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LIVING WITH THE TRADE DEFICIT

REPORT

OF THE

SUBCOMMITTEE ON INTERNATIONAL ECONOMICS

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

NOVEMBER 18, 1977

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LETTERS OF TRANSMITTAL

November 15, 1977.

To the members of the Joint Economic Committee:

Transmitted herewith for the use of the members of the Joint Economic Committee and other Members of Congress is a report of the Subcommittee on International Economics entitled "Living With the Trade Deficit."

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

Sincerely,

RICHARD BOLLING,
Chairman, Joint Economic Committee.

NOVEMBER 11, 1977.

Hon. RICHARD BOLLING,
Chairman, Joint Economic Committee,
Congress of the United States,
Washington, D.C.

DEAR MR. CHAIRMAN: Transmitted herewith is a report of the Subcommittee on International Economics entitled "Living With the Trade Deficit." It has been approved by the members of the subcommittee with the exception of Representative Margaret M. Heckler, who due to the press of other business takes no position on its recommendations.

The subcommittee wishes to express its appreciation for the views it received from the private experts who appeared before it as witnesses during the hearing preceding this report.

Sincerely,

HENRY S. REUSS,
Cochairman, Subcommittee on International Economics.

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LIVING WITH THE TRADE DEFICIT*

In 1975 the United States recorded (according to the balance-of-payments basis of calculation) a trade surplus of $9 billion. The following year the surplus disappeared and became a deficit of $9.3 billion, and in 1977 this country is likely to run a trade deficit of about $30 billion. In this era of high energy prices and growing oil imports into the United States, the 1975 surplus was an anomaly resulting from the greater severity of that year's recession in the United States than in other industrial countries. Thus, the 1976 deficit, reflecting in part the recovery of economic activity n the United States in advance of an upturn abroad and the resulting growth of oil and consumer-goods imports, constituted a more normal trade position for the United States.

The tripling of the deficit in 1977 is, however, cause for concern. The $20 billion expansion in the trade deficit from 1976 to 1977 results essentially from three factors. First, oil and natural gas imports will increase about $10 billion. Second, due to bountiful harvests abroad and high prices for imported coffee, the traditional U.S. surplus on trade in agricultural products will decline from nearly $10 billion in 1976 to $8 or $8.5 billion in 1977. Third, trade in manufactured goods will deteriorate from a $13 billion surplus in 1976 to a net positive balance of $3 to $5 billion in 1977.

Because of our concern about the ballooning of the trade deficit, the subcommittee invited panels of both private and public witnesses to testify on how much of a problem the deficit is and what, if anything, should be done to reduce it. The private witnesses were Benjamin J. Cohen, professor of economics at the Fletcher School of Law and Diplomacy, Tufts University; Lawrence Krause, senior fellow at the Brookings Institution; John Lichtblau, executive director of the Petroleum Industry Research Foundation; and Robert L. Slighton, vice president for international economic forecasting at Chase Manhattan Bank. The public witnesses were Anthony M. Solomon, Under Secretary of the Treasury for Monetary Affairs; Howard Samuel, Deputy Under Secretary for International Affairs at the Department of Labor; Frank Weil, Assistant Secretary for Domestic and International Business at the Department of Commerce; and Wil iam D. Nordhaus, member of the Council of Economic Advisers. The hearing was held on the morning of Tuesday, October 11.

None of the witnesses who testified held out the possibility of a decline of the deficit during 1978. In fact, with continued growth of oil imports, some further increase in the trade deficit seems the most likely prospect. The best that could be hoped for is some modest decline in 1979 from the previous year's level as other countries' economies expand and increase their demand for U.S.-made products. But, in the words of Commerce Department Assistant Secretary Weil, "Given the likelihood of continued large OPEC surpluses, trade deficits in all probability are going to be a fact of life for some time."

*Representative Margaret M. Heckler, due to the press of other business, does not endorse and instead takes no position on this report.

Factors Responsible for the Deficit

High Energy Costs

Chief among the causes of the U.S. trade deficit is the increase in world oil prices to a current level of nearly $13 a barrel; or about five times the 1972 level. High energy prices have tended to force the United States toward a deficit position in its merchandise trade via two mechanisms. First, the cost of imported oil and natural gas has skyrocketed at a time when domestic petroleum output has begun to decline. Second, high energy costs have a depressing impact upon economic activity in other countries. Slack demand abroad and stagnant investment have led to a slump in foreign purchases of goods manufactured in the United States and of capital goods exports particularly. On the other hand, U.S. exports to oil producers have soared and substantially offset the loss of shipments to other countries.

Slow Growth Abroad

Soaring oil prices were not the only cause of the severe 1974–75 recession, nor are high energy costs the only reason for the sluggish and faltering recovery in most industrial countries other than the United States. Excessive inventory accumulation, high wage demands, increases in the prices of some commodities other than oil, the apprehensions of corporate investors about future rates of inflation and economic growth, and weak foreign governments' policies to stimulate output all have contributed to cyclical weaknesses in the U.S. trade performance.

Of course, to the extent that the increase in energy costs or other factors have produced a permanent drop in growth rates, the problem is not merely cyclical. It appears that Japan's growth rate has dropped to the 6-percent range from the 10- to 12-percent increases of previous years, and other countries' long-term rates of economic expansion may have also been reduced, although by smaller amounts.

Deterioration in U.S. Competitive Ability

Another structural factor that is virtually impossible to distinguish empirically from cyclical causes of the deficit is a possible deterioration in the ability of the United States to compete in foreign markets for manufactured goods. The evidence on this question is inconclusive, and there was some disagreement among the witnesses about whether a deterioration in U.S. competitive abilities has in fact occurred. Lawrence Krause argued most strongly that there had been a deterioration, while Under Secretary Solomon pointed to an unchanged position or increase in the U.S. share of most non-OPEC developing country markets in 1977. Assistant Secretary Weil of the Commerce Department asserted:

> The consensus among economists is that a decline in U.S. competitiveness is not a primary cause of the U.S. trade deficit at this time. This does not mean, however, that the United States may not have experienced some loss in its relative competitive position or that competitiveness is not a problem for the United States.

Most indexes of price competition show that on this basis the United States achieved a high point in 1973 or 1974 and that since then, this country's ability to compete on the basis of price has slipped somewhat. However, U.S. manufacturers still retain a better capability to compete on the basis of price than they had in 1971. According to an alternative measure, the share of world markets for exports of manufactured goods, the United States attained a peak in 1975 and has since slid back. But again, by this measure our current performance is superior to that in 1972. At best, the evidence on U.S. ability to compete is unsettling and deserves close watching as additional up-to-date information becomes available to see if the ability of the United States to capture foreign markets is in a structural decline.

Industrialization of Low-Wage Countries

The relative ability of the United States to compete in world markets has another dimension that is not subject to price, design, and quality comparisons. Numerous developing countries are increasingly able to fabricate at home goods that were previously imported, and to export manufactured products. Since the United States sells one-fifth of its manufactured goods exports in non-OPEC developing country markets, this trend is of considerable significance. We have emphasized ability to compete internationally and export in development schemes, have given preferred access to the U.S. market for hundreds of products from developing countries, and cannot easily impair the ability of these nations to service their massive debt burdens by now impeding their exports. Therefore, imports from low-wage nations are likely to grow in coming years, and some types of U.S. exports to them are likely to decline.

Lack of Exchange-Rate Adjustment

One might have expected that under a floating exchange rate system, the dollar would have depreciated sufficiently to prevent the emergence of this massive 1977 trade deficit. Alternatively, once the actual dimensions of the deficit and its likely persistence become well recognized, one might have expected the foreign exchange value of the dollar to fall sufficiently to substantially reduce the deficit. Indeed, since the September annual meetings of the International Monetary Fund (IMF) and the World Bank, when Treasury Secretary Blumenthal was questioned by the press about the prospective size and duration of the U.S. trade deficit, the dollar has declined by some 5 percent with respect to the Japanese yen and the German mark. However, exchange rate changes have not produced a large reduction in the trade deficit for three reasons.

(1) Exchange markets clear at existing prices all transactions between the dollar and other currencies, not just transactions involving exchanges of goods between U.S. residents and foreigners. In addition to merchandise trade, there are purchases and sales of services, financial investments (such as Treasury bills and notes, commercial paper, and stocks and bonds) and transfers of real assets (such as land and factories) between Americans and foreigners. U.S. residents make gifts to relatives abroad and to international charities, and our Government extends foreign aid. All of these types of transactions enter into the exchange market. In fact, because a large pro-

portion of all international trade is financed in dollars, the bulk of exchange market transactions day-in-and-day-out probably results from transfers of financial assets rather than purchases and sales of goods or services. Thus, the exchange rates with respect to other currencies at which the amount of dollars supplied equals demand for dollars are heavily influenced by many factors other than the competitive ability of the United States in world markets.

(2) Shifts in exchange rates have not since 1973 been a particularly effective tool in correcting balance-of-payments disequilibria. The most recent annual report of the IMF made the following observation:

> The contribution of exchange rate movements to the reduction of existing imbalances is found to have been limited, and two main explanations are advanced: (1) Until recently, the need for external adjustment has not been given high priority and the flexibility of exchange rates has been reduced by the use of intervention and other policy measures, such as official and quasi-official borrowing; and (2) the effectiveness of exchange rate changes has often been impaired by the absence of appropriate accompanying domestic policies.

The IMF report went on to observe:

> As a consequence of these offsetting price and exchange rate developments, the pattern of competitiveness among most of the major industrial countries is now very similar to what it was in early 1973. Only two countries, Switzerland and Italy, have exhibited a clear change in their competitive positions as measured by wholesale prices adjusted for exchange rate changes between the first half of 1973 and the first quarter of 1977.

The policies of other governments, the Fund noted, have been a major factor in preventing exchange rates from performing the role in promoting balance-of-payments adjustments that one might have expected on the basis of economic theory.

> One reason why exchange rate movements have not played a greater role in changing relative prices and reducing external imbalances is that exchange rate flexibility has, at times, been reduced because countries decided to sustain large-scale intervention in the foreign exchange market, to encourage foreign borrowing of public and semipublic corporations, and to impose exchange restrictions and capital controls.

(3) The composition of the current U.S. trade deficit limits the utility of dollar depreciation as a tool for curbing the disequilibrium. In 1977 U.S. merchandise exports will total approximately $120 billion, and imports $150 billion. Of the import total, $40 to $45 billion will constitute purchases abroad of petroleum and natural gas. These energy imports are virtually all paid for in dollars, but the price of oil and gas imports is not independent of the exchange value of the dollar. When the dollar has depreciated sharply in previous years, some OPEC countries have called for the pricing of oil in the special drawing right (SDR) issued by the IMF, a composite asset made up of a basket of 16 currencies. In addition, if the dollar were to depreciate sharply,

the OPEC countries might increase the price of oil more than they had otherwise intended in order to maintain their expectations regarding the real value of petroleum. Thus, the benefits that would derive from a significant decline in the exchange value of the dollar in the form of additional exports to and reduced imports from other industrial countries could be offset largely by increased dollar outlays for energy imports.

Harmful Consequences of the Deficit

The increase in the trade deficit has at least three important economic consequences: It exerts a drag on domestic economic growth and has produced a loss of jobs, it threatens to produce instability in exchange markets, and it could easily result in a decline in gross capital inflows and, consequently, a worsening in our terms of trade.

Lost Jobs

Lawrence Krause testified that the rate of economic growth in the United States is being reduced by our trade deficit by at least 0.5 percent. He said, "In current circumstances this is the difference between a stagnant unemployment rate and one that would have continued to decline, albeit quite slowly." Deputy Under Secretary Samuel from the Department of Labor did not cite any specific figure for the number of jobs that do not exist as a consequence of the deterioration in the U.S. trade balance. He did say that from the initiation of the trade adjustment assistance program in April 1975 through September 30, 1977, "Approximately 255,000 workers * * * have been certified as eligible for worker adjustment assistance under the Trade Act of 1974." These workers have been injured by the expansion of imports. To estimate the total number of jobs forgone as a consequence of the adverse swing in the U.S. trade balance, it would be necessary to take into account also jobs in export industries that have been lost.

Exchange Market Instability

The emergence of a large persistent U.S. trade deficit could make foreigners far less willing than they have been to hold dollars and dollar-denominated assets. A huge volume of dollars is normally held by foreigners. The Eurodollar market now exceeds $300 billion. In addition, several hundred billion dollars worth of international trade is financed in dollars, and well over a hundred billion in U.S. bank deposits and short-term Treasury bills and notes are held by foreigners. A modest shift in expectations regarding the future exchange value of the dollar can produce massive reactions in exchange markets. Capital flight from one currency to another could overwhelm the ability of monetary authorities to combat disorder. The result could be serious disruption of international trade and capital flows. For this reason, if the United States is to have a large and persistent trade deficit, it must also have a policy for financing and gradually reducing the deficit that is credible to U.S. residents and foreigners alike.

Worsened Terms of Trade

A large proportion, perhaps the bulk of the excess earnings of oil producing countries have in recent years been invested in the United States in bank deposits, in highly liquid obligations of the U.S. Treasury, and to a lesser extent, in stocks, corporate bonds, and real estate. Also as a consequence of both the decline in the dollar relative to other currencies and of more rapid increases in wage rates abroad than in the United States, foreign investors from other industrial countries have been increasingly purchasing or building manufacturing operations in the United States. Capital inflows of this type, in addition to net earnings from sales of services abroad and earnings from previous investments overseas that together exceeded $45 billion in 1976, have helped sustain the value of the dollar in exchange markets.

Should foreign investors revise their expectations about the outlook for the dollar and the U.S. economy, including prospects for growth and political stability, such that investments here appear much less desirable than in the past, the value of the dollar would tend to fall in exchange markets, and the United States could experience far more difficulty financing imports of oil and other purchases abroad than this country has to date. Such imports could also become much more expensive than they are today. In addition, if supply elasticities in import-competing industries are low and wage earners demand compensation to offset price increases, the inflationary impact of dollar depreciation will permeate the economy.

In short, there is a real cost to the United States and its citizens from a significant decline in the dollar's exchange value; this is one of the main reasons for concern about the large trade deficit. As is noted below, there are also benefits from a decline in the dollar's external value that is produced by market forces as a means of reducing the deficit.

What Should the United States Do About the Trade Deficit?

Because of the potentially serious adverse consequences of its large and most likely persistent trade deficit, the United States should take the following actions to reduce the deficit and to minimize its consequences:

1. Urge other industrial countries with trade or current-account surpluses to stimulate their economies.

By expanding their own domestic economies, industrial countries with trade or current-account surpluses can reduce these surpluses and thus ease the balance-of-payments financing burdens of weak industrial and developing nations. The latter group are struggling to finance a large structural deficit with OPEC, and should have no additional external payments burden imposed upon them by industrial countries.

While not of major assistance to the United States, the attainment of reasonable growth targets by Japan, Germany, the Netherlands, and Switzerland would also marginally reduce this country's trade deficit through both direct purchases of capital goods and stimulation of third markets. Japan and Germany have in the past few months announced stimulus packages to help them attain the respective 6.7-percent and 5-percent growth rate targets that they pledged at the May economic summit meeting in London to achieve this year. Should sluggish growth persist into 1978, additional expansionary measures will be called for from all the leading industrial countries.

2. Urge all major industrial countries to adopt a "clean" floating exchange rate regime and permit rates to adjust promptly in response to market forces.

As the citations above from the 1977 Annual Report of the IMF indicate, intervention in exchange markets by monetary authorities has significantly limited the use of exchange rate adjustments as a tool for promoting balance-of-payments adjustment. The International Monetary Fund should not only use conditions on lending to deficit countries for the purpose of promoting exchange rate adjustment, but also employ the latent authority existing in the scarce currency clause to sanction surplus countries that persistently accumulate reserves in excess of their needs and that block exchange rate appreciation to protect domestic export and import-competing industries. The scarce currency clause has never been used by the Fund; if implemented, it would permit other IMF members to apply discriminatory exchange restrictions against the nation running a persistent balance-of-payments surplus.

Manipulation of exchange rates is no less insidious and no less effective a trade distorting device than tariffs, subsidies, or other nontariff measures. In fact, it can be argued that exchange rate manipulation is more effective than most of these other devices, since rigging exchange rates affects all of a country's trade and other international transactions, while tariffs and most nontariff trade distortions have only item-by-item impacts.

The International Monetary Fund has a responsibility equal to that of the General Agreement on Tariffs and Trade to combat continuously actions by governments that distort trade and other international economic transactions for the benefit of one nation and to the disadvantage of others. As the Fund annual report indicated, official intervention in exchange markets has had a major role in frustrating real economic adjustments that would otherwise have been prompted by exchange rate changes. This intervention by a growing list of leading industrial countries—whether to hold the external value of their currency down or to prevent that value from falling—has often been to promote domestic anti-inflation or employment goals. Such intervention is a growing threat to the efficacy of the IMF, just as the spread of orderly marketing arrangements and other trade distortions outside the framework of the GATT are a threat to the vitality of that institution. Protectionism and beggar-thy-neighbor policies must be resisted regardless of whether the particular vehicle is manipulation of exchange rates or trading rules.

Exchange market intervention by monetary authorities should be only for the purpose of curbing imminent or actual exchange market disruption. It should not be used for the smoothing of short-term exchange rate fluctuations that do not result from market disruption.

This recommendation is a restatement and a clarification of the long-standing Joint Economic Committee position regarding intervention in exchange markets. A statement to this effect appeared first in an August 1973 report entitled "How Well Are Fluctuating

Exchange Rates Working?"; since then progressively more comprehensive and stronger recommendations have been endorsed by the committee. The above statement extends to all national monetary authorities the substance of our existing recommendations for the benefit of the U.S. President, Treasury, and Federal Reserve System.

The Joint Economic Committee has defined disorderly or disruptive exchange markets as those that have ceased to function normally. For example, out 1976 annual report said:

> Exchange markets may from time to time become disorderly in reaction to abrupt changes in economic conditions or extreme uncertainty. Disorderly markets are characterized by an unusually low volume of transactions and abnormally wide spreads between bid and asked prices for at least some currencies, i.e., there is a heavy supply of some currencies, but virtually no purchasers, while other moneys are in strong demand but only small amounts are offered. When markets are disorderly, exchange rates are likely to fluctuate erratically. The purpose of intervention should be to combat disorder and to facilitate the efficient working of exchange markets.

U.S. monetary authorities should not engage in intervention to peg the value of the dollar, keep its value within any specific predetermined range, or prevent a deterioration in its value that the trend of unimpeded market forces would otherwise produce. Likewise, the U.S. Government should urge the International Monetary Fund to criticize and, if necessary, apply sanctions against any member country engaged in intervention for so-called smoothing purposes that result in a persistent deviation in the actual exchange rate from the market-determined trend.

For example, in a report entitled "Exchange Rate Policy and International Monetary Reform," published jointly in August 1975 by the Subcommittee on International Economics of the Joint Economic Committee and the Subcommittee on International Trade, Investment and Monetary Policy of the House Committee on Banking, Currency and Housing, it was recommended that—

> The U.S. monetary authorities should intervene in exchange markets only to combat or to prevent the emergence of disorderly conditions. Intervention should not attempt to influence the trend of exchange rate movements. Swap borrowings and loans entered into between the Federal Reserve and foreign monetary authorities should normally be liquidated, i.e., the position fully reversed, within 6 months of the initial transaction. Only as a result of the most extraordinary circumstances should swaps remain outstanding for more than a year. U.S. monetary authorities should not accumulate additional reserves in the form of foreign exchange.

Similarly, the International Monetary Fund's Executive Board endorsed on April 29, 1977, a set of principles for surveillance over exchange rate policies that indicates the possible need for a review with a member country in the event of any of the following: (*a*) Persistent large-scale exchange market intervention in one direction; (*b*) excessive official or officially induced foreign borrowing or lending for balance-of-payments purposes; (*c*) the use for balance-of-payments purposes of restrictions or controls over current transactions or capital movements; (*d*) the use of domestic financial policies to encourage or discourage capital flows for balance-of-payments purposes. According to these criteria, several Fund members should be brought before that body for review of their policies and the possible application of sanctions. The IMF can shirk this responsibility only at the cost of undermining its credibility.

Any government involvement in exchange markets that goes beyond the intervention-only-to-combat-disruption guideline enunciated above is likely to become government manipulation of exchange rates to assist the achievement of domestic policy objectives. Continued, if intermittent, one-way intervention for cyclical smoothing purposes is objectively indistinguishable from persistent intervention that alters exchange-rate trends. Therefore, intervention should be reversed in a matter of months and should be undertaken to counter market disruption only.

U.S. monetary authorities should not seek to influence the exchange value of the dollar through exortation, market intervention, or the use of restrictions on trade and capital flows. The exchange rate objectives of the United States should be neutral because, if they are not, other countries also will undoubtedly adopt self-interested policies and chaos can easily ensue. By the same token, the United States must insist that other countries do not take advantage of either our neutral stance toward exchange rates nor our commitment to liberal trade and capital movement policies.

The foregoing discussion noted the costs that may result from dollar depreciation, primarily an increase in import prices and some contribution to a higher rate of domestic inflation. A lower exchange value for the dollar produces benefits as well; it creates additional jobs in export- and import-competing industries. It makes travel in the United States easier for foreigners to afford, it bolsters the revenues of our international airlines, and it encourages the sale of consulting and engineering services abroad. Given a rising stock market, a cheaper dollar encourages foreigners to invest in financial assets. Dollar depreciation and modest wage increases have encouraged foreign direct investors to establish manufacturing operations within the United States. The same factors have staunched the flood of American direct investment abroad and the transfer of jobs across our boundaries. These benefits should not be overlooked, and so long as they result from the workings of economic forces in exchange markets rather than government manipulation, we should feel no embarrassment about enjoying them.

3. Adopt an energy policy that will be effective in halting the growth of oil and natural gas imports.

No current analysis has indicated that the energy legislation before the Congress will halt the growth of petroleum and natural gas imports, much less reduce them. The best the United States can realistically hope for at this time is to stop increasing our proportionate dependence upon imported energy by virtue of growing production of oil and gas in Alaska, on the Continental Shelf, and possibly elsewhere. About 45 percent of U.S. oil consumption is supplied by imports. With luck, this percentage may decline by a point or so in 1978. But even under these circumstances, the absolute amount of energy imports and payments for them will continue to grow as the American economy expands and energy needs increase also. Mr. John Lichtblau, executive director of the Petroleum Industry Research Foundation, testified that his, "studies indicate that an optimistic, but hopefully not unrealistic projection, might be an oil import level of 9.5 million barrels a day by 1985. This would be equivalent to an annual increase of 1.1 percent." The current level of imports is approximately 8.7 million barrels a day. Far tougher policies than have been adopted to date are necessary to achieve even this growth rate target, which is less ambitious than the President's goal of actually reducing imports.

4. Maintain economic growth in the United States while simultaneously combating inflation.

Unless the United States maintains a rate of economic growth high enough to gradually reduce unemployment while simultaneously avoiding a burst of inflation, this nation will become a far less attractive place for foreigners to invest that it has been recently. Without foreign investment, as indicated above, the value of the dollar could plummet and imports of energy and all other products could become significantly more expensive. Since the trade deficit is likely to persist at a high level into the foreseeable future, continued foreign investment to help finance the deficit is desirable.

Under no circumstances, however, should monetary policy be tightened to raise interests rates for the purpose of attracting capital inflows from abroad. Monetary policy should be directed solely to the achievement of domestic economic goals and should not be used to promote capital inflows.

A higher, rather than a lower, rate of growth in the United States will, of course, produce some increase in demand for imports, petroleum and consumers' goods in particular. However, limiting domestic growth to curb the trade deficit would be an extremely costly and possibly self-defeating strategy, partly because the remaining deficit might well be more difficult to finance. In addition, since imports are only about 7.5 percent of GNP, a major reduction in domestic employment would be required to produce a noticeable drop in imports. Purchases of consumers' goods abroad, as well as materials and intermediate inputs for manufacturers, help curb inflation and keep the U.S. economy competitive. Therefore, the reaction to the trade deficit should not be to slow our own growth or to curb nonenergy imports.

5. Pursue trade liberalization.

Should foreign governments succumb to domestic pressures for protection from foreign competition, the United States would lose opportunities for expanding its exports as rates of economic growth abroad respond to stimulation. By contrast, if the United States itself should yield to domestic appeals for protection, other nations would certainly follow our lead and foreign markets would begin to be closed off. Thus, a defensive, protectionist response to the trade deficit would be counterproductive.

6. Search for and pursue appropriate techniques for bolstering the competitiveness of U.S. industry.

Government, business, and labor in the United States should investigate ways to bolster this country's international competitive position that do not depend upon subsidies, tax gimmicks, or other artificial techniques. Part of the explanation for Germany's strong competitive ability is the willingness of workers to curb wage increases and cooperate with management in making production and marketing decisions. Similarly, the intensity with which Japanese workers and managers pursue efforts to increase productivity have made a major contribution to that country's export success. Government should facilitate the full publication of publicly financed research efforts to assure that the fruits of these investigations are exploited commercially as soon as, and completely, as possible. More efforts of this type and a willingness to learn from our chief competitors are needed.

The consequences of the prospective $30 billion trade deficit in 1977, and a most likely even larger one next year, can be minimized by the adoption of appropriate policies. The initiatives indicated above should be undertaken immediately.

O