing funds in the Eurodollar market.

Liabilities to foreign branches have now fallen to a very low level and the leading foreign central banks will no longer place funds in the Eurodollar market. Thus, we can expect the official settlements deficit to fall back sharply from its unprecedented recent rates.

Question 5. Do you believe the United States can solve its balance of payments problems unilaterally? Do you believe other countries are willing to take the additional necessary steps to resolve our balance-of-payments problems?

Answer. I do not believe that the United States, or any other major country, can effectively solve a balance-of-payments problem unilaterally. The economic and political interrelationships between the world's countries are substantial and becoming more important over time. Any action which we might take will have important consequences for others, and important "feedback effects" on our own situation. Furthermore, as pointed out in my testimony, the U.S. deficit cannot be reduced by unilateral action of the United States; it can be reduced only if other countries are prepared to see their surpluses reduced.

Thus, it is essential that the major countries act cooperatively in taking policy actions. Recent months have witnessed a greater willingness abroad to take policy actions to reduce our payments imbalances. Also, as I have already noted, there are joint efforts now under way in several international forums to improve the adjustment mechanism.

Question 6. What is the Fed proposing as ways the United States can help control Eurodollar activities?

Answer. The problems of international short-term capital flows, including flows through the Eurodollar market, are being studied by international organizations and by the central banks whose Governors meet regularly in Basle.

The institution by the Federal Reserve of reserve requirements on borrowings by banks through their foreign branches or directly from foreign banks restrained inflows of funds from the Eurodollar market in 1969, and the issuance of Export-Import Bank and U.S. Treasury securities to the foreign branches this year helped moderate repayments to the Eurodollar market.

It is clear that an undesirable expansion of Eurodollar lending abroad—as well as an undesirable addition to total foreign official dollar holdings—was caused in 1970 and the early months of this year by the practice of central banks in depositing funds in the Eurodollar market. After discussions this April in Basle, in which the Federal Reserve took an active part, the central bank Governors "decided for the time being not to place additional funds in the market and even to withdraw funds when such action is prudent in the light of market conditions," as was reported by Dr. Zijlstra, the Governor of the Netherlands Bank and Chairman of the Board of Directors of the Bank for International Settlements, at the time of the BIS Annual Meeting this year. Apart from technical devices for implementing the Basle decisions, the Federal Reserve has not proposed new measures affecting the Eurodollar market.

APPENDIX

AMERICAN FEDERATION OF LABOR AND CONGRESS
OF INDUSTRIAL ORGANIZATIONS,
Washington, D.C., June 29, 1971.

Mr. JOHN R. STARK,
Executive Director, Joint Economic Committee,
New Senate Office Building, Washington, D.C.

DEAR JOHN: Pursuant to our telephone conversation today, I am sending the testimony of President George Meany before the Ribicoff Subcommittee.

Inasmuch as many trade issues were discussed before the Subcommittee on economic policy, it would be appreciated if these remarks by Mr. Meany could appear in the Record. We believe his testimony on this issue is relative to the Subcommittee's hearings and will contribute to a fuller exposition of these important issues.

Sincerely,

RAY DENISON,
Legislative Representative.

STATEMENT OF GEORGE MEANY, PRESIDENT, AFL–CIO, BEFORE THE SUBCOMMITTEE ON INTERNATIONAL TRADE OF THE SENATE FINANCE COMMITTEE, MAY 18, 1971

Mr. Chairman, my name is George Meany. I am President of the AFL–CIO. The AFL–CIO welcomes these hearings because world trade and international investment are of direct importance to American workers.

Specifically, the current deterioration of the United States' position in world trade is having a major adverse impact on America's steelworkers, machinists, electrical workers, on clothing, garment, textile and shoe workers, on glass and pottery workers, on shipyard and maritime workers and many others. Almost no segment of America's work force has escaped some adverse effect. The American worker is today the major victim of the fall-off in exports or the flood of imports or both.

The American workers have come to their unions for help. And their unions, in concert, seek redress and remedies to this very great threat. Tens of thousands of American workers are suffering loss of jobs, underemployment, a lowered standard of living, and loss of their dignity and their role in our work-oriented society. These workers' grievances are with the government of the United States because it is the government's foreign trade and investment policies that have been responsible in most part for this situation.

The AFL–CIO intends to pursue this issue and intends to fight for international trade and investment policies that will end these hardships.

The AFL–CIO seeks a national policy of healthy expansion of international trade on a reciprocal basis. We seek a trade policy that enhances the well-being of the American people in place of one that enhances private greed.

This is not a problem of the unions alone. It is a problem of all Americans because the loss of our productive base and the loss of our industrial employment will most certainly be followed by job losses in all segments of the economy. And with those losses will go much of the American standard of living.

Since 1934, the trade union movement has provided consistent support to government policies for the expansion of world trade. We have based our support on the trade union goal of increasing employment and improving living standards both at home and abroad. We are not interested in trade for trade's sake alone.

For many years, as world trade expanded, the majority of Americans and, for that matter, the majority of the people of the world benefited. But during the 1950's, changes in world economic conditions occurred and they accelerated in the 1960's. The benefits to Americans of expanded world trade decreased. The problems grew. And the American workers suffered.

By the late 1960's, imports were taking over large and growing portions of U.S. domestic markets of manufactured goods and components.

The U.S. has become a net importer of steel, autos, trucks and parts, as well as such products as clothing, footwear and glass. In consumer electrical goods, imports have taken over major parts of the U.S. domestic market. Even in electrical and non-electrical machinery, during the 1960's, imports increased more rapidly than exports—posing serious potential problems for the days ahead.

These events are the result of changes in world economic conditions, they require that changes be made in the United States' trade policies. The hard facts of life dictate that the government's foreign trade policies by swiftly modernized in light of these rapidly-moving events.

Our insistence on change is not a new concept for us. Since 1965, the AFL-CIO has sought a shift in government policy. To date, our proposals have not been met and the situation has grown more urgent.

The causes are rooted in the many changes in the world economic scene:

MANAGED ECONOMIES

Since World War II, most countries have moved to manage their economies. As part of such national economic management, governments have established direct and indirect subsidies for exports and barriers to imports.

All countries, including the United States, have every right to protect and advance their interests as they see them. But certainly subsidies for exports and barriers to imports are not free trade.

These policies are one reason for the flood of imports into the United States—the market that is most open to imports of all major industrial nations. At the same time, expansion of U.S. exports is held down by direct and indirect barriers erected against American-made goods by other governments.

FOREIGN INVESTMENT

Another major change, which gained momentum in the sixties, is the soaring rate of investment by American companies in foreign operations. These investments—combined with patent and license agreements with foreign companies—have transferred American technology to plants throughout the world. Many of these plants, operating with American machinery and American know-how, pay workers as little as 15 cents an hour.

In 1960, for example, United States firms invested about $3.8 billion in plants and machinery in foreign subsidiaries. In 1971, the Commerce Department says U.S. firms plan to invest over $15 billion. These estimates for 1971 shows that more than $8 billion will be invested abroad in manufacturing. This is about one fourth of the $32 billion planned investment in manufacturing, in the United States this year.

This large investment of United States corporate funds abroad has now changed the meaning of trade, investment and production world-wide. For example, in 1969, Ford was reported to be England's biggest exporter and IBM was the leading French exporter of computer equipment.

In the past 25 years, according to estimates by Harvard Professor Raymond Vernon, about 8,000 subsidiaries of U.S. companies have been established abroad, mostly in manufacturing. Their impact on the U.S. market and U.S. exports to other nations is obvious. It is estimated that the annual sales of foreign branches of U.S. firms are approximately $200 billion—about five times U.S. exports.

Let me cite an example of what all this means in terms of U.S. foreign investment, U.S. technology and U.S. jobs. During last year's trade hearings before the House Ways and Means Committee, William Sheskey told how he purchased a modern U.S. shoe plant and immediately shut it down.

He told the committee: "I shipped the lasts, dies, and patterns and the management and much of the leather to Europe, and I am making the same shoes under the same brand name, selling them to the same customers, with the same management, with the same equipment, for one reason. The labor where I am now making the shoes is 50 cents an hour as compared to the $3 that I was paying. Here is a perfect example of where I took everything American except the labor and that is exactly why I bought it."

Another example is an advertisement in the Wall Street Journal of July 15, 1970, which said, "If you have a patented product or a product that has a market in the U.S., we can help you find a responsible licensor in Mexico."

Mexico, incidentally, is a managed economy. It won't let imports into Mexico unless it wants them in. But the advertisement seeks U.S. firms to produce their ideas behind the Mexican trade barrier to sell in the U.S. market at U.S. prices—while taking advantage of low Mexican wages.

In March, 1970, the *Wall Street Journal* reported that Zenith Radio Corporation, in the process of completing a large plant in Taiwan, had said it would "reduce its work force by about 3,000 jobs this year, and more than one-third of those laid off would be blacks." The chairman, Joseph S. Wright, said that in addition to the 3,000 layoffs in 1970, probably another 4,000 layoffs will occur in 1971.

Such operations by American companies obviously displace U.S. produced goods in both American markets and in world markets. These companies export American technology—some of it developed through the expenditure of government funds paid by American taxpayers. Their biggest export, of course, is U.S. jobs.

EXPORT OF U.S. TECHNOLOGY

As an example of the export of U.S. technology, let me cite one particular company, General Electric.

This firm is divided into five international GE-spheres of influence. Area Division-Europe, Area Division-Far East, Area Division-Latin America, IGE Export Division and International Business Support Division. In all of these areas U.S. technology has been exported, but for the sake of example here, I shall cite only examples of U.S. technology that have been licensed by GE to Japan alone. All of these examples—from a list of 84 separate licensing agreements—were, with little doubt, developed at the expense of the U.S. taxpayer.

The licenses to Japan for production include: Carrier System Microwave device; torpedo; a new type of radar; a M–61 Vulcan type of 20 mm machine cannon for defense aircraft; gun sight for F–4E jet fighter; technologies pertaining to the hull of space ships, communications systems of space ships and other controlling mechanisms for space ships; nuclear fuel energy, aircraft gyro compass system, and boilers for nuclear power reactors.

As you can see, none of this is outmoded technology, but the latest, most sophisticated type of manufacture upon which our industrial society is based. This is the technology upon which Americans depend for their jobs and upon which our national defense must rely.

MULTINATIONAL FIRMS

An additional major change since World War II, and particularly in the last decade—is the emergence of a new kind of business, the multinational firm. These are often American-based companies with plants, sales agencies and other facilities in as many as 40 or more countries around the world. Some are conglomerates, such as ITT and Genesco. Some are big auto firms, such as Ford and General Motors. Some are big names in computers, such as IBM.

These multinational firms can juggle the production of parts and finished products from one subsidiary in one country to another. A multinational corporation can produce components in widely separated plants in Korea, Taiwan and the United States, assemble the product in Mexico and sell the product in the United States at a U.S. price tag and frequently with a U.S.-brand name. Or the goods produced in the multinational's plants in a foreign country are sold in foreign markets, thus taking away the markets of U.S. made goods.

The multinational firms can juggle their bookkeeping and their prices and their taxes. Their export and import transactions are within the corporation, determined by the executives of the corporation—all for the benefit and the profit of the corporation. This is not foreign trade. Surely it is not foreign competition.

The complex operations of multinationals—with the aid of Madison Avenue advertising—have utterly confused the picture of the national origin of products. For example, Ford's Pinto has been heralded as the U.S. answer to imported small cars. But the engines are imported from England and Germany, and the standard transmissions are imported from Europe.

This phenomenon is far different from the development of corporations here in America during the last 100 years. The multinational is not simply an American company moving to a new locality where the same laws apply and where it is still within the jurisdiction of Congress and the government of the United States. This is a runaway corporation, going far beyond our borders. This is a runaway to a country, with different laws, different institutions and different labor and social standards. In most instances, even the name changes.

To demonstrate how far-reaching are the tentacles of American industry in foreign lands, we have attached as an appendix to this statement a list of some major U.S. multinational corporations and the names by which they are known in other lands.

Ironically these are the same multinational corporations who have sought to influence U.S. trade legislation in the name of "free trade."

Meanwhile, back in the United States, expansion of large national corporations has been tempered to a degree by government regulations, standards, and controls. And, in the past few decades, large U.S. corporations have had to meet responsibilities to their employees through labor unions. Moreover, the multinationals global operations are beyond the reach of present U.S. law or the laws of any single nation.

IMPACT ON UNITED STATES

All of these developments—the multinational corporations, the managed economies, the foreign investments, the export of technology—have had a serious impact on U.S. international economic relationships and have displaced large portions of U.S. production.

A Congressional estimate—and this is conservative—is that auto imports are now 20% of the U.S. market, TV receivers 30%, glassware over 40%, sewing machines and calculating machines nearly 60%. As far as we have been able to determine, 100% of all casettes are imported. Nearly all radios sold in the U.S. are imported. Similarly, large proportions of U.S. production of shirts, work clothes, shoes, and knitgoods are being displaced by imports. And many of the parts and components of products assembled in the U.S. are imported—including defense items.

IMPACT ON JOBS

The impact on America's production is, of course, most adversely felt by the American worker. Unlike capital, the worker cannot move about with ease.

While capital and machinery can be moved from one part of the country to another—or to other countries—workers do not have full mobility. Workers have great stakes in their jobs and their communities. They have skills that are related to the job or industry. The have seniority and seniority-based benefits, such as pensions, vacations and supplemental unemployment benefits. Workers have investments in their homes, a stake in the neighborhood, schools and churches.

This lack of mobility is not a fault. It is a virtue. It is an important factor in giving stability to a community and to society.

Moreover, a worker's skill is among his most valuable assets. It can not, however, be transferred to another industry or occupation with ease, if at all.

Labor is not an interchangeable part, as some economists believe. A jobless shoe worker in Maine does not automatically become a clerical worker in New York or even in Portland. More likely, a displaced worker will be unemployed for many weeks and may wind up with a job at lesser skill and lower pay.

Unfortunately, there is a marked indifference to these trade-caused workers' problems. There are those who recommend airily, that a worker must "adjust"—equating a worker with the re-tooling of a machine. This attitude is not only shocking in terms of social ethics, it also reflects an ignorance of workers' problems.

Further illustration of this inderence is the lack of data and information on the impact that international traffic has on U.S. workers. There is a great void of information bearing on the employment impact and other effects on workers. This shortcoming can only be attributed to a lack of interest by foreign trade experts in government and business. We note that there is a great abundance of information and data available from the U.S. government to businessmen who wish to relocate their business abroad.

One scrap of data is available, however. The U.S. Department of Labor estimates that there was a loss of about 700,000 job opportunities in the 1966–1969 period because of imports. This does not include an estimate of the job loss caused by foreign trade barriers or the markets lost to U.S. multinational companies abroad. For the same period, the Bureau of Labor Statistics estimated that the number of jobs attributable to exports increased by only 300,000. Thus, in that three year period we suffered a loss of 400,000 job opportunities. These figures are undoubtedly conservative, but they do make clear a heavy net loss of jobs to imports.

More recently, the Department of Commerce disclosed that employment in the electronic industries declined by an estimated 107,000 last year. For years, government statisticians have told the unions that jobs were not being lost and there were no problems in that industry. The Commerce Department statement pointed out that imports now represent more than 30% of domestic consumption of the consumer and rougher times are ahead. It warned that a new area of electronics—the domestic telephone equipment industry—would be the next to suffer rapidly rising imports.

It must also be pointed out that imports and exports do not of themselves necessarily creative an industry and jobs for Americans. We are the world's largest trading nation—with ports on two oceans and the Gulf of Mexico—yet the merchant marine sector of our economy has nearly gone down the drain.

We carry about 5% of this nation's trade in ships flying the U.S. flag. We have suffered staggering job losses among seamen, ship builders and ship repairmen. Yet, at the same time, runaway shipping operations of U.S.-owned firms, including multinational firms, are flying the tax-haven flags of Panama, Liberia and Honduras. Needless to say, the wages paid to the foreign seamen on these vessels are a fraction of the American wage standard.

But the impact on U.S. workers is not solely the loss of jobs. We are told that imports serve to "discipline" prices. Often, however, the American consumer receives no benefit at all. The imports are sold at the American price, with substantially widened profit margins.

Frequently, the process results in the loss of workers' jobs, while the consumer receives little, if any, benefit.

The actual "discipline" is often more directly on the workers' wages and fringe benefits and his union's negotiating strength. For example, copper imports by major U.S. corporations in 1967 and 1968, contributed to prolonging the copper strike.

It is also false to claim that increasing imports to compete with U.S. products will benefit consumers through lower prices.

There is little, if any, genuine price competition in many areas that are dominated by powerful corporations. For example, the auto companies raised prices on their 1971 models despite a surge of auto imports. And shoe prices rose 38% between 1960 and 1970—faster than the 31% increase in the overall Consumer Price Index. During this period shoe imports skyrocketed, thousands of American shoe workers lost their jobs, yet the consumer benefited very little.

INTERNATIONAL BANKS

In the 1960's we have seen an important related phenomenon—the expansion of United States-based international banks, which service and help to finance foreign subsidiaries of U.S. companies. At present, there is a vast global network of branches of U.S. banks, which moves funds easily from one country to another, beyond the direct reach of the monetary policies of any government, including our own.

In 1969, when the government's squeeze on the American money market threw homebuilding into a recession and hit other groups in the American economy, the U.S. international banks increased their borrowings from their foreign branches by an amazing $7 billion.

This $7 billion was for the aid and comfort of the American central offices of those international banks and their prime customers—the big corporations. The rates to the special customers were considerably less than those paid by small businessmen or home-buyers.

When the money squeeze eased here, and the interest rates declined, this same "hot money" was transferred back abroad, and was partly responsible for the recent dollar crisis in the European money markets. Financial reporters attributed much of the manipulation in the money market to the treasurers of multinational corporations who were busy selling their dollars for stronger currencies.

In view of these developments by the banks, the multinational firms and the radically changed concepts of international relationships, the question must be asked: How long can the United States government and the American people permit such operations of private companies and banks to continue without regulation?

The worldwide operations of United States-owned multinational companies do not represent free, competitive trade among the nations of the world. What they do represent is a closed system of trade, within the corporation, among its various subsidiaries in numerous countries. They represent the export of American technology and the export of American jobs.

These issues of foreign trade and investment require United States government attention. They need government action. Government controls over the investment outflows of United States companies to foreign subsidiaries are essential. In addition, the government must develop machinery to regulate the United States-based multinational companies and banks.

We in the AFL–CIO are not isolationists and have no intention of becoming isolationists.

We support the orderly expansion of world trade. We oppose the promotion of private greed at public expense or the undercutting of United States wage and labor standards. We want expanded trade that expands employment at home and abroad and that improves living standards and working conditions, here and abroad. We want the U.S. government to protect the interests of American workers against the export of American jobs.

Because of our great concern with this problem, the AFL–CIO Executive Council last week adopted a program calling for new international trade and investment legislation.

I ask that our statements, the "Export of Production and Jobs" and "The Critical Need for New International Trade and Investment Legislation" be included in the record at the conclusion of my remarks.

In these statements we offered specific steps for the protection of American workers and for the preservation of our industrial society. These proposals include:

1. The U.S. government must stop helping and subsidizing U.S. companies in setting up and operating foreign subsidiaries. Sections 805:30 and 807 of the Tariff Schedules should be repealed; these sections of the Tariff Code provide especially low tariffs on imported goods, assembled abroad from U.S.-made parts. Moreover, the U.S. tax deferral on profits from foreign subsidiaries should be eliminated, so that the profits of these subsidiaries will be subject to the U.S. corporate income tax for the year they are earned.

2. The government should regulate, supervise and curb the substantial outflows of American capital for the investments of U.S. companies in foreign operations.

3. The government should regulate, supervise and curb the export of American technology—by regulating the foreign license and patent arrangements of American companies.

4. The government should press, in appropriate international agencies, for the establishment of international fair labor standards in world trade.

5. In the face of growing unresolved problems, an orderly marketing mechanism is needed immediately—to regulate the flow of imports into the U.S. of those goods and product-lines in which sharply rising imports are displacing significant percentages of U.S. production and employment. Such quotas that bar the rapid displacement of U.S. production and employment by flood tides of imports could slow down the disruptive impacts on American society and help to provide an orderly expansion of trade.

AMERICAN FEDERATION OF LABOR AND
CONGRESS OF INDUSTRIAL ORGANIZATIONS,
Washington, D.C., July 31, 1970.

A full page advertisement in the *Washington Post* of July 13, 1970, urged Congress not to enact a trade bill that would place quotas on imports that have recently cost 700,000 American workers' jobs and threaten tens of thousands more. The advertisement (attached) gave the impression that all the group of 51 corporations named as the "Emergency Committee for American Trade" oppose quotas solely to preserve their role as U.S. companies engaged in world trade.

In the interest of fair play—if not fair trade—we believe that Congress should be aware of these companies' non-American interests, particularly that many of these companies have large foreign operations and export goods to the United States. Thus, any import restriction legislation would have a direct effect on their foreign-made products. These companies are not American firms in the textbook sense. In matters of U.S. imports, they are no different from any other foreign corporations which ship foreign-made products (often made at pitifully low wages) into the U.S. to compete with U.S.-made goods at the same or only slightly lower prices.

The companies in the ad have foreign affiliates in 108 countries, and 32 of the companies have ownership in Japanese firms, many producing the same goods abroad they once produced in the U.S. Wouldn't it be fairer to the reader and to the Congress, for example, if Xerox had identified itself as Fugi-Xerox and Caterpillar Tractor had identified itself as Caterpillar-Mitsubishi, Ltd.? Wouldn't it have been fairer if Singer Sewing Machine had identified its affiliation with Pine Sewing Machine Company of Japan and its full ownership of Matsumoto Mokko, Ltd. of Japan?

A full list of the foreign ownerships, patent arrangements, joint ventures and marketing agreements of these companies is unobtainable, but some public records (attached) show a high degree of financial involvement abroad, particularly in Japan. Similar ties exist in Canada, England, the European Economic Community, Sweden, Mexico, Taiwan, Hong Kong, Korea and elsewhere.

The corporations that paid for the advertisement should level with Congress and the American public by using their real names. It would then be clear that these "American" companies in ECAT seek more investment aboard, more manufacturing abroad and thus more goods to be shipped into the U.S. That is not foreign trade. That is intra-corporate transfers, and the losers are American citizens who lose thir jobs in machinery, electronic plants, sewing machine plants and many more. Eventually, the loser is the entire American standard of living.

Sincerely,

ANDREW J. BIEMILLER,
Director, Department of Legislation.

CONGRESS: Please don't declare a world trade war!

We're talking about the kind of trade war that may well result if protectionist quota legislation now pending in Congress before the Committee on Ways and Means of the House of Representatives is passed.

After 36 years of trade expansion, Congress now is considering the enactment of protectionist quota proposals that run contrary to our traditional trade policy, contrary to the needs of most American business and agriculture, contrary to the budget of every American household and contrary to our vital, immediate interests in international negotiations. If passed, this legislation could touch off a chain reaction of retaliatory measures by our trading partners around the world.

This threat of a global trade war is one of the reasons the Emergency Committee for American Trade is concerned about the proposed protectionist legislation. But there are other close-to-home reasons. Enacting such protectionist legislation would:

• Gravely jeopardize foreign markets for American business, labor and agriculture that now total some $37 billion.

• Create further harmful inflationary pressures to the détriment of the consumer by arbitrarily limiting foreign sources of supply.

• Weaken the U.S. balance of payments position by reducing the U.S. balance of trade surplus. Government experts currently expect that, under present circumstances, the 1970 trade surplus will be double that of 1969's $1.3 billion. A trade wa will drastically alter these circumstances.

• Blunt domestic incentives to modernize, to cut costs, to increase productivity and output, by erecting shields of government restrictions about certain industries.

• Jeopardize jobs of American workers now employed in foreign trade, a labor force of some 4 million.

We urge Congressmen, the Administration and every American to think of these things when considering the import quota legislation.

After all, who wants to start a trade war which nobody wants — and nobody wins?

Emergency Committee for American Trade

1211 CONNECTICUT AVENUE, N. W., WASHINGTON, D. C. 20036 • 790 BROADWAY, NEW YORK, NEW YORK 10003

WILLIAM M. ALLEN
Chairman of the Board
The Boeing Company

LEE S. BICKMORE
Chairman
National Biscuit Company

JAMES H. BINGER
Chairman of the Board
Honeywell Inc.

WILLIAM BLACKIE
Chairman of the Board
Caterpillar Tractor Co.

W. MICHAEL BLUMENTHAL
Vice Chairman
The Bendix Corporation

ROY D. CHAPIN, JR.
Chairman and Chief Executive Officer
American Motors Corporation

DONALD W. DOUGLAS, JR.
Corporate Vice President—Administration
McDonnell Douglas Corporation

SHELTON FISHER
President
McGraw-Hill, Inc.

HENRY FORD II
Chairman of the Board
Ford Motor Company

J. FRANK FORSTER
President
Sperry Rand Corporation

RICHARD L. GELB
President
Bristol-Myers Company

J. PETER GRACE
President
W. R. Grace & Co.

N. P. GWDIN
Chairman
Garrard Aircraft Corporation

PATRICK E. HAGGERTY
Chairman
Texas Instruments Incorporated

R. V. HANSBERGER
President
Boise Cascade Corporation

H. C. HARDER
Chairman of the Board
CPC International Inc.

D. J. HAUGHTON
Chairman of the Board
Lockheed Aircraft Corporation

ELLISON L. HAZARD
Chairman of the Board and President
Continental Can Company, Inc.

H. J. HEINZ II
Chairman of the Board
H. J. Heinz Company

WILLIAM A. HEWITT
Chairman
Deere & Company

WILLIAM R. HEWLETT
President
Hewlett-Packard Company

EDWARD B. HINMAN
President
International Paper Company

MELVIN C. HOLM
Chairman of the Board
Carrier Corporation

ROBERT S. INGERSOLL
Chairman
Borg-Warner Corporation

J. K. JAMIESON
Chairman and Chief Executive Officer
Standard Oil Company (N. J.)

GILBERT E. JONES
Chairman
IBM World Trade Corporation

*DONALD M. KENDALL
President and Chief Executive Officer
PepsiCo, Inc.

JOHN R. KIMBERLY
Chairman, Finance Committee
Kimberly-Clark Corporation

DONALD P. KIRCHER
President
The Singer Company

JAMES A. LINEN
Chairman of the Executive Committee
Time Incorporated

IAN MacGREGOR
Chairman
American Metal Climax, Inc.

J. I. MILLER
Chairman
Cummins Engine Company, Inc.

MILTON C. MUMFORD
Chairman of the Board
Lever Brothers Company

JAMES A. NEWMAN
President
Booz, Allen & Hamilton International

PETER G. PETERSON
Chairman of the Board
Bell & Howell Company

RUDOLPH A. PETERSON
Chairman of the Executive Committee
Bank of America, N.T & S.A.

JOHN J. POWERS, JR.
Chairman and President
Pfizer, Inc.

T. J. READY, JR.
President
Kaiser Aluminum & Chemical Corporation

C. W. ROBINSON
President
Marcona Corporation

JAMES M. ROCHE
Chairman of the Board
General Motors Corporation

DAVID ROCKEFELLER
Chairman of the Board
The Chase Manhattan Bank, N. A.

W. E. SCHIRMER
Chairman and President
Clark Equipment Company

FRED M. SEED
President
Cargill, Inc.

ROBERT D. STUART, JR.
President
The Quaker Oats Company

CHARLES E. SWANSON
President
Encyclopaedia Britannica

A. THOMAS TAYLOR
Chairman
Deltec International Ltd.

CHARLES B. THORNTON
Chairman
Litton Industries, Inc.

LYNN TOWNSEND
Chairman
Chrysler Corporation

JOHN M. WILL
Chairman of the Board
American Export Isbrandtsen Lines

JOSEPH C. WILSON
Chairman of the Board
Xerox Corporation

WALTER B. WRISTON
Chairman
First National City Bank

*Chairman of ECAT

Partial Summary of Foreign Holdings of Multinational Companies Listed in Advertisement Paid For by "Emergency Committee for American Trade"

BOEING CO.

1. Wholly owns Boeing of Canada Ltd.; engaged in overhaul, modification, field service and spare part support for Vertol helicopters in Canada.
2. Is affiliated with and owns 10% of the largest aerospace company in Germany Messerschmidt Bolkow—Blohm GmbH.
9. Company planning to construct a $3.5 million structural fiberglass factory near Winnipeg, Manitoba.

NATIONAL BISCUIT CO.

1. Company has world-wide operations.
2. Some of the company's subsidiaries are: Christie, Brown & Co. Ltd. (Canada); Nabisco, Ltd. (England); Fireside Food Products Co. Ltd. (Canada); Griffin & Sons, Ltd. (New Zealand); Nabisco—La Favorita C.A. (Caracas, Venezuela) 60% owned; Kut-as-Sayyid Estate, Ltd. (Iraq); Saiua Biscotti ed. affini S.p.A. (Italy); Reid Milling Ltd. (Canada); Nabisco-Fomosa, S. A. (Mexico); National Biscuit (France); Oxford Biscuit Factory Ltd. (Denmark); Industrias Nabisco-Cristal, S.A. (Nicaragua).

HONEYWELL, INC.

1. Some subsidiaries are: Honeywell Controls, Ltd. (Toronto); Honeywell, A.B. (Stockholm, Sweden); Honeywell, N.V. (Amsterdam, The Netherlands); Honeywell Europe, Inc., (Brussels, Belgium); Honeywell, S.A.I.C., (Argentina); Honeywell GmbH. (Frankfurt, Germany); Honeywell Defense Products Europe, S.A.R.L.; Oy Honeywell A.B. (Helsinki, Finland).
2. Affiliates: Yamatake-Honeywell Keiki Co., Ltd. (Japan) 50% owned; Yamatake-Honeywell Co. Ltd. (Taiwan).

CATERPILLAR TRACTOR CO.

1. Wholly owns: Caterpillar of Australia Ltd.; Caterpillar of Belgium S.A.; Caterpillar of Brasil S.A.; Caterpillar of Canada Ltd.; Caterpillar Mexicana, S.A. de C.V.; Caterpillar Overseas Credit Corp. S.A.; Caterpillar France S.A.; Caterpillar (Africa) (Pty) Ltd. Johannesburg, S. Africa; Caterpillar Far East Ltd. Hong Kong.
2. Affiliates: Caterpillar Mitsubishi Ltd. Tokyo, equally owned with Mitsubishi Heavy Industries Ltd., Sagami, Japan.

BENDIX CORP.

1. Some subsidiaries are: Akebono Brake Industry Co. Ltd., (Tokyo) 10.3% owned; Jidosha Kiki (Tokyo) 13% owned; Bendix Taiwan Ltd. (Taiwan); Ducellier et Cie. (Paris, France) 60% owned; Jurid Werke Gmbh (Hamburg, Germany) 49% owned; Bendix Mintex (Pty.) Ltd. (Australia) 51% owned; Greenpar Engineering Ltd. (Essex, England).

AMERICAN MOTORS CO.

1. Some subsidiaries are: American Motors (Canada) Ltd.; Canadian Fabricated Products Ltd.; American Motors of South Africa (Pty) Ltd.; American Motors del Peru; A.M.C. de Venezuela, C.A.
2. Affiliates: IKA-Renault S.A.; Vehiculos Automoters Mexicanos, S.A.

MC DONNELL DOUGLAS CORP.

Some sibsidiaries are: Douglas Aircraft Co. of Canada Ltd.; McDonnell Douglas Japan Ltd. (Tokyo).

MC GRAW-HILL, INC.

1. Some major subsidiaries are: McGraw-Hill Co. of Canada, Ltd.; McGraw-Hill Book Co. (South Africa) (Pty) Ltd.; McGraw-Hill Publishing Co. Ltd. (England); McGraw-Hill Book Co., GmbH, Dusseldorf, Germany; Libros McGraw-Hill de Mexico S.A. de C.V.

66-850—71—pt. 7——12

2. Affiliates: Technic Union, Paris, France (49% interest); New Medical Journals Ltd. London, England (50% interest); World Medical Publications S.A. Brussels, Belgium (50% interest); Nikkei-McGraw-Hill Inc. Tokyo (49% owned); Tatu-McGraw-Hill Pvt. Ltd., New Delhi, India (40% owned); Penguin Publishing Co. Ltd. (Great Britain) 10% owned.

FORD MOTOR CO.

1. Ford Motor Company, Ltd., Britain, produces cars, trucks, commercial vans and Ford tractors, and is the 2nd largest producer of such items in the British Isles.
2. Ford Motor Company of Canada Ltd. (81% owned) is the 2nd largest producer of passenger cars and the largest producer of trucks in Canada.
3. Ford-Werke M/G produces Ford cars, light buses, pickups and vans, and is the 3rd largest producer of such vehicles in Germany.

Subsidiaries and branches:

4. Ford also has affiliates in many countries: Ford Motor Co. S.A. Mexico; Ford Motor Argentina; Ford (Uruguay) S.A.; Ford Motor Co. Del Peru S.A.; Ford Motor Co. A/S Denmark 78% owned; Willys Overland do Brazil S.A. Industria E Comercio (Brazil) 52% owned.

SPERRY-RAND CO.

1. Main subsidiaries are: Sperry Rand Canada; Sperry Rand Ltd. (England); Sperry Rand Italia, S.P.A. (Italy); Vickers (Germany) G. mbH; Sperry Rand Australia Ltd.
2. Affiliates: Tokyo Keiki Seizosho Co. Ltd.; Nippon Univac Kaisha Ltd. (Japan); Oki Univac Kabushiki Kaisha (Japan); West & de Toit (S. Africa).

BRISTOL MYERS CO.

1. Subsidiaries: Bristol Banyu Research Institute Ltd. (Japan); Bristol Laboratories (Japan) Ltd., Bristol Industries Ltd. (Taiwan); Bristol Laboratories of Canada Ltd.; Bristol-Myers Co. Ltd. (England); Deutsche-Drackett Inc.; Bristol-Myers, Canada Ltd.; Bristol-Myers (Japan) Ltd.; Clairol (Japan) Ltd., Hair Coloring Industries (Japan) Ltd.

W. R. GRACE AND CO.

1. Some subsidiaries are: Dearborn Chemical Co. Ltd. (Canada); Dubois Chemicals of Canada, Ltd.; Golding Bros. Canadian Ltd.; Howard & Sons (Canada) Ltd.; Leaf Confections Ltd.; Willard Chemical of Canada Ltd.; Leaf Belgium N.V.; S. A. Rene Weil, France 85% owned; Hughes Bros. Ltd. Ireland; N. V. Cacaofabriek de zoan (The Netherlands).

UNITED AIRCRAFT

1. Subsidiaries: United aircraft of Canada Ltd. 90.6%.
2. Affiliates: Ratier-Forest S.A. France (15% owned) makes aircraft and missile components; Precilec S.A. (France) 20% owned makes electronic components; Orenda Ltd. (Ontario) 40% owned.

TEXAS INSTRUMENTS

1. Texas Instruments Japan Ltd. (owned equally by Co. and Sony Corporation).
2. Some subsidiaries are: Geophysical Service International Ltd.; Texas Instrumentos and Electronicos do Brazil Ltda.; Texas Instruments Ltd. (England); Indonesia Surveys S.A.; G.S.I. de Mexico, S.A. de C.V.

BOISE CASCADE CORP.

1. Company has foreign utility operations, mainly sale of electricity, conducted through subsidiaries in Ecuador, Guatemala and Panama—the subsidiaries are: Empresa Electrica del Ecuador Inc.; Empresa Electrica de Guatemala, S.A.; Cia. Panamena de Fuerza y Luz.

2. Company has subsidiaries including: Boise-Cascade International, Inc. which owns Ontario-Minnesota Pulp and Paper Company, Ltd.; Mobile home and recreational vehicle plants in British Columbia, France, England, and The Netherlands.

CPC INTERNATIONAL

Principal Subsidiaries: Clifford Love & Co., Ltd. (Australia); Refineries de Maiz, S.A.I.yC. (Argentina); Refinacoes de Milho, Brazil Ltda. (Brazil); Canada Starch Co. Ltd.; Brown & Polson Ltd. (England).

LOCKHEED AIRCRAFT

1. Among the companies principal subsidiaries, wholly-owned, are: Lockheed Aircraft Int'l. A.G. (Switzerland); Lockheed Aircraft Int'l. Ltd. (Hong Kong); Lockheed Aircraft Corporation of Canada, Ltd.; Lockheed Offshore Petroleum Services Ltd. Canada; Lockheed S.A. de C.U. (Mexico); Lockheed Aircraft (Australia) Pty., Ltd.

CONTINENTAL CAN CO., INC.

1. Principal subsidiary Continental Can Company of Canada Ltd.

H. J. HEINZ CO.

1. Subsidiaries: H. J. Heinz of Canada Ltd.; H. J. Heinz Co. Ltd. (91.16% owned) British Isles; Nichiro-Heinz Co. Ltd. (80% owned) to make and market Heinz products in Japan; also in Australia, Belgium, Luxembourg, Holland, Portugal, Venezuela, Switzerland, Italy, Pago Pago, etc.

DEERE & CO.

1. Subsidiaries: John Deere Ltd. (Canada); John Deere Intercontinental Ltd. (Ontario, Canada); John Deere (France).

2. John Deere S.A. Mexico 75% owned; John Deere-Lanz Ver waltungs A.G. Germany (99% owned); John Deere, Ltd., South Africa, 75% owned.

HEWLETT-PACKARD CO.

1. Company's European operations are handled by wholly-owned Hewlett-Packard S.A. (Switzerland). This company has 2 manufacturing subsidiaries and 9 marketing subsidiaries.

2. Affiliates: Yokogawa-Hewlett-Packard, Ltc. (49% owned) makes electronic measuring instruments in a plant at Hachoti, Japan. The affiliate also handles companies marketing operations in Japan. Also in Canada, Mexico, Argentina, Brazil, Venezuela, Australia.

INTERNATIONAL PAPER CO.

1. Subsidiaries: Canadian International Paper Company; British International Paper Ltd; Canadian International Pulp Sales Ltd.; International Paper Company (Europe) Ltd.; International Paper (France).

CARRIER CORP.

1. Subsidiaries: Carrier Air Conditioning (Canada) Ltd.; Camwell of Canada Ltd.; Toyo Carrier Kogyo Kabushiki Kaisha (Japan) 75% owned; Carrier International Sdn. Malaysia; Carlyle Air Conditioning Co. Ltd. United Kingdom; Carrier GmbH Germany.

BORG-WARNER CORP.

1. Wholly-owned subsidiaries include: Arpic N. V. (Holland); Borg-Warner Investments Pty Ltd. Borg-Warner (Canada) Ltd. Borg-Warner Ltd. (England) which owns Marbon, Australia Pty. Ltd. (55%) Borg-Warner Australia Ltd. (75%) etc.

2. Affiliates (jointly owned): Ube Cycon Ltd. (Japan); Nsk-Warner KK (Japan); Aisin-Warner KK; York, India Ltd. New Delhi, India.

STANDARD OIL CO. (NEW JERSEY)

1. Company owns 70% of Imperial Oil Ltd. (Canada) ; Company owns 23% of Interprovincial Pipe Line Co. (Canada) ; Company owns all of Esso Eastern Chemicals, Inc., which coordinates chemical interests in Japan; Southeast Asia, etc.; Company has extensive European, Latin American, Middle East and Far East holdings in Norway, Denmark, West Germany, Belgium, Venezuelan, Brazil, Argentina, Chile etc.

IBM

Has 17 mfg. plants in 15 nations, including Japan. IBM World Trade Corp. & its subsidiaries operate facilities in 108 countries in 1969.

PEPSI CO.

1. Subsidiaries: Paso de los Torros, S. A. (Uruquay) ; Shani Bottling Co. (Pty) Ltd. S. (Africa) ; Pepsi-Cola Italia S.P.A.; Pepsi Co. Oversea Corp.; Food Enterprises Ltd. (Japan) ; Mike Popcorn K. K. (Japan) ; Pepsi-Cola (Japan) Ltd.; Pepsi-Cola (Pakistan) ; Pepsi-Cola Ltd. (England) ; Pepsi-Cola Refrigerantes Ltd. (Brazil).

KIMBERLY-CLARK CORP.

1. Subsidiaries: Kimberly-Clark of Canada Ltd.; Kimberly-Clark Pulp & Paper Co. Ltd. (Canada) ; Kimberly-Clark Lumber (Canada) Ltd. (inactive) ; Kimberly-Clark de Mexico S.A. (60% owned) ; Kimberly-Clark Far East Ltd. (Singapore) 60% owned; Kimberly-Clark Ltd. (England) 66⅔% owned.

2. Co. has property in Japan.

SINGER CO.

1. Subsidiaries: Commercial Controls Canada Ltd. (Canada) ; Friden (Holland) N.V. (Netherlands) ; Friden S. A. (France)—86%; Singer Co. of Canada Ltd.; Singer-Cobble Ltd. (Great Britain) ; Singer Industries Ltd. Nigeria.

2. Affiliates: Pine Sewing Machine Mfg. Co. (50% owned) which makes sewing machines in a plant in Utsunomiya, Japan; Wholly owns Matsumoto Mokko Ltd. which makes cabinetware; Owns 50% of Pine Transportation Ltd.; Owns 45% of Controls Co. of Japan.

TIME, INC.

Company publishes 6 international editions of Time Magazine. Subsidiaries: Time-Life International de Mexico, S. A.; Time-Life International (Nederland) N. V. (with subsidiaries in England, France, Switzerland and Curacao) ; Time International of Canada Ltd.; Little Brown & Co. (Canada) Ltd. 60% owned.

AMERICAN METAL CLIMAX

1. Some subsidiaries are: Climax Molybdenum N.V. (Netherlands) ; Amax Exploration Quebec Ltd.; Amax of Canada Inc.; Kawneer Co. Canada Ltd.; Northwest Amax Ltd. (Canada) 75% owned the Climax Molybdenum Co. of Michigan owns the Climax Molybdenum Development Co. (Japan) Ltd.

CUMMINS ENGINE CO., INC.

1. Subsidiaries (wholly owned) : Cummins Diesel of Canada Ltd.; Komatsu-Cummins Sales Co. Ltd. (Tokyo-Japan), 51% owned.

2. Foreign Licensees, etc.: Komatsu Mfg. Co. Ltd., Tokyo. Fried's Krupp (Germany), Diesel, Nacional S.A. (Mexico) etc., Mexico City.

LEVER BROS. CO. (UNILEVER LTD.)

Has interests all over the world, including Japan—subsidiaries and affiliates are not listed separately.

BOOZ, ALLEN & HAMILTON, INT.

International consultant firm in Canada, West Germany, France, Mexico, etc.

BELL & HOWELL CO.

1. Market in U.S. a line of cameras produced by Canon Camera Co. Inc., Tokyo and sold as Bell & Howell—camera equipment.

2. Owns 90% of Japan Cine Equipment & Mfg. Co.
3. Wholly owned subsidiaries include: Ditto of Canada Ltd. Toronto; Bell & Howell Canada Ltd. Toronto; Bell & Howell H.B., Sweden; Bell & Howell France S.A. Paris; Devry Institute of Technology of Canada, Ltd.; and other subsidiaries in Sweden, Belgium, Switzerland, etc.

PFIZER, INC.

Produces in Japan—owns Pfizer Int. Corp. (Panama); owns 80% of Pfizer Taho Co. Ltd. (Japan).

KAISER ALUMINUM & CHEMICAL CORP.

Company has world wide foreign affiliates in Japan, England, Canada, Germany, Italy, etc.

MARCONA CORPORATION—SUBSIDIARY OF CYPRUS MINES

Has some world wide affiliates—has $250 million contract to provide Japanese Steel Makers with 4.2 million tons of lump ore.

GENERAL MOTORS CORP.

Has world wide holdings such as: General Motors of Canada, Ltd.; Motors Holding of Canada Ltd.; Vauxhall Motors Ltd. (England); Adam Opel (Aktienogsellschaft) (Germany) General Motors Holden's Ptg. Ltd. (Australia) etc.

CLARK EQUIPMENT

Company's products made world wide by licensees, some of whom are in Japan—Subsidiaries include: Canadian Tyler Refrigeration Ltd.; Clark Equipment of Canada Ltd.; Clark Equipment Ltd. (Great Britain); Also in Switzerland, France, Venezuela, West Germany, Belgium, Brazil, Argentina, Mexico, Spain, etc.

QUAKER OATS

Subsidiaries: Quaker Oats Co. of Canada Ltd.; Quaker Oats Ltd. (England); Quaker Oats Co. (Germany); Quaker Oats Co. (New Zealand); Also in Mexico, Nicaragua, Colombia, Sweden, etc.

DELTEC INTERNATIONAL LTD.

1. Company is in investment banking business primarily in Latin America and Europe.

LITTON INDUSTRIES, INC.

1. Has plants world wide, including Japan.

CHRYSLER CORP.

1. Subsidiaries include: Chrysler Antemp Ltd. (England); Chrysler Australia Ltd.; Chrysler Canada Outboard Ltd. (Canada); Chrysler Canada Ltd.; Chrysler Antemp S.A. (France); Rootes Motors Ltd. (England) owns 73.3%; (Company entering into agreement with Mitsubishi Healy Industries Ltd. subject to Japanese government approval to form joint auto venture in Japan (65% Japanese owned).

AMERICAN EXPORT

1. American Export Industries owns 97.49% American Export Isbrandtsen Lines, Inc.
2. Owns 95% of Premium Iron Ores Ltd. (Toronto); Owns American Export International, Inc.

XEROX CORP.

1. Company is world-wide, some principal subsidiaries include: Universal Microfilms Ltd. (England); Xerox of Canada Ltd.
2. Company affiliates include: Rank Xerox Ltd. (England) owned 50%; Owns 50% of Fugi-Xerox (Japan).

CHASE MANHATTAN BANK

Has branches in many countries.

FIRST NATIONAL CITY BANK

Has branches in many countries.

BANK OF AMERICA

Branches in many countries.

STATEMENT BY THE AFL-CIO EXECUTIVE COUNCIL ON EXPORT OF PRODUCTION AND JOBS

Programs to export U.S. employment and promote low-wage labor markets abroad undermine labor's goals everywhere. Such programs are a mockery of international development and goodwill. Policies to subsidize profit greed at public expense destroy labor's goals of better living standards and working conditions in the U.S. and every other nation. Such policies must be changed. The programs must be halted.

U.S.-Mexican economic relations are the closest and clearest example of a growing problem. Despite three decades of steady economic growth, a strong currency, and the production of autos, paper, glass, chemicals, and other industrial products, Mexico remains a non-consumer based economy, highly managed by government direction and closed to imports that it determines are not necessary for Mexican development. U.S. and foreign firms have invested billions in subsidiaries and other affiliates to produce in Mexico, because Mexican laws require production in Mexico for sale in Mexico of many products. Wages are low, often ranging from about 20 cents an hour to 46 cents an hour.

Despite economic development in the interior of Mexico and billions in investment by U.S. and other international firms, several years ago the Mexican government established a "Border Industrialization Program," designed to lure U.S. firms to use low-wage Mexican labor along the 1,600-mile border between the Mexican and U.S. economies. The U.S. Administration has continued to encourage this program. Since its first public notice in 1967, when 30 U.S. companies were operating plants in the Mexican border industrialization area, the number soared to 219 last year and about 250 at present. Regulations and measures of the Mexican and U.S. governments, in combination, have promoted this export of American jobs and displacement of U.S. production.

U.S.-owned plants on the Mexican side of the border receive special tax and tariff breaks from the Mexican government, including exemption from its tight controls on foreign trade. They pay substandard wages to assemble components from the U.S. into final products for export to U.S. markets. These goods usually come into the United States, under the special low tariff duties of items 806.30 and 807 of the U.S. tariff schedules, and are sold at American prices.

The Mexican government recently announced the extension of these border industrialization lures into the interior of the country, with reports of subsidies for exports. The lures are directed not only to American firms, but to companies of other countries, which would be given many tax and tariff incentives to operate plants to produce for export, essentially to the nearby lucrative American market, with low transportation costs, as well as low wage costs and Mexican concessions on taxes and tariffs.

There are now at least 500 manufacturing subsidiaries of U.S. companies in the interior of Mexico—in addition to those on the border and aside from licensees and other joint venture operations. There are also subsidiaries of numerous companies from other countries operating throughout Mexico.

The extension of the Mexican government's program of tax and other incentives for the production of goods for export presents American workers and trade unions with the immediate threat of a rising flood of imported goods, produced at substandard wages and with various Mexican government benefits.

In the world of 1971, international firms, with production units in Mexico, frequently have similar plants in Hong Kong, Taiwan, Korea, France, Germany, Haiti and in other parts of the world. History has shown that U.S. tariff code loopholes, like items 807 and 806.30, merely aid companies to take advantage of the cheapest labor in the world for the assembly of goods, until the multinational companies, with the aid of foreign governments, can produce whole products for export to the United States.

The AFL-CIO's compilation of the numbers of industrial concerns moving from the United States to Mexico to export back to this country—first, the assembly of components, under tariff schedule items 806.30 and 807, and subsequently, the production of entire products with the further displacement of American jobs—confirms the view that the Border Industrialization Program has assumed utterly unacceptable economic and social proportions for the United States, far in excess of any questionable benefits to the Mexican workforce, employed at substandard wage rates and working conditions by U.S. firms operating in Mexico.

Technology and transportation have speeded up the process of exporting American jobs. A major part of a whole industry—such as consumer electronics—can be exported from the U.S. within five years. The export of American jobs and displacement of U.S. production is escalating at a tremendous pace.

The AFL-CIO views with grave concern the coincidence of high unemployment in the United States with government economic policy and the pursuit of low-wage labor markets abroad by U.S. companies, enhanced by subsidies and bootlegged assistance.

We urge the following actions by the U.S. government:

The Congress should repeal items 807 and 806.30 from the tariff schedules of the United States.

U.S. customs officials should enforce U.S. laws against dumping, the subsidy of exports to the United States and other practices which injure American workers and the U.S. economy.

Imports of products which displace significant proportions of U.S. production and/or employment should be regulated by quantitative quotas.

U.S. labeling laws—on foreign origin, as well as health, safety and similar standards—should be effectively enforced and expanded.

The reporting of investment, production, employment and trade by U.S. firms in Mexico should be required by the United States government.

The United States government should discourage participation in Mexican border industrialization arrangements by U.S. firms and direct government agencies to cease their encouragement of this mushrooming operation.

Border crossings of Mexican labor should be regulated effectively through legislative action and adequate administrative measures.

We urge the government to press, in appropriate international agencies, for the establishment of international fair labor standards in world trade.

We support the orderly expansion of world trade. We oppose the promotion of profit greed at public expense or the undercutting of United States wage and labor standards. We want expanded trade that expands employment at home and abroad and that improves living standards and working conditions, here and abroad. We want the U.S. government to protect the interests of American workers against the export of American jobs. We want the government to halt the undermining of the American economy.

We serve notice on the Administration that we will not rest until the U.S. government effectively and adequately protects the interests of American workers and the American economy, by curbing the mounting displacement of U.S. production and export of American jobs.

Statement by the AFL-CIO Executive Council on the Critical Need for New International Trade and Investment Legislation

There is a critical necessity for the United States to adopt new international trade and investment legislation that will meet the realities of today's economic world and the needs of the American people for a healthy economy.

Rapid changes in international economic relationships have deteriorated America's position in world trade and affected the world standing of the American dollar.

Other major nations have adjusted their policies to benefit their national interests, but the United States has failed to adjust. These nations have managed national economies, subsidized exports, erected barriers to imports and geared their tax structures to foster these practices.

Meanwhile advances in transportation, communications and technological advances have accelerated the scope and pace of change. American technology has been transported overseas and production and employment have been exported to other lands. Multinational firms and banks, usually U.S.-based and sometimes in tandem with foreign-based multinationals, now have global operations which benefit from the policy of every country, but which are beyond the reach of present U.S. law or the laws of any single nation. The policies of these U.S. based firms and banks are designed solely to profit the corporations and are made with disregard for the needs of the United States, its economy and its people.

Over the past decade, U.S. firms have invested billions of dollars in their foreign subsidiaries, rising from $3.8 billion in 1960 to $13.2 billion in 1970. Outlays for foreign affiliates this year are expected to be more than $15 billion, with $8 billion in spending projected for manufacturing facilities alone. In addition, joint ventures, foreign licensing and patent agreements and other relationships of U.S. firms abroad have changed the patterns of the U.S. economy in its relation to world trade and investment.

As a result of all these developments: U.S. exports have been retarded. Imports have been spurred. Production has been displaced. Jobs and employment opportunities have been exported.

In view of the fact that existing laws are no longer capable of meeting the problems and the realities of the 1970s, the AFL–CIO proposes that new trade legislation, embracing the following concepts, be enacted.

1. New tax measures to halt the export of U.S. jobs, remove the incentive to establish production and assembly facilities abroad, and create tax disincentives to curb expanded production abroad

Profits earned by the foreign operations of U.S. corporations should be taxed at the time that they are earned. Under present law, corporations are allowed to defer U.S. taxes until they are repatriated to the U.S. and distributed, which may never happen. Foreign tax payments should be allowed a deduction on U.S. taxes, but the preesnt allowance of a tax credit should be halted.

A treasury study and report should be undertaken to determine the degree of enforcement and compliance with Section 482 of the Internal Revenue Code. Under this provision, the IRS has the authority to require corporations to attribute their income to the specific foreign subsidiary where the income was earned. Its purpose is to prevent corporations from allocating their foreign income among various subsidiaries so as to pay the minimum possible taxes.

Wherever corporations with global accounting systems are found to be not in compliance with Section 482, they should be given a reasonable period of time for compliance, but compliance should be made mandatory in all instances.

The amount of write-offs, under U.S. tax laws, of depreciation presently allowed to U.S. corporations, for their foreign subsidiaries, should be replaced by a sliding scale allowance which relates to the tools, technology and purpose of the facility. If, for example, 100% of the capital assets (machinery, etc.) in the foreign subsidiary was developed at the expense of the U.S. government and the U.S. taxpayer, the depreciation allowed would be zero. However, if the production of the foreign subsidiary serves a great social purpose and has no adverse impact on U.S. trade, then the depreciation allowance could be the maximum.

A tax should be imposed on the value of any patents, licenses and technology that are exported. Further, a tax should be levied on the royalties received by U.S. companies.

Items of the Tariff Schedule which help to transfer production abroad should be repealed. As an example, item 807 and item 806.30 are an open invitation to U.S. multinational firms to use low-wage foreign labor to assemble products outside the U.S. and then ship them back to the U.S. at a specially low tariff rate. Both of these items should be repealed because they have spurred the export of production and jobs.

2. Supervise and curb outflows of U.S. capital

Clear legislative direction is necessary to give the President authority to regulate, supervise and curb the outflows of U.S. capital. At the present time, controls on foreign investment are loose, inadequate and not related to trade and production. Authority within the President's hands should include considerations for the kind of investment that would be made abroad, the product involved, the country where the investment would be made, the linkage of the investment to the flow of trade and its effect on U.S. employment and the national economy.

We object to the AID legislation now before Congress which turns over to multilateral agencies, such as the World Bank, the supervision of private investment abroad for AID purposes.

In addition, there is a strong need for a report on enforcement of 22 USCA 2370 (d) of the Foreign Assistance Act of 1961. This provision in the law was aimed at keeping developing loans from disrupting U.S. production. It requires that not more than 20% of production in a foreign factory created by a development loan may be exported to the U.S. to compete with U.S.-made products. To date there has been no disclosure as to the operation—or effectiveness—of this provision.

Similarly, the reports of the Export-Import Bank should include a yearly review of the impact its loans are having on U.S. exports, imports and the national economy.

3. Supervise and curb export of technology

U.S. government policy has encouraged the export of technology in recent years. U.S. companies have been licensing production to foreign licensees and patentees who produce behind foreign trade barriers for export to the U.S.

This policy should be reversed by giving the President clear authority to regulate, supervise and curb licensing and patent agreements on the basis of Congressionally determined standards. These would include, the kind of investments, the product involved, the country of investment, and linkage to trade flows from such transfers and the effect on U.S. employment and the economy.

4. International fair labor standards

Reports should be made to the U.S. government (Labor Department) on foreign wages paid by the military and U.S. business. These reports should be on the same basis that U.S. law now requires reporting on wages, hours, etc. within the U.S. Only by this means can data be acquired that gives a perspective of labor factors in these U.S. foreign operations.

The State Department and other U.S. agencies should press for international fair labor standards in trade agreements.

5. Quantitative restraints

It should be the expressed policy of the United States to recognize that the health expansion of the world economy is linked to the continuation of a diversified, productive and full employed economic and social system here, as well as abroad. To assure this policy, mechanisms should be established to avoid the continued displacement of U.S. production, tax-base erosion, market disruption and export of American jobs.

Quantitative restraints, with a base year of 1965–69, should be applied to products and parts of products imported into the United States, allowing for a flexible growth factor related to U.S. production of the item. Exceptions to such quantitative quotas could be:

(a) where a legitimate voluntary agreement now exists or is negotiated on the item with other supplying countries; and

(b) where the failure to import the item would disrupt U.S. production and U.S. markets.

A review of the operations of such restraint mechanism should be made after one year to determine the degree of effectiveness in achieving the above stated objectives.

To carry out this program, a single agency with quasi-independent authority to serve the Congress should be established. This agency would determine the quantitative limitations based on the criteria established, advise the Congress of necessary interim adjustments for items where data are not available, and supervise the maintenance of the program. Because of the broad spectrum of its operation, the agency should be composed of the merged operations of the Tariff Commission with the necessary trade-related parts of the Commerce, Labor and Treasury Departments.

6. Truth in labeling

Products should be clearly labeled to show the country of origin for components and parts as well as the final product. For example, a TV set made from parts produced and assembled in Taiwan, Hong Kong, U.S. and Korea should show the source of the components as well as the final product. The current law places labeling within the discretion of the Secretary of the Treasury and, as now functioning, does not give the consumer truthful evidence of where the product or its parts originated.

Similarly, advertising of imported producst should include references to the country of origin of the products and components.

7. Consumer protection enforcement

All imports should conform strictly to all laws designed to protect the safety and health of American consumers.

8. International accounting

Federal standards for international accounting by U.S. firms with foreign operations should be established and enforced. Such accounting standards should be consistent with the uniform accounting required by Section 718 of the Defense Production Act of 1950.

Under current law Customs officials classify imports under general categories related to the collection of tariffs rather than to the actual description of the imported product. Census and Customs Bureaus should have consistent reporting systems so that imports can be related to production in the United States. The Tariff law should be amended so that shipping declarations and invoices include product descriptions.

9. Escape clause and dumping

The Antidumping Act of 1921 must be modernized to assure effective action against dumping. Under current operations, dumping findings have taken as much as two years. Interpretations of the law have not made clear that employment and working conditions should be part of the test of injury to an industry. The law should shorten the period of a finding of sales at less than fair value (dumping) to 4 months, make the injury determination simultaneous with the determination of sales at less than fair value, and place the determinations within the single agency established to supervise international trade.

The escape clause of the Trade Expansion Act of 1962 has been interpreted to make findings of injury almost impossible. This provision allows the United States government to raise tariffs or impose quotas when a finding of injury is made by the United States government. The new agency should replace the Tariff Commission and much easier tests of injury should be available. These tests should include labor effects, such as underemployment, loss of fringes and wage effects.

Not all provisions of the Tariff and Trade laws grant standing to sue to employees and their representatives. Thus, in an investigation where multinational corporations are involved, the "U.S. industry" is the only party which is allowed to bring suit. In the escape clause, however, employees are permitted to bring suit. There should be a consistent provision throughout U.S. trade and tariff laws providing that workers in the United States have legal standing to bring suit concerning injury.

O