TARIFF AND TRADE PROPOSALS

HEARINGS

BEFORE THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

NINETY-FIRST CONGRESS

SECOND SESSION

ON

TARIFF AND TRADE PROPOSALS

MAY 11, 12, 13, 14, 18, 19, 20, 21, 22,
JUNE 1, 2, 3, 4, 5, 8, 9, 10, 11, 12, 15,
16, 17, AND 25, 1970

Part 10 of 16 Parts

(June 5 and 8, 1970)

Printed for the use of the Committee on Ways and Means

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TARIFF AND TRADE PROPOSALS

FRIDAY, JUNE 5, 1970

House of Representatives,
Committee on Ways and Means,
Washington, D.C.

The committee met at 10 a.m., pursuant to notice, in the committee room, Longworth House Office Building, Hon. James A. Burke presiding.

Mr. Burke. The committee will be in order.

Our colleague from Ohio, the Honorable William H. Harsha, will be our first witness. Please come forward; we are glad to have you with us today.

STATEMENT OF HON. WILLIAM H. HARSHA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. Harsha. Mr. Chairman, it gives me great pleasure to appear before you today in support of legislation which is vitally important to the people of my district. This legislation, H.R. 16937, which provides for orderly trade in textile articles and in articles of leather footwear, is urgently needed and long overdue.

As you know, H.R. 16937, of which I am produd to be a cosponsor, would regulate imports of textiles and shoes either by law or through international negotiations. This regulation has become increasingly necessary over the years as the American markets have been deluged by imports of these vital commodities. The problem has existed for quite some time, but in recent years it has grown in a dramatic and devastating way. Since 1960 shoe imports have increased by 600 percent. The entire growth of 80 million pairs in the U.S. market in the past 2 years has gone to foreign shoe manufacturers, with imports increasing nearly 30 percent from 1967 to 1968. Similarly, textile imports from all sources rose from 2.9 billion square yards in 1967 to 3.6 billion square yards in 1968. Furthermore, the advances in textile technology and marketing practices have made the long-term cotton textile arrangement, entered into by the United States and other nations in 1961, inadequate to prevent the disruption of markets for textile articles in the United States.

The effects of increasing imports are already being felt in segments of our economy which can least afford it. The vast majority of shoe manufacturing takes place in small towns, where the factories are the major sources of income and employment. These small- and medium-sized manufacturers form the backbone of the industry and, unfortunately, it is these same manufacturers who first feel the damage which has been done by the unrestrained growth of imports.

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This is true in my district in Ohio, which is particularly affected by rising shoe imports. It is indeed frightening then to realize that unless some form of control is instituted, foreign manufacturers will probably absorb nearly 50 percent of our American footwear market by 1975. Furthermore, there is every indication that foreign shoe imports could conceivably equal as much as 90 percent of U.S. production in just 5 short years.

In the face of this overwhelming evidence of damage to our markets and to our economy, the Congress must take action. We must protect American workers and the shoe and textile industries from the existing perilous import situation. The legislation which the committee is considering provides an effective and flexible method of dealing with the import problem and I urge the committee to report it favorably for House action, as soon as possible.

In a nation such as ours where the economy is based on free enterprise, there is also an important need for fair enterprise. We do not seek to close our markets, but it is essential that we make every effort to protect our own economy through fair competition policies. By implementing shoe and textile import quotas in such a manner we can maintain a healthy economic stability at home while encouraging other nations to share in our markets without overrunning them.

Again, Mr. Chairman, I urge immediate, favorable action on H.R. 16937. Thank you for your serious consideration of my views.

Mr. BURKE. Are there any questions? There are none. Thank you for coming today.

Our next witness today is our colleague from New York, the Honorable Mario Biaggi. It is a pleasure to have you with us, and we look forward to hearing your statement.

STATEMENT OF HON. MARIO BIAGGI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. BIAGGI. I am pleased to be able to testify before the members of the Ways and Means Committee today in behalf of legislation I have introduced which would provide an orderly trade in textile and leather footwear articles through the promulgation of import quotas.

The economic condition of the United States, and particularly the critical state of some of our industries, compels me to speak forcefully in support of orderly imports for the purpose of safeguarding the national welfare and the jobs of those who are intimately related to the production and sale of domestic textile and leather footwear articles.

The inability of our Government to reach equitable trade agreements with Asian nations over textile imports and the discriminatory border tax practices utilized against American exports to European nations have convinced me that viable import quotas on textiles and leather footwear goods are now necessary.

By providing for the orderly trade of these articles through fair quotas, domestic industries, firms, and groups of workers presently threatened with serious injury from increased imports would be able to obtain speedy relief from an intolerable situation.

Mr. Chairman, I would like to quote some statistics which indicate

just how sustained the assault on the American textile industry is. These figures more or less are applicable to the same trends in leather footwear items.

In March of this year, over 350 million square yards equivalent of textiles were imported into this country—a 20-percent increase over the quantity imported the previous month. Within this total, manmade fiber textiles accumulated an increase of 27 percent over the imports of last February.

In the first 3 months of this year, over a billion square yards equivalent of textiles, or about 5 yards for every man, woman, and child in this Nation, entered the United States. Compared to last year's first quarter, the current quarter's imports were one-third higher, even though shipments last year were partly slowed down by a dock strike. Compared with our exports in the same field of only $173 million, the value of these imports for the past 3 months was $419 million, or an import balance of $246 million.

Mr. Chairman, it is clear that we cannot continue to lose American jobs to foreign industries and aggravate an already battered balance of payments situation because the United States is the only remaining free market for textiles and leather footwear goods among the major nations of the world.

Reappraisal of our present policies in relation to world trade must reflect present world market realities. It is time that we initiated a forward-looking spirit aimed at orderly marketing and an equitable distribution of our growing markets. The United States simply cannot absorb the entire potential output that all the producing countries can deliver in total disregard of our ability to absorb such imports.

Foreign nations have adequately protected their markets from American-produced goods in these fields. It would be extremely unwise and unfair to continue to allow significant job losses in this country which are directly attributed to low-priced imports. Our international trade position continues to deteriorate and the proclaimed aggressiveness of our administration has apparently yielded no results of consequence. American business and labor simply must be given more assistance to deal with the adverse consequences of the rising flood of imported products. No American worker should be allowed to suffer while the American consumer and American distributor reap the questionable rewards of low-priced imports. The job losses presently being experienced by workers in our textile and shoe industries reflect a rate of attrition that is no longer acceptable with the current provisions of our import laws.

My bill would streamline the procedure of making relief available to injured parties. It also envisions assistance forthcoming to industries as well as to firms and to groups of workers.

An adequate protection for those whose livelihood is endangered by import competition is the least that Congress must provide in these threatening times.

Within the scope of this bill the President would have the opportunity to enter into agreements with foreign producers for the specific purpose of avoiding disruption of our markets. Only if such efforts fail would mandated restrictions become effective by means of limiting imports proportionately to a base period and subsequently adjusting

such imports in relation to increases or decreases of our domestic consumption.

This contrasts with the Nixon administration's proposal to provide the President with the authority to impose countermeasures on any Nation which either maintains unjustified restrictions against U.S. exports or subsidizes or provides other export incentives to third market countries to the detriment of U.S. products.

I might point out that the administration has already moved to limit the imports of pianos and sheet glass into this country. It is now the job of Congress to continue this precedent by implementing its responsibility to safeguard the interests of the American people in textiles and leather footwear articles.

Mr. Chairman we have been the sole standard-bearers for free trade for too long.

In closing, let me add that I am fully aware that the rights of American consumers must be considered along with the concerns of our industries and our workers. However, the benefits accruing to the American consumers in terms of variety and lower prices for certain goods should not be predicated on the destruction of American industries that induces the spectre of rising unemployment. In the long run, temporary consumer savings on low-priced imports have a detrimental effect on the entire economy.

With this in mind I urge you to endorse the provisions of H.R. 17149 and enact its prompt adoption in order to provide an orderly trade for the growing wave of imports that are deluging the American marketplace.

Thank you, Mr. Chairman and gentlemen of the Ways and Means Committee, for your time and attention today.

Mr. BURKE. If there are no questions, we will proceed with the next witness.

Our next witness is Mr. Carroll P. Sheehan, Massachusetts Department of Commerce and Development.

Is Mr. Sheehan here?

We welcome you to the committee.

I might also say that you have come here very well qualified to testify on this subject.

STATEMENT OF CARROLL P. SHEEHAN, COMMISSIONER, MASSACHUSETTS DEPARTMENT OF COMMERCE AND DEVELOPMENT

Mr. SHEEHAN. Thank you very much, Mr. Chairman.

My name is Carroll P. Sheehan. I am Commissioner of the Massachusetts Department of Commerce and Development.

Mr. Chairman and distinguished members of the Committee on Ways and Means of the House of Representatives, I am here today as a representative of the Commonwealth of Massachusetts to express our views on the legislation presently before this committee; namely, H.R. 16937, sponsored by my Congressman, James A. Burke—and the identical bill—H.R. 16920—filed by your chairman, related to the establishment of quotas on the importation of textiles and shoe leather products from foreign nations.

We, in Massachusetts, perhaps more than any other State in the

Union, have a great stake in free world trade. Our tradition goes back to the days of the clipper ships when the trade routes to India, China, and the Far East were opened up by Massachusetts companies and courageous captains and crews flying the American flag. We have benefited greatly through the free exchange of trade for more than two centuries, but, as all things do, the world is changing. The United States, following World War II, helped friend and foe alike to become politically and economically strong. We have created competitors who, in every sense of the word, both in manufacturing and technological ability, are able to compete with our most sophisticated industries.

Not only has Massachusetts had a long record of free foreign exchange of goods, but it is also the oldest industrial State in the Nation. Each time a new industry is born in foreign markets, it immediately comes in competition with most of our traditional production industries, and at the present time, particularly the shoe and leather industries.

I must state at this time that we in Massachusetts favor an orderly and free exchange of goods with other nations, but I must stress the word "orderly." When we find, for example, that more than 50 domestic shoe manufacturers closed their doors in 1969, and that 15 of these companies were located in Massachusetts, with an estimated loss in employment of 5,000 jobs, particularly among older workers, we must take a new look at the Nation's import picture.

I am sure this distinguished committee, in the last few weeks of hearings, has been told about the meteoric rise of imported shoes from 26½ million pair in 1960 to 175 million pair in 1968. We believe that the 1970 figures will go well over 225 million pair. On the other hand, shoe production of 585 million pair in the United States in 1969 was the lowest year of production in this decade.

Approximately 35 to 40 percent of the cost of a pair of shoes is in labor. The U.S. basic wage average is $2.75 per hour, including fringe benefits, against wages in shoe-exporting countries running from 60 cents to $1.10 per hour, also including fringe benefits. Regardless of the fact that the productivity rates of American labor are considered to be 25 percent higher than the average of foreign competition, the wage differentials are still too great to offset the low-wage factor.

I would like to speak for a minute about the shoe retail industry in the United States. I do not want to generalize on this matter, but it appears that certain national concerns are not only opposing this present legislation to somewhat limit the importation of shoe and leather products but are also, in my opinion, not giving the full advantages of low-cost shoes to the American buying public.

Is it any wonder that many of our shoe manufacturers who employ people in Massachusetts and throughout the Nation are tempted to give up the manufacture of shoes and become importers where they do not have the problems of labor and machinery and where the profit margins are much greater? The shoe and leather industry of the United States needs your encouragement. This can be done through the passage of the legislation before you.

We believe that the shoe and leather and textiles industries are deserving of an equal portion of America's growing domestic market.

We stand ready to share this market with foreign competition, but we believe that the time has come for a realistic view of our foreign trade policies through the passage of this legislation.

In conclusion, may I state here today that the problems of the textile and shoe and leather industries are but a beginning of the problems which will arise in domestic employment due to the present free trade policies. We see signs that the great electronic production business in Massachusetts is being greatly affected and almost all other high labor-intensive industries will face domestic problems in their production units.

The theory is always propounded by those who back unlimited free trade that we should not worry because the only thing necessary for America to do is to remain technologically ahead of the foreign competition and everything will be all right. This is not only an oversimplification of the present problem, but it arrogantly proposes that the other nations of the world will remain technologically backward for the convenience of American industry. Those who make this statement do not understand the technological advances of research and production throughout the free world. We must remain a strong exporting nation with orderly trade relations with the competing nations of the world.

Mr. Chairman, I appreciate the opportunity you and this committee have given me in allowing me to come here today to express my views on this proposed legislation. The people of Massachusetts will always be grateful for the favorable passage of the legislation you have proposed.

Thank you.

Mr. BURKE. Thank you very much, Commissioner Sheehan.

The committee is very appreciative of your testimony this morning and your appearance. I know that the committee will keep in mind what you have said.

Are there any questions?

Mr. Schneebeli.

Mr. SCHNEEBELI. I understand Mr. Sheehan not only comes from the great State of Massachusetts but from the same hometown of our chairman for the day. It would appear to me that this would be an excellent endorsement of your credentials here for making the statement.

Thank you.

Mr. SHEEHAN. Thank you, Congressman.

Mr. BURKE. Mr. Gibbons.

Mr. GIBBONS. Mr. Sheehan, I never did know Mr. Burke very well until I got on this committee with him. I want to tell you if this bill does not pass, which he has introduced, it won't be because he has not fought for it doggedly but intelligently with a great deal of skill and persistence. I don't know of anybody who does a better job in representing the problems of his constituency than Mr. Burke. I hate to disagree with him; I am not so sure that I disagree with him on it.

I don't want to see American labor exploited by conditions that are not really competitive.

I appreciate the information you have brought here this morning and look forward to working with you and Mr. Burke further on this matter.

Mr. SHEEHAN. Thank you, Congressman.

Mr. BURKE. Are there any further questions?

The committee thanks you very much.

Mr. SHEEHAN. Thank you.

Mr. BURKE. Our next witness is Mr. Peter Blake, the acting director of the division of economic development, New Jersey Department of Labor and Industry.

You may identify yourself and proceed. You are recognized.

STATEMENT OF PETER BLAKE, ACTING DIRECTOR, DIVISION OF ECONOMIC DEVELOPMENT, NEW JERSEY DEPARTMENT OF LABOR AND INDUSTRY, ON BEHALF OF NEW JERSEY ECONOMIC DEVELOPMENT COUNCIL

Mr. BLAKE. Mr. Chairman, my name is Peter Blake. I am acting director of the division of economic development, New Jersey Department of Labor and Industry. I am making this statement on behalf of the New Jersey Economic Development Council in support of H.R. 16920.

NEW JERSEY ECONOMIC DEVELOPMENT COUNCIL

The New Jersey Economic Development Council was created by the State legislature to, "recommend programs and policies for the stimulation of employment opportunities within the State, and for the promotion, expansion and development of markets, both domestic and international, for New Jersey products," among other functions. The development council's 11 members, appointed by the Governor, represent a broad socioeconomic range of interest, including that of industry, finance, labor, and higher education.

The council, drawing on the extensive economic development experience of its membership—for names and affiliations see exhibit 1—and data from special studies conducted by the division of economic development—for summary tables see exhibits II through VI—has concluded that legislation providing trade controls on the importation of textiles and leather footwear, specifically H.R. 16920—and the duplicate bills of New Jersey's congressional delegation—is vitally important to the economy of New Jersey and the Nation. The council on May 14, 1970, accordingly adopted a resolution urging the passage of H.R. 16920 and authorized the director of the division of economic development, who also serves as executive director of the council, to submit to the House Ways and Means Committee the facts relating to the present impact of unrestricted textile and leather products imports on New Jersey's industries.

THE NEW JERSEY ECONOMY

New Jersey, the most urban State in the Nation, is foreign trade oriented. The State shares the Nation's two largest seaports, the Port of New York and the Delaware River ports, with its respective neighbors, New York City and Philadelphia. The economic impact generated through the combined international operations of these two ports are major components of the New Jersey economy.

New Jersey is actively encouraging a more favorable balance of trade by promoting exports and reverse foreign investment. Two-way trade expansion, however, must not create any severe disruption of vital domestic manufacturing and/or trade markets. There is no net gain for the national economy if such a disruption is not prevented; not to mention the severe hardships inflicted upon both management and labor.

New Jersey has a highly urbanized, historically expansive, mature industrial economy. The State has been able to sustain an expanding employment base and the tax revenues from industry required to support an increasing population. It is essential that this growth continue. In 1968, manufacturing accounted for 42.7 percent of the State's total employment structure—all sources of employment, excluding Government. The manufacturing sector must remain paramount in creating new income for the economy by adding value through the production of new goods, and providing more jobs, payrolls, and tax revenues, for the needs of our expanding population. It is estimated that New Jersey will add by 1980 1½ million people to its present population of 7½ million.

THE TEXTILE AND LEATHER INDUSTRIES

Apparel and other finished textile products as of September 1969 employed 78,700 people and textile milling supplied another 30,900 jobs. Combined, these represent one-eighth of New Jersey's total industrial employment. The leather and leather products trade employs an additional 10,900 people. Apparel and milling in September of 1969 constituted 2,780 manufacturing units and provided an annual payroll of approximately $138 million. A total of 153 leather manufacturers provided an additional annual payroll of approximately $15 million.

We estimate that value added by manufacture for these industries in New Jersey for 1969 should be about 15 percent above the last reported annual manufacturing survey by the U.S. Department of Commerce conducted in 1966. For that year, according to the Department of Commerce, the apparel industry ranked eighth among New Jersey's industries, contributing $543 million in value added; textile milling ranked 13th, with $276 million value added. New Jersey ranked third in the Nation for value added in the apparel industry at that time. Also significantly, New Jersey's ranking was first in the Nation in value added for chemicals. This industry, chemicals, is a major supplier to the textiles and leather manufacturing sector.

The proportion of textile milling and apparel employment to the total employment structure in New Jersey has not changed relatively in the last 10 years—the time period 1959 to 1968 was used for this comparison because complete 1969 data is not available as of this date. Textile milling was 4 percent in 1959 and remained 4 percent in 1968; apparel dropped from 10 percent to 9 percent during this period; leather increased from 2 percent to 3 percent. Within these industries for the same period there was also a decline in total employment of 2,300 in milling textiles; 600 in apparel; and a slight increase of 200 in leather. The operating manufacturing firms were reduced by the following units: milling, 22; apparel, 239; and leather, 21.

IMPACT OF IMPORTS ON THESE INDUSTRIES

This reduction of firms and jobs is a clear loss in the State's economy. There is a further significant loss in the failure of these important segments of the industrial structure to follow the growth curve characteristic of other industries in the rise of New Jersey manufacturing employment. This lack of growth reflects unhealthy stagnation in these industries. The average gain in employment for all manufacturing for the period 1959 to 1968 was 12 percent.

Two specific examples illustrate the devastating experience of New Jersey manufacturing firms consulted in the trade classifications under discussion. These examples describe a direct cause-and-effect relationship between import trends and the loss of domestic markets and profits.

CASE HISTORIES

Case No. 1

The Evans Tanning Co. of Camden, N.J., has been in business since 1900 and is a well-known leather manufacturer. The company is a producer of kid used principally for the manufacture of footwear. The company has consistently had average gross receipts of between $5 to $6 million. They have employed between 350 to 550 persons annually, with an annual payroll of $1.5 million. The company was a main supplier for New England shoe manufacturers. Now, however, this market has disappeared. For this company, competition of finished kid shoe products mainly from Italy and Spain has reduced employment down to 130 jobs. With foreign competition taking its orders, according to its chief officer, the company sees no prospect of staying in business. The city of Camden, the State's fifth largest city, has severe minority labor and other social problems. The Evans Co. payrolls have been comprised of between 20 to 30 percent black and Puerto Rican employees.

Case No. 2

The Butler Knitting Mill in Butler, N.J., is the last survivor of four knitting mills in northern metropolitan New Jersey operated by the present owners. The company produces jacquard men and women's knitwear, and has a $1.5 million capital investment in knitting machines capable of producing full-fashion outer garments.

The mill, not operating because of stiff foreign competition for nearly 6 months, has recently started operations again. The chief officer claims that he has just spent over $2 million in the last 5 years, "just trying to stay in business." His employment has dropped from a usual 100 to a present 45 persons level. Furthermore, he is operating at only 17 percent of capacity. With a full operation, his payroll is over $500,000 annually, but it now under $50,000. This company has a tradition of a fine quality, fashion-style product. According to the chief officer, they can no longer compete in the domestic market with imports from the Far East, particularly Taiwan and Hong Kong, without orderly trade protection.

CONCLUSIONS

New Jersey's textile milling, apparel, and leather products industries represent extensive investment, a broad base of skilled and semi-

skilled employment, widely marketable products—all of the ingredients essential in New Jersey's economic structure. A decline of these ingredients, viewed from both statistical and social projections, may seriously handicap New Jersey's economic development.

As one finisher manufacturer described the vulnerable condition of the trade group, "all will go down like falling dominoes if there is not action by the Congress." He further stated that within 6 months to perhaps 36 months this subgroup may all be out of business in New Jersey. These losses will not be "giants" of the trades, most of which have already relocated elsewhere, but the smaller manufacturers who contribute both to the well-being of the economy and the community.

The regional location of much of this manufacture and the labor characteristics of those regions compound the grounds for concern. These manufactures are heavily concentrated in New Jersey's most populous counties—Hudson, Essex, Union, Passaic, and Bergen—an area which has been described as the Nation's fourth largest metropolitan complex—after New York City, Chicago, and Los Angeles. These trades are potential employers of considerable numbers of entering unskilled and semiskilled labor, critically needed in the State's urban centers. The threatened decline and disappearance of these jobs seriously handicaps other State and Federal efforts to assist New Jersey's urban rehabilitation and economic development.

Obviously, to compete successfully, New Jersey exporters are looking for elimination of artificial barriers to international trade and control of inflation which renders our products less competitive abroad.

Mr. Chairman, thank you and the committee for this opportunity to make a statement in support of an orderly trade program.

Mr. BURKE. That concludes your statement?

Mr. BLAKE. Yes.

Mr. BURKE. You have exhibits attached to your statement. Without objection, those will be included with your testimony.

Mr. BLAKE. Yes, sir.

(The exhibits referred to follow:)

EXHIBIT I

STATE OF NEW JERSEY: GOVERNOR'S ECONOMIC DEVELOPMENT COUNCIL, JUNE 2, 1970

Mr. Paul L. Troast (Chairman), Chairman of the Board, Mahony-Troast Construction Co., 790 Bloomfield Avenue, Clifton, New Jersey 07012, (201) 777-0200.

Dr. Mason W. Gross, President, Rutgers—The State University, New Brunswick, New Jersey 08903, (201) 247-1766.

Mr. Lloyd F. Christianson, 99 Rumson Road, Rumson, New Jersey 07760, (201) 842-2873.

Mr. Paul J. Ritter, R. D. #1, Sewall Road, Bridgeton, New Jersey 08302, (609) 451-7307.

Mr. Donald C. Luce, Public Service Electric & Gas Co., 80 Park Place, Newark, New Jersey 07101, (201) 622-7000.

Mr. G. Mathis Sleeper, Director, Burlington County Dept. of Economic Development, County Office Building, Mount Holly, New Jersey 08060, (609) 267-3300.
Mr. F. Raymond Peterson, First National Bank of Passaic County, 515 Union Boulevard, Totowa, New Jersey 07512, (201) 684-8000.
Mr. Vincent P. Murphy, 416 Washington Avenue, Spring Lake, New Jersey 07762.
Mr. Philip B. Hofmann, Chairman of the Board, Johnson & Johnson, 501 George Street, New Brunswick, New Jersey 08903, (201) 524-6037.
Mr. Frederick H. Groel, First National State Bank of New Jersey, 810 Broad Street, Newark, New Jersey 07102, (201) 643-4000.
Mr. Donald A. Baldyga, Controller, Chase Manhattan Bank, 1 Chase Manhattan Plaza, New York, New York 10015, (212) 552-4715.

EXHIBIT II

NEW JERSEY EMPLOYMENT STRUCTURE, BY SUBGROUP, AND PERCENT OF CHANGE

SIC code	Major industrial group	1959 Number of employees	1959 Percent of total: Grouping	1959 Percent of total: Subgrouping	1968 Number of employees	Percent of change 1959-68	1968 Percent of total: Grouping	1968 Percent of total: Subgrouping
	Total	1,610,372	100.0		2,054,629		100.0	
	Agricultural services	2,648	.2		4,333		.2	
	Mining	3,303	.2		2,773		.1	
	Contract construction	79,848	5.0		95,900		4.7	
	Manufacturing	782,080	48.6	100.0	876,033	+12.0	42.7	100.0
19	Ordnance and accessories	(1)			(1)			
20	Food and kindred products	57,256		7.3	56,945	-.6		6.5
21	Tobacco manufactures	1,733		.2	(1)			
22	Textile mill products	31,545		4.0	29,463	-6.6		3.4
23	Apparel and other textile products	79,923		10.2	78,172	-2.2		8.9
24	Lumber and wood products	4,871		.6	4,912	+.8		.6
25	Furniture and fixtures	9,362		1.2	8,604	-8.1		1.0
26	Paper and allied products	27,167		3.5	32,534	+19.8		3.7
27	Printing and publishing	30,547		3.9	37,950	+24.2		4.3
28	Chemicals and allied products	77,016		9.9	97,858	+27.1		11.2
29	Petroleum and coal products	9,905		1.3	6,610	-33.3		.8
30	Rubber and plastics products (not elsewhere classified)	22,367		2.9	32,312	+44.5		3.7
31	Leather and leather products	11,140		1.4	12,167	+9.2		1.4
32	Stone, clay, and glass products	30,009		3.9	31,503	-21.8		3.6
33	Primary metal industries	40,399		5.2	33,605	-16.9		3.8
34	Fabricated metal products	53,816		6.9	61,992	+15.2		7.1
35	Machinery, except electrical	54,802		7.0	74,388	+35.3		8.5
36	Electrical equipment and supplies	114,945		14.7	127,864	+11.2		14.6
37	Transportation equipment	53,252		6.8	32,474	-39.1		3.7
38	Instruments and related products	26,970		3.5	19,500	-27.7		2.2
39	Miscellaneous manufacturing industries	24,373		3.1	24,805	+1.8		2.8
	Transportation and public utilities	115,178	7.2		142,573		7.0	
	Wholesale trade	100,257	6.2		144,167		7.0	
	Retail trade	245,583	15.3		349,725		17.0	
	Finance, insurance, and real estate	83,990	5.2		110,309		5.4	
	Services	190,225	11.8		317,587		15.5	

Note: Columns will not add to totals because of disclosure factor. Likewise subgrouping will not add.

Source: County Business Patterns. Compiled by Office of Business Economics, Division of Planning and Research, Department of Labor and Industry.

EXHIBIT III

NEW JERSEY—MAJOR INDUSTRY GROUPS

TABLE 1A.—STATE: 1968 AND 1967

[Excludes railroad employees and self-employed persons. "D" denotes figures withheld to avoid disclosure of operations of individual reporting units]

SIC code	Major industry group	1968 Number of employees, mid-March pay period	1968 Taxable payrolls, January-March ($1,000)	1968 Total reporting units	1967 Number of employees, mid-March pay period	1967 Taxable payrolls, January-March ($1,000)	1967 Total reporting units
	Total	2,054,629	3,259,544	126,381	2,008,742	3,015,594	126,70
------	Agricultural services, forestry, fisheries	4,333	4,918	983	3,743	4,106	849
07	Agriculture services and hunting	3,689	3,922	876	3,216	3,316	755
09	Fisheries	533	760	97	(D)	(D)	90
------	Mining	2,773	4,922	123	2,848	5,121	125
10	Metal mining	281	462	4	320	519	4
13	Oil and gas extraction	306	451	10	(D)	(D)	11
14	Nonmetallic minerals, except fuels	1,940	3,402	102	1,867	3,129	101
------	Administrative and auxiliary	246	601	7	343	769	8
------	Contract construction	95,900	185,782	12,071	92,199	171,423	12,082
15	General building contractors	25,032	48,220	3,140	24,410	42,564	3,097
16	Heavy construction contractors	18,449	39,940	949	13,212	27,587	850
17	Special trade contractors	51,830	95,931	7,964	53,670	98,849	8,114
------	Administrative and auxiliary	589	1,691	18	907	2,423	21
------	Manufacturing	876,033	1,605,027	14,122	882,070	1,515,790	14,078
19	Ordnance and accessories	(D)	(D)	9	1,554	2,066	6
20	Food and kindred products	56,945	100,264	876	57,409	94,322	909
21	Tobacco manufactures	(D)	(D)	3	803	845	5
22	Textile mill products	29,463	47,155	571	27,656	41.713	549
23	Apparel and other textile products	78,172	87,619	2,079	77,982	81,902	2,130
24	Lumber and wood products	4,912	7,061	290	5,035	6,748	292
25	Furniture and fixtures	8,604	12,696	321	10,152	14,029	339
26	Paper and allied products	32,534	57,458	382	31,958	54,692	382
27	Printing and publishing	37,950	65,651	1,284	39,211	61,709	1,290
28	Chemicals and allied products	97,858	207,228	968	97,753	197,805	977
29	Petroleum and coal products	6,610	14,716	79	6,906	14,261	88
30	Rubber and plastics products, N.E.C.	32,312	53,340	502	31,900	48,263	478
31	Leather and leather products	12,167	15,632	171	12,212	14,715	177
32	Stone, Clay, and glass products	31,503	58,446	536	35,808	58,591	548
33	Primary metal industries	33,605	61,860	350	38,276	68,706	340
34	Fabricated metal products	61,992	112,249	1,417	62,367	106,961	1,445
35	Machinery, except electrical	74,388	144,977	1,900	73,834	135,270	1,860
36	Electrical equipment and supplies	127,864	246,363	831	133,530	238,483	820
37	Transportation equipment	32,474	68,734	222	35,082	67,259	222
38	Instruments and related products	19,500	36,084	258	19,694	35,218	254
39	Miscellaneous manufacturing industries	24,805	33,799	610	24,890	32,901	637
------	Administrative and auxiliary	69,037	168,846	460	58,880	140,688	327
------	Transportation and other public utilities	142,573	261,394	4,704	140,852	244,882	4,743
41	Local and interurban passenger transit	16,973	23,028	851	16,521	21,081	848
42	Trucking and warehousing	49,201	91,794	2,876	49,895	86,719	2,931
44	Water transportation	9,962	16,410	176	9,722	14,715	178
45	Transportation by air	5,693	14,099	73	5,261	12,789	65
46	Pipeline Transportation	134	312	10	118	274	11
47	Transportation services	3,056	4,548	309	2,936	3,816	312
48	Communication	32,194	55,101	123	30,763	51,430	113
49	Electric, gas and sanitary service	23,775	52,404	266	22,987	48,150	265
------	Administrative and auxiliary	1,558	3,698	20	2,649	5,908	20

EXHIBIT III

NEW JERSEY—MAJOR INDUSTRY GROUPS

TABLE 1A.—STATE: 1968 AND 1967

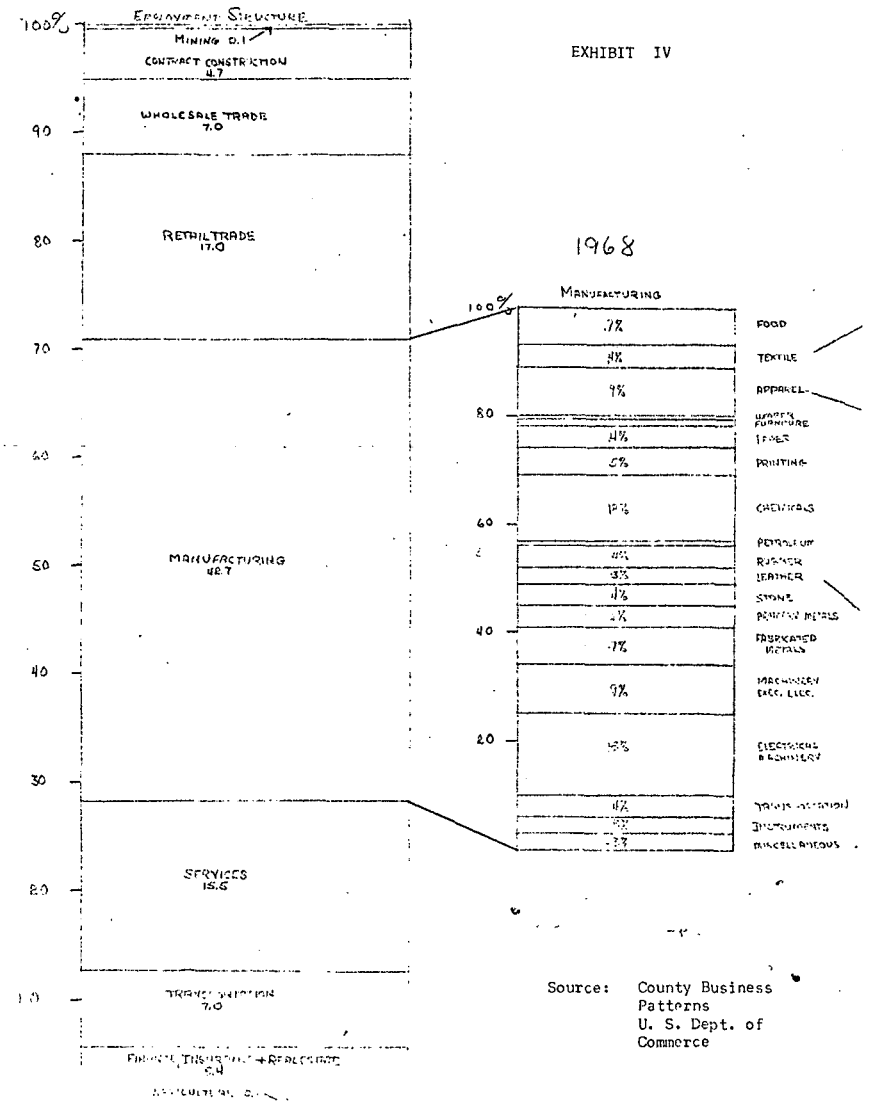
[Excludes railroad employees and self-employed persons. "D" denotes figures withheld to avoid disclosure of operations of individual reporting units]

SIC code	Major industry group	1968 Number of employees, mid-March pay period	1968 Taxable payrolls, January-March ($1,000)	1968 Total reporting units	1967 Number of employees, mid-March pay period	1967 Taxable payrolls, January-March ($1,000)	1967 Total reporting units
	Wholesale trade	144,167	279,523	9,926	136,993	253,721	9,686
------	Administrative and auxiliary	11,522	22,763	133	9,245	18,413	108
------	Retail trade	349,725	371,189	36,073	33,399	332,312	36,851
52	Building materials and farm equipment	10,060	13,639	1,594	10,319	13,566	1,689
53	General merchandise	72,414	68,260	2,186	66,912	56,917	1,684
54	Food stores	61,167	64,387	4,438	59,535	59,474	4,724
55	Automotive dealers and service stations	41,558	59,579	6,170	39,314	53,475	6,219
56	Apparel and accessory stores	26,589	25,795	3,565	25,349	23,116	3,596
57	Furniture and home furnishings stores	14,748	21,409	2,259	14,257	19,516	2,277
58	Eating and drinking places	71,077	52,346	8,516	69,458	48,990	9,134
59	Miscellaneous retail stores	38,414	43,446	7,233	37,901	40,582	7,425
------	Administrative and auxiliary	13,698	22,328	111	10,294	16,641	102
------	Finance, insurance, and real estate	110,309	169,244	11,526	105,413	152,637	11,496
60	Banking	27,766	39,569	279	27,232	36,201	282
61	Credit agencies other than banks	9,028	12,758	1,192	8,948	11,840	1,214
62	Security, commodity brokers and services	2,982	8,272	216	2,237	5,428	209
63	Insurance carriers	37,579	67,594	635	36,248	62,534	620
64	Insurance agents, brokers, and service	7,880	12,155	1,983	7,835	11,306	1,972
65	Real estate	21,534	23,212	6,404	19,617	20,437	6,395
66	Combined real estate, insurance, etc	2,225	3,057	668	2,151	2,826	673
67	Holding and other investment companies	(D)	(D)	146	(D)	(D)	129
------	Administrative and auxiliary	(D)	(D)	3	(D)	(D)	2
------	Services	317,587	363,114	33,988	297,089	318,216	33,321
70	Hotels and other lodging places	16,148	12,798	1,029	15,592	11,384	1,094
72	Personal services	38,265	37,356	7,412	37,245	34,793	7,408
73	Miscellaneous business services	55,260	69,307	3,152	50,404	58,265	2,965
75	Auto repair, services and garages	12,563	16,906	2,430	11,718	14,353	2,275
76	Miscellaneous repair services	7,177	11,336	1,361	7,070	10,502	1,355
78	Motion pictures	3,193	2,661	203	3,000	2,469	201
79	Amusement and recreation						
79	services, nec	10,486	9,939	1,165	11,166	9,368	1,230
80	Medical and other health services	85,862	88,411	7,760	78,334	72,777	7,483
81	Legal services	9,192	11,487	3,055	8,799	10,438	3,027
82	Educational services	24,867	33,113	1,019	22,763	28,867	965
84	Museums, botanical, zoological gardens	227	213	13	206	187	13
86	Nonprofit membership organizations	33,372	29,502	3,385	29,610	25,617	3,322
89	Miscellaneous services	17,133	31,782	1,935	17,753	32,330	1,923
------	Administrative and auxiliary	3,842	8,298	69	3,429	6,866	56
------	Unclassified establishments	11,229	14,431	2,866	14,136	(D)	3,476

Source: County Business Patterns 1968, U.S. Department of Commerce.

BY ____ DATE ____ SUBJECT Distribution of Employment SHEET NO. 2 OF ____
CHKD. BY ____ DATE ____ SOURCE County Business Patterns JOB NO. ____
1968 Employment Distribution

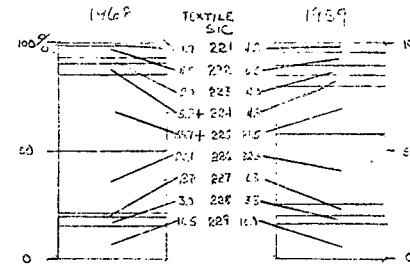
EXHIBIT IV



Source: County Business Patterns
U. S. Dept. of Commerce

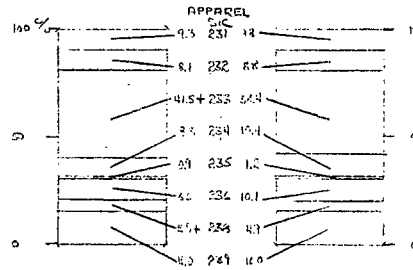
SIC #22 TEXTILE MILL PRODUCTS

221 Weaving Mills, Cotton
222 Weaving Mills, Synthetics
223 Weaving, Finishing Mills, Wool
224 Narrow Fabric Mills
225 Knitting Mills
226 Textile Finishing, Except Wool
227 Floor Covering Mills
228 Yarn & Thread Mills
229 Miscellaneous Textile Goods



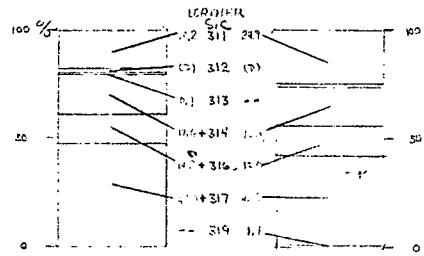
SIC #23 APPAREL & RELATED PROD.

231 Mens' & Boys' Suits & Coats
232 Mens' & Boys' Furnishing
233 Women's & Misses' Outerwear
234 Women's Undergarments
235 Hats' Caps' & Millinery
236 Children's Outerwear
238 Miscellaneous Apparel & Access.
239 Fabricated Textiles, N.E.C.

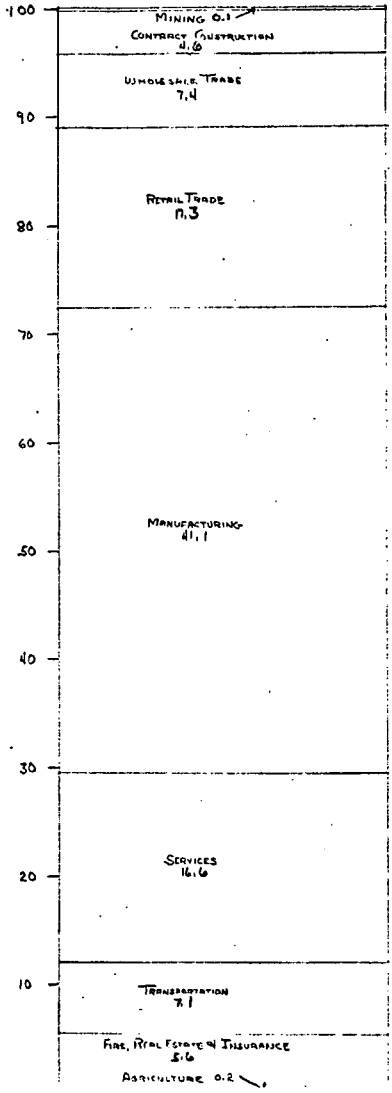


SIC #31 LEATHER & LEATHER PROD.

311 Leather Tanning & Finishing
312 Industrial Leather Belting
314 Footwear, Except Rubber
316 Luggage
317 Purses and Small Leather Goods
319 Leather Goods, N.E.C.
313 Footwear Cut Stock



SUBJECT: PERCENTAGES OF EMPLOYEES
SOURCE: COUNTY BUSINESS PATTERNS



SUBJECT [illegible]

[illegible] COUNTY [illegible]

1959 EMPLOYMENT BREAKDOWN

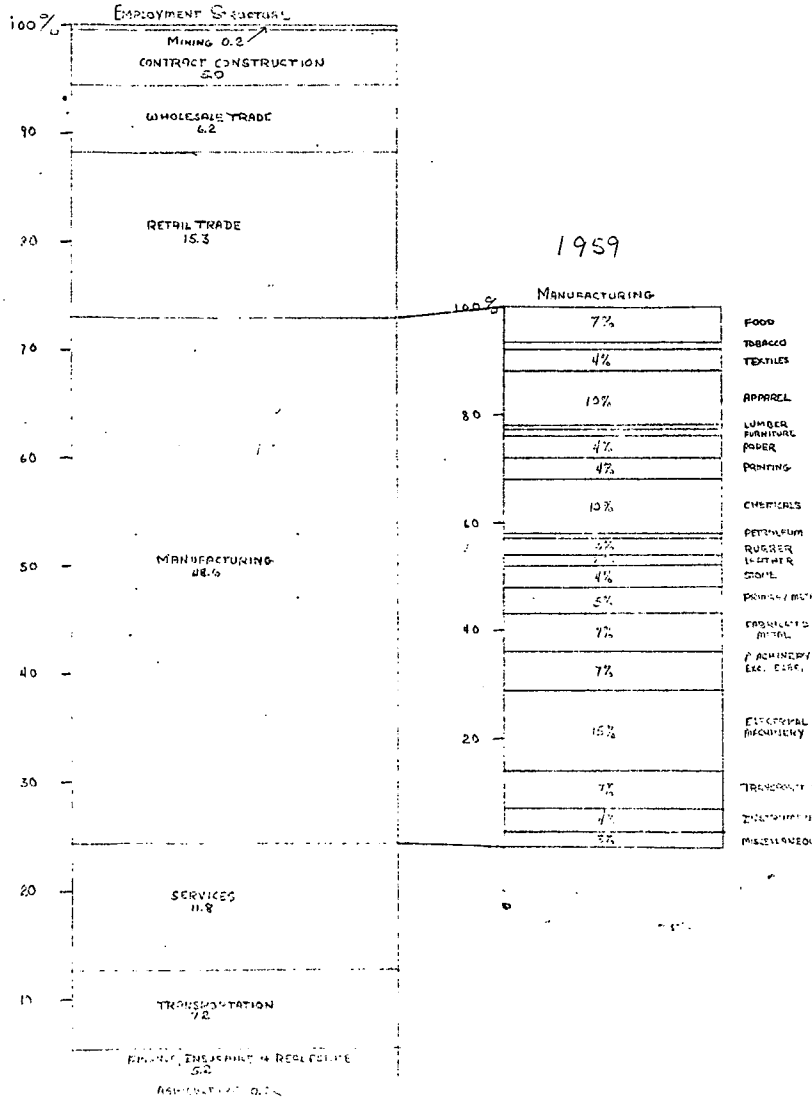


EXHIBIT V.—NUMBER OF NEW JERSEY MANUFACTURING FIRMS SIC CATEGORIES 22, 23, AND 31

Product categories	September 1959	September 1969	Changeover period
SIC NO.:			
22 Textile mill products	669	647	−22
23 Apparel and related products	2,372	2,133	−239
31 Leather and leather products	174	153	−21

Source: Office of Business Economics, Division of Planning and Research, Department of Labor and Industry.

EXHIBIT VI.—1966 NEW JERSEY PRODUCTS RANKING, VALUE ADDED BY MANUFACTURE

[Dollar amount in thousands]

Product category	New Jersey	Ranking within State	Ranking within United States	Percent of United States
Food and kindred products	$1,106,223	3	7	4.4
Tobacco products	(1)			
Textile mill products	276,045	13	9	3.4
Apparel and related products	542,538	8	3	5.9
Furniture and fixtures	96,470	17	12	2.4
Paper and allied products	449,753	11	9	4.8
Printing and publishing	473,336	10	7	3.6
Chemicals and allied products	2,799,336	1	1	12.3
Petroleum and coal products	248,258	16	6	5.2
Rubber and plastics products, not elsewhere classified	344,590	12	7	5.5
Leather and leather products	85,984	18	9	3.5
Stone, clay, and glass products	475,205	9	6	5.6
Primary metal industries	604,617	7	10	2.9
Fabricated metal products	828,827	5	7	5.2
Machinery, except electrical	974,011	4	10	3.6
Electrical machinery	1,671,922	2	6	7.1
Transportation equipment	670,102	6	13	2.3
Instruments and related products	267,082	15	6	4.6
Miscellaneous manufacturing	271,702	14	6	6.2
Lumber and wood products	42,451	19	27	.9

[1] Withheld to avoid disclosing figures for individual companies.

Source: 1966 Annual Survey of Manufacturing; compiled by Office of Business Economics, Division of Planning & Research, Department of Labor & Industry.

Mr. BURKE. Are there any questions?

There being no questions, the committee thanks you for your statement.

Mr. BLAKE. Thank you very much.

Mr. BURKE. Our next witness is Mr. Bernard Kessler, president, Mass Retailing Institute.

We welcome you to the committee.

We also know you have a distinguished former Governor of Massachusetts, Endicott Peabody, with you.

You may identify yourself and your associates and proceed with your testimony.

STATEMENT OF BERNARD KESSLER, PRESIDENT, MASS RETAILING INSTITUTE; ACCOMPANIED BY HON. ENDICOTT PEABODY AND JOHN ARCHER, COUNSEL

Mr. PEABODY. Thank you.

Attorney John Archer of our law firm, Mr. Chairman, also accompanies me as counsel to Mr. Kessler and the Mass Retailing Institute.

Mr. KESSLER. Mr. Chairman, members of the committee, I am Bernard Kessler, president of the Unishops, Inc. I am president of the Mass Retailing Institute.

Quickly, I would just like to tell you that our industry believes in competition at its fullest and my own company, Unishops, started in business 13 years ago doing approximately $500,000 in sales and making no profit and today under our free competitive system we will finish this calendar year doing $200 million and making a profit after taxes of over $10 million, and we employ close to 3,000 people.

The Mass Retailing Institute (MRI) represents over 3,500 retail discount stores, employing over 800,000 people, and contributing approximately $24 billion per year to our economy. We are located in every State of the Union.

While consumerism is a popular term today, it is not new to our members. For the past 10 years, when the large discount stores began to appear in great numbers across the country, we have been primarily concerned with providing quality goods at the lowest market price. We have attracted a clientele from all economic sections of the community, but we are proudest of the fact that we can offer the essentials in material goods to those people whose purchasing capacity is most restricted. To us, "consumerism" is not merely a slogan; to us, it is the prime factor of our economic life.

First, our industry is for H.R. 14870 and our industry is against H.R. 16920. We feel that if we impose quotas on goods we will give those countries the right to arbitrarily retailate against our exports. We hate to think what would happen if all countries retailated against the United States at once.

We also feel that this new quota bill only looks at area problems and not at national problems. Our industry, the discount industry, has for the first time really given the American consumer real competitive pricing. Competition is what we believe in and the American worker, we feel, is entitled to it.

Gentlemen, please remember that the discount industry with its 1969 sales of $24 billion is the second largest industry in all of retailing. Only the food business outranks us in total sales, while traditional department stores rank third, doing some $16 to $17 billion a year.

When the American consumer spends $24 billion in our stores, there must be a good reason and they also have 800,000 Americans to serve them.

We feel that our industry has brought down the prices of every single thing that is generally sold in this country. Because of the discount industry, the great A. & P. food chain is now in food discounting, using their new A Mark Division.

Because of the discount industry, Acme is now in discount food.

Because of our industry with competitive pricing, Food Fair on a national scale is now in food discounting, bringing lower prices to the American consumer.

I would sincerely like to ask each and every one of you on this committee to ask your wives, your children, and your friends if they have ever paid less than the list price for a tube of Colgate toothpaste before our industry came into being.

Once our industry came into being we forced others across the United States to follow suit in the American tradition of competition.

Ask your own families about Panasonic. Ask them about the prices on stereo, tape recorders, cameras, and so on. They will tell you they never had it so good and they never had it so cheap.

Ask your families about Sony and what it has meant to them.

We in our industry say and we believe in the old proverb, "Let us all try to build a better mousetrap." We say free imports will make America wake up and get back to work. We say that a free import system will get fat, rich executives off the golf courses and back to work where they belong. We say let the crybabies stop crying and see what is happening in the United States today.

Only yesterday I spoke with one of my executives who told me he had ordered steel for approximately 1 million square feet of building. He was told that the next delivery for steel would be in approximately 16 weeks. That would bring us some time in October.

Only 3 weeks ago, MRI held its annual convention here in Washington, and a number of our members were able to attend the opening days of these hearings. They came back to the convention extremely concerned as to the impact that some of the pending legislation, especially H.R. 16920 and related bills, would have upon their business and the whole mass of retailing.

As a result of discussion on the convention floor, MRI unanimously passed a resolution, the body of which I would like to place in the record. In essence, it says that we oppose all legislation which would impose quotas or tariffs upon imported goods, that we support basic trade expansion legislation, and that we support assistance to those who suffer economic hardship because of trade expansion policies.

Ralph Nader, the outstanding exponent of consumerism, addressed our convention on May 10. We completely agree with his statement, and I am sure many of you on this committee do so, as well. He told us:

> It is quite clear and lessons in history are clear that import quotas are going to invite retaliation, and they are going to put a lot of workers in this country out of business by virtue of retaliation.

We are concerned with this potential loss of jobs. What we advocate is the minimum of job loss throughout the affected industries. For, as Mr. Nader also stated:

> This, of course, is not to neglect the very real problems of workers who are going to lose their jobs because their companies are no longer competitive in world markets . . . something has to be done about these workers in terms of retraining, job opportunities, unemployment compensation, or adjustment assistance and the like. But the basic issue is, do we contribute to an escalating mutually restrictive trade policy in this world, or do we go the pathway of free trade which I think is one economic policy that has proven itself again and again over the Jeremiahs and the worries of those who doubt the policies.

We in the Mass Retailing Institute are concerned with the impact that increased prices resulting from import quotas will have upon our business through its impact on our customers. Mr. Chairman, we have noted with great interest the recent important hearings which this committee has held on social security and family assistance. We, too, are concerned with the welfare of our senior citizens and to providing the basic economic necessities for all our citizens. It is to these people, those with severely limited resources, that our member organizations uniquely appeal. It is to these people that the imposition of even one extra dollar to the purchasing price can mean the difference between a new shirt or a new pair of shoes for a child.

Quite frankly, it is inconceivable to me that the same committee which proposes to raise the standard of living of the aged and economically deprived would destroy all benefits thereby gained, by the imposition of these proposed import quotas. As Ambassador Gardner Ackley has pointed out before this committee, with import quotas on footwear and textiles we can expect a rise of from 15 to 40 percent in retail prices on all the lowest priced items.

Mr. Chairman, we are not economists. We are just businessmen who, if I may say so, have been successful in providing a market for all Americans. We know that an increase in our prices would reduce our ability to sell to those in the lower economic brackets and we sincerely ask your help in preventing this.

I want to thank you gentlemen for listening to my statement.

I will try to answer any questions you may care to ask me.

Thank you.

Mr. BURKE. Does that complete all of your testimony?

Mr. KESSLER. Yes, sir.

Mr. BURKE. Are there any questions?

Mr. Gibbons?

Mr. GIBBONS. I am glad to hear you give that little fiery statement about getting in off the golf course and going to work because I think that is a problem in this country. No aspersions toward golf courses; I would like to have the opportunity to get out there, myself.

I would like to bring the following to your attention:

In an issue of Footwear News which is about a year old, and I have not had a chance to check out its authenticity, it states that the 1968 return on invested capital for all the U.S. manufacturing operations, according to the Securities and Exchange Commission, was 12.1 percent return on capital.

Fortune magazine, in its 500 largest industrials, showed that these 500 largest had an 11.7 percent return.

But, by contrast, publicly owned footwear manufacturers in 1968 had a return of 15.9 and footwear suppliers had a return of 12.4 percent. I know that 1968 apparently was a good year for the footwear manufacturers but it seems to me that there has been a great deal of screaming and hollering when there has been a great lack of factual information as to how poorly these people are doing.

I have asked them to put in the record some specifics on the details of their operations. I assume they are going to do it. Do you think they are doing as poorly as they say they are doing?

Mr. KESSLER. Congressman Gibbons, I really am not that close to the

shoe industry although our company recently bought a retailer of family shoes. I can assure you that if you will look at the net dollar after tax profit on many companies in the United States in the shoe industry and certainly in shoe retailing, many of them approach 4-, 5-, and 6-percent net profit after tax.

As far as return on investment capital is concerned, when you say that the manufacturers are somewhat concerned about a return on invested equity of some 15 percent and others come in with 12 percent, I would wonder why they would be concerned. I think a return of 15 percent on beginning equity is quite good in this economy with the tax rate as it is.

I know my own company comes in with an after-tax number of 35 percent on invested capital every year. We have done this for some 10 or 11 straight years.

So, I say for those companies who feel they are not doing quite well, I feel it is only a reflection of the executives who run these particular companies. I still say, as I said in my talk, that if most of these men would get back to work, leave the golf courses, and the hunting lodges, and see what is really doing in this country today, I think they would do much better.

Mr. GIBBONS. As I say, I don't vouch for the authenticity of these figures; they come from Footwear News. I assume that is a trade publication of the footwear industry. It says, "Footwear among top U.S. industries," as the headline. I appreciate your observations.

Mr. BURKE. Are there any further questions?

Mr. Betts.

Mr. BETTS. I wonder if in fairness we could have a list of the return from your industry.

Don't you think that would be fair, Mr. Gibbons?

Mr. GIBBONS. Yes.

Mr. BETTS. Mr. Gibbons has asked for a compilation of returns from the footwear manufacturers.

Would you do the same for your industry.

Don't you think it would be fair if we had everybody do that?

Mr. KESSLER. Yes. As head of our institute, I could get it for you quite easily. I want to make sure exactly what you want.

Do you want the return on invested capital at the end of a fiscal or calendar year?

Mr. BETTS. Whatever Mr. Gibbons asked for the footwear industry, I think it would be fair to get it from the discount industry.

Mr. GIBBONS. I don't object to it but these people are not in here asking us to pass tariff protection for their benefit. They are not asking us to subsidize their industry as the footwear people are.

Mr. BETTS. They are asking for protection from American-made competition.

I think your testimony pointed up that your industry serves a very useful purpose.

Mr. BURKE. You are merely asking for a report on the profits of this group here?

Mr. BETTS. Yes.

Mr. BURKE. If you will provide that, the committee will appreciate it.

The record will be kept open at this place.

(The information requested follows:)

JUNE 19, 1970.

Congressman JACKSON E. BETTS,
House Ways and Means Committee,
U.S. Congress, Washington, D.C.

DEAR CONGRESSMAN BETTS: In the course of the testimony given recently before your committee by Mr. Bernard Kessler, President of this Institute, you requested specific information concerning the discount department store industry's return on investment.

Mr. Kessler asked me, as executive vice president, to obtain the exact figure and transmit it to you at once. The yearly study conducted by Cornell University of all the financial and operating results of the mass retailing industry shows that, for fiscal 1968–69, this industry's net earnings after taxes as a percentage of total assets was 6.45 percent.

The study is called Operating Results of Self-Service Discount Department Stores, for Fiscal 1968–69. The study is prepared and published by Cornell University under the direction of Dr. Earl Brown, Professor of Business Management. It is sponsored by the Mass Retailing Institute.

I hope the above fully answers your question and that it will be possible for you to have it incorporated in the record as part of Mr. Kessler's testimony.

Respectfully yours,

KURT BARNARD,
Executive Vice President.

Mr. BETTS. I want to compliment you because I think that your industry has made a contribution. It is following the good old American custom of competitive private enterprise. I think it also shows that what we have to consider is not black and white; it is gray. We have to weight the problems of the American worker, the American businessman, with what happens when we do have a flood of imports.

My hope is that we can find some way out which will not penalize either; we can sort of strike a happy medium and let you people stay in business and let the American worker and the American businessman keep in business, too.

As I say, you have made a good contribution, and we appreciate it.

Mr. KESSLER. Thank you.

Mr. BURKE. Are there any further questions?

Mr. KESSLER. May I make a statement which I think will be extremely interesting for all committee members?

Our company last year did $95 million retail in men and boys' wear. We are probably the third or fourth largest seller of apparel in this category in the United States.

I can tell you from fact, without a question, that if we didn't import some items, and we only import approximately 15 to 17 percent out of everything that we take in and sell, the shirts today that we sell for $3.57 or $3.77, wihout a doubt, and I tell you factually and truthfully, would have to be sold to the consumers of America for $5.95 and $6.95.

I cannot tell you without a quick calculation, but if we had the time you could see in reality what I am really talking about. This is the kind of thing we are up against.

I think that any quotas, any tariffs, will almost destroy middle America as all of us know it today. If you think you have inflation now and you think you have unemployment now, you start putting quotas and tariffs into being and you will see inflation like you never saw before and you will see unemployment at an inconceivable rate.

That is what we say. You will destroy everything in middle-class America because if ever imports are stopped from coming into this country, you will be hurting almost the largest percentage of American citizens in the country today, and that is a fact.

Mr. BURKE. Thank you for your testimony.

Mr. PEABODY. There was a resolution referred to in the statement.

Mr. BURKE. Yes. Without objection, the resolution will be included in the record.

(The document referred to follows:)

RESOLUTION OF THE MASS RETAILING INSTITUTE: PASSED UNANIMOUSLY—MAY 11, 1970

Whereas, the Members of the Mass Retailing Institute own 3500 stores, employing 800,000 people and doing close to $24 billion a year serving 200 million American Customers.

Whereas, this industry has provided the necessities of life to the American public by selling goods at a discount so that the wage earning dollar has obtained a maximum value; and

Whereas, much of the success has resulted from the opportunity to obtain imported goods, particularly in apparel and footwear; and

Whereas, the present threat of import quotas on apparel and footwear will restrict trade, increase prices, cause unemployment and contribute substantially to inflation: Now, therefore, The Mass Retailing Institute in Convention assembled:

Resolves, That it opposes all legislation which would impose quotas or tariffs on imported goods bringing about a drastic retaliation on our own exports and supports all legislation which would expand trade, bring better prices to the American consumer and strengthen the economy; and further:

Resolves, That other steps be taken to assist those who suffer economic hardship because trade expansion policies through retraining, compensation, and loans where possible.

Mr. BURKE. The committee wishes to thank you.

Personally, I would like to say to former Governor Peabody, we are always happy to see you.

Mr. PEABODY. Thank you.

Mr. KESSLER. Thank you very much, gentlemen.

Mr. BURKE. Our next witness is Dr. Howard S. Piquet, formerly with the Legislative Reference Service of the Library of Congress, who worked with committees and members on foreign trade questions.

Of course, Dr. Piquet, we welcome you because you have a good solid background on this matter and we look forward to your statement.

STATEMENT OF DR. HOWARD S. PIQUET, WASHINGTON, D.C.

Dr. PIQUET. I am one of your former employees.

I have a prepared statement of 14 pages.

I am also giving you gentlemen a copy of a statistical brochure, "Trends in International Trade in the United States." I believe you have that up there, too. It brings together trade statistics in a compact way.

I worked for this committee in 1940, 1943, and 1945 when I was detailed to you by the Tariff Comimssion to assist on then pending trade legislation.

I also was Chief of the Economic Divisions of the Tariff Commission for 6 years and spent 22 years at the Legislative Reference Service of the Library of Congress, working for Members of Congress.

I might say that I retired last year from Government service and

that I am now devoting myself to what I really want to do, which is to write, lecture and testify, on occasion, before various committees.

I appear before you then as an individual expert. I appear for no client. I receive no fee. I am not being paid for being here. I am saying what I say because I believe it is in the interest of the people of the United States.

Mr. BURKE. You are in an unusual position.

Dr. PIQUET. I have worked with Members of Congress too long not to have an appreciation of the problems that you face. Fortunately, from my point of view, I never had to stand election but I have worked almost exclusively for you people who do have to stand election so I am sympathetic with the political problems that you face. If I were in your shoes I would be concerned over the short-sightedness of the electorate on economic matters, because your job is to represent your constituents and at the same time to try to be statesmen and do that which is in the interest of the country as a whole. It is not easy.

In my paper, I have listed seven main points which I do not have time to read in the few minutes allotted to me. I do wish you would read them, however, because I have put them in the form of refutations of the protectionist arguments that you have been hearing.

I speak in terms of the longrun interest of the United States.

All the years that I worked here on Capitol Hill I was so busy helping extinguish brush fires that didn't have the time that I wish I had had to concentrate on the broad national interest. Now I can afford to do that.

I recognize full well you have your problems with the shoe people and the textile people. Neither of the industries is going to go out of business because of import competition. The industries, as a whole, are prosperous. You have just received testimony to that effect. But certain companies are hard pressed—the marginal companies—both the people who own the capital and those who provide the labor.

You need to consider the nature of the remedy. You need to have a constructive approach to their problem. Quotas are not a constructive answer. They disrupt the market. I bring that out in my paper. In economics the whole is seldom equal to the sum of its parts.

If you give the aid in the way of quotas and tariffs to every industry that asks for it, and everybody gets what he wants, you are operating on the principle of the lowest common multiple. The result is that the national interest goes out the window.

I urge that this committee and the Congress of the United States sets its sights high, and instead of concentrating exclusively on the details of what to do now about textiles, shoes and what-not, that you view everything that you do in light of the longrun goal and interest of the United States. The basic question is, what kind of world do we want to live in?

If we define our goal as the ultimate abolition of all artificial trade barriers, we are in key with the principle upon which the United States was founded. Our forefathers had a burning desire for freedom, including the freedom to trade.

Unfortunately, the Congress of the United States, as early as 1816, saw fit to depart from this principle. But, unless we keep that ultimate goal in sight we shall not be able to judge the worthiness of the indi-

vidual measures that are being proposed to extinguish those brush fires to which I referred.

Believe me, gentlemen, if you instruct the Government bureaucracy to decide how many yards of textiles may be imported, or how many shoes may be allowed to enter the country, and so forth, you will be undermining the free enterprise system. I have been in the Government bureaucracy and I have seen it work. This is the way to destroy our system.

Now, if we want a peaceful world based upon free and fair competition—and I emphasize "fair" as much as my protectionist friends do—we must recognize that there are certain prices that we shall have to pay. The first is the price of leadership.

The United States, gentlemen, accounts for 45 percent of the total gross national products of the entire free world and for 40 percent of the increase in those gross national products between 1954 and 1968.

Protectionist spokesmen are inclined to give you the percentages only without the absolutes. If the United States does not assume leadership, no other country will. Let us use the carrot rather than the stick. Let us make it clear to our foreign friends that we are willing to open our markets to them if they will open their markets to us. We have never tried that. We have piddled, and we have made it appear that we have done a lot in the way of liberalizing trade. In actual fact, we have done precious little about the hard core of protectionism.

There are still many tariffs that have not been touched after 35 years of trade agreement negotiations. Some of them are over 50 percent ad valorem. These are the tariff skeletons in the closet that nobody dares touch. These are the sacred cows, so to speak.

We must take the leadership if the kind of world we want to live in is to be based on the principles on which our own Nation was founded.

The second price, is the cost of economic adjustment. This is also of the very nature of the free enterprise system—not to crystallize everything, but to allow the forces of economics to work. This is where the true function of Government becomes clear—not to let individuals be hurt because of the national interest. This means not a casual adjustment assistance program; it means a thorough-going assistance program.

It would go so far as to say that we will give the plants that are being hurt, say in the textile industry, a temporary subsidy, or an adjustment subsidy, or even a liquidation subsidy in some cases. It would be a small price to pay to lubricate the adjustments that have to occur.

I urge that you urge the President of the United States to assume leadership. Only he can do it. He does not represent any congressional districts. He represents the entire country. You, on the other hand, must represent your districts. Only the President can lead the Nation. Instruct him to take the leadership, to propose to the countries of the world, starting with a few of them, such as Great Britain and Canada, that we ratify a free trade treaty that will provide for the mutual reduction and elimination of barriers over the remainder of this century, that is, a 30-year treaty. Keep it open-ended, so that any other country may join. That would show what our objective is.

I know that, when people like myself talk this way to you, you are disposed to say "Here is another academic cloud pusher. He is interested in the long run." I am, because it is more important than the short run. If we don't know which way we want to go, how can we even know whether we are headed in the right direction?

I just want to give you one illustration—in the 2 minutes remaining that I have—which appears as point V in my paper.

You have been given so much misinformation, so many misleading statistics, that you have been led to believe that because the "favorable" trade balance in the United States has all but disappeared, the United States has become weak. I fear that my friend, Oscar Strackbein, has given you such an impression.

The United States is not weak. It has never been stronger than it is today. You must take into account not only the country's foreign trade, but also its investment position, and particularly earnings received on those investments. It is true that our trade balance is now less than a billion dollars on the basis of the official statistics. But our direct foreign investments—American-owned plants abroad—account for $200 billion of American-made products compared with exports of $35 billion from continental United States.

In terms of the balance of payments that slightly less than $1 billion-plus on the trade side is more than matched by the increase in the inflow of earnings on existing investments, to the tune of $6 billion in 1968.

On a net basis, taking the movement of direct capital both ways, together with the earnings on direct investment, both ways, the United States enjoys a positive net balance in 1968 of $3.3 billion. This is precisely what happened to Great Britain in the latter part of the 19th century when her foreign investments became so large that she was able to live on the income derived from them. From 1872 on Great Britain had an "unfavorable" balance of trade. That was a period of great British prosperity because she was living in large part on the earnings from her investments.

It is necessary to look at the whole picture, not just as the trade statistics, or at a few industries. If you will look at the whole picture of the economic position of the United States in the world today I think you will conclude that we can well afford to take the leadership, and can afford a realistic adjustment assistance program to take care of the individuals who are hurt through the payment of temporary subsidies.

There is nothing wrong with subsidies, as such. Subsidies are better than tariffs; subsidies are better than quotas, because the individual American knows how much he is spending out of his tax dollars to support an industry. But, all such subsidies must be temporary so as to allow time for true economic adjustments to take place.

Thank you.

(Dr. Piquet's prepared statement and the brochure referred to follow:)

PREPARED STATEMENT OF HOWARD S. PIQUET

My name is Howard S. Piquet. I appear before you on behalf of no client, but as an American citizen who has had long experience in the field of tariffs and foreign trade policy. For nine years I was a senior staff member of the U.S. Tariff Commission, six of them as Chief of its Economics Division. In 1940, 1943 and 1945 I worked closely with the Ways and Means Committee when I was detailed to it in connection with pending trade legislation.

Subsequently I spent 22 years with the Legislative Reference Service of the Library of Congress as Senior Specialist in International Economics, in which capacity I worked exclusively for committees and members of Congress.

As some of you may know, I am author of a book, prepared with the assistance of the technical staff of the Tariff Commission, entitled "Aid, Trade and the Tariff". It was published over 15 years ago and showed what would probably happen to U.S. imports if all U.S. tariffs and import quotas were removed.

I retired from Government service last year to devote myself to doing things that I could not do while I was a Government employee—writing, and appearing before various committees when it seems to me that what I have to say might influence governmental action. No one is paying me for being here today and I speak only because I believe it to be in the interest of the United States.

I do not favor enactment, in its entirety, of any of the bills that you have under consideration, including the Administration bill. I oppose the bills authorizing import quotas and favor only those provisions of the Administration bill that would facilitate trade liberalization.

I appeal to you to enact legislation that will put the United States clearly on record as having as its ultimate goal the attainment of freedom of international trade from all governmental restrictions.

I have had too much exposure to economic pressures and political realities to advocate that the United States go on a free trade basis forthwith. Even in the absence of political pressures I oppose such action in favor of a gradual approach. This does not mean, however, that we should continue to drift, making pious gestures in the direction of "freer" trade, while capitulating to group pressures at the expense of the public welfare. The United States should be unmistakably clear as to its ultimate objective and have the courage to lead other countries toward that goal.

You probably will say that this is "idealistic". And so it is. In foreign policy the United States always has been on the "side of the angels"—at least in its pronouncements. Our Republic was born in 1776 with a burning desire on the part of our forefathers for religious, political and economic freedom. I, for one, am not ashamed of this ideal. I only wish we could be more constant in our efforts to achieve it.

We didn't wait very long on the economic front before we departed from the ideal. In 1816, following our Second War for Independence, Congress saw fit to place obstacles in the way of Americans who desired to buy foreign-made goods. Between 1816 and 1930 American trade policy was erratic, but its long-term trend was clearly toward increasing interferences with the freedom to import.

Only in 1934 did it reverse direction, and from then until 1955 the Administration tried doggedly to induce other countries to join with it in reducing tariffs. The powers of the President to reduce trade barriers was so restricted, however, that he could not assume the boldness of leadership that was necessary. Between 1958 and 1962 we slipped back slowly toward restrictionism. The Kennedy Round was a last gasp in the attempt to lead.

Since the expiration of the liberalizing features of the Trade Expansion Act of 1962 expired in 1967 the President has been without power to reduce trade barriers. We are now on dead center and there is an accelerating drift toward the proliferation of import quotas and other devices designed to restrict imports. The need is urgent for the United States to resume its leadership. We boast the largest economy in the world and only we can take the initiative in a world-wide drive for trade liberalization.

To economize space and time I am listing *seven* inter-connected premises, followed by a minimum of elaboration. I shall welcome questions from the Committee. The premises are—

I. In this age of vigorous dissent by the Common Man we have no time to lose in switching foreign trade policy from the dead-end siding of group pressures to the main track of the public interest.

II. Since 1955 U.S. trade legislation has been a weak instrument for trade liberalization.

III. Fears that imports will undercut the United States in all lines of production are unfounded.

IV. The argument that imports and the operations of multinational corporations are injurious to American workers is fallacious.

V. The contention that an excess of exports over imports is necessary to correct our persistent balance-of-payments deficits fails to take all pertinent facts into account.

VI. Import quotas are undesirable, not only because they restrict imports, but because of their disruptive effect.
VII. The Administration bill is inadequate.

I. In this age of vigorous dissent by the Common Man we have no time to lose in switching foreign trade policy from the dead-end siding of group pressures to the main track of the public interest

The common denominator of today's Revolution is rebellion against the *status quo* with respect to such human rights as access to clean air and pure water, equal political and economic opportunities for the under-privileged, adequate public education, decent housing, and governmental protection of consumers against price-gouging and inferior quality.

If the common man understood that tariffs, quotas and other shackles on imports prevent him from enjoying to the maximum the fruits of his labor he would certainly add a demand for free trade to the list.

To illustrate: People are denied imported tomatoes in mid-winter while luscious tomatoes are allowed to rot along the roads in Mexico, because the U.S. Government chooses to keep prices high so as to enhance the profits of growers of the hot-house variety in the United States. If the people understood that the reason why they cannot enjoy, at moderate prices, a wide variety of cheese from Italy, France and Switzerland is because their government chooses to tax them for the benefit of producers of substitutes in Wisconsin and Minnesota, and if they realized that the prices they must pay for a long list of other consumer goods, including textiles, shoes and gasoline are higher than they would be if it were not for governmental restriction of imports, they would be as aggressive against interferences with trade as they are against foul air and polluted water.

Tariffs and import quotas thwart the welfare of all the people for the benefit of small groups of producers. Trade barriers are an anachronism in this "Age of the Common Man."

II. Since 1955 U.S. trade legislation has been a weak instrument for trade liberalization

The deepest cuts in U.S. tariffs were made under the Trade Agreements Acts of 1934 and 1945. The average ad valorem equipment of duties collected declined from 47 percent to 12 percent between 1934 and 1955. About one-half of the decline may be attributed to tariff reductions made under the Trade Agreements Program and the rest to rising prices (which have the effect of reducing ad valorem equivalents of duties levied on a specific basis).

Because of the difficulties encountered in negotiating the Kennedy Round of tariff reductions, which culminated in 1967, the public has been led to believe it was the most effective exercise in tariff-cutting of all time and that all that preceded it was of minor importance. The fact is that the reductions were quite moderate. By the time the reductions become fully effective in 1973 the average tariff level of the United States will have been reduced from an average of 12 percent to a little less than 8 percent.

By 1955 most of the excess protection had been wrung out of the tariff. What remained (and still remain) are the tariffs and quotas that really re-represented excess protection in the sense that the rates were higher than needed to restrict imports.

There is a disposition to believe that the United States has given so much more in the way of trade barrier reduction than other countries that we are practically on a free trade basis. This is not so. The EEC has restrictions against our agricultural exports under its system of variable levies, as well as many other restrictions. We in the United States have our full share of restrictions also.

Selectivity in the making of tariff reductions has been so great that even after 33 years of tariff-cutting there are still over 125 tariff items that have not been touched at all. The Kennedy Round itself left over 960 items untouched. The fact that a number of items are still subject to high tariffs (many of them in excess of 25 percent and a number of them over 50 percent) indicates the political muscle of the interests that support their continuance.

For example, the tariff on woolen hosiery ranges as high as 50 percent and that on potato starch over 60 percent. Imports of brandy and rum are dutiable at 50–64 percent, cigarettes at 55 percent, and levels lace of man-made fibers at 36 percent.

The United States also has its share of import quotas. We limit imports of raw cotton and cotton waste, wheat, cheese, butter substitutes, dried milk and peanuts in connection with our agricultural support programs. There is also a Congressionally imposed quota on imports of sugar. In the name of national security we impose quotas on imports of petroleum and we have tariff quotas on a substantial list of products including ground-fish fillets, cattle, and stainless-steel flatware—as well as so-called "voluntary" quotas on imports of cotton textiles.

The simple truth is that much of our tariff-cutting has involved dramatic cuts in super-high tariffs. At no time have we determinedly tried to remove all trade barriers via reciprocal bargaining. Small wonder that one of the members of this Committee says that "present U.S. trade legislation isn't working"!

III. Fears that imports will undercut the United States in all lines of production are unfounded

According to spokesmen for industries that fear import competition one would think that the United States is about to be undercut by foreigners in all lines of production. According to the AFL–CIO, one would think that products made by American labor, which is highly-paid, cannot possibly compete with products made by foreign labor, which is less highly paid.

No one really *likes* competition when he is directly confronted by it. Most people extol competition as the life of trade and as a major reason for the miraculous growth of the American economy—as long as it doesn't affect them directly. When they happen to be the ones who are hit by it, however, they try to make it appear that they are in a "special" position and need to be shielded against imports.

Notwithstanding contrary pronouncements by the Administration, there is nothing about the textile, petroleum or shoe industries that would justify "special treatment" to shield them against import competition. The only sense in which they are "special" cases is that certain political debts have to be paid.

Trade *is* a two-way street and no country can continue to sell without buying. Furthermore, there will be two-way trade as long as there are international price differences, whether exchange rates are flexible or fixed.

Such fears appear ridiculous in view of the vast size of the American economy. Recent official figures show dramatically how the U.S. economy towers above the economies of other countries. The gross national product of the United States accounts for almost 45 percent of the combined gross national products of the entire world (excluding only the Communist countries)—about $830 billion of a total of $1,902 billion.

The *increase* in the GNP of the United States since 1954 accounts for almost 40 percent of the increase in the combined GNP's of the entire free world.

Closest to the United States is the European Economic Community with a GNP of $365 billion, accounting for 19 percent of the world total. The increase in the GNP of the EEC since 1954 accounts for 21 percent of the increase in the combined world GNP's.

Under the circumstances, one wonders which country or group of countries will be the David that will step up to slay the U.S. Goliath.

IV. The argument that imports and the operations of multinational corporations are injurious to American workers is fallacious

It is fallacious because it sets "labor" apart from "people." People do not work for the sake of working, but to enjoy the fruits of their labor. Labor is not a commodity, nor even a factor of production, except from the point of view of its employers. From the point of view of the economy as a whole it is *people*. All who work for wages, salaries or fees are consumers, and most consumers acquire goods via wages, salaries and fees. Workers and consumers are practically synonymous.

There are only two factors of production—people and resources, or environment. The purpose of the economic system is to maximize the production of goods for consumption and to facilitate their equitable distribution. If it were only "jobs" in which we are interested the answer to unemployment would be simple. All we would have to do would be to outlaw the use of bulldozers, power cranes and other labor-saving machinery. No, the purpose of the economic system is to encourage technological innovations which make it possible to produce more consumption goods with less effort. Technological unemployment is a very serious problem, but it will not be solved intelligently by restricting the output of goods. International specialization of production, whether it be American-owned or foreign-

owned capital is one aspect of the phenomenon of technological innovation. Capital gravitates to areas where profits are highest. This is what is meant by the "maximum utilization of resources." Owners of American capital find that they can maximize their gains by producing certain goods abroad rather than at home. The decisions are made, not in terms of physical productivity alone, but in view of all environmental factors, including governmental interference with production and trade.

People, as a whole, will benefit most from production when total output is large. They will suffer from policies that increase the share of one segment at the expense of total production. The way to get more pie for everyone is by producing a larger pie, not by cutting a bigger slice of a given pie for a favored group. Freedom to import, if accompanied by a genuine governmental concern to provide retraining for displaced workers, will benefit everyone.

There are two opposite ways of dealing with the problem of import competition. The *first* is to restrict imports; the *other* is to facilitate their absorption by assisting workers and firms who are displaced by imports. The first interferes with desirable economic change, while the latter would facilitate it and result in expanded production which is in the long-run interest of all of us.

I need not remind members of this Committee that your hearings, over the years, are filled with dire predictions by witnesses as to what will happen if imports are not restricted. Indeed, if every prediction of injury had materialized this country would have become bankrupt long ago. When producers find themselves in a really serious economic difficulty there usually are reasons other than imports that account for their troubles. Even under present conditions, the number of workers and firms who would be adversely affected by imports in the absence of import restrictions would be only a small percentage of the total working force of the country.

The national interest requires that trade be as free as possible. By its very nature competition displaces some firms and workers, whether it be domestic or foreign. It should be the function of government to assist those individuals who are displaced by import competition. We should not overlook the fact that the workers who are displaced, oftener than not, are the unskilled and semi-skilled whose wages are relatively low. Restrictions of competitive imports will only perpetuate their lot. An imaginative adjustment assistance program would train them to earn higher wages in lines of production that are more suitable to the American environment. Isn't this what present-day empasis on higher education is all about—training people to equip themselves for better-paying jobs?

Also, let us not overlook the enormous demand for labor that would materialize if we were really to undertake the task of cleaning up our polluted environment. The demand for the services of people, like the demand for consumption goods, is insatiable.

V. *The contention that an excess of exports over imports is necessary to correct our persistent balance-of-payments deficits fails to take all pertinent facts into account*

Certain ardent protectionists, such as my friend Oscar Strackbein, think that once they have demonstrated that the so-called "favorable" trade balance has disappeared they have proved that the U.S. economy has suddenly become weak and that there is an *ipso facto* case for restricting imports. They are mistaken.

Statistics regarding the international economic position of the United States are clear, although there is some difference of opinion regarding their interpretation. So that you will have the facts regarding the international economic position of the United States before you in convenient form I am submitting copies of a presentation that Dr. Merrill Watson, Dr. Judd Polk, and I prepared some months ago entitled "Trends in International Trade of the United States." That it is objective is attested by the fact that not all three of us who authored it interpret all of the figures in the same way.

To understand the international economic position of the United States it is necessary to take into account export and import statistics *and* the facts regarding the foreign investment position of the United States, including earnings on those investments.

It is evident that the excess of exports over imports has been narrowing until it is now close to, or in, balance. Some are disposed to call this a "deterioration" of the international trade position of the United States. It should not be interpreted, however, as an indicator of the over-all economic position of the country. The strength of the United States economy depends, not only upon its trade, but equally upon its over-all balance-of-payments position with respect to foreign

investments and their yields. To conclude that the United States is economically weak because exports have been increasing less rapidly than imports is to reach a conclusion on the basis of incomplete data.

Although exports and imports are the largest items in the international accounts, the excess of receipts from exports over payments for imports since 1965 has been exceeded by net earnings on U.S. foreign investments. In 1968, when the trade balance sank to less than $1 billion, receipts from private American foreign investments were $6.0 billion.

Direct U.S. foreign investments increased from $11.8 billion in 1950 to $64.0 billion in 1968, while direct foreign investments in the United States increased from $3.4 billion to $10.9 billion. Thus, the increase in *net* direct investment creditor position of the United States increased from $8.4 billion to $53.1 billion. These figures are for private *direct* investments only.

A country can have an excess of imports over exports for a considerable period of time provided other monetary receipts offset the excess. The relationship between foreign investments and merchandise trade was demonstrated in the 19th Century by changes in the trade balance of the United Kingdom. After the Napoleonic Wars the United Kingdom became a heavy investor overseas, particularly in the United States and Latin America. By the early 1870's, when annual returns from existing investments became considerably greater than the annual outflow of new capital, Great Britain's trade balance became "unfavorable". Imports exceeded exports until after World War I. The earnings on foreign investments had the effect of displacing merchandise exports, enabling the United Kingdom to import larger quantities of consumer goods than before and to enjoy a higher level of living than any other country.

With its dwindling trade surplus and its growing returns on foreign investments, it is quite possible that the United States is in a "turn around" period. If these trends continue it can be expected that the time will soon come when it will be considered "normal" for U.S. imports to exceed U.S. exports.

VI. Import quotas are undesirable, not only because they restrict imports, but because of their disruptive effects

Import quotas are politically and economically disruptive. If it is decided to use them to curtail imports of textiles it is almost inevitable that they will be extended to other commodities. This is true whether they are "mandatory" or "voluntary". They lead to political preferment domestically and to retaliation abroad. Retaliation breeds retaliation and the result will be trade warfare and a progressive dwindling of world commerce.

If a quota is global there is discrimination against countries that cannot enter their goods promptly, and to the extent that the quota system provides for quotas on a country-by-country basis equal to imports from each country in a historical base period, it is discriminatory against new firms that cannot qualify. In some cases the inequities have been so great that consideration has been given to the feasibility of auctioning import licenses instead of assigning them on an historical basis.

Quotas can also be discriminatory with respect to certain segments of a home industry. If the product in question is not homogeneous and if certain members of the industry are dependent upon imports in connection with their own manufacturing or processing, quotas often do not assure a steady or an adequate supply of imports.

On the economic side the most important single fact to be kept in mind is that a quota is a quantitative limitation of imports, regardless of the price at which the product is sold. There can be price disruption in the importing country to the extent that the quantity allowed to be imported can be produced abroad at a lower cost than in the United States.

The degree to which the price disruption will be serious depends on the nature of the product. If it is homogeneous and is sold according to physical specifications only (as in the case of tonnage steel) rather than with the use of trade-marks or on the basis of style or other differentiating characteristics, the chances are that it will be sold at, or close to, the U.S. price, thereby yielding quota profits to the foreign producer whose marginal unit cost is lower than that of the American producer. If, on the other hand, the product is not homogeneous, but is subject to variations of style, quality or prestige, or if there is prejudice against it because it is imported, the price disruption is

likely to be serious. With respect to such products as china tableware and stainless-steel table flatware, an absolute quota can result in considerable price disruption because the imported product can be sold at any price between its marginal unit cost in the United States and its marginal unit cost in the exporting country.

Quotas are more rigid than tariffs. They interfere with the price mechanism by severing the connection between domestic prices and world prices. Under a tariff, on the other hand, imports are permitted to enter the country to the extent that the rate is not so high as to prohibit imports. There continues to be a direct relationship between domestic prices and world prices, with the difference between the two approximating the height of the tariff.

Quotas are more difficult to administer than tariffs. Finally, those who seek a quota system must be prepared to tolerate a considerable degree of governmental control. The more complicated the quota system, the more paper work will be required and the larger the staff of the bureaucracy needed to administer it. It is much easier to establish a quota system than to abolish it because the pressures of a bureaucracy tend to be strong and persistent.

VII. The Administration bill is inadequate

The Administration trade bill is weak and indefinite as to the goal of U.S. foreign trade policy. The President, himself, in his message accompanying the bill, stated that the very modest tariff-cutting authority that it contains will not be used for major trade negotiations. It is for housekeeping purposes only, which means that it will be used only in connection with the escape clause when compensatory reductions are called for.

The only really "liberal" provisions in the bill are those that would ease the criteria for determining eligibility for adjustment assistance and the elimination of the American Selling Price System for the valuation of certain imports.

The remaining sections of the bill are restrictionist in outlook. They would extend mandatory Presidential authority to impose special restrictions on imports from any country that "unjustifiably" restricts imports from the United States of non-agricultural products, while retaining the same power with respect to agricultural products—thereby inviting further retaliation by other countries.

The easing of the criteria for the granting of escape clause relief can hardly be called "liberal." By severing the link between increased imports and a trade agreement concession it makes it easier for those seeking to curb imports to secure a finding of serious injury by the Tariff Commission.

The Administration bill faces in opposite directions at the same time. What it should do is to make it easier to secure adjustment assistance than to secure tariff relief through the escape clause—predicated on the assumption that the United States really wants to move in the direction of trade liberalization.

The adjustment assistance provisions in the present law, as well as in the Administration bill before you, are inadequate. They give evidence that neither the Administration nor Congress appreciates government's responsibility to individuals who are injured by the implementation of policies that are necessary in the national interest.

In a few exceptional cases, where adjustment is impossible, the Federal Government could assume the burden of "liquidation indemnities." These should not be confused with continuing operating subsidies, under which financial payments would tend to perpetuate resistance to adjustment. The need is for "adjustment subsidies" which would continue, in decreasing amounts, over a period of (say) 5 to 7 years. They would be the antithesis of operating subsidies for they would facilitate *adjustment* to other lines of activity.

Recommendation

There is urgent need for a clear statement of national objective with respect to international trade policy, accompanied by a national commitment to the ultimate goal of eliminating trade barriers everywhere. One approach would be to start with a "nucleus" of countries, say the United States, Canada, and the United Kingdom—and possibly other members of the European Free Trade Association—who are likeminded. These countries could try to agree upon a program looking toward the mutual elimination of trade barriers over a period of as long as 25 to 35 years. It probably would be necessary for them to negotiate among themselves the few items that would not be included in the plan. All other products would automatically be included in the free trade formula. The

"Nucleus" plan would differ from other free trade areas and common markets in that it would be open-ended. It would provide that other countries, or groups of countries (such as the EEC), could join at any time by undertaking clearly specified obligations, principal among which would be to remove tariffs and other trade barriers as of the date of the formation of the organization.

Such an arrangement would be consistent with the General Agreement on Tariffs and Trade (the GATT) which permits the formation of customs unions or free trade areas, provided that tariffs and other trade restrictions will not, on the whole, be more restrictive than those previously obtaining.

The longer the time allowed to achieve the ultimate goal of free trade, the less necessary will it be to provide for the injection of government funds to facilitate adjustment through the payment of adjustment subsidies. Formation of a Nucleus Free Trade Area would give notice to everyone in the participating countries that in the course of 25 to 35 years producers must learn to stand on their own feet without the support of governments.

Congress should urge the President to take the initiative in proposing such an arrangement to other countries. It could take the form of an international agreement subject to the approval of both Houses of Congress, in its entirety.

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TRENDS IN INTERNATIONAL TRADE OF THE UNITED STATES

(By Dr. Howard S. Piquet and Dr. Merrill A Watson, With a Chapter on International Production by Judd Polk)

PREFACE

This paper is an extensive revision of the study "Trends in International Trade of the United States" which appeared in the Congressional Record June 21, 1968. This edition brings all the tables in that report up to date with 1968 data, and includes estimates of exports and imports of the U.S. for 1969. A supplement has been added showing a breakdown of the U.S. import and export data that are available for 1969. Projections from the excellent Commerce Department "Five Year Outlook for Foreign Trade" issued in March 1969 add to the usefulness of this study. Finally this issue includes a chapter by Judd Polk, on the Internationalization of Production. This valuable contribution appraises the dimensions of trade of the American companies operating abroad and the factors which have encouraged this production.

The statistics are from official sources, as indicated, and, with the exception of those in the supplement, have been supplied by Dr. Howard Piquet, consulting economist, who also prepared the informative chapters of the Kennedy Round and the Balance of Payments. Neither Dr. Piquet nor Mr. Polk are to be held responsible for the remainder of the report, or for any interpretations or conclusions expressed or implied.

This is not a policy paper. There are few today, however, who would disagree with the statement that the long-run aims of U.S. foreign policy should include, among other things, plans for encouraging and developing world trade. The position of the U.S. as a leader in the Western World, with an enormous stake in investment and production abroad calls for such a posture. President Nixon, in sending the Trade Act of 1969 to Congress Nov. 13, 1969 said: "This Administration has reviewed that policy (pursuit of a policy of freer world trade) and we find that its continuation is in our national interest."

There are vital questions of trade policy, however, which call for attention. In his message to Congress announcing that he would appoint a Commission on World Trade to examine the entire range of foreign trade and related policies the President said among other things: "As we look at the changing patterns of world trade, three factors stand out that require us to continue modernizing our own trade policies."

"First, world economic interdependence has become a fact."—"Second, we must recognize that a number of foreign countries now compete fully with the United States in world markets."—"Third, the traditional surplus in the U.S. balance of trade has disappeared."

"Intense international competition, new and growing markets, changes in cost levels, technological developments in both agriculture and industry, and large-scale exports of capital are having profound and continuing effects on international production and trade patterns. We can no longer afford to think of our trade policies in the old, simple terms of liberalism vs. protectionism. Rather, we must learn to treat investment, production, employment and trade as interrelated and interdependent".

"We need a deeper understanding of the ways in which the major sectors of our economy are actually affected by international trade."

It is hoped that this paper will be useful in broadening the understanding of the position of the United States in World trade today.—Merrill A. Watson

THE UNITED STATES IN WORLD TRADE

There has been a great expansion in the trade of the free world in the last decade. World trade, excluding the iron-curtain countries, was something over $106 billion in 1959 and, as Tables 1 and 2 show, was almost $225 billion in 1968.[1] Since World War II particularly, the United States has taken the leadership in encouraging a policy of trade liberalization and cooperation among Western nations to solve international economic problems and raise standards of living.[2] Marshall Plan aid, which made possible a rapid rebuilding of industry in Western European countries and Japan, as well as the swift growth of U.S. investments abroad, were responsible in no small way for the growth of world trade. The role of the United States in the post-war development of world markets is well recognized abroad.[3]

The United States is the world's largest exporting and importing country. With only 6 percent of the world's population and about 7 percent of its land area, as Tables 1 and 2 indicate, it accounted in 1968 for 16.3 percent of the world's exports and 15.8 percent of the world's imports.

The gain for world trade from 1960 to 1968 was considerably greater than the gain for the United States for the same period. The most significant gain in exports was shown by Japan, followed by Canada and industrial Europe. The Japanese percentage increase over the period was over two and a half times that for the world as a whole and more than three times that of the United States. The gain of 111.4 per cent for industrial Europe was far greater than that for the United States and not far from three times that for the United Kingdom which was the smallest on record—even less, in fact, than for the less-developed countries. The increase for Canada for the period was slightly greater than that for industrial Europe. Exports from the less-developed countries increased only 59.9 percent from 1960 to 1967, compared with an increase of approximately 97.7 percent in the exports of the industrial countries.

Another significant fact from Table 1 is the proportion of world exports accounted for by the United States. The U.S. share declined from 18.2 percent in 1960 to 16.3 percent in 1968, while industrial Europe's share rose from 33.2 percent to 37.5 percent during the same period. While the United Kingdom's share declined from 9.3 percent in 1960 to 7.2 percent in 1968, the Japanese share expanded from 3.6 percent to 6.1 percent for the same period. The share of world exports of the industrialized countries as a whole increased from 69.5 percent in 1960 to 73.3 percent in 1968, while the share accounted for by the less-developed countries declined from 23.7 percent to 20.2 percent.

Tables 1 and 2 indicate that the modern industrial complexes of Europe and Japan are finding it possible to capture an increasing share of world trade.

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[1] Available export figures do not equal available import figures. While all countries report exports on an f.o.b. (free-on-board) basis, most of them report imports on a c.i.f. (cost, insurance, freight) basis. The International Monetary Fund, which assembles world trade statistics on a country-by-country basis, adjusts the figures for such countries as the United States and Canada, which report imports on an f.o.b. basis, to include estimated insurance and freight for comparability with the import statistics of other countries. A discussion of this question will be found in this study in the section, "Measurement of Foreign Trade."

[2] John P. Young, *The International Economy,* Ronald Press (1963), Fourth Edition, page 309.

[3] Kenneth Younger, Director, Royal Institute of International Affairs, London, *Future of U.S. Foreign Trade Policy,* Hearings before the Subcommittee on Foreign Economic Policy of the Joint Economic Committee (July 11–20, 1967), Volume 1, page 138.

TABLE 1.—WORLD EXPORTS,[1] 1960–68

[Values in billions]

	1960	1962	1964	1966	1968	Percent change 1960–68
World total	$113.4	$124.7	$152.6	$181.4	$212.6	+$87.5
Industrial countries	78.8	87.5	107.9	130.8	155.8	+97.7
United States	20.6	21.7	26.7	30.4	34.7	+68.4
Industrial Europe[2]	37.7	43.3	53.8	65.9	79.7	+111.4
United Kingdom	10.6	11.4	12.8	14.7	15.3	+44.3
Canada	5.8	6.2	8.1	19.0	13.1	+125.9
Japan	4.1	4.9	6.7	9.8	13.0	+217.1
Less developed countries	26.9	28.7	33.9	38.3	43.0	+59.9
All other	7.7	8.5	10.8	12.3	13.8	+79.2
PERCENTAGE DISTRIBUTION						
World total	100.0	100.0	100.0	100.0	100.0	
Industrial countries	69.5	70.2	70.7	72.1	73.3	
United States	18.2	17.4	17.5	16.8	16.3	
Industrial Europe	33.2	34.7	35.3	36.3	37.5	
United Kingdom	9.3	9.1	8.4	8.1	7.2	
Canada	5.1	5.0	5.3	5.5	6.2	
Japan	3.6	3.9	4.4	5.4	6.1	
Less developed countries	23.7	22.9	22.3	21.2	20.2	
All other	6.8	6.9	7.0	6.7	6.5	

[1] Free on board.
[2] Excluding the United Kingdom.

Source: International Monetary Fund, International Financial Statistics.

Note: Columns may not add up to totals due to rounding.

TABLE 2.—WORLD IMPORTS,[1] 1960–68

[Values in billions]

	1969	1962	1964	1966	1968	Percent change 1960–68
World total	$119.4	$132.5	$160.8	$192.1	$224.5	+88.0
Industrial countries	79.5	90.1	119.6	134.0	160.1	+101.4
United States	16.4	17.8	20.3	27.7	35.5	+116.5
Industrial Europe[2]	39.4	47.3	58.9	69.9	80.2	+103.6
United Kingdom	13.0	13.0	15.9	16.7	19.0	+46.2
Canada	6.2	6.4	7.6	10.2	12.5	+101.6
Japan	4.5	5.6	7.9	9.5	13.0	+188.9
Less-developed countries	29.6	31.1	35.2	39.9	44.8	+51.4
All other	10.3	11.3	15.0	18.2	19.6	+90.3
PERCENTAGE DISTRIBUTION						
World total	100.0	100.0	100.0	100.0	100.0	
Industrial countries	66.6	68.0	68.8	69.8	71.3	
United States	13.7	13.4	12.6	14.4	15.8	
Industrial Europe	33.0	35.7	36.6	36.4	35.7	
United Kingdom	10.9	9.8	9.9	8.7	8.5	
Canada	5.2	4.8	4.7	5.3	5.6	
Japan	3.8	4.2	4.9	4.9	5.8	
Less-developed countries	24.8	23.5	21.9	20.8	20.0	
All other	8.6	8.5	9.3	9.5	8.7	

[1] Cost—insurance—freight.
[2] Excluding the United Kingdom.

Source: International Monetary Fund, International Financial Statistics.

Note: Columns may not add up to totals due to rounding.

FOREIGN TRADE AND THE GROSS NATIONAL PRODUCT

Discussion of the foreign trade of the United States often takes the form of rather broad generalization coupled with some hyperbole. Former Secretary of State Rusk has said: "For 33 years it has been the policy of the United States to lower, on the basis of reciprocity, barriers to international trade. This policy has served our nation well. It has contributed, I believe, especially since the Second World War, to the remarkable rise in our national prosperity and in the standard of living of our people." [4]

Actually, the foreign trade of the United States is small, relative to our gross national product. The percentage of U.S. exports to total GNP has ranged from 3.2 percent in 1934 to 3.9 percent in 1968. During this period it reached a high of 6.8 percent in 1947 as American industry aided the rebuilding of the economics of war-torn countries. Since 1960, it has shown considerable stability, with most years averaging 3.9 percent.

Trade is much more important to some of our trading partners. Some approximate relationships of trade to GNP are as follows: United Kingdom, 13 percent; West Germany, 18 percent; Italy, 13 percent; France, 11 percent; and Japan, 9 percent.[5]

In the light of these data, it is not surprising that Oscar Gass, noted economist, has said: "Yet, such is the ascendancy of British economics over the American mind, that much of what Americans write about international trade reads as if it were counsel addressed to a British Chancellor of the Exchequer." [6]

Table 3, which shows growth of GNP and trade from 1934 through 1968, indicates that while GNP increased from $65 billion in 1934 to $860.7 billion in 1968, or an increase of $795.7 billion, gross exports grew by some $31.7 billion. In the nine years, 1960–1968, inclusive, exports have expanded on the average by $1.5

TABLE 3.—GROSS NATIONAL PRODUCT, MERCHANDISE EXPORTS, AND IMPORTS, UNITED STATES, 1934–68

[Dollar amounts in billions]

Year	GNP	Exports [1]	Imports [2]	Exports and imports as a percentage of GNP	
				Exports	Imports
1934	$65.0	$2.1	$1.7	3.2	2.6
1939	91.1	3.2	2.3	3.5	2.5
1946	210.7	11.7	5.1	5.6	2.4
1947	234.3	16.0	6.0	6.8	2.6
1948	259.4	13.2	7.6	5.1	2.9
1949	258.1	12.1	6.6	4.7	2.6
1950	284.6	10.0	8.9	3.5	3.1
1951	329.0	14.0	11.0	4.3	3.3
1952	347.0	13.2	10.8	3.8	3.1
1953	365.4	12.3	10.9	3.4	3.0
1954	363.1	12.9	10.3	3.6	2.8
1955	397.5	14.3	11.5	3.6	2.9
1956	419.2	17.3	12.8	4.1	3.1
1957	441.1	19.5	13.3	4.4	3.0
1958	447.3	16.4	13.3	3.7	3.0
1959	483.7	16.4	15.6	3.4	3.2
1960	503.7	19.6	15.0	3.9	3.0
1961	520.1	20.2	14.7	3.9	2.8
1962	560.3	21.0	16.4	3.7	2.9
1963	590.5	22.4	17.5	3.8	3.0
1964	632.4	25.7	18.7	4.1	3.0
1965	684.9	26.7	21.4	3.9	3.1
1966	747.6	29.4	25.5	3.9	3.4
1967	789.7	30.9	26.8	3.9	3.4
1968	860.7	33.8	33.1	3.9	3.8
1969 [3]	925.0	36.8	35.7	3.9	3.8

[1] Domestic and foreign merchandise, excluding military. An estimated 25 percent of total U.S. merchandise exports go to American subsidiaries abroad.
[2] General imports.
[3] First 10 months data calculated on an annual basis.

Source: U.S. Department of Commerce and National Income Statistics.

[4] Secretary of State Dean Rusk, "The Price of Protectionism," before the Senate Finance Committee, October 18, 1967.
[5] *U.S. Foreign Trade—A Five-Year Outlook*, U.S. Department of Commerce, Bureau of International Commerce (March 31, 1969), page 11.
[6] Oscar Gass, "Crusade for Trade," The New Republic (March 19, 1962).

billion a year compared with an average expansion of $39.6 billion in GNP. It has been estimated that an increase of one percent in the annual growth rate of the United States would add possibly $50 billion to the gross national product. It would seem, in the light of the past relationship of exports to GNP, that some of the extensive discussion on trade could well be devoted to the necessity for proper fiscal and monetary policy to encourage the growth of the domestic economy.

For the eight year period, 1960–1967, the average annual gain in imports was approximately $1.7 billion a year. In 1968 imports increased by $6.3 billion over the previous year to 3.8 percent of GNP, reflecting a steady growth in this percentage from 1960.

Assuming that the ten months figures for 1969 trade are reasonably representative for the year, the relationship of exports and imports to G. N. P. will be the same as in 1968.

Table 4, showing percentage increases, reveal that comparison of rates of growth can be deceiving. It is possible to reach different conclusions, depending upon the periods that are chosen for observation. Thus, between 1946 and 1968, imports increased more rapidly than exports (549 percent compared with 188.9 percent). During the same interval, the country's gross national product increased 308.5 percent, or at a rate between that of imports and exports.

TABLE 4.—RELATIVE INCREASES, GROSS NATIONAL PRODUCT, EXPORTS AND IMPORTS, UNITED STATES; INDEX NUMBERS, 1946-66 AND 1958-67 [1]

[1946=100]

Year	GNP	Exports	Imports	GNP	Exports	Imports
1946	100.0	100.0	100.0			
1947	111.2	136.8	117.6			
1948	123.1	112.8	149.0			
1949	122.5	103.4	129.4			
1950	135.1	85.5	174.5			
1951	156.1	119.7	215.7			
1952	164.7	112.8	211.8			
1953	173.4	105.1	213.7			
1954	172.3	110.3	202.0			
1955	188.7	122.2	225.5			
1956	199.0	147.9	251.0			
1957	209.3	166.7	260.8			
				1958=100		
1958	212.3	140.2	260.8	100.0	100.0	100.0
1959	229.6	140.2	305.9	108.1	100.0	117.3
1960	239.1	167.5	294.1	112.6	119.5	112.8
1961	246.8	172.6	288.2	116.3	123.2	110.5
1962	265.9	179.5	321.6	125.3	128.0	123.3
1963	280.3	191.5	343.1	132.0	136.6	131.6
1964	300.1	219.7	366.7	141.4	156.7	140.6
1965	325.1	228.2	419.6	153.1	162.8	160.9
1966	354.8	251.3	500.0	167.1	179.3	191.7
1967	374.8	264.1	525.5	176.5	188.4	201.5
1968	408.5	288.9	649.0	192.4	206.1	248.9
1969 [2]	439.4	314.5	700.0	206.3	224.3	268.2

[1] Derived from table 3.
[2] Estimated.

Since 1958 both exports and imports have grown more rapidly than Gross National Product, but the growth of imports has been far greater than the growth of exports.

TRENDS IN DUTIABLE VERSUS NONDUTIABLE IMPORTS

An examination of Table 5 will show that the percentage of total imports entering free of duty has fallen from 61 percent in 1934 to 37 percent in 1968. The dollar volume of duty-free imports increased about 12 times.

The percentage of dutiable imports has increased from 39 percent in 1934 to 63 percent in 1968. The dollar volume of dutiable imports during this period increased approximately 32 times.

In dollar volume, dutiable imports exceeded duty-free imports for the first time in 1956 and have increased over three times since that year.

In 1934 duty-free imports were about one and a half times dutiable imports. Over the years the situation has been reversed, and in 1967 dutiable imports were more than one and a half times duty-free imports.

Duties as a percentage of total imports have declined from 18.4 percent in 1934 to 7.5 percent in 1968. When the percentage of duties is applied to dutiable imports alone, the decline has been from 46.7 percent in 1934 to 12.2 percent in 1968.

So many variables are involved—the growing industrial maturity of countries, changing demand, elasticity of demand for products, fiscal policies and price levels, as well as complicated casual relationships—that it is impossible to reach meaningful conclusions as to the influence of duty cuts on imports of duitable products over this extended period.[7]

TABLE 5.—U.S. IMPORTS, DUTIABLE AND DUTY-FREE, AND DUTIES COLLECTED, 1934–68

[Dollar amounts in millions]

	Imports[1]			Percentage distribution		Calculated duties		
	Total	Dutiable	Duty-free	Dutiable	Free	Total	As percentage of total imports	As percentage of dutiable imports
1934	$1,636	$645	$991	39	61	$301	18.4	46.7
1939	2,276	879	1,397	39	61	328	14.4	37.3
1946	4,825	1,980	2,935	39	61	478	9.9	25.3
1947	5,667	2,212	3,455	39	61	428	7.6	19.3
1948	7,093	2,918	4,175	41	59	405	5.7	13.9
1949	6,591	2,708	3,883	41	59	365	5.5	13.5
1950	8,743	3,976	4,767	45	55	522	6.0	13.1
1951	10,817	4,824	5,993	45	55	591	5.5	12.3
1952	10,748	4,491	6,257	42	58	570	5.3	12.7
1953	10,779	4,859	5,920	45	55	584	5.4	12.0
1954	10,240	4,572	5,668	45	55	529	5.2	11.9
1955	11,337	5,300	6,037	47	53	633	5.6	11.6
1956	12,516	6,281	6,235	50	50	710	5.7	11.3
1957	12,950	6,914	6,036	53	47	746	5.8	10.8
1958	12,740	7,398	5,342	58	42	821	6.4	11.1
1959	14,994	9,170	5,824	61	39	1,052	7.0	11.5
1960	15,014	8,872	6,142	59	41	1,078	7.2	12.2
1961	14,658	8,735	5,923	60	40	1,057	7.2	12.1
1962	16,242	10,026	6,216	62	38	1,220	7.5	12.2
1963	17,001	10,743	7,258	63	37	1,240	7.3	11.5
1964	18,600	11,579	7,021	62	38	1,339	7.2	11.6
1965	21,283	13,849	7,434	65	35	1,643	7.7	11.9
1966	25,367	16,023	9,344	63	37	1,921	7.6	12.0
1967	26,721	16,518	10,203	62	38	2,016	7.5	12.2
1968	32,992	20,702	12,290	63	37	2,338	7.1	11.2

[1] Imports for consumption.

Source: Historical Statistics of the United States and Statistical Abstract of the United States, U.S. Department of Commerce figures for 1968 direct from the Department.

MEASUREMENTS OF FOREIGN TRADE

With growing interest in the U.S. trade position, more attention has been given the measurement and reporting of trade figures. The discussion has revolved around the measurement of imports on an f.o.b (free on board) vs. c.i.f. (cost, insurance and freight) basis and the publication of data on gross exports without supplementary figures on the part that is government financed.[8]

[7] J. W. Culliton, "Foreign Trade Revisited," *Compendium of Papers on Legislative Oversight Review of U.S. Trade Policies,* Committee on Finance, U.S. Senate, Volume 2 (February 7, 1967), page 637.

[8] Senator Russell Long, Chairman, Senate Finance Committee: "The Need for a Reappraisal of U.S. International Policies," before Synthetic Organic Chemical Manufacturers Association, December 7, 1967; Memorandum, Senator Dirksen, Senate Minority Leader, on Need for Investigation and Public Hearings on Administration of Customs, Tariffs and Trade Agreements Legislation (February 15, 1967); *Compendium of Papers on Legislative Oversight Review of U.S. Trade Policy,* Committee on Finance, U.S. Senate (February 7, 1967), Volume 1, pages 59–63; Volume 2, pages 713, 717, 571, 605, 606, 619, 654, 697, 738; *Issues and Objectives of U.S. Foreign Trade Policy* Compendium of Statements submitted to the Subcommittee on Foreign Economic Policy of the Joint Economic Committee (September, 1967), page 133; *The Future of U.S. Foreign Trade Policy,* Hearings before the Subcommittee on Foreign Economic Policy of the Joint Economic Committee (July 11–20, 1967), Volume 1, page 208.

If all trading nations followed the same practice in measuring imports as they do in measuring exports, there would be no debate. Practically all countries in the world value exports f.o.b. or its approximation. In most cases, this is f.o.b. or its approximation. In most cases, this is f.o.b. point of exportation. In the United States it is f.a.s. (free alongside ship); in Canada, it is the point where exports were consigned for shipment.

The argument over whether imports should be measured on an f.o.b. or c.i.f. arises because practice in trading countries is not uniform. With the exception of the United States, Canada, the Union of South Africa, and a few small countries—all of which use f.o.b.—imports are measured on a c.i.f. basis. In developing statistics on world trade the International Monetary Fund converts the import data of f.o.b. countries to a c.i.f. basis. One of the reasons—but not the only one—why nations do this is that when duties are added to import values on a c.i.f. basis before certain levies or border taxes are calculated, more revenue is produced.

Economists generally agree that for logic and consistency both imports and exports of a country should be valued either f.o.b. or c.i.f. J. R. Meade, British economist, points out: "But if it is decided to maintain an international consistency between all the constituent elements in all countries' balances of payments (in the sense that the total of all importing countries' visible imports should equal the total of all exporting countries' visible exports and the total of world invisible imports should equal the total of world invisible exports) . . . Eiether all imports and all exports should be valued c.i.f. or all imports and all exports should be valued f.o.b." He concludes, however: "Since in practice exports are recorded f.o.b. by all countries and imports are also recorded f.o.b. by a large number of countries, it will accord more closely with reality if, in order to achieve international consistency in the argument, we treat all visible exports and imports as f.o.b."[9]

In these comments Meade does not seem to be aware of the fact that, J. P. Young indicates, most countries consider c.i.f. to be the proper basis for valuing imports.[10] Young, in this text, does not comment on the propriety of either method.

Ely and Petruzelli point out that it depends on how the statistics are to be used. If the purpose is to compare the statistics of trading countries, then it would be better to use f.o.b. for both exports and imports. This would permit the cost, insurance and freight to be taken care of separately in the balance-of-payments account. At the same time, they indicate that a c.i.f. valuation would be more useful in comparing imports with domestic trade and that it might be useful to have the data available on both bases.[11]

Those who agree with the economists and with our current policy of recording imports f.o.b. argue that to treat imports on a c.i.f. basis and exports f.o.b. (f.a.s.) is to mix trade and services. The value of imports themselves at port of entry is one thing. The costs of transportation, insurance and labor to get them to the port is another and quite different thing. To add goods and services together is like adding together apples and oranges.

However, those who take issue with the official U.S. policy of measuring imports and argue for measuring imports c.i.f. have the support of the great majority of trading countries. These groups, more interested in trade measurement than in international finance, believe that for trade purposes these conutries measure the value of imports accurately by computing the costs of making the goods available in the importing country and providing more accurate comparisons with domestic merchandise.

From a theoretical standpoint, if ships were to meet in the middle of the ocean and exchange goods, assuming equal shipping costs, then accurate trade comparisons with various countries would be possible. Each trade figure would contain an equal c.i.f. addition. In practice, when Country "A" exports f.o.b. and the United States imports f.o.b., there is no problem of comparison. The value of goods leaving their shores should approximate the value of goods reaching the United States. When the United States exports f.o.b. and Country "A" imports c.i.f., there is a problem of comparability. For example, in 1964 the United States reported exports, f.o.b., of $1.9 billion to Japan; Japan recorded as U.S.

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[9] J. R. Meade. *The Balance of Payments*, Oxford University Press (latest printing, 1966), Volume 1, page 22.

[10] J. P. Young. *The International Economy*, Ronald Press (1963 edition), page 269.

[11] R. G. D. Allen. London School of Economics, and J. E. Ely. Bureau of the Census, U.S. Department of Commerce. *International Trade Statistics*, John Wiley & Sons, New York (1953), Chapter 5, "Valuation," by J. E. Ely and N. M. Petruzelli.

imports, c.i.f., of $2.3 billion. For the same year the United States reported exports, f.o.b., of $1.4 billion to Britain; Britain recorded these as U.S. imports, c.i.f., of $1.7 billion. These calculations assume that errors from the shipments at sea are washed out for each country.[12]

Because most countries use c.i.f. for imports, the International Monetary Fund adjusts import data for the United States, Canada, and a few others to this basis. It is hardly likely that in spite of the economists' views these countries will change their basis of tabulating imports. They will continue to compare exports f.o.b. with imports on a c.i.f. basis. Perhaps they are not particularly concerned with consistency here and believe the gains from added duties are more important. At the same time, it is not likely the United States will go to a c.i.f. basis in measuring imports.

However, as a result of interest in this subject, on February 9, 1966, Senator Russell Long, chairman of the Senate Finance Committee, requested the chairman of the United States Tariff Commission to carry out a Senate resolution calling for an investigation of the methods of valuing imports used by the United States and by the principal trading partners of the United States. The Bureau of the Census, in cooperation with the United States Tariff Commission and the Bureau of Customs, examined a representative sample of U.S. import shipments and found that the value of U.S. general imports on a c.i.f. basis was about 8.3 per cent higher than the f.o.b. value reported in the U.S. import statistics.[13]

If we were to follow the practice of the nations recording imports on a c.i.f. basis, Table 6 will illustrate the extent to which the official import figures increase by the use of this adjustment factor. It will be noted that on a c.i.f. basis the value of imports is increased by $2.760 billion in 1968.

It was pointed out earlier in this section that the c.i.f. measurement of imports would be useful in comparing imports with domestic trade. For a proper comparison of imports with wholesale value of domestic output, approximately 7½ percent should be added for duties to the c.i.f. totals, as well as brokerage and miscellaneous dock charges. This could mean that the wholesale value of imports in 1968 on a comparable basis with domestic wholesale prices might reach at least $40 billion.

TABLE 6.—U.S. GENERAL IMPORTS, F.O.B. VS. C.I.F.

Year	Total general imports (f.o.b.) as reported	Total imports (f.o.b.) plus c.i.f. value (8.3 percent)
1960	$15,073	$16,324
1961	14,761	15,986
1962	16,464	17,831
1963	17,207	18,635
1964	18,749	20,305
1965	21,429	23,208
1966	25,618	27,744
1967	26,889	29,121
1968	33,252	36,012
1969 (estimate)	35.7	38.0

Source: U.S. Department of Commerce, "Highlights of U.S. Export and Import Trade" (FT 990).

As interest in our foreign trade has grown, the question of proper measurement of exports has arisen along with the discussion of import valuation. In a memorandum calling for a review of trade policy, the late Senator Dirksen pointed out the effects of including government-financed merchandise in the official trade figures on exports. The exports on government account take the form primarily of U.S. merchandise under A.I.D. loans and grants and agricultural exports under Public Law 480. Senator Long, chairman of the Senate Finance Committee, has also commented on this point.[14] Some part of these loans

[12] *Compendium of Papers on Legislative Oversight Review of U.S. Trade Policies,* Committee on Finance, U.S. Senate (February 7, 1968), Volume 2, page 717.

[13] *Highlights of U.S. Exports and Import Trade,* U.S. Department of Commerce, December, 1967, page iv.

[14] Senator Everett Dirksen, "The Need for Investigation and Public Hearings by the Senate Finance Committee by Way of Legislative Oversight of the Administration of U.S. Customs, Tariff, and Trade Agreements Legislation," (February 15, 1967), page 2; Senator Russell Long, "The Need for a Reappraisal of U.S. International Economic Policies," before Synthetic Organic Chemical Manufacturers Association, (December 7, 1967), page 4; see also Dr. Roy Reierson, Senior Vice President and Economist, Bankers Trust Company, "The Federal Reserve in 1968—Point of View" (January 8, 1968), page 4; R. G. Wingerter, President, Libby-Owens-Ford Glass Co., *Compendium of Papers on Legislative Oversight Review of U.S. Trade Policies,* Committee on Finance, United States Senate (February 7, 1968), Volume 2, page 606.

may be repaid over the long term or blocked exchange realized, but little information is available on how much and when, or how much repayments may reduce these annual expenditures.

The Department of Commerce has recently adopted the practice of indicating in its monthly release on the trade balance whether or not the "commercial" balance would be in deficit or surplus. The actual amounts of such deficit or surplus are not given.

Table 7 shows the excess of commercial exports over imports on the official f.o.b. basis from 1960 to 1968. It will be noted that while the excess of total exports over total imports declined from $7.0 billion in 1964 to $835 million in 1968, the "commercial" surplus declined from $4.3 billion in 1964 to an estimated $1.9 billion deficit in 1968. It also reveals that in 1967 and 1968 exports of nonagricultural products on government account were substantially larger than government-financed agricultural exports.

The export-import figures used in Table 7 are balance-of-payments figures and the trade balance compares with that in Table 25 on balance-of-payments.

It has also been pointed out that other factors than government-financed exports should enter into any consideration of the competitive aspects of our agricultural trade such as commercial agricultural exports that are produced only because they are subsidized by the government and under these terms are sold at lower prices in international trade.[15]

TABLE 7.—U.S. MERCHANDISE EXPORTS (COMMERCIAL AND ON GOVERNMENT ACCOUNT) AND U.S. MERCHANDISE IMPORTS, 1962–68

[In millions of dollars]

Calendar year	Total exports [1]	Total imports [2]	Excess, exports over imports	Exports on Government account [3]			"Commercial" exports [4]	Excess "commercial" exports over imports
				Total	Agricultural	Other		
1962	20,986	16,464	4,522	2,278	1,480	798	18,742	2,244
1963	22,467	17,207	5,260	2,632	1,522	1,110	19,835	2,628
1964	25,832	18,749	7,083	2,770	1,635	1,135	23,062	4,313
1965	26,751	21,429	5,322	2,601	1,335	1,266	24,150	2,721
1966	29,490	25,618	3,872	2,646	1,353	1,293	26,844	1,226
1967	21,030	26,889	4,141	2,776	1,270	1,506	28,254	1,365
1968	34,087	33,252	835	[5] 2,800	1,182	1,618	31,287	[5] −1,965

[1] Domestic and foreign merchandise, excluding military grant aid.
[2] General imports.
[3] U.S. Government expenditures on U.S. merchandise under AID loans and grants and under Public Law 480.
[4] Total exports less exports on Government account.
[5] Estimated.

Source: Overseas Business Reports of the Department of Commerce and Foreign Agricultural Trade of the United States, of the U.S. Department of Agriculture.

The sharp decline in the favorable balance of "commercial" trade suggests that basic changes are underway in the foreign trade of the United States which may have important implications for future trade policy.

Now that Commerce is making available the c.i.f. adjustment factor so that those interested may calculate imports on this basis, it would seem desirable to include with the reported trade figures supplementary data on government-financed exports as frequently as these can be made available.

UNITED STATES EXPORTS, IMPORTS, AND THE COMPOSITION OF TRADE

U.S. exports have exceeded U.S. imports consistently since 1894. Table 8 will show the gross value of exports, imports, and the merchandise balance since 1950 as officially reported. Both imports and exports of domestic merchandise, unadjusted for price changes, have trebled over the last eighteen years. While it shows the extent to which military grant-aid has entered into exports, it does not reflect the fact that since 1950, if sales are included with aid, over six percent of all U.S. exports have consisted of military material.

[15] Statement by Dr. Harry P. Guenther, Dean, Georgetown University, School of Business Administration, *Compendium of Papers on Legislative Oversight Review of U.S. Trade Policies*, Committee on Finance, United States Senate (February 7, 1968), Volume 2, page 654.

From 1950 to 1964 there was an irregular upward trend in the gross merchandise trade balance. The excess of merchandise exports over merchandise imports increased from $1.1 billion in 1950 to $7 billion in 1964 but receded to $0.835 million in 1968.

Table 9 shows the change in composition of U.S. exports since 1962. In dollar sales all categories have shown growth. The largest gain was in exports of finished manufactures.

TABLE 8.—ANNUAL VALUE OF U.S. EXPORTS, IMPORTS, AND MERCHANDISE BALANCE [1]

[In millions of dollars]

Year	U.S. exports					U.S. imports		Gross merchandise balance [1]
	Domestic and foreign							
	Total	Military grant-aid	Excl. military grant-aid	Domestic merchandise	Foreign merchandise	General	For consumption	
1968	$34,660	$573	$34,087	$34,229	$432	$33,252	$33,129	$835
1967	31,622	592	31,030	31,238	384	26,889	26,810	4,141
1966	30,430	940	29,490	29,994	436	25,618	25,437	3,872
1965	27,530	779	26,751	27,187	343	21,429	21,346	5,322
1964	26,650	818	25,832	26,297	352	18,749	18,665	7,083
1963	23,387	920	22,467	23,102	285	17,207	17,070	5,260
1962	21,713	727	20,986	21,444	269	16,464	16,326	4,522
1961	21,036	810	20,226	20,792	245	14,761	14,705	5,465
1960	20,608	949	19,659	20,408	201	15,073	15,069	4,586
1959	17,653	1,227	16,426	17,470	184	15,690	15,477	736
1958	17,918	1,543	16,375	17,754	165	13,392	13,344	2,983
1957	20,871	1,355	19,516	20,692	180	13,418	13,387	6,098
1956	19,100	1,757	17,343	18,950	150	12,905	12,805	4,438
1955	15,554	1,256	14,298	15,426	128	11,566	11,519	2,732
1954	15,112	2,255	12,857	14,983	129	10,371	10,395	2,486
1953	15,775	3,511	12,264	15,653	122	10,984	10,889	1,280
1952	15,203	1,998	13,205	15,051	152	10,817	10,847	2,388
1951	15,038	1,065	13,973	14,885	153	11,069	10,918	2,904
1950	10,279	[2] 282	9,997	10,146	133	8,954	8,844	1,043

[1] Balance represents exports excluding military grant-aid valued f.a.s. less imports which are valued generally at the market value in the foreign country. Export values include both commercially-financed shipments and shipments under government-financed programs such as AID and Public Law 480.

[2] Includes data from April when shipments under the program began.

Note: The export figures in this table, which are Census figures, are slightly larger than those trade figures in the balance-of-payments table because they include exports of domestically-owned goods out of storage abroad, exports of electrical energy, exports of nonmonetary gold and silver, personal remittances in kind (gift parcels sent through the mail), and transfers, financed under non-military aid programs, of goods to recipient countries from Defense Department stocks located abroad.

Source: Overseas business reports and highlights of U.S. export and import trade, U.S. Department of Commerce.

TABLE 9.—DOMESTIC EXPORTS BY ECONOMIC CLASSES

[Dollar amounts in millions]

	1962	1964	1966	1968	Percentage change 1962-68
ECONOMIC CLASS					
Total (excluding military graint-aid)	$20,717	$25,479	$29,054	$33,656	+62.5
Crude foods	2,010	2,540	3,198	2,307	+14.8
Manufactured foods	1,366	1,687	1,582	1,673	+22.5
Crude materials	2,234	2,896	3,143	3,424	+53.3
(Agricultural)	(1,590)	(2,052)	(2,137)	(2,178)	(+37.0)
Semimanufactures	3,080	4,227	4,368	5,173	+18.0
Finished manufactues	12,027	14,129	16,763	21,078	+75.3
PERCENTAGE DISTRIBUTION					
Total (excluding military grant-aid)	100.0	100.0	100.0	100.0	
Crude foods	9.7	10.0	11.0	6.9	
Manufactured foods	6.8	6.6	5.4	5.0	
Crude materials	10.8	11.4	10.8	10.2	
(Agricultural)	(7.7)	(8.1)	(7.4)	(6.5)	
Semimanufactures	14.9	16.6	15.0	15.4	
Finished manufactures	58.1	55.5	57.7	62.6	

The percentage distribution of these broad categories of exports reveals few significant changes in the composition of trade. The proportion of crude and manufactured foods has fallen from 16.3 percent in 1962 to 11.9 percent in 1968. Exports of semi-manufactures and finished manufactures, together in ratio to total exports, have risen, slightly from 73 percent in 1962 to 78 percent in 1968. It is interesting to note that back in 1953 (not shown in the table) exports of crude and manufactured goods were 10.9 percent of the total and have changed only slightly to 11.9 percent in 1968. Similarly, exports of both semi- and finished manufactures amounted to 78.6 percent in 1953 and were 78 percent in 1968.

Table 10 showing imports by economic classes reveals some significant changes since 1962. Total imports increased 103.7 percent over the 7-year period as compared with a gain of but 62.5 percent for exports. Even more significant is the gain of 93.8 percent in semi-finished manufactures and 18.4 percent in finished manufactures.

The percentage distribution of imports by classes reveals that the share of crude and manufactured foods fell from 21.9 percent in 1962 to 15.6 percent in 1968. Crude materials for manufacture fell from 18.9 percent to 11.9 percent during the same period. While the share of imports of semi-finished manufactures remained about the same, the finished manufactures rose from 36.5 percent in 1962 to 50.9 percent in 1968.

TABLE 10.—IMPORTS BY ECONOMIC CLASSES

[In millions of dollars]

Economic class	1962	1964	1966	1968	Percentage change 1962–1968
Total	$16,326	$18,749	$25,618	$33,252	+103.7
Crude foods	1,776	2,034	2,117	2,294	+29.3
Manufactured foods	1,792	1,819	2,300	2,882	+60.2
Crude materials	3,087	3,474	3,851	3,957	+28.2
Agricultural	(849)	(870)	(885)	(837)	(−1.4)
Semimanufactures	3,714	4,055	5,663	7,198	+93.8
Finished manufactures	5,957	7,366	11,678	16,920	+184.0
PERCENTAGE DISTRIBUTION					
Total	100.0	100.0	100.0	100.0	
Crude foods	10.9	10.8	8.3	6.9	
Manufactured foods	11.0	9.7	9.0	8.7	
Crude materials	18.9	18.5	15.0	11.9	
Agricultural	(5.2)	(4.6)	(3.5)	(2.5)	
Semimanufactures	22.7	21.6	22.1	21.6	
Finished manufactures	36.5	39.3	45.6	50.9	

Note.—Values are based on imports for consumption for 1962 and on general imports for 1964 and following years.

The proportion of semi-finished manufactures has not changed much since 1953, when it was 24.8 percent. Finished manufactures, however, have moved up from 20.4 percent of the total in 1953 to the present 50.9 percent. This illustrates the growing ability of the industrial countries of the world to compete in the American market.

If it is assumed that the "other" in Table 7 is, for the most part, manufactured goods, then it is possible to arrive at an approximation of the total "commercial" sales of manufactured goods. This is shown in Table 11 which points up that U.S. "commercial" exports of finished manufactures and semi-manufactures have increased 72.3 percent from 1960 to 1968, while imports in the same category have increased 176.1 percent. The export surplus or "commercial" manufactures and semi-manufactures has declined from $5.9 billion in 1960 to a little over $1 billion in 1968.

These trends in trade in manufactured goods are not surprising. Spurred by American aid, industrial recovery in Western Europe and Japan has long since been completed. These countries are making an intensive drive for foreign markets. With new facilities, access to American technological improvements and lower labor costs, there is every reason to expect them to continue their export drive.

Trade in agricultural products in practically every major trading nation including the United States is subjected to the political, social, and economic objectives of the country in question. To one degree or another, governments, through price supports, crop controls, import restrictions, and export subsidies frame farm policies directed at self-sufficiency goals and an improvement in farm income which usually lags income in the industrial sector. Practically all major commodities in Europe are covered by one or another of these types of controls.[16]

Table 12 shows the trends in agricultural trade in some detail. Exports of agricultural products in relation to total exports have declined from 23.9 percent of the 1961–1963 average of total domestic exports to 18.2 percent in 1968. Imports of agricultural products have fallen from a total of 24.1 percent of the 1961–1963 average to 15.2 percent for 1968.

To obtain an approximation of commercial sales, adjustments are made for the total shipments under P.L. 480 and A.I.D. It is clear from Table 12 that both total agricultural exports as well as "commercial" exports have been declining since 1966. It will be noted also that exports under special programs as a percentage of the total have declined from 28 percent of the 1960–1964 average to 19 percent in 1968. These trends undoubtedly reflect the increasing competition abroad for the world's agricultural commodity markets as well as the rowing tendency of the customs union countries to protect their own agriculture.

TABLE 11.—EXPORTS OF DOMESTIC COMMERCIAL MANUFACTURES

[Dollar amounts in millions]

Year	Total domestic exports	Exports of semi- and finished manufactures	"Other" or manufactured exports on Government account [1]	Commercial semi- and finished manufactured exports	Percent total commercial semi- and finished manufactured exports of total exports	Imports of semi- and finished manufactures	Excess exports over imports
1960	$20,408	$15,060	$426	$14,634	71.7	$8,733	$5,901
1963	23,102	16,756	1,110	15,646	67.7	10,205	5,441
1965	27,187	20,122	1,266	18,856	69.4	13,891	4,965
1966	29,994	22,071	1,293	20,778	69.3	17,341	3,437
1967	31,238	23,755	1,506	22,249	71.2	18,716	3,533
1968	34,229	26,824	1,618	25,206	73.6	24,118	1,088

[1] Assumes "other" from table 7 is all manufactured and semimanufactured products.

TABLE 12—U.S. EXPORTS OF AGRICULTURAL PRODUCTS [1]

[Dollar amounts in millions]

Year	Total domestic exports	Agricultural exports	Agricultural exports as percent of total
1968	$34,229	$6,228	18.2
1967	31,238	6,380	20.4
1966	29,994	6,881	22.9
1965	27,187	6,229	22.9
1964	26,297	6,348	24.3
1964–66 average	27,826	6,486	23.9
1961–63 average	21,779	5,214	23.1

[1] Compiled from Highlights of U.S. Export and Import Trade, U.S. Department of Commerce.

[16] Statement by Lawrence Witt and Vernon Sorenson, "Problems of Agricultural Products in World Trade," *Issues and Objectives of U.S. Foreign Trade Policy*, A Compendium of Statements submitted to the Subcommittee on Foreign Economic Policy of the Joint Economic Committee (September, 1967), pages 170, 171.

Statement by Lawrence W. Witt, Professor of Agricultural Economics, Michigan State University, *The Future of U.S. Foreign Trade Policy*, Hearings before the Subcommittee on Foreign Economic Policy of the Joint Economic Committee (July 11–20, 1967), Volume 1, page 253.

U.S. IMPORTS OF AGRICULTURAL PRODUCTS

[Dollar amounts in millions]

Year	Total imports for consumption	Agricultural imports	Agricultural imports as percent of total
1968	$33,129	$5,028	15.2
1967	26,810	4,452	16.6
1966	25,437	4,491	17.7
1965	21,346	4,087	19.1
1964	18,665	4,090	21.9
1964–66 average	21,816	4,220	19.3
1961–63 average	16,034	3,857	24.1

U.S. COMMERCIAL AGRICULTURAL EXPORTS AND GOVERNMENT SPECIAL PROGRAMS

[In millions of dollars]

	Average, 1955–59	Average, 1960–64	1965	1966	1967	1968
Export trade, Public Law 480	$1,063	$1,435	$1,309	$1,306	$1,237	$1,177
AID programs	298	81	26	47	33	5
Total	1,361	1,516	1,335	1,353	1,270	1,182
Commercial sales	2,576	3,848	4,894	5,528	5,110	5,046
Total agricultural exports	3,937	5,364	6,229	6,881	6,380	6,228
Exports under special programs as percent of total agricultural exports	35	28	21	20	19.9	19

No adjustment has been attempted for that part of commercial agricultural exports which were produced as a result of government subsidy. One source has estimated this for fiscal 1965–1966 at $1.2 billion.[17] If these sales averaged $1 billion in 1968 and were eliminated, commercial sales of agricultural products without subsidy in that year would have been under $4 billion. Agricultural products, however, enjoy subsidies either in production, or sales, or both, in practically every trading country.

These figures suggest that statements that our exports of agricultural products may reach $8 billion by 1970 and perhaps 10 billion by 1980 may be overoptimistic.[18] Many factors have influenced and will continue to influence the growth and development of trade between the United States and its trading partners. It is clear, however, that important changes are taking place in the competitive relationships of the United States with other important trading nations and that these should be given intensive study.[19]

U.S. EXPORTS BY CATEGORIES AND GNP 1960 TO 1968

Table 13 shows the products where exports have increased more rapidly than GNP which grew by 53.6 percent from 1962 to 1968. The most impressive percentage gains were in photographic and motion picture equipment, photo supplies, fish, sound producers, animal feeds, aircraft, road vehicles and wood, in that order. 46.4 percent of total exports were in machinery, road vehicles, aircraft, and metals, all of which increased more rapidly than GNP.

Among the exports that increased less rapidly than GNP during this period the more important were hides and skins, beverages and tobacco, iron and steel products, mineral fuels, and dairy products and eggs, in that order of importance.

[17] *Compedium of Papers on Legislative Oversight Review of U.S. Trade Policies*, Committee on Finance, United States Senate (February 7, 1968), Volume 2, page 572.

[18] Statement by John A. Schnittker, Under Secretary of Agriculture, *The Future of U.S. Foreign Trade Policy*, Hearings before the Subcommittee on Foreign Economic Policy of the Joint Economic Committee (July 11–20, 1967), Volume 1, page 29.

[19] See *The Future of U.S. Foreign Trade Policy*, Volume 1, page 205. N. R. Danielian. President, International Economic Policy Association.

U.S. IMPORTS BY CATEGORIES AND GNP, 1962–68

Over half the percentatge increase in U.S. imports of some $14.8 billion between 1962 and 1968 was accounted for by automobiles, sound recorders, motorcycles, iron and steel mill products, machinery, optical goods, and footwear, in that order of importance. Table 15 shows that imports of these products, together with imports of meat, beverages, fish, fruits and nuts, natural gas, vegetables, feed grains, and cheese, increased more rapidly than did the country's GNP. The increase in imports of the products listed in this table was 145.9 percent compared with an increase in the GNP of 53.6 percent.

Among the imports that increased less than GNP were the following, in order of importance of percentage increase: chemicals, textiles other than clothing, mineral fuels, and crude materials inedible. The average increase in this group for the period 1962 to 1968 was 30.4 percent compared with an increase in GNP of 53.6 percent.

TABLE 13.—U.S. DOMESTIC EXPORTS THAT HAVE INCREASED MORE RAPIDLY THAN THE COUNTRY'S GROSS NATIONAL PRODUCTS, 1962–68

[Values in millions]

Product group	Exports in 1962	Exports in 1968	Change	Percentage change
Machinery	$5,447	$8,853	+$3,406	+62.5
Road motor vehicles	1,365	3,126	+1,761	+129.0
To Canada	(414)	(2,047)	(+1,633)	(+394.4)
Chemicals	1,876	3,389	+1,413	+75.3
Aircraft and parts	980	2,312	+1,332	+135.9
Metals and manufacturers (except iron and steel)	917	1,534	+617	+67.3
Wood (including lumber)	371	821	+450	+121.3
Soybeans	407	810	+403	+99.0
Animal feeds	152	372	+220	+144.7
Scientific measuring instruments	192	377	+185	+96.4
Printed matter	160	294	+134	+83.8
Photographic supplies	78	208	+130	+166.7
Photographic and motion picture equipment	51	159	+108	+211.8
Sound reproducers and musical instruments	60	151	+91	+151.7
Optical goods and dental apparatus	68	128	+60	+88.2
Clothing	88	144	+56	+63.6
Fish	22	57	+35	+159.1
All other	2,651	4,504	+1,853	+69.9
Total	14,885	27,139	+12,254	+82.3
Gross National Product	[1] 560.3	[1] 860.6		+53.6

[1] In billions.

TABLE 14.—U.S. DOMESTIC EXPORTS THAT HAVE INCREASED BY LESS THAN THE COUNTRY'S GROSS NATIONAL PRODUCTS, 1962–68, OR THAT HAVE DECREASED

[Values in millions]

Product group	Exports in 1962	Exports in 1968	Change	Percentage change
Grains and preparations	$2,154	$2,463	+$309	+14.3
Mineral fuels and related products	828	1,056	+228	+27.5
Beverages and tobacco	498	702	+204	+41.0
Iron and steel mill products	455	582	+127	+27.9
Hides and skins	83	123	+40	+48.2
Textiles (exclusive of clothing)	492	522	+30	+6.1
Meats and meat products	138	162	+24	+17.4
Vegetables	143	161	+18	+12.6
Fruits and nuts	300	303	+3	+1.0
Oils and fats	301	274	−27	−9.0
Dairy products and eggs	181	141	−40	−22.1
Raw cotton	528	459	−69	−13.1
Total	6,101	6,948	+847	+13.9
Gross National Product	[1] 560.3	[1] 860.6		+53.6

[1] In billions of dollars.

Source: Based on official statistics of the U.S. Department of Commerce, Overseas Business Reports.

TABLE 15.—GENERAL IMPORTS THAT HAVE INCREASED MORE RAPIDLY THAN THE COUNTRY'S GROSS NATIONAL PRODUCT, 1962–1968

[Values in millions]

Product group	Imports in 1962	Imports in 1968	Change	Percentage change
Automobile and parts	$515	$3,712	+$3,197	+620.8
from Canada	(9)	(2,081)	+(2,072)	(2,302.2)
Machinery	954	3,776	+2,822	+295.8
Iron and steel mill products	457	1,962	+1,505	+329.3
Metals and manufactures (excluding iron and steel)	1,265	2,685	+1,420	+112.3
Clothing	368	855	+487	+132.3
Alcoholic beverages	321	626	+305	+95.0
Meat and meat products	469	746	+277	+59.1
Footwear	133	388	+255	+191.7
Fruits and nuts	204	437	+233	+114.2
Fish	403	631	+228	+56.6
Wood and lumber	336	558	+222	+66.1
Sound recorders and reproducers	46	251	+205	+445.7
Toys, games and sporting goods	109	283	+174	+159.6
Aircraft and parts	123	294	+171	+139.0
Motorcycles	24	112	+88	+366.7
Optical goods, medical and dental apparatus	40	120	+80	+200.0
Clocks and watches	77	151	+74	+96.1
Oils and fats	98	158	+60	+61.2
Cheese	36	70	+34	+94.4
Other	4,219	7,264	+3,045	+72.2
Total	10,197	25,079	+14,882	+145.9
Gross National Product	[1] 560.3	[1] 860.6		+53.6

[1] In billions.

Source: Based on official statistics of the Department of Commerce, overseas business reports.

U.S. EXPORTS BY GEOGRAPHICAL REGION

In 1950 Western Europe, the Latin American countries, and Canada were the principal markets for U.S. exports. The most important single country was Canada. Between 1950 and 1960, however, the largest dollar gains in U.S. exports were to the six countries that now comprise the European Economic Community, or the Common Market. They are West Germany, France, Italy, Belgium, the Netherlands, and Luxembourg. Next in importance was Canada, followed by the European Free Trade Association—the EFTA countries. They are United Kingdom, Norway, Sweden, Denmark, Switzerland, Austria, and Portugal. Over that decade 1950–1960 U.S. exports increased 10 per cent a year on the average.

Sales to Canada, the Latin American countries, Japan, Oceania, and Africa showed greater gains for the seven-year period 1960–1968 than for the earlier decade. The very substantial gain in sales to Canada during the 1960–1968 period is accounted for in good part by the automobile agreement with Canada. Canadian imports of vehicles and parts increased from less than $100 million in 1964 to $2.6 billion in 1968. At the same time, U.S. exports of vehicles and parts to Canada increased from approximately $600 million to about $2.4 billion as recorded by the United States.

TABLE 16.—GENERAL IMPORTS THAT HAVE INCREASED LESS THAN THE COUNTRY'S GROSS NATIONAL PRODUCT OR THAT HAVE DECREASED, 1962–1968

[Values in millions]

Product group	Imports in 1962	Imports in 1968	Change	Percentage change
Mineral fuels and related materials	$1,887	$2,529	+$642	+34.0
Petroleum	(1,791)	(2,345)	+(554)	(+30.9)
Crude materials, inedible (other than fuels)	2,706	3,347	+641	+23.7
Chemicals	760	1,135	+375	+49.3
Textiles, other than clothing	663	963	+300	+45.2
Wool and other animal hair	251	199	−52	−20.7
Total	6,267	8,173	+1,906	+30.4
Gross National Products	[1] 560.3	[1] 860.6		+53.6

[1] In billions.

TABLE 17.—U.S. EXPORTS,[1] BY GEOGRAPHICAL REGION, 1950, 1960, 1968

[Values in millions]

To—	1960	1960	1968	Change dollars 1950-60	Change dollars 1960-68	Average annual percentage change 1950-60	Average annual percentage change 1960-68
Canada	$1,999	$3,810	$8,074	+1,811	+4,264	+9.1	+14.0
Latin American Republics	2,626	3,351	4,704	+725	+1,353	+2.8	+5.0
Western Europe	2,898	7,211	11,147	+4,313	+3,936	+14.9	+6.8
EEC [2]	(1,587)	(3,979)	(6,138)	(+2,392)	(+215)	(+15.1)	(+6.8)
EFTA	(993)	(2,467)	(3,825)	(+1,474)	(+1,358)	(+14.8)	(+6.9)
Japan	417	1,448	2,954	+1,031	+1,506	+24.7	+13.0
Other Asia	817	2,207	3,580	+1,390	+1,373	+17.0	+7.8
Middle East	214	683	1,094	+469	+411	+21.9	+7.5
Oceania	127	514	1,026	+387	+512	+30.5	+12.5
Africa	344	642	1,221	+298	+579	+8.7	+11.3
All other [3]	833	718	860	−115	+142	−1.4	+2.5
Total	10,275	20,584	34,660	+10,309	+14,076	+10.0	+8.5

[1] Domestic and foreign merchandise.
[2] Includes East Germany for 1950.
[3] Includes "Speical Category" items, not shown by area.

Source: U.S. Department of Commerce, overseas business reports.

The changing importance of U.S. markets abroad is reflected in the last two columns of Table 17. The only countries showing faster growth in the latter period than in the 1950–1960 decade were Canada, the Latin American countries, and Africa. For the remainder of the countries and particularly the EEC, the EFTA, and Japan the average annual rate of increase in purchases of U.S. goods showed marked declines. The average annual gain in all exports for the 1960–1968 period dropped to 8.5 percent.

Table 18 shows the percentage distribution of U.S. exports by geographical region. For the period 1950 to 1960 the most significant change was the proportion of exports going to the Latin American countries. While there have been gains in dollar sales to these countries, as Table 17 reveals, the export increases have not kept up with those for the other countries listed in this table. The proportion of exports to all other countries except Africa and the "all other" category increased during this period.

In the 1960–1968 period only Canada, Japan and Africa showed increases in their proportion of U.S. exports. The shares of all other countries, including the EEC and the EFTA, declined.

As might be expected, the major countries which supply U.S. imports have increased dollar sales in this market over the eighteen-year period shown in Table 18. The gain for the 1960–1969 period, however, was almost three times that for the earlier decade. The remarkable increase in imports from Canada has already been explained as due in part to the automobile agreement with Canada.

TABLE 18.—PERCENTAGE DISTRIBUTION OF U.S. EXPORTS[1] BY GEOGRAPHICAL REGION, 1950, 1960, 1968

[In percent]

To—	1950	1960 [3]	1968
Canada	19.5	18.5	23.3
Latin-American Republics	25.6	16.3	13.6
Western Europe	28.2	35.0	32.2
EEC [2]	(15.4)	(19.3)	(17.7
EFTA	(9.7)	(12.0)	(11.0)
Japan	4.1	7.0	8.5)
Other Asia	7.9	10.7	10.3
Middle East	2.1	3.3	3.2
Oceania	1.2	2.5	3.0
Africa	3.3	3.1	3.5
All other	8.1	3.5	2.5
Total	100.0	100.0	100.0

[1] Domestic and foreign merchandise.
[2] Includes East Germany for 1950.
[3] Includes "Special Category" items.

Source: Table 17.

TABLE 19.—U.S. IMPORTS,[1] BY GEOGRAPHICAL REGION, 1950, 1960, 1968

[Values in millions]

From—	1960	1960	1968	Change dollars 1950–60	Change dollars 1960–68	Average annual percentage change 1950–60	Average annual percentage change 1960–68
Canada	$1,961	$3,153	$9,007	+1,192	+5,854	+6.1	+23.2
Latin American Republics	2,910	3,171	4,308	+261	+1,137	+0.9	+4.5
Western Europe	1,364	4,188	10,142	+2,824	+5,954	+20.7	+17.8
EEC [2]	(569)	(2,264)	(5,886)	(+1,695)	(+3,622)	(+29.8)	(+20.0)
EFTA	(606)	(1,609)	(3,435)	(+1,003)	(+1,826)	(+16.6)	(+14.2)
Japan	182	1,149	4,057	+967	+2,908	+53.1	+31.6
Other Asia	1,119	1,260	2,503	+141	+1,243	+1.3	+12.3
Middle East	131	344	388	+213	+44	+16.3	+1.6
Oceania	206	266	696	+60	+430	+2.9	+2.0
Africa	494	595	1,090	+101	+495	+2.0	+10.4
All other	485	893	1,061	+408	+168	+8.4	+2.4
Total	8,852	15,019	33,252	+6,167	+18,233	+7.0	+15.2

[1] General imports.
[2] Includes East Germany for 1950.

Source: U.S. Department of Commerce, overseas business reports.

Comparing the annual percentage changes in imports from the various countries for the period 1950–1960, increases are noted for Canada, the Latin American countries, other Asian countries, and Africa. The annual average gain in imports from the EEC countries, the EFTA, and Japan showed declines. Overall the annual average percentage gain for the 1960–1968 period more than doubled over that of the preceding decade.

Table 20 reveals significant changes in the distribution of imports by geographical region. One of the most striking changes was the decline in the share of imports from the Latin American countries where the percentage in 1968 had fallen from 31.9 percent in 1950 to 13.0 percent in 1968. Significant increases were shown in the share of imports from Western Europe and Japan over the eighteen-year period. During the period 1960–1968 the share of the EEC countries gained only slightly, while that of the EFTA countries actually declined. Japan continued to increase her position in the U.S. market.

TABLE 20.—PERCENTAGE DISTRIBUTION OF U.S. IMPORTS BY GEOGRAPHICAL REGION [1]

[Percentages]

Country	1950	1960	1968
Canada	22.1	21.0	27.1
Latin-American Republics	32.9	21.1	13.0
Western Europe	15.4	27.9	30.5
(EEC) [2]	(6.4)	(15.1)	(17.7)
(EFTA)	(6.8)	(10.7)	(10.3)
Japan	2.1	7.6	12.2
Other Asia	12.6	8.4	7.5
Middle East	1.5	2.3	1.2
Oceania	2.3	1.8	2.1
Africa	5.6	4.0	3.3
All other	5.5	5.9	3.2
Total	100.0	100.0	100.0

[1] General imports.
[2] Includes East Germany for 1950.

Source: Table 19.

U.S. TRADE WITH THE EUROPEAN ECONOMIC COMMUNITY

The European Economic Community grew out of the European Coal and Steel Community which was organized in April, 1951. The EEC, or Common Market, was established by treaties signed in Rome in March, 1957, and became operative January 1, 1958. It set up a customs union among the six countries (France, West Germany, Italy, the Netherlands, Belgium, and Luxembourg) to bring about a

closer union among Europeans, eliminate trade barriers, and promote economic and social programs by common action.[20] The objective was to arrive gradually at free trade between the member countries and a common protective tariff wall against all outsiders. For political and economic reasons, the United States gave strong support to the formation of the Common Market.[21] On July 1, 1968, all tariffs on trade between member states were removed and the common external tariff put into effect.

Table 21 shows that U.S. exports and re-exports to the EEC increased by 11.3 percent from 1966 to 1968, while Table 22 shows that imports increased by 42.2 percent during the same period. Tables 17 and 19 have shown that the average annual growth rate of U.S. exports to the EEC of 15.1 percent for the 1950–1960 period fell to 6.8 percent during the 1960–1968 period. U.S. imports from the EEC, which averaged 29.8 percent in the 1950–1960 period were up to 31.6 percent in the 1960–1968 period.

TABLE 21.—U.S. EXPORTS AND REEXPORTS TO EEC, 1963-68

[In millions of dollars]

Commodity	1963	1965	1966	1968
Food and live animals	$667	$925	$974	$801
Beverages and tobacco	127	126	142	159
Crude materials, inedible, except fuels	635	757	831	931
Mineral fuels and related materials	309	261	253	192
Animal and vegetable oils and fats	57	78	55	35
Chemicals	450	555	596	754
Machinery and transport equipment	1,015	1,408	1,510	1,972
Other manufactured goods	663	787	891	1,061
Other transactions	12	10	12	28
Reexports	61	62	68	82
Total	3,996	4,969	5,332	6,015
Special category		282	179	124
Total	3,996	5,251	5,511	6,139
PERCENTAGE DISTRIBUTION				
Food and live animals	16.7	17.6	17.7	13.0
Beverages and tobacco	3.2	2.4	2.6	2.6
Crude materials, inedible, except fuels	15.9	14.4	15.1	15.2
Mineral fuels and related materials	7.7	5.0	4.6	3.1
Animal and vegetable oils and fats	1.4	1.5	1.0	0.6
Chemicals	11.3	10.6	10.8	12.3
Machinery and transport equipment	25.4	26.8	27.4	32.1
Other manufactured goods	16.6	15.0	16.2	17.3
Other transactions	0.3	0.2	0.2	0.5
Reexports	1.5	1.2	1.2	1.3
Total	100.0	94.6	96.8	98.0
Special category		5.4	3.2	2.0
Total	100.0	100.0	100.0	100.0

Source: Overseas Business Reports, U.S. Department of Commerce; Highlights of U.S. Exports and Import Trade, U.S. Department of Commerce.

It is noticeable from Table 21 that exports of food and live animals, mineral fuels, animal and vegetable oils and fats declined in dollar importance between these two periods. Manufactured goods and chemicals showed substantial dollar increases. This is also reflected in the percentage distribution of exports.

Table 22, showing classes of imports from the EEC, reveals that imports of machinery and transportation equipment and manufactured goods alone increased 46 per cent from 1966 to 1968. The percentage share of this group moved up slightly.

In considering these data on trade with the EEC it should be remembered that the objective of the customs union was to promote industry, trade, and agriculture among th em ember countries and increase the self-sufficiency of the

[20] Walsh & Paxton, *Structure and Development of the Common Market,* Hutchison of London (1968), page 15.

[21] On this point, see J. P. Young, *The International Economy,* Ronald Press (1963), Third Edition, page 645.

TABLE 22.—U.S. IMPORTS FROM EEC, 1963-68[1]

[In millions of dollars]

Commodity	1963	1965	1966	1968
Food and live animals	$119	$129	$159	$196
Beverages and tobacco	77	88	104	135
Crude materials, inedible, except fuels	112	110	125	129
Mineral fuels and related materials	5	6	20	64
Animal and vegetable oils and fats	11	14	15	18
Chemicals	159	202	270	331
Machinery and transport equipment	704	990	1,456	2,129
Other manufactured goods	1,222	1,624	1,801	2,628
Other transactions	112	157	175	255
Total	2,521	3,320	4,125	5,886
PERCENTAGE DISTRIBUTION				
Food and live animals	4.7	3.9	3.9	3.3
Beverages and tobacco	3.1	2.7	2.5	2.3
Crude materials, inedible, except fuels	4.4	3.3	3.0	2.2
Mineral fuels and related materials	.2	.2	.5	1.1
Animal and vegetable oils and fats	.4	.4	.4	.3
Chemicals	6.3	6.1	6.5	5.6
Machinery and transport equipment	28.0	29.8	35.3	36.2
Other manufactured goods	48.5	48.9	43.7	44.7
Other transactions	4.4	4.7	4.2	4.3
Total	100.0	100.0	100.0	100.0

[1] Imports for consumption 1963-66; General imports for 1968.

Source: Overseas Business Reports, U.S. Department of Commerce; Highlights of U.S. Exports and Import Trade, U.S. Department of Commerce.

bloc. The most controversial features of the Common Market to American industry and agriculture have been the border taxes and nontariff barriers on industrial goods and the common agricultural policy which through price supports, subsidies and import protection have moved EEC surpluses to world markets at extremely low prices while closing the EEC home market to increase sales from American farmers.

This posture was reflected in the negotiations on the Kennedy Round in both industrial goods and agriculture. While the EEC did negotiate for duty cuts in many industrial areas, they were unwilling to make substantial cuts in "areas of advancing technology such as business machines. In steel, aluminum and textiles none of the countries made very substantial cuts. But in most other areas of industry. I think we have the opportunity for substantial increases in exports." [22] In agriculture this attitude was found to be even more pronounced: "The Kennedy Round has shown beyond doubt that we cannot buy—with reductions in duties—removal of them ajor barriers standing in the way of a substantail and orderly trade in farm products." [23]

There is evidence that the policy of building trade between EEC members is working. One observer has pointed out that from 1958 to 1966 world exports by value about doubled. U.S. exports increased about 70 per cent, while trade within the EEC countries more than trebled.[24]

U.S. TRADE WITH THE EUROPEAN FREE TRADE ASSOCIATION

The European Free Trade Association was organized to take effect July 1, 1960, after Sweden had invited Austria, Denmark, Norway, Portugual, Switzerland, and the United Kingdom for discussions on the subject in Stockholm. The chief purpose was to stimulate trade between the member countries by giving area

[22] Statement of William M. Roth, Former President's Special Representative for Trade Negotiations. *The Future of U.S. Foreign Trade Policy,* Hearings before the Subcommittee on Foreign Economic Policy of the Joint Economic Committee (July 11–20, 1967), Volume I, page 44.

[23] Statement of John A. Schnittker, Under Secretary of Agriculture, ibid., page 33.

[24] Statement of N. R. Danielian, President, International Economic Policy Association, *The Future of U.S. Foreign Trade Policy,* Hearings before the Subcommittee on Foreign Economic Policy of the Joint Economic Committee (July 11–20, 1967), Volume I, page 201.

tariff treatment to industrial goods traded from one member country to another. All customs duties other than revenue duties were to be eliminated. Agricultural products were not included. Members of EFTA kept their own tariffs on goods coming in from other countries. EFTA became a free trade area between members. Jan. 1, 1967, except for some delays for Portugual.[25]

U.S. exports to the EFTA countries amounted in 1968 to approximately 65 percent of the U.S. exports to the EEC. The dollar increase from 1950 to 1960 was $1.4 billion. It will be noted from Table 17 that the proportion of exports going to EFTA countries in the 1960–1968 period was about half of what it was during the 1950–1960 period. The same trend was seen in trade with the EEC.

U.S. imports from the EFTA countries increased but $1 billion from 1950 to 1960. From 1960 to 1968, however, they increased by $1.826 billion. The U.S. share of imports from these countries amounted to 16.6 percent for the 1950–1960 period and declined slightly to 14.2 percent for the 1960–1968 period. This was less of a change than shown in the EEC share of U.S. imports.

KENNEDY ROUND TARIFF REDUCTIONS AS A STIMULANT TO IMPORTS

Estimates have been made of the degree to which imports into the United States would increase if there were to be gradual removal of tariffs and import quotas. Although they were made about a decade ago, there is no reason to believe that the international economic situation has changed sufficiently to nullify the findings with respect to the magnitudes involved. One of the studies, based on estimates by technical and economic experts of the U.S. Tariff Commission, concludes that imports would increase by between 10 percent and 25 percent[26] and the other, that the number of jobs that would be immediately affected adversely by increased imports would be at the rate of $3,000 per billion dollars of new imports.[27] Applying this percentage factor to the estimates of increased imports made in the earlier study indicated that approximately 172,000 to 430,000 jobs might be adversely affected in the short run.

On the other hand, it is argued that in the longer run, after economic adjustments to the new imports have been made, there would be more, rather than fewer, jobs in consequence of the removal of all trade barriers and over-all per capita consumption in the country would be increased.

The Kennedy Round Trade Agreement (concluded in 1967) consists of schedules of tariff concessions together with separate agreements regarding certain trading sectors (such as grains, chemicals and steel) and a proposed antidumping code. With respect to cereals there was agreement regarding prices as well as food aid to needy countries. Several bilateral agreements were concluded regarding meat, while practically nothing was accomplished with respect to dairy products. American negotiators were unable to obtain concessions for agricultural exports comparable with those obtained for manufactured products, largely because the EEC was still developing its own common agricultural policy affecting approximately $200 million of U.S. exports. A few significant agricultural concessions were made by Japan, Canada, the United Kingdom, the Scandinavian countries, and Switzerland.

The 39 countries participating fully in the negotiations, whose trade accounts for approximately three quarters of total world trade (excluding the communist countries), granted concessions affecting a little over $40 billion of trade, or approximately one fifth of all noncommunist international trade.

Approximately $26 billion of trade among the participating countries will be subject to tariff *reductions*, of which tariffs applicable to $17 billion will be reduced 50 percent or more.

The United States obtained concessions from other participating countries on approximately $8.1 billion of its exports, of which $6.8 billion are tariff reductions. The United States granted concessions on approximately $8.5 billion of its imports from all countries. On $7.9 billion it reduced tariffs, on $150 million it bound existing rates against increase, and on $400 million it bound existing duty-free treatment.

Because most official analyses of the Kennedy Round Agreement refer to tariff concessions in terms of percentage reductions, it is tempting to infer that

[25] Walsh & Paxton, *Structure and Development of the Common Market*, Hutchison of London (1968), pages 10–11.
[26] Dr. Howard S. Piquet, "Aid, Trade and the Tariff" (1953).
[27] W. Salant and B. Vaccara, "Import Liberatization and Employment" (1961).

the cuts are more significant than they really are. A given percentage reduction of a low tariff usually is less meaningful than the same percentage reduction applied to a higher tariff. For example, a 50 percent reduction in the 60 percent tariff on certain types of household chinaware represents a cut of 30 "percentage points," whereas a 50 percent reduction in the 11 percent tariff on condensed milk represents a cut of only 5½ "percentage points."

The tariff reductions agreed to under the Kennedy Round can be seen in clearer focus if they are measured in terms of "percentage points" reduced rather than in terms of percentage reductions. Thus, the European Economic Community granted a 20 percent reduction on imports of fresh salmon, representing a reduction from a tariff of 10 percent to one of 8 percent—a reduction of 2 "percentage points." Similarly, the 50 percent EEC reduction on parts for statistical and punchcard machines represents a cut of only 4 "percentage points"—from a tariff of 8 percent to one of 4 percent. It is doubtful whether tariff cuts that are deep in terms of percentage reduction, but which are little more than nominal in terms of "percentage point" reduction. can have a marked effect in expanding trade. In many instances import quotas and production subsidies are more significant than tariffs as impediments to trade. For the most part, the tariffs that have not been reduced are on products, the imports of which would be substantially larger in the absence of restrictions.

The average tariff level is determined not only by governmental action but also by changes in prices. When prices are rising, tariffs that are levied on a "specific" basis (so much per unit of physical measurement such as pounds, yards, or tons in contrast to those that are levied as a percentage of value) decline in terms of their ad valorem (according to value) equivalents. This is a phenomenon that has been present since prices began rising in the late 1930's. Conversely, during periods of falling prices the ad valorem equivalents of duties levied on a specific basis rise.

Had the President used all of his tariff-cutting authority under each of the enabling acts since 1934, the average tariff level of the United States in 1962 would have been 8.8 percent, compared with an actual average ad valorem equivalent in that year of 12 percent. Had the President used his tariff-cutting authority to the full in the Kennedy Round, the average tariff level of the United States over the five-year period 1968–1973 would be 6 percent. Instead, the cuts in U.S. tariffs under the Kennedy Round average approximately 35 percent. Assuming no major change in price levels, the average tariff level in 1973 will be 7.8 percent.

The deepest cuts in U.S. tariffs were made under the Trade Agreements Act of 1934 and the Trade Agreements Act of 1945, covering a period during which prices were rising. The average ad valorem equivalent of duties collected declined from 47 percent to 28 percent between 1934 and 1945 and to 12 percent in 1955.

The tariff cuts authorized by the Acts of 1955 and 1958 were nominal in terms of "percentage point" reductions, amounting to only 1.8 and 2.2, respectively. The ratio of total duties collected to the value of total dutiable imports remained constant at approximately 12 percent between 1961 and 1967.

What started out as "across-the-board," or linear, tariff cutting at the outset of the Kennedy Round soon fell into the familiar pattern of selective tariff cutting. However, instead of starting out, as in previous tariff-cutting exercises, by singling out those tariffs that can be cut safely, the procedure under the Kennedy Round was to start out with an over-all horizontal cut and to negotiate "exceptions." In consequence, the list of products subjected to tariff cuts undoubtedly was longer than would otherwise have been the case, but the "bare minimum" of exceptions that had been promised proved to be substantial in terms of potential trade expansion.

In its 1954 Staff Papers the Commission on Foreign Economic Policy (Randall Commission) presented estimates that had been previously published showing, on the basis of informed judgments by technical staff experts of the U.S. Tariff Commission, the extent to which U.S. imports would increase if all U.S. tariffs and import quotas were suspended.

It was stated, on the basis of these expert judgments, that, with economic conditions as they were in 1951, dutiable imports would increase 42 percent, from $4.8 billion to approximately $6.8 billion, or by approximately $2 billion, of which $1.4 billion would be accounted for by 27 "import-sensitive" items including sugar, fine wools, cattle and beef, woolens and worsteds, earthenware, fish fillets, lead and zinc.

It is significant that none of these 27 sensitive items was subjected to trade-

barrier reduction under the Kennedy Round. Imports of all other items, together, would increase 18 percent, or by $600 million.

Except for the fact that the total volume of trade has increased substantially, the economic conditions prevailing today are not vastly different from those prevailing in 1951–1953. It is not unreasonable, therefore, to apply the percentage increase of the earlier period to more recent figures.

Dutiable imports in 1965 totaled $13.8 billion, of which $7.9 billion are subject to tariff reductions under the Kennedy Round. If it is assumed that the same percentage increase of all imports on which tariffs were reduced would prevail if all tariffs and import quotas were suspended, imports would increase by $1.4 billion (18 percent of $7.9 billion).

However, the Kennedy Round does not provide for the elimination of all tariffs and import quotas but only for tariff cuts averaging 35 percent, or 4.2 "percentage points," from a level of 12 percent to level of 7.8 percent.

On the basis of these estimates and comparisons, it seems reasonable to conclude that the tariff reductions granted by the United States in the Kennedy Round might result in increasing U.S. imports by as much as $350 million to $700 million (one quarter to one half of $1.4 billion).

This figure does not constitute a forecast, however, as to what can be expected in the way of increased imports over the next few years. It is only an estimate of the likely effect on U.S. imports of the U.S. tariff cuts made in the Kennedy Round. Table 23.

There was a fairly steady relationship between imports and the country's gross national product between 1950 and 1965, with imports equaling approximately three percent of the GNP. In 1966 and 1967 this ratio increased to 3.4 percent, and in 1968 it increased to 3.8 percent. It is not possible to ascertain the degree to which the increase resulted from tariff reductions made in the Kennedy Round.

TABLE 23.—U.S. TARIFF REDUCTIONS, 1934–67

Legislation	Percentage reductions authorized	Maximum reduction authorized on basis of actual use of tariff cutting authority		Actual change in average ad valorem equivalent (percent)
		Authorized reduction in thrift level	Average "percentage point" reduction authorized	
1934 act	50 percent (of 1934 rates)	47.0→23.5	23.5	47.0→28.0
1945 act	50 percent (of 1945 rates)	28.0→14.0	14.0	28.0→12.0
1955 act	15 percent (of 1955 rates over 3 years)	12.0→10.2	1.8	12.0→11.0
1958 act (Dillon round)	20 percent (of 1958 rates, over 4 years)	11.0→ 8.8	2.2	11.0→12.0
1962 act (Kennedy round)	50 percent (of 1962 rates, over 5 years)	12.0→ 6.0	6.0	[1] 12.0→ 7.8

Assuming no change in price levels.

TABLE 24.—SEC. 1: PROJECTION OF IMPORTS AND EXPORTS FOR 1973[1]

	(1)	(2)	(3)	(4)
	Export goal	Estimates by manufacturers	Commodity specialists (BDSA)	Country analysts (Bureau of International Commerce
Exports	50.0	43.0	43.6	46.0
Imports (average)	44.8	44.8	44.8	44.8
Illustrative trade balance	+5.2	−1.8	−1.2	−1.2
SEC. 2: ILLUSTRATIVE BALANCE ELIMINATING ESTIMATED EXPORTS ON GOVERNMENT ACCOUNTS[2]				
Estimated Government shipments	2.5	2.5	2.5	2.5
Estimated trade balance "commercial"	+2.7	−4.3	−3.7	−1.3

[1] "U.S. Foreign Trade: A 5-Year Outlook With Recommendations for Action," Bureau of International Commerce U.S. Department of Commerce (Mar. 31, 1969), p. 21.
[2] Calculation by trends.

COMMERCE PROJECTIONS OF TRADE IN 1973

The June 21, 1968, study of Trends in International Trade of the United States pointed up the deteriorating position of the United States in world trade. The more important reasons were (1) the growing drive for export markets by Western Europe and Japan, (2) increasing competition for American exports from lower wage industries in these and other areas; (3) self-sufficiency drives in many countries throughout the world particularly in agriculture; (4) the export of American technology and know-how to affiliates abroad as well as to lower wage foreign countries, all of which provides competition in third-country markets; (5) inflation and rising costs in the United States. It seemed clear from the Trends study that these factors would continue to influence U.S. trade in the years immediately ahead.

Over the past two or three years a number of studies and articles on the changing position of the United States in international trade have appeared. Typical of these was the story in *Business Week*, Jan. 4, 1969, "Why the U.S. Must Sell More Overseas." By far the most detailed study, however, was "U.S. Foreign Trade: A Five-Year Outlook with Recommendations for Action" prepared by the Bureau of International Commerce of the U.S. Department of Commerce and issued Mar. 31, 1969. Because this Commerce study projects foreign trade for 1973, it provides a valuable extension of this Trends study. While there may be differences of opinion as to the emphasis given by Commerce to the various factors influencing trade, the study makes a substantial contribution to a better understanding of the forces that are shaping U.S. foreign trade. It should be read by every legislator and businessman interested in trade and trade policy.

The Commerce study concluded that there was little reason to expect a change in the export trends of major industrial countries over the coming five years. In general, this coincided with the conclusions of the June 1968 Trends report.

The comments here will deal only with the projections of trade in the Commerce study and the explanations of recent trends and not with the recommendations which are attached to the report.

The Commerce study would have been more useful if it had included tables providing background information on total imports and exports less military, as well as "commercial" trade exclusive of sales through government aid, loans, and grants. The Commerce study does include, and its value is increased by a market survey made by the Business International Corporation for the Commerce Department, of 149 major U.S. companies engaging in the export trade. Sales of these firms were about one sixth of GNP and one third of U.S. total manufactured exports in 1967. The manufacturers' comments provide an illuminating outline of the factors responsible for our changing position in world trade.

Table 24, section 1 of which is taken from the Commerce report, shows projections of imports and exports for 1973. In all fairness, it should be noted that the Commerce report cautioned against the hazards in these projections. In section 2 calculations of commercial trade for 1973 have been added to the Commerce table to show the prospective "commercial" balance for that year.

Column 1 may be dismissed as unrealistic in the light of what is happening in the trade field. Past experience with such goals does not lead to confidence in such optimistic forecasts. As the report itself points out, in January, 1968, the government set a goal which called for an improvement of half a billion dollars in the trade balance for the year. At the end of 1968, instead of improvement the decline in the balance was seven times the size of the goal for improvement.[28]

In September of 1969, the National Foreign Trade Council estimated that, based on a survey of companies accounting for over a quarter of the 1968 exports that the increase in 1969 would be only 2 percent over the previous year.[29]

However, not all forecasts have been wide of the mark. On July 12, 1969 the Secretary of Commerce predicted that U.S. exports in 1969 would rise by 10 percent over 1968.[30] As indicated in the supplement, with an increase in exports of 8.8 percent for the first ten months of the year, it is quite certain the Secretary's forecast will turn out to be fairly accurate.

Moreover, predictions by the U.S. Dep't of Commerce, Bureau of International Commerce in July 1969 that imports were likely to decline fairly sharply in the last half of the year as the anti-inflation program slowed down the eco-

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[28] *U.S. Foreign Trade: A Five-Year Outlook with Recommendations for Action*, Bureau of International Commerce, U.S. Department of Commerce (March 31, 1969), Foreword.
[29] *Journal of Commerce* (September 11, 1969).
[30] *New York Times* (July 12, 1969).

nomy may prove to be fairly accurate, but for a somewhat different reason.[31] Imports are down substantially for the first ten months.

The estimates of exports in 1973 by exporting companies appear to be quite conservative. The companies based their views on a decline in exports through 1970 and then a pickup through 1973. Prospects for aircraft sales had a major influence on this forecast.[32] About 40 percent of the companies reporting believe the trend in exports will be away from finished exports to include more semi-finshed goods. Some companies saw the end of finished exports within five years.[33]

The major reason given for these exports expectations was increasing competition from Western Europe and Japan.[34] Many of the companies surveyed see the U.S. technological advantage declining, while labor cost differentials between countries continue about as before.[35] Other leading factors given prominence by the manufacturers as responsible for the decline in export sales were: limitations imposed by the foreign investment program, economic nationalism abroad, non-tariff barriers, and U.S. inflation.[36] Companies in the survey emphasized also that exporters in these countries in their drive for foreign markets get help from their governments, subsidies, tax incentives, and assistance on credit terms.[37]

In column 3 the estimates of 1973 exports prepared by the commodity and industry specialists of BDSA, with estimates of agricultural exports by the Department of Agriculture, coal by the Department of Interior, and military sales by the Department of Defense would appear to be the most reasonable expectations for 1973. This sample made up 76 percent of total U.S. exports.[38] These estimates were based on assumptions that current trends in trade would continue, along with a U.S. two percent annual price rise. This latter expectation appears unrealistic today.

The factors responsible for the slower growth in exports were generally those mentioned by the companies providing the estimates for column 2, although not necessarily in that order. If any criticism is to be made of these projections, it would be that not enough emphasis was placed on the cost factors, which are detouring some of our trade in manufactured goods to countries with lower labor costs, and the agricultural protectionism of the European Economic Community.

Import projections, as Commerce points out, are subject to greater hazards than projections of exports. The projections by BDSA of $41.2 billion for 1973, as the report indicates, is conservative. Another estimate considered as a maximum was $48.4 billion. Commerce then averaged the two estimates to arrive at an admittedly arbitrary $44.8 billion for imports in 1973.[39] Even the average gain in imports of $2.1 billion for the nine-year period 1960–1968 would bring imports in 1973 to $43.6 billion.

In projecting trends of exports and imports to 1973 and showing an illustrative trade balance, Commerce did not calculate an illustrative "commercial" balance. This has been done in Section 2 of Table 24. Assuming that government-financed exports might average $2.5 billion in that year, an estimated "commercial" balance has been calculated for each of the various assumptions. Under all of the projections, except those of the goal figures, there would be a "commercial" deficit.

INTERNATIONAL TRADE AND THE BALANCE OF PAYMENTS

Merchandise trade is the largest single item in the international accounts, accounting for a little over one-half of all international receipts and all international payments. Exports provide foreign exchange equal to the total dollar volume of sales, while U.S. foreign investments provide foreign exchange to the extent that profits thereon are sent back to American investors.

On a net basis, since 1965 the excess of receipts for merchandise exports over payments for merchandise imports has been exceeded by the net balance on earnings from foreign investments. In 1968, when the merchandise trade balance sank to less than $1 billion, the net received on foreign investments reached $6.0 billion.

The exports and imports of a country are inter-related even though they are seldom in exact balance with each other. The total monetary out-payments of the

[31] *New York Times* (July 12, 1969).
[32] *U.S. Foreign Trade: A Five-Year Outlook with Recommendations for Action.* Bureau of International Commerce, U.S. Department of Commerce (March 31, 1969), page 64.
[33] *Ibid.*, page 66.
[34] *Ibid.*, page 64.
[35] *Ibid.*, page 67.
[36] *Ibid.*, page 69.
[37] *Ibid.*, page 70.
[38] *Ibid.*, page 17.
[39] *Ibid.*, page 21.

nationals of a country, however, tend to be balanced by their total in-payments. Payments received from foreigners for services rendered, such as transportation and insurance, have the same effect on a country's international payments as merchandise exports, while purchases by the nationals of a country of the services of foreigners have the same effect as payments made for merchandise imports.

A country can have an excess of either merchandise exports or merchandise imports over a considerable period of time, provided other payments offset the excess. Thus, throughout the latter part of the nineteenth century the United Kingdom's merchandise imports exceeded its merchandise exports because Britons were receiving large sums in the form of interest and dividends on investments previously made by them in other countries. The excess of receipts over outgo was used by them to import the food and other consumption goods that made their high standard of living possible.

The overall-balance-of-payments deficit (or surplus) can be shown in different ways. The two most usual approaches, both of which are shown in the official figures of the U.S. Department of Commerce, are known as the "liquidity" concept and the "official settlements" concept.

The balance, computed on the liquidity basis, is measured by changes in U.S. official reserve assets and in liquid liabilities to all foreigners. It includes as liabilities, which are a potential drain on U.S. monetary reserves, all short-term liabilities to foreigners, private as well as those payable to foreign monetary authorities, it does not include U.S. private short-term holdings as an offsetting asset entry, however, on the theory that the U.S. Government exercises no direct control over them and therefore cannot mobilize them in support of the dollar in an emergency.

The balance, computed on the official settlements basis, is measured by changes in U.S. official reserve assets, together with changes in liquid and certain nonliquid liabilities to foreign official agencies. Under this concept foreign short-term capital inflows are included, as are U.S. short-term outward capital flows, as regular transactions. According to this concept, the large inflows of foreign commercial bank funds in recent years have represented predominantly market-oriented business phenomena.

On the liquidity basis, the United States had deficits in its international accounts every year, with only one exception, between 1950 and 1967. In 1968 the balance was $0.1 billion, but in the first half of 1969 it slipped back to (—) $2.7 billion (on an annual basis). Unlike Western Europe after World War II, and unlike the situation prevailing in the less-developed countries today, the United States has ample resources to make up the difference between American expenditures abroad and American receipts from foreigners. It is obvious from the magnitudes involved (a GNP of well over $800 billion, compared with balance-of-payments deficits of less than $4 billion a year) that the difficulty does not arise from lack of economic strength. It is, rather, a technical problem in the international balancing mechanism and evidences lack of willingness by governments to allow their national economies to adjust to each other through the international flow of capital and trade.

During the period between World War I and World War II countries experienced the difficulties of widely varying exchange rates. They vied with each other to depreciate the values of their currencies so as to expand exports while trying to curtail imports. The result was that international commerce became hazardous and its volume dwindled. The desire for stable exchange rates then became so strong that fixed exchange rates became the very foundation of the International Monetary Fund which was established by the Bretton Woods Agreements of 1944.

With currencies pegged at fixed levels and with all sorts of obstacles impeding the international movement of goods and capital (so as not to interfere with domestic policies deemed necessary to assure national economic growth and full employment) it becomes exceedingly difficult to keep the international accounts of all countries in balance with each other.

In most years the balance-of-payments deficit of the United States has been considerably smaller on the official settlements basis than on the liquidity basis. In 1966 there was a balance-of-payments surplus of some $200 million on the official settlements basis. In 1967 the deficit on both bases widened markedly to $3.6 billion and $3.4 billion, respectively, but in 1968 there was a surplus of $93 million on the liquidity basis and a surplus of $1.6 billion on the official settlements basis.

For the first three quarters of 1969 the United States had a deficit of almost 8 billion dollars on the liquidity basis which includes private as well as official flows of money. The official settlements basis showed a surplus of close to 1.5 bil-

lion dollars. The deficit is not causing too great concern because, as Treasury Undersecretary Volcker pointed out, the liquidity balance was "distorted by some transient factors of little real economic significance". These included liquidation of U.S. securities by foreign governments and investors, currency speculation in Europe, in the U.S. the increasingly tight money policy, the first quarter dock-strike, and loopholes, since closed, which allowed money to flow into the Eurodollar market. Some improvement is expected in the results for the full year.[40]

TABLE 25.—U.S. BALANCE OF INTERNATIONAL PAYMENTS 1960-67

[In billions]

	1960	1961	1962	1963	1964	1965	1966	1967	1968
Balance on goods and services [1]	+$6.8	+$8.2	$7.5	+$8.2	+$0.6	+$9.0	+$7.9	+$7.8	+$5.5
Merchandise exports [2]	+19.5	+19.9	+20.6	+22.1	+25.3	+26.3	+29.6	+30.5	−33.6
Merchandise imports [2]	−14.7	−14.5	−16.2	−17.0	−18.6	−21.5	−25.5	−27.0	−33.0
Trade balance	+4.8	+5.4	+4.4	+5.1	+6.7	+4.8	+3.7	+3.5	+0.6
("Commercial" balance) [3]	(+2.7)	(+3.3)	(+2.2)	(+2.6)	(+4.2)	(+2.6)	(+0.8)	(+0.9)	(−1.4)
Balance on investment earnings	+2.7	+3.5	+3.9	+4.0	+4.7	+5.2	+5.2	+5.6	+6.0
Travel and transportation (net)	−1.0	−1.0	−1.2	−1.4	−1.2	−1.5	−1.4	−1.8	−1.6
Other services (net)	+0.3	+0.2	+0.4	+0.4	+0.4	+0.5	+0.5	+0.5	+0.5
Private U.S. capital (net):	−3.9	−4.2	−3.4	−4.5	−6.5	−3.7	−4.2	−5.4	−5.1
Long-term investment	−2.6	−2.6	−2.9	−3.7	−4.4	−4.5	−3.8	−4.3	−4.1
Direct	(−1.7)	(−1.6)	(−1.7)	(−2.0)	(−2.4)	(−3.4)	(−3.5)	(−3.0)	(−3.0)
Portfolio bank and other	(−0.9)	(−1.0)	(−1.2)	(−1.7)	(−2.0)	(−1.1)	(−0.3)	(−1.3)	(−1.1)
Short-term	−1.3	−1.6	−0.5	−0.8	−2.1	−0.8	−0.4	−1.2	−1.0
U.S. Government transactions	−5.5	−5.4	−5.4	−5.9	−5.6	−5.4	−6.3	−7.2	−7.1
Loans and grants [4]	−2.8	−2.8	−3.0	−3.6	−3.5	−3.4	−3.4	−4.1	−4.0
Military (net) [5]	−2.7	−2.6	−2.4	−2.3	−2.1	−2.0	−2.8	−3.0	−3.1
"Errors and Omissions"	−0.9	−1.0	−1.2	−0.4	−1.0	−0.4	−0.3	−0.6	−0.7
All other transactions [6]	−0.4	.....	+0.3	−0.1	−0.3	−0.8	+1.5	+1.8	+7.5
Balance (liquidity basis) [7]	−3.9	−2.4	−2.2	−2.7	−2.8	−1.3	−1.4	−3.6	−0.1
Balance (official settlements basis) [8]	−3.4	−1.3	−2.7	−2.0	−1.5	−1.3	+0.2	−3.4	+1.6

[1] Excluding transfers under military grants and expenditures in support of the U.S. military establishment abroad.
[2] Exports include domestic merchandise and re-exports of foreign merchandise excluding military grant aid. Imports are general imports and are shown on an f.o.b. basis.
[3] Excluding exports on U.S. Government account (i.e. those financed under AID loans and grants under Public Law 480) most of which do not give rise to dollar receipts. Agriculural products that are sold for local currencies under Public Law 480 add to U.S. holdings of such currencies abroad.
[4] Estimated dollar payments to foreign countries and international and regional organizations through U.S. Government grants and capital outflows. Figures do not include transactions involving no direct dollar outflow from the United States.
[5] Direct military expenditures abroad less receipts under military sales contracts.
[6] Includes private remittances Government pension payments and other transfers certain transactions in U.S. Government assets (other than official reserve assets and Government loans) and in foreign assets in the United States.
[7] Measured by increase in U.S. official reserve assets and decrease in liquid liabilities to all foreigners.
[8] Measured by increase in U.S. official reserve assets and decrease in liquid and certain nonliquid liabilities to foreign official agencies.

Note. Totals and sub-totals may not add because of rounding of figures to billions.

Source: Survey of Current Business.

INTERNATIONALIZATION OF PRODUCTION

The American producer now finds on the average that, although his exports are growing vigorously along a trend line of seven or eight percent a year, the value of his deliveries to foreign markets out of productive facilities established abroad exceeds his exports by some five times. And the growth of this production abroad, at nine or 10 percent a year on the average, is even more dynamic than that of exports.

What our efficient export salesmen have really been selling is not just production, but a way of producing, and behind the efficiencies that make American products attractive in other markets lie technological achievements, marketing methods, and above all, managerial skills that speak a universal language.

Against the $35 billion in exports that make the United States the world's largest trader, we are delivering some $200 billion a year in products made under American auspices abroad. This production is the work of our so-called multinational companies whose operations it has lately become so stylish to vivisect.

[40] *Journal of Commerce*, New York, Nov. 17, 1969.

Only recently have we become aware of the primacy of production abroad over exports as a means of delivering "American" goods to foreign markets. We are only beginning to appreciate the economic implications of this fact for American policy, and to understand how implicated U.S. production is in the emergent world economy.

WHY HAVE COMPANIES BECOME INTERNATIONAL

The sweeping, indeed the overriding, importance of the international company in the internationalization of production is the most important structural event to have occurred in many years and very likely will prove to be on a par with the Industrial Revolution. The leader in the present post-World War II era has clearly been the American company. It is a matter of normal evolution for companies to establish subsidiaries, abroad as well as at home, whenever the relationship of anticipated sales revenues and costs present a reasonable aggregate profit expectation. In the interesting case of Europe, rapid industrial growth paced a rising level of demand. The lowering of trade barriers led to a remarkable consolidation of the European market. The situation was ripe for normal evolution: dynamic growth was the sound basis for the expectation of rising sales revenues from both consumers' and producers' goods, while on the cost side the size of the market grew large enough to warrant direct application of American managerial and marketing techniques. Local production promised economies of scale in competition with local suppliers, economies of transport and marketing technique in competition with other foreign suppliers, plus enjoyment of remaining local protection and often of special incentive to investors in the form of land or building grants and subsidies (f.e. depressed areas of the United Kingdom, Italy) and tax holidays or advantages (f.e. depreciation allowances). A peripherally interesting point is that differential profit rates are not very important in accounting for investment. Aggregate prospective earnings are important both ex ante and ex post in justifying investment, but rarely is there an example of a company acting on calculated profit rate differentials alone.

In the European Common Market the value of being an insider became clear even before the market became a fact, and the anticipated value of inside status probably exceeded the fact. Even so, American business attached much greater significance to the buoyancy and size of the market than to the margin of protection. Business men are reluctant to pursue profit opportunities that turn on the presumably temporary advantages of protection, though in certain instances—notably, in smaller markets where they are being lured, into a relatively high cost operation—they may insist on it. In Canada, the historic tariff policy has guaranteed that most American companies would have to opt for local production. However, there is some reason to question whether the tariff has encouraged or discouraged investment over the years. What tariff policy certainly has done is to guarantee an uneconomically large number of firms operating on the basis of short production runs as a consequence of the higher protected cost margin.

AND WHAT HAS BEEN THE RESULT

The scope of the operations of U.S. world companies, about which general statistical information is far more definitive than for the companies of other countries, is very impressive, far more impressive than most of us would have imagined before looking at the aggregate investment figures, their rapid (1 percent) annual rate of growth over the last two decades and the product span of these establishments. The broad details are worth considering, since they immediately demonstrate that United States' main linkage with other markets is clearly through production facilities there, not through trade. Perhaps even more important than this impression-correcting fact about the relative importance of exports and production abroad is the general significance for economic analysis of the fact that "production abroad" is now a significant force in most countries' capital formation, technological development, managerial methods, GNP and rate of economic growth. Yet these operations are accorded scarcely more than a footnote in our official balance-of-payments statements, which unfortunately are treated as the key to the satisfactoriness of our international operations.

Starting from the solid basis of a comprehensive census of foreign assets in 1950, companies have been required to provide the basic facts of their investment abroad. These are more or less updated annually by the recording of

changes in investment, and the detail has been broadened by occasional inquiries into the scope of company operations such as the volume and product classification of manufacturing subsidiaries sales in 1964–1965. These figures are only a beginning in a field where correct information is desperately needed for policy guidance and where the lack of information is partly to blame for the unfortunate tendency of governments to discourage foreign investment.

For the United States, the available information makes possible the following broad summary of the development of our foreign investment structure and of foreigners' investments here in the period 1950–1968 (Table 26). Since the 1968 figures are estimates inferred from 1967 results as modified by partial information on 1968, the better 1967 figures are included in the summary.

From sifting and analyzing the now considerable detail available on the industrial classifications and on the location of these U.S. investments, a good general picture of their important characteristics can be given.

Direct investment is the backbone of U.S. investment from a production viewpoint. It is highly visible, productive and risky. It involves great economic impact abroad, and, accordingly, attracts great attention and criticism. It involves intricate problems of international law and diplomacy, and very contentious ones from the standpoint of critical groups both locally abroad and here at home. Treasuries argue that it can't be afforded or that (abroad) it dislocates the domestic investment structure. Labor at home argues that it displaces jobs that would otherwise be available at alternative U.S. plants, and labor abroad argues that it imposes foreign standards on domestic labor. Economists argue all ways—it does or it doesn't increase total investment at home or broad or in the world as a whole, that it bulwarks or on the contrary, undermines the balance of payments, that it historically does or does not have a yield to (a) the investor and/or (b) the host country.

TABLE 26.—VALUE OF U.S. INVESTMENTS ABROAD AND FOREIGN INVESTMENT IN UNITED STATES, 1950–68

[Dollar amounts in billions]

	1950	1967	1968 estimate	1950–67 annual growth rate (percent)
U.S. assets:				
Direct investment (book value) (ma.nly subsidiaries of U.S. companies)	$11.8	$59.3	$64.0	10.0
Other long-term private (market value) (all investments where U.S. interest is less than 10 percent mainly "Portfolio")	5.7	22.2	22.8	8.0
Total long-term private (with yields typically above 10 percent)	17.5	81.5	86.8	9.5
Short-term private	1.5	11.8	13.0	13.0
Total private	19.0	93.3	99.8	10.0
Government:				
Short-term	1.7	5.5	7.4	7.0
Other Government (i.e. Eximbank, IBRD)	10.8	23.5	27.3	5.0
Total Government	12.5	29.0	34.7	5.0
Total U.S. investment (private and Government)	31.5	122.3	134.5	8.0
U.S. liabilities (foreign investment in United States):				
Foreign direct investment	3.4	9.9	10.9	6.5
Other long-term	4.6	22.1	[1] 27.7	10.0
Total long-term	8.0	32.0	38.6	8.5
Short-term:				
Private	6.5	22.9	26.9	8.0
Government	3.2	14.8	14.1	9.0
Total short-term	9.7	37.7	41.0	8.0
Total foreign investment in United States	17.7	69.6	79.6	8.0
U.S. creditor position (assets minus liabilities)	13.8	52.7	54.9	8.0

[1] Estimate does not take into consideration increase in market value of securities. This cannot be quantified as yet; current indications from rising market in 1967–68 are that increased market value would add $2,000,000,000 to $2,500,000,000.

Source: U.S. Department of Commerce, Survey of Current Business; U.S. Council of the International Chamber of Commerce.

So, for this important $60 plus billion item, the following facts and relationships are useful. Direct investment regularly accounts for most (three-fourths) of our long-term private investment, and half of our total investment in all forms, government and private, abroad. It grows with surprising regularity at about 10 percent a year overall, and it commands yields that run regularly at 10 percent or more worldwide. It gives rise to a sales volume that is on the average apparently about double this book value. In location, about a third of all this investment is in Canada, a third in Europe, and a third everywhere else. Incidentally, about a tenth of this investment is in the United Kingdom alone, and most of this is new (in the 1960s). By industrial classification, about a third is in manufacturing, a third oil, and a third all other. A substantial amount—about 30 percent—is in the less developed countries, but a substantial portion of this is concentrated in oil and other extractive activities.

The counterflow of foreign investment here is improving, but continues to run regularly less than U.S. investment abroad. Hence, the regularly growing net investment (or creditor) position of the United States. This has more than quadrupled in the 18 years shown, indicating a derived growth rate of 8 percent or so a year; in dollar terms, it has grown by over $40 billion since 1950, with an inferred positive impact on current earnings of more than $4 billion a year—that is, our continuing net investment abroad has presumably added some $4 billion to our earning position. This is a figure of some importance in view of the continuing controversy over whether foreign investment is affordable in competition with other balance-of-payments priorities.

In maturities and risk, foreign investment here follows a pattern almost exactly the reverse of the U.S. position. *About half (somewhat more actually) is in short-term low-yield low-risk.* Of the other half, the bulk of it is in portfolio, and the growth of this investment has until recently been largely in terms of market-value appreciation. Direct investment—half of its British and Canadian—runs about 15 percent of the total and has grown about 7 percent a year.

U.S. figure permit the calculation of a separate European investment balance sheet—ours there, theirs here. Unlike the overall picture in which United States' net creditor position has grown, that is in which U.S. investment has regularly exceeded the flow of foreign investment here, Europe's total investment here has been slightly in excess of ours there. As in the pattern indicated above, it is heavily dominated by (a) liquid holdings and (b) highly marketable portfolio.

As seen in the tables, U.S. assets now total about $135 billion. To estimate the yield at 10 percent or $13.5 billion is, I think, conservative. Compared to 1950, Americans have acquired net—that is, after substracting foreign investment here—some $42 billion in foreign assets. The corresponding *increase* in U.S. investment earnings may be inferred to be over $4 billion a year. Against this fortification of foreign asset and earning position, U.S. short-term liabilities have

TABLE 27.—CHANGE IN U.S. LONG-TERM, SHORT-TERM, AND OVERALL FOREIGN INVESTMENT POSITION

[In billions of dollars]

	1950	1968	Change
Long term:			
U.S. assets (+)	+$28.3	+$114.1	+$85.8
Liabilities (−)	−8.0	−38.6	−30.6
Net	+20.3	+75.5	+55.2
Short term:			
U.S. assets (+)	+3.2	+20.4	+17.2
Liabilities (−)	−9.7	−41.0	−31.3
Net	−6.5	−20.6	−14.1
Long and short term:			
U.S. assets (+)	+31.5	+134.5	+103.0
Liabilities (−)	−17.7	−79.6	−61.9
Net	+13.8	+54.9	+41.1
U.S. short-term assets—			
As percent of total assets	10	15	+5
As percent of short-term liabilities	33	50	+17
U.S. short-term liabilities—			
As percent of total assets	31	30	−1
As percent of total liabilities	55	52	−3

Source: U.S. Department of Commerce, Survey of Current Business; U.S. Council of International Chamber of Commerce.

grown *net*—that is, after subtracting U.S. short-term assets—by $14 billion, or 3½ times the increase in annual earning power of U.S. investments abroad. 3½ years would not seem to be a very long bridge of intermediation. Moreover, comparision to the domestic banking situation, although because of the less stable international situation it cannot be made one to one, would indicate that the 50 percent short-term asset to liability ratio is extremely high—a decided under-extension of supportable credit.

TABLE 28.—NEW DIRECT PRIVATE FOREIGN INVESTMENT AND INCOME FROM OUTSTANDING DIRECT FOREIGN INVESTMENTS, 1954–68

[In billions of dollars]

Year	New U.S. direct investment abroad [1] (capital outflows)	Earnings received on direct investment abroad	Net effect on balance of payments
1954	−$0.7	+$1.9	+$1.2
1955	−.8	+2.1	+1.3
1956	−2.0	+2.4	+.4
1957	−2.4	+2.5	+.1
1958	−1.2	+2.4	+1.2
1959	−1.4	+2.6	+1.2
1960	−1.7	+2.8	+1.1
1961	−1.6	+3.2	+1.6
1962	−1.7	+3.6	+1.9
1963	−2.0	+3.8	+1.8
1964	−2.3	+4.4	−2.1
1965	−3.5	+4.9	−1.4
1966	−3.6	+5.1	−1.5
1967	−1.3	+5.6	−2.5
1968	−3.0	+6.3	−3.3
Total	31.0	+53.6	+22.6

[1] Includes royalties and fees.

Source: U.S. Department of Commerce, Survey of Current Business.

THE PRODUCT OF INTERNATIONAL COMPANIES

Unfortunately we have no satisfactory direct information on the total output of our international companies, though this kind of count should be readily within present research capabilities and future censuses. Fortunately a solid basis for limited inferences is provided in special inquiries into the sales (among other things) of manufacturing subsidiaries.

By studying the relationship between value of sales and assets in the case of manufacturing subsidiaries, a ratio of 2 : 1 appears to be conservative. The actual ratio in the important case of manufacturing appears to be consistently a little higher than this—actually, about 2½. For non-manufacturing direct investment, limited indications on the proper ratio point to something a little lower than 2 : 1. U.S. census information suggests this ratio is not unreasonable though perhaps a little high. All in all, 2 : 1 as the relationship of product to book value stands up, pending better direct information, as a basis for inferring a rough order of magnitude of the value of product emanating from the U.S. direct investment establishment abroad. The product implication for other long-term private investment and for short-term and for government can be derived only on fairly arbitrary grounds and subject to conceptual difficulty (f.e. how much product should be associated with short-term funds abroad?). For various reasons I have used a 1 : 1 ratio for all these categories of investment, less out of conviction that there is a real basis for this inference than out of a sense that a high degree of error can be tolerated in estimates designed to give a rough order of magnitude to the scope of international production in comparison with, say, U.S. exports.

The value of output (sales) from U.S. subsidiaries and from the U.S. share in foreign-owned companies can be inferred at $128 billion (2 x $64 billion) for direct subsidiaries in 1968 and $69 billion for all other investment, a total just short of $200 billion.

There are a number of reasons to get an impression of the magnitude of the product profile of investment abroad. In relation to matters of economic analysis and policy, it is a matter of considerable importance to decide whether such

product volume is large in relation to exports of both the investing and host countries, and to GNP and other economic aggregates of both countries. For similar considerations, the value of investment and particularly increments of investment of international companies and other international investors becomes important in questions about the nature and adequacy of capital formation, about the structural significance of this process of international allocation of resources on world production, and even—or especially— for international economic theory. Is a world economy being built?

International investment apparently has achieved a considerable degree of international allocation of resources. Using the $200 billion product estimate, over a fifth of the $900 billion aggregate GNP of the other market (non-Communist) economies is associated with U.S. investments. If the comparable figure for their investment in this $900 billion American market is $90 billion (2 × $11 billion direct investment + 1 x $66 billion other investment) 10 percent of American output is "tinged" with foreign initiative or support. Interinvestment between the United States and the rest of the world appears to "touch" a sixth of the total GNP of the non-Communist world. Available information for international investment other than by or in the United States does not invite quantification by the rough inferential methods used here. Given the continuous upward trend in such investment, which seems clear enough from scattered national reports and reports of international organizations, (OECD, U.N.) the volume of interinvestment and interproduction in the Rest of the World group is substantial. It might total as much as U.S. investment abroad. If this is the case, the internationally tinged product would be close to $500 billion out of $1800 billion—some 28 percent.

Over the past two decades international investment and its output have been growing about twice as fast as world GNP. The effect has been to produce an internationalized sector of production that is now of a very substantial order of magnitude and is continuing to grow in relation to total world otuput. Already it appears that almost a quarter of all production in the market world is accounted for by the output of international companies. If we look to the end of this century, envisioning the growth of world GNP to continue at its typical pace of the 1960s, and similarly the output associated with international investment at its typically faster rate of the 1960s, we get a picture roughly estimatable as follows:

[Dollar amounts in billions]

	1968	1978	1988	1998
Market world GNP (approximately ½ U.S.)	$1,800	$2,900	$4,800	$8,000
Output associated with U.S. investment abroad	200	450	950	2,000
Output associated with foreign investment in the United States	90	200	425	900
Output associated with other interinvestment outside the United States	130	300	600	1,300
Total output from international investment	420	950	1,975	4,200
"Internationalized production" as percent of market world GNP	23	33	41	53

The final figure (53 percent) shows a world economy better than half internationalized. If this is surprising to most of us, it is only because we have been so embroiled in the production problems of our nationally defined economies that we have failed to notice the impact of the international trend of the last twenty years, during which the productive structure of national economies has been irreversibly internationalized.

THE INTERNATIONAL COMPANY AND THE WORLD ECONOMY

This brief outline of some investment facts and suppositions provides the following summary picture:

1. In the sociology of this incipient world economy, the international company is the key element.

2. Although a variety of motives account for the history of the variety of companies, ultimately they must be validated in terms of differential yield (earnings). Lacking this, further investment will be discouraged.

3. Notwithstanding the arbitral force of differential yield in the international

allocation of resources, national restrictions are frequently the immediate occasion for investment. Investment (and therefore local production) may be forced in the face of higher costs. The effects involve a sacrifice of potential production, as now seems evident in the case of Canadian protection. Whether this effect is offset by the degree of development assured for local industry despite cost disadvantages is the agonizing policy question for any country with respect to its economic relations with a more developed (t.i. higher productivity and lower-cost) country.

4. Though the international company may have stumbled into its role as direct allocator of resources on a worldwide basis, its ultimate health (profitability) depends on the degree of reality in the international economy as distinct from the reality of the world seen as a group of national economies. In practical terms, this merely poses the question, What degree of freedom can the international company expect for its decisions on investment of capital resources and distribution of product? It is interesting in this connection that freedom of trade, which in the classical world of relatively fixed factors of production, is the main instrument of international distribution of productivity potentials in the separate nations, takes on even greater importance as a condition to realizing the gains of international production based on ready movement of factors of production.

5. The international company, once envied for its apparent freedom to operate in a kind of no-man's land beyond the legal reach of national law, is increasingly embarrassed by conflicts of laws, and lacks, and discriminations. Taxation and anti-trust are two important areas, as obviously are exchange, investment and trade controls. It is beginning to look as though a general problem of national policy may exceed the importance of any particular form the policy takes, and this is the problem of competitive guidelines as countries seek to maximize the national rather than international gain from the operations of international companies. National efforts to maximize the exports of international companies are a case in point. The U.S. capital-control effort (the current Foreign Direct Investment Program) to increase dividend remittance is another. Negotiations with respect to international production may soon overshadow trade as a problem of international economic diplomacy.

The most important economic implication of the multinational corporation is the existence of an incipient world economy in which the investment operations of companies make sense in terms of world allocation of resources. The analytical implication is that this is a new context requiring sweeping revisions of traditional analysis that turn on relatively closed national production systems among which the primary economic linkage is trade. The traditional view focuses on the importance of keeping the trade link relatively free. In contrast, capital movements are seen, explicitly in the IMF Charter, as potential disturbances to be controlled as necessary—indeed perhaps necessarily to be controlled in order to preserve commercial (current-account) freedom. The degree of internationalization of production already achieved has indicated the likelihood that that form of supporting current-account freedom carries very heavy costs in terms of production foregone.

LOOKING AHEAD

Far and away the most significant good about the international company is its ability to transcend the uneconomic national limits imposed by the world's fragmented political structure. The relatively high yield of international companies has dramatically documented the increase in productivity to be achieved from international allocation of resources. The international company is functioning as the main instrument of the international investment process, a role that brings together multiplier effects of the process itself and the heightening productive effects of international allocation, that is of bringing the tools and techniques of more productive areas to less productive.

In these past 20 years there has started a new industrial revolution. As in the first, the techniques of production and marketing have once again developed so rapidly that they have forced the covergence of markets—or perhaps more accurately have responded to the convergence tendency created by communication in such a way as to force a further degree of consolidation. This is a process that presumably will stop only with the full internationalization of production.

Or will it go that far? Will it be arrested at some level, compatible with continuation of the primary economic jurisdiction of the nation-state? And compatible too with continuing the present dimensions of world poverty? These questions invite intuition and an expression of faith. The nation-state has shown an

TABLE 29.—IMPORTS FROM UNITED STATES, 1969 THROUGH LATEST MONTH (APPROX. 80 PERCENT OF U.S. EXPORTS)

Country	1968 imports, total year			1969 imports, January through latest month				Import change in latest available 12-month period compared with preceding 12-month period	
	From world	From United States	U.S. share (percent)	Latest month	From world	From United States	U.S. share (percent)	From world (percent)	From United States (percent)
Germany, Federal Republic of	20,150	2,173	10.8	July	14,008	1,456	10.4	+20	+6
United Kingdom	18,958	2,539	13.4	August	13,344	1,779	13.3	+6	+14
France	13,929	1,319	9.5	July	10,337	865	8.4	+29	+18
Japan	12,988	3,529	27.2	do	8,293	2,192	26.4	+10	+7
Canada	12,446	9,118	73.3	do	8,268	6,086	73.6	+18	+17
Italy	10,253	1,193	11.6	June	6,016	691	11.5	+14	+20
Netherlands	9,291	1,014	10.9	July	6,152	573	9.3	+15	+11
Belgium-Luxembourg	8,333	689	8.3	June	4,837	337	7.0	+20	+7
Sweden	5,124	474	9.3	July	3,318	296	8.9	+14	+10
Switzerland	4,513	404	9.0	do	2,924	226	7.7	+13	+3
Australia	4,382	1,156	26.4	do	2,536	616	24.3	+6	+4
Spain	3,523	590	16.8	August	2,676	424	15.8	+15	+4
India	2,508	875	24.9	May	948	204	21.5	−16	−40
Mexico	1,960	1,236	63.0	do	828	505	61.1	+10	+7
Korea, Republic of	1,468	452	30.8	do	650	170	26.2	+34	+14

Source: International Commerce, Bureau of International Commerce. U.S. Dept. of Commerce, Oct. 27, 1969, p. 8.

unaccountable ability to survive the disintegration of the national economy as an efficiently operable unit. And poverty has a virulent tendency to multiply.

The dramatic internationalization of production through the techniques employed by the international company offers considerable encouragement to stay on the sunnier side of doubt. The operations of these companies have directly challenged the national definition of economies. Although companies may be embarrassed by the growing conflicts of national laws and policies, ultimately the conflicts are regularly resolved in compromises of national sovereign authority. These are emergences of inter- or multi-national ways of doing things—I was going to say of multi-national authority, but in matters involving arms or money the nature and degree of authority behind international decisions is not clear.

Much less encouraging, in fact disturbing, is the very limited success of companies or other institutions to connect up the less developed world to the economic power grid of the more developed. There even appears to be the possibility that most developed America will not just reduce the flow of resources to other areas but may actually for a time absorb real resources—a perversion of economies under misguided financial precepts reminiscent of the plowing-under days of the Great Depression.

The international company has two promising kinds of economic leverage going for it as a bridge to the less developed world: as a practical means of investment, it promises the multiplier's gains to the receiving economy, and as an international allocator of resources, it promises the economic benefits of higher yields. Both of these benefits are potentially higher the less developed and the less fully employed the economy is. With the very high propensities to consume and chronic underemployment of poor countries the multiplier is potentially very high—one would think probably between 0 and 20, reflecting a propensity to consume of 90–95 percent. It no doubt would take some considerable degree of heightened human motivation to activate the multiplier in actual production, but the potentiality is encouraging. This is only to say that the power of efficiency is most potent when it is least in evidence.

In short, the most important economic implication of international production is its potential, hinted at but not demonstrated conclusively yet, for carrying the investment process to the less developed countries. It is a matter for hope, but not idle hope, that the enormously productive experience of the companies in areas where production is least needed will be translatable in areas where the need is desperate.

SUPPLEMENT

TRENDS IN 1969—U.S. EXPORTS AND IMPORTS

It was pointed out earlier in this study that complete data on 1969 foreign trade, comparable to that shown in the tables may not be available until late Spring 1970. The following material has been added to provide some indication of what has been taking place in trade in the past year.

Table 3 in the first section of the report contains estimates of $36.8 billion for U.S. exports and $35.7 billion for imports in 1969. If attained this would be a gain of 8.8 percent for exports and 7.8 percent for imports. It would provide a trade surplus of $1.1 billion, a small improvement over 1968. If, however, government loans, aid, and grants should amount to $2.5 billion for 1969, the "commercial" balance would record at deficit of $1.4 billion.

Table 29 will show the changes in imports of U.S. products by the more important countries for, roughly, the first half of 1969. It is possible the trends deduced from these figures may be somewhat misleading because the dockstrike in the first quarter disrupted the normal patterns of trade for the first half year. The similarity of the U.S. percentage share of trade however, would indicate that the year's totals may not be too far out of line.

Italy, France, and Canada, in that order recorded the largest percentage increase in purchases of U.S. merchandise. The United Kingdom, Rep. of Korea, Netherlands, and Sweden, followed in that order of importance. Sales to Japan showed a surprisingly small increase. India, apparently as a result of a reduction in U.S. aid, showed a 40 percent decline in imports of U.S. goods and farm products for the 12 month period.

Changes in U.S. major commodity exports for the first nine months of 1969 over the comparable period of last year are shown in table 30. Exports of the major non-farm products shown in the table show a gain of 13.9 percent over the first nine months of 1968. Military aircraft, iron and steel mill products, computers and parts, semi-conductors, and iron and steel scrap, registered the most vigorously gains. Sales of iron and steel were stimulated by the strong demand in Europe and an extended strike in the Canadian steel industry. This heavy demand was reflected in exports of steel scrap. The world wide demand for steel has been increasing, and Japan and Western Europe have been important buyers of steel scrap.

TABLE 30.—CHANGES IN MAJOR U.S. NONFARM EXPORTS[1] (JANUARY–SEPTEMBER 1969)

[Dollar amounts in millions]

Commodity	1968	1969	Percent change
Motor vehicles and parts	$2,062	$2,387	+15.7
Military aircraft	234	496	+52.8
Iron and steel mill products	402	614	+52.7
Computers and parts	343	503	+46.6
Semiconductor devices and parts	152	248	+63.1
Nonferrous base metals	428	511	+19.3
Engines, turbines, and parts	857	926	+8.0
Iron and steel scrap	145	212	+46.1
Radio and TV apparatus	348	404	+16.0
Scientific and controlling instruments	272	335	+23.1
Chemical elements and compounds	947	999	+5.4
Materials and handling equipment	338	382	+13.0
Agricultural machinery, tractors, etc	652	692	+6.2
Special nuclear materials	18	53	+194.4
Coal and petroleum	790	822	+4.0
Civilian aircraft	1,059	914	−13.6
Synthetic rubber	148	98	−33.7
Fertilizers (manufactured)	201	171	−14.9
Metalworking machinery	266	244	−8.2
CHANGES IN MAJOR FARM COMMODITY EXPORTS (JANUARY–SEPTEMBER 1969)			
Wheat	$754	$529	−29.8
Corn and grain sorghums	687	582	−15.2
Soybeans	488	446	−8.6
Cotton	386	227	−41.2
Unmanufactured tobacco	363	326	−10.1

[1] Data source: International Commerce Weekly, Nov. 24, 1969, pp. 12, 13, Bureau of International Commerce. U.S. Department of Commerce.

Substantial gains were also shown by motor vehicles and parts, radio and TV apparatus, scientific instruments, materials handling equipment, and nonferrous base metals. The slower pace in auto and parts shipments are believed to reflect more normal development of the North American automotive market which was created by the U.S. Canadian automotive agreement of 1965.

The decline in exports of civilian aircraft was anticipated after the heavy sales of 1969. Declines in exports of synthetic rubber, fertilizer and metal working machinery may well be part of a long term trend as other nations strive for greater self sufficiency in these commodities.

The decline in exports of the major farm commodities shown in table 30 was 21.2 percent, although sales of all agricultural products for the year may not recede by more than 10 percent. The declines in sales of these commodities are the result primarily of self sufficiency programs abroad along with the common agricultural policy of the EEC. These programs have created growing supplies of agricultural products, and in some cases burdensome stocks. The dockstrike did cause some additional losses which may not have been regained in the second and third quarters of this year.

The substantial decline in wheat sales was due chiefly to smaller government financed shipments to India, Pakistan, and Brazil. The use of substitutes as a result of the dockstrike, and increasing supplies at home resulted in lower sales of corn and sorghums. Sales of soybeans were reduced by customers abroad waiting for lower prices. Japan in 1968 had stockpiled excess supplies in preparation for the strike. The decline in cotton exports is attributed to more competition abroad and a smaller exportable U.S. supply.

Meat and fruit exports are reported to have increased principally because of purchases by Japan and Canada.

Imports of the more important commodities are shown in table 31. This group reflects a gain of 8.7 percent for the first nine months of 1969. Imports of radio and TV receivers showed the largest gain with an increase of 47.6 percent. American companies are reported to be active in production in Hong Kong, Taiwan, and Mexico where lower assembly costs are available.

Imports of clothing and shoes showed very substantial increases at 31.3 percent and 29.2 percent respectively. As imports of consumer goods come chiefly from the Far East and through West coast ports, they were not seriously affected by the strike. Furthermore, the need for faster deliveries is diverting more consumer goods to air transportation.

Footwear purchases from Spain and Italy climbed sharply as more U.S. retailers took advantage of the lower prices available abroad for quality footwear.

TABLE 31.—CHANGES IN MAJOR U.S. IMPORTS, JANUARY-SEPTEMBER 1969

[Dollar amounts in millions]

Commodity	1968	1969	Percent change
Motor vehicle and parts	$2,949	$3,770	+27.7
Machinery	1,941	2,329	+19.9
Clothing	631	829	+31.3
Petroleum and products	1,730	1,890	+9.2
Radio and TV receivers	304	449	+47.6
Meat, fish, and preparations	1,014	1,159	+14.3
Lumber	400	513	+28.2
Woodpulp and newsprint	951	1,047	−10.0
Footwear	286	367	+29.2
Copper	748	360	−51.8
Coffee	882	606	−45.5
Iron and steel mill products	1,469	1,284	−2.2
Aluminum	276	212	−23.1
Sugar	479	469	−2.0

Source: Basis data from International Commerce Weekly, Nov. 24, 1969, pp. 13,14, Bureau of International Commerce, U.S. Department of Commerce.

A gain of 27.7 percent in imports of motor vehicles and parts was due in part to the U.S. Canadian automotive agreement and increased shipments from abroad. Japan's share of the U.S. market is reported to be increasing at the expense of Germany's automobile export business.

Machinery imports increased almost 20 percent because of the attractiveness of lower prices abroad and a continued high level of U.S. activity. The best gains were shown by office machinery and parts, materials handling equip-

ment, and communication apparatus, as well as trucks from U.S. subsidiaries in Canada.

Lumber imports, up substantially for the first nine months, have been reported recently to be falling because of reduced construction activity in the United States.

The largest decline in imports for the period shown was in copper. The 1968 figure on imports was inflated by heavy buying abroad as a result of the strike in that industry.

Coffee imports last year were also heavy in anticipation of the dockstrike, and the large decline here may be misleading.

The decline in imports of iron and steel mill products, where 1968 figures were also inflated in anticipation of the dockstrike, is due in part to the voluntary agreement negotiated with Japan and the EEC last year to reduce shipments to the U.S. Producers in these countries agreed to limit shipments to the U.S. to 11.4 million short tons or 3 million tons below the 1968 total. By the end of September Japan had shipped about 84 percent of its quota, and the EEC about 68 percent.

WORLD TRADE IN 1969

Table 2 in this study will show that World imports, led by the sharp gains in United States imports, expanded by 11.7 percent in 1968. Imports here are calculated on a C.I.F. basis. Officials of the General Agreement on Tariffs and Trade in Geneva expect world trade in 1969 to equal and possibly exceed the gain in 1968. In the first half of 1969 exports of the industrial countries expanded by 16 percent and imports by 14 percent. The Common Market recorded an increase of 25 percent in imports during the same period.

In 1970 the "generally anticipated cooling-off of the world business climate led by the United States seems more likely to have an impact on the growth of world trade" according to a GATT report.[1]

Mr. BURKE. Are there any questions?

Mr. CONABLE. I would like to thank Dr. Piquet for his contribution to perspective here. I think it is important that we do keep our perspective.

I would like to demur to only one point you have made.

I don't think that statesmanship is necessarily inconsistent with representation of one's district. You imply that we are bound to go the route of the short term and the political.

We all have different districts, of course, and in that respect we are likely to react differently to short-term pressures. I would hate to think that the Congress was incapable of taking a longer term view or of looking at the bigger picture or maintaining its perspective also in the aggregate.

I just wanted to demur to that one point you made.

Dr. PIQUET. To maintain perspective is not impossible, but it is difficult. Some years ago I helped two Congressmen, one a Republican and another a Democrat. They were very much interested in liberal trade programs. In one case we actually made a study of the Representatives own district, which revealed that the protectionist were a small minority as far as real economic interest were concerned. But, the trouble was that the liberals didn't turn out to vote as forcefully as the protectionists did. Both of them failed to be reelected.

If I were a Congressman, I am afraid I would hesitate to be a free trader. Yet, I don't think that every Congressman is stopped from being a statesman. I certainly don't agree with Harry Truman that "a statesman is a dead politician."

Mr. CONABLE. I am afraid if I took your view I would say this whole set of hearings was a farce and that there was no point in our attempting to find out the facts.

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[1] New York Times, Dec. 4, 1969, p. 8.

Frankly, I think it is not a farce. I don't think our institutions are hypocritical and I don't think that Congress is necessarily always wrong.

Dr. PIQUET. I agree with you. But I must call your attention to the fact that when the liberal side testifies before this committee you have a much smaller audience than when you hear the protectionist side. The protectionists have always been the more vocal and probably always will be. "Old man consumer" nearly always has to take it on the chin.

Believe me, if the common man really understood the nature of the trade problem he would add "trade restrictions" to his list of complaints, including air pollution, water pollution, and exploration of the consumer. The trouble is that the common man does not understand most broad economic issues.

Mr. CONABLE. One of the functions of this hearing is to try to help him understand it. Therefore, I do fall back on my original point, sir; that you have made a fine contribution to the perspective, that these hearings——

Dr. PIQUET. I don't mean to insult you, sir; but I must stick to my guns that to be a statesman in Congress is very difficult. I think you will agree with that.

Mr. CONABLE. I think it is very desirable, however difficult.

Dr. PIQUET. And desirable.

Mr. GIBBONS. I just want to comment that the hearing today is so widely covered by the press as compared to the shallow coverage that it did not get the other day when we had so many people sitting here you could hardly get in this room. I am impressed by the great coverage that the press is giving this hearing today.

Dr. PIQUET. They are not all press people at the press table, however.

Mr. BURKE. I just want to make this observation.

Your reference to Great Britain and during those great years they made money and how they benefited, I might point out that they were under a real colonial system then and actually they exploited labor to the most inhuman heights. I would hope that this country of ours would never have to resort to that type of exploitation.

Dr. PIQUET. I agree with that. That is not inconsistent with what I said, however. I was talking on the economic side. We have now reached the point where we have so many investments that we are collecting on them.

Mr. BURKE. There are a lot of people who feel that this war in South Vietnam is caused by this free trade movement, that after we got out of Korea American investors went over there and invested in textiles and shoes and there are plans under way right now, we understand, that if they can successfully end the war over there that they will be able to go into Cambodia and South Vietnam and other places with textile and shoe firms and have them work at even lower wages than they work at in Taiwan, Korea, and Hong Kong. This has been of concern to many people who would like to see the South Vietnam war end and they are wondering whether or not this is a trade war just to satisfy a lot of greedy people or what the purposes of our presence in South Vietnam is.

Do you have any statement to make on that?

Dr. PIQUET. No. I would prefer not to discuss our involvement in Vietnam. But, do not overlook the fact that the very big increase in the migration of American direct capital investment to Europe was brought about by trade restrictions. If it had not been for the formation of the Common Market, I doubt very much whether U.S. foreign investment would have accelerated as rapidly as it has.

Mr. BURKE. You have never looked into the causes of war in your studies of economics?

Dr. PIQUET. Yes, sir; I have, and with great interest and much concern.

Mr. BURKE. This will be one of the subjects that will be raised on this trade question before we are through.

Thank you very much for your testimony.

Our next witness is Charles H. Taquey of Washington, D.C.

STATEMENT OF CHARLES H. TAQUEY, WASHINGTON, D.C.

Mr. TAQUEY. Mr. Chairman, I have here a revised draft of my statement which I would like to submit for the record.

Mr. Chairman and members of the committee: My name is Charles Taquey, a lifelong student of trade retired from the U.S. Foreign Service, I work as an economic consultant.

I appear before this committee on behalf of no client, thankful for an opportunity to serve the national interest as I see it.

Mr. Howard Piquet, my friend and associate, has given a long-range view of foreign trade. This, on the other hand, is a plea for immediate action to meet the present emergency. Recession with inflation which we are now facing should be eased by unilateral removal of trade restrictions—the most compassionate means of economic stabilization.

At this stage, no one is confident that budget and money management can stabilize the economy. We are entering a cost-push phase of the inflationary spiral where financial and fiscal policies lose their grip on aggregate demand and drive up costs. In this case, costs must be deflated.

Inasmuch as devaluation is not available to the United States as a remedy, and as wage-price controls are unpredictable, it is necessary to remove causes of price rigidity.

This means, among other measures, suspending tariff duties of quotas, and, at least, refraining from imposing new ones on widely consumed products such as oil, food, shoes, and textiles. This, of course, will be effective because each industry's costs are influenced by the cost of living and affect, in turn, many other industries in a cascade of trade relations.

And I stress that liberalization of tariffs and quotas is the most compassionate method of economic stabilization. New restrictions would temporarily palliate the predicament of some industries. It would not have a lasting effect.

The interest of people in those industries will be served lastingly by the adjustment procedure which is an integral part of this proposal.

The proposed adjustment procedure is not a form of assistance replacing tariff and quota handouts. It is a serious effort to help market forces allocate resources.

Depression with inflation is a sign of misemployment of labor, capi-

tal, and knowledge. Resources are used for the wrong purpose and, as a result, real needs are not fulfilled.

Before employment in plants started to drop, services had become less available and their quality had deteriorated. Manpower will long remain scarce in essential services and vast ecological problems will not be solved as long as resources are not transferred from other sectors of the economy. A better allocation of resources is both necessary and possible.

At this stage, the allocation of resources can no longer be corrected solely by market mechanisms. It is necessary to intervene. It would not be wise, however, to intervene everywhere at once. The task would be staggering.

Limited to a few industries, those, for instance, that cannot stand foreign competition, the task can be tackled. In those limited instances, a deliberate process of adjustment can redirect labor in surplus and redundant facilities to the service of need which are now unfulfilled.

A radical treatment of cost-push inflation through trade liberalization brings into focus the adjustment provisions already written in the law. Adjustment, on the other hand, requires more than legislation; it requires a cooperative effort of labor, management, the local communities and public authorities to give life to the legal provisions.

The effort must be guided by the goal of resource allocation for the true wants of society. And it must be efficiently managed. Here, we have our greatest opportunity to prove that we can apply our managerial skills, which are the pride of this country, to the management of change. If we do so, we shall not be afraid of the future but ready to go out of our way to meet it, as Americans have always done.

If the United States adopts trade liberalization as a positive means of inflation control and resources allocation, rather than a sacrifice for the sake of exports, it will not need to threaten, nor even to bargain with foreign countries for an equitable treatment of its products and services abroad.

The most effective use of the power of America is the power of example. Removal of trade restrictions here will destroy the excuse for protectionism abroad. Foreign countries will be persuasively reminded that their restrictions hurt them more than they hurt us and that liberalization will benefit them as it has benefited us.

Tariff bargaining is a leisurely game the rules for which were developed when the value of foreign competition as an agent of economic stabilization was not clearly seen. It may be a rigged game where everybody loses—by less exportation and even more by less importation.

Should we be dissatisfied with bargaining and retaliate against other countries, we would give the impression of a nation unsure of its power; we would cause tariffs and quotas to escalate worldwide and we would see not only our exports dwindle but inflation swell at home, and our resources go to waste. A really serious economic crisis might be at the end of the road.

Foreign competition is not a threat. It is a God-given opportunity. I believe that a voice—probably a lonely voice—should be raised to oppose new trade restrictions, to recommend suspension of tariffs and quotas—selectively, perhaps—and to support a sound process of re-

source allocation based on expanded adjustment provisions already written in the law.

Thank you.

Mr. BURKE. Thank you.

Are there any questions?

There being no questions, the committee thanks you for your appearance here and your testimony this morning.

Mr. TAQUEY. Thank you, Mr. Chairman.

(Mr. Taquey's prepared statement follows:)

PREPARED STATEMENT OF CHARLES H. TAQUEY

My name is Charles Taquey. A life-long student of trade relations recently retired from the Foreign Service of the United States, I work now as an independent economic consultant. I appear before this Committee on behalf of no client, thankful for an opportunity to serve the national interest as I see it.

Dr. Howard Piquet, my friend and associate, will present in these hearings a long-range view on the subject of foreign trade. I want to submit, for my part, an urgent recommendation for a new look at our trade policy in the present emergency. Facing a recession with inflation, the only cure I can see for this country is unilateral removal of trade restrictions as the most compassionate means of economic stabilization.

ECONOMIC STABILIZATION

At this stage, no one is fully confident that further measures of budget or money management can stabilize the economy. We are moving into a cost-push phase of the inflationary spiral where financial or fiscal policies have limited effects on aggragate demand and risk driving costs further up. At such a time, cost reduction is a compelling necessity amenable to only three courses of action: devaluation which might give us a competitive advantage in export costs but would further distort the domestic price structure; "jawboning" and wage-price controls which are distasteful and of no proven effectiveness; and the removal of trade restrictions on widely consumed items.

Of the three, trade liberalization is the only acceptable solution. Suspension of tariff duties, actual and stand-by quotas on oil, food, shoes, and textiles would ease down not only the cost of living but, through repercussions from industry to industry subject to the quantitative and psychological influence of the consumer prices index, the entire price structure.

Industries to be selected for liberalization may be or may not be those where clamors for greater protection is the loudest. In any case, the interests of people in those industries would not be served by new restrictive measures that would only palliate their predicament. It will be well served, indeed, by an adjustment procedure which is an integral part of this recommendation.

ALLOCATION OF RESOURCES

Depression with inflation is the sign of misemployment of labor, capital and knowledge. For some time already, the availability of services has decreased and their quality has deteriorated in this society. Still, services are more important, some for the poor, some for the rich and some for both, than an abundance of goods and they are labor-intensive. The same is true of the vast new ecological problems which cannot be solved without a transfer of resources from other sectors of the economy.

The faulty allocation of resources can no longer be corrected swiftly and painlessly by market mechanisms. The nation must devise man-made processes of resource allocation. To allocate resources in the whole of the economy would be a staggering task; limited to a few industries subject to foreign competition, the task becomes manageable. Under appropriate adjustment procedures, the surplus and labor and the redundant facilities of those industries lend themselves to be redirected so that they can serve needs unfulfilled.

The principle of adjustment is already written into the law. It may be expanded. But it is up to labor, business, the local communities, the States of the Union and the Federal Government to join forces to give life to the prin-

ciple. In the system, or systems, that they will create, areas of redeployment should be identified; retraining and placement of labor, arranged for; transfer or re-use of facilities, put in effect; and the modicum of assistance consistent with the effective functioning of the system could be supplied, possibly on an actuarial basis. It is highly likely that home improvement, repair services and waste control will provide the opportunities for employment on which this adjustment system will rest.

By pioneering in economic redeployment, the industries which will bear the brunt of adjustment will also secure the first opportunities for reemployment and a favorable position in building the world of tomorrow, a better perspective, indeed, than eking out a precarious existence by government handout; in the form of tariffs or quotas.

Adjustment methods devised for the benefit of industries or communities subject to foreign competition will be used later to mitigate the impact of technological change, a much more severe threat to job security than importations. Some day, general adjustment insurance will be adopted to make the application of economic laws gradual and bearable without hampering their effect. The perspective is immense. Adjustment to foreign competition is only a beginning.

RECIPROCITY

If the United States adopts trade liberalization as a boon to our domestic economy rather than suffering it as a sacrifice to be made to help our exports, it will not need to threaten, nor even to bargain with foreign countries for a better treatment of our products abroad than that which now obtains.

The most effective use of United States power is the power of example. Following the removal of restrictions—even of a few of them—over here, other countries will be deprived of their best excuse before the world community and before their own people for maintaining restrictive policies. They will be reminded in the most persuasive fashion that those policies can hurt them more than they hurt us. The demonstration will not have to wait for the success of our own measures of liberalization, swift as that success is likely to be.

Should we continue, on the other hand, to threaten other countries, or merely to use the milder threat implied in tariff bargaining, or even to cajole them into establishing "voluntary" restrictions on exports, we would then compound the misunderstanding which has prevailed for so long in trade policy, we would feed the erroneous assumption that exports are good and imports, bad; as former proponents of trade expansion, we would give the impression of a nation unsure of its goals; with our partners in trade we would encourage an escalation of tariffs and quotas hurtful to our balance-of-payments but still more hurtful to our domestic economy; we would continue to press inflation and to impair further our allocation of resources; and we would find a ringing economic crisis at the end of the road.

CONCLUSION

Foreign competition is not a threat, it is a God-given opportunity. I oppose any new trade restriction. I recommend selective removal of tariffs and quotas. I support broader adjustment provisions as an integral part of trade liberalization and as a means of developing a sound process of resource allocation to supplement market forces but I am opposed to adjustment assistance if it is to remain a fitful handout.

Mr. BURKE. Our next witness is Mr. Robert B. Schwenger, of Kensington, Md.

You are recognized, Mr. Schwenger.

We welcome you to the committee.

STATEMENT OF ROBERT B. SCHWENGER, KENSINGTON, MD.

Mr. SCHWENGER. Thank you, Mr. Chairman.

I am grateful for this opportunity to appear before the committee.

The view I want to express is, in summary, that the world's great trading nations have become bogged down in a permanent public economic-warfare situation; they cannot get out of it by continuing

the method of reciprocal negotiation under the trade agreements program by which they got into it; but they can escape by extending the representative process internationally through public deliberation of trade problems and open cooperation in solving them. Only the Congress can have the perspective and the authority to give the necessary lead. This is not like the case my friend, Howard Piquet, discussed a few minutes ago. He said that only the President could lead toward his concept of free trade. In seeking an appropriate public process in this field, however, only the Congress is in a position to lead.

I urge that a first, exploratory step be taken this year, regardless of whatever action is taken on the short-term proposals before the committee.

My credentials

This view is based on experience in the working-level conduct of the Trade Agreements Program going back to its start in 1934.

I was on the first interdepartmental country committee to complete a reciprocal trade agreement—the one with Brazil in 1936. In 1944, I was assigned to the group which planned and negotiated the ITO and the GATT. I partcipated in five of the six GATT negotiating rounds. Since retiring from the Civil Service in December 1966, I have been studying, writing, and teaching international trade policy.

A statement of the social science rationale for my proposal today is being published this month in a paper entitled "New Concepts and Methods in Foreign Trade Negotiation," as part of the 1969 proceedings of the American Agricultural Economic Association. With your permission, Mr. Chairman, I would like to submit a copy of it for inclusion in the record at the end of this brief oral statement for the committee.

The question

It seems to me that neither testimony for freer trade nor testimony for reasonable protection addresses the important question facing the committee. That question was put by the chairman (Mr. Mills) on the first day of these hearings: How did it happen that American public opinion shifted away from confidence in our liberal trade policy?

The corollary question of what to do about it was put by a member of the Joint Economic Committee Subcommittee on Foreign Economic Policy last December after hearing "Trade Policy for the 1970's" discussed for 3 days by 15 very distinguished members of the international-trade community: "What form of association," he asked, "is * * * called for in the * * * new economic world"? What should be the framework for discussing trade problems with other countries?

My remarks are addressed to these questions.

Response to economic interdependence

The main thing that has happened is, as the President's message puts it, that "world economic interdependence has become a fact." We have gone from a shrinking, fragmented society to one that is expanding and integrating.

To benefit fully from technological advance, the world must now function as a single economic continuum. Many sectors of industry and other economic groups are responding to this imperative by internationalizing. Governments and parliaments are groping toward

appropriately collaborative responses in a number of areas of economic (and particularly monetary) policy.

Blocked by adversary process

But in the trade field, our program has interfered with the appropriate response. As a participant in it, I have witnessed this process of interfering. In an interdependent world, a program based on the policy concept of freer trade and on the program method of reciprocal negotiation produces a public posture of continuing economic warfare among the industrialized countries. This is because reciprocal negotiation is an adversary process rather than a deliberating, cooperative, problem-solving process.

Statesman for the depression barriers

Originally, in the fragmented, shrinking world of 1934, the reciprocal trade agreements program was a great act of statesmanship. The high "beggar-my-neighbor" barriers against depression had only made depression worse. Neither we nor any of the other trading countries wanted very much to keep its own barriers (except to avoid injury) and all wanted very much indeed to get rid of foreign barriers. Then, and during the reaction against war-time trade control in the late 1940's when we were all cooperating to restore war-damaged economies, the adversary negotiating process worked. It was a cooperative process for gitting rid of our depression mistakes. It was a stroke of political genius.

Social purposes are not negotiable

But the significant barriers of recent years are not mistakes in that sense. They are associated with responsible Government programs adopted to accomplish domestic social purposes—to support farm incomes, to reform tax systems, to help depressed areas, to enforce product standards, to assure minimum wages and working conditions, to protect public health, and so forth. They create trade problems because of world economic interdependence. Foreigners see them as trade barriers and want them discontinued. This has meant a very real reciprocal misunderstanding in the negotiations. The government responsible for a particular barrier might be willing to discuss the limits of its domentic purpose and how to accomplish the purpose with the least adverse side-effect, in our country as well as foreign countries, but it cannot consider compromising the purpose itself, even in return for substantial foreign concessions on unrelated matters.

Negotiation leads to bitterness.—Thus, the process of secret reciprocal negotiation leads primarily to bitterness. Negotiating positions are prepared in advance; every sort of bargaining weapon is marshaled to "win"—that is to outnegotiate other governments. As the deadlocks are revealed, high officials begin to hurl accusations of illegality at one another, of bad faith, of action contrary to self-interest, and the like. Public threats are made. The press and public opinion see the program as a struggle for advantageous armistice in a basic conflicts of economic interest, rather than as achieving cooperation toward a common economic goal. They begin to support unreasonable retaliation in order to teach foreigners to be reasonable. That, I believe, is the main lesson of the Kennedy round.

Trade is restricted irrationally.—A most unfortunate consequence of this economic warfare attitude, in a time of accelerating, worldwide

economic innovation, is the support for irrational efforts to use trade restrictions to escape adjustment to innovation—innovation at home as well as abroad. Examples are the Common Market poultry restrictions and the U.S. restrictions on carpets and glass.

I feel certain, myself, that in each of these cases, open international discussion of the specific gains and costs of the new processes would have led to a mutually acceptable program with a minimum of Government intervention. But the tensions and misunderstandings attendant on the secret trade-negotiation process literally kept us from trying.

The intensity of feeling is hard to imagine if you have not been a part of this negotiating process.

The poultry war is a particularly sad example partly because the potential party gains were so great. In a protein-starved world, there was a U.S. technological breakthrough greatly increasing the availability of chicken. Until other countries could catch up technologically, the United States began to export a portion of its annual increase in production. The EEC slapped new restrictions on this temporary trade. We asked that they be removed as a matter of principle. The EEC increased them. We complained to the GATT, which scaled down our exaggerations and authorized a modest retaliation. The hysteria of the negotiating attitudes can be judged by the fact that our next decision was made at a meeting convened on November 22, 1963, just a few minutes after we had received word of the assassination. A motion to adjourn was defeated. Nothing could be permitted to delay our advising the new President to retaliate as his first act under the trade agreements program.

A public process solution.—The constructive way out of this economic warfare, in my view, lies through public international discussion of specific trade-barrier problems. The frustrating drama of exaggerated confrontation—stirring up animosity over alleged foreign inequities day after day—would give way before a drama of cooperation—day-to-day international detective work ending in agreed analysis and reasonable mutual accommodation in the common economic interest, especially among the industrial countries. Much of such accommodating is done when Government intervention creates major real trade problems; but it is done in closed meetings as an exception to trade policy. Therefore, it does not stimulate cooperative public attitudes. Historically, industrial society has advanced by matching the extension of economic interdependence with the extension of representative political process. Now, this is a matter understood better in parliaments than in Government or academic circles.

Only the Congress can lead.—Officials and economists have been studying the trade-policy problem—turning out reports and testimony—for 3 years now. They have greatly advanced understanding of the changes in our trade environment, but they have largely missed the political implications of those changes. For the most part, they recommend patching up the old program.

Governments and officials have a natural bias against free public discussion of policy with foreigners. In their administrative structure, openness has a disorderly, even a disloyal, quality. By open discussion they are apt to mean embracing wider subject matter in secret negotiation.

As for international economists, their basic theories are directed to

national governments. They assume separate economies. They will have to revolutionize their techniques to deal with an interdependent world economy. Only parliaments being representative can free themselves from these institutional biases against adjusting operations to the fact of an interdependent world. And only the Congress, as the world's most powerful parliament, can give an effective lead at this time.

A mechanism of cooperation.—An eventual framework for achieving international public discussion of trade problems might include the following elements:

1. A continuing multilateral forum at which Government actions affecting trade could be brought up for open discussion. There would be no multilateral decision but only a report of all significant relevant facts—including the announced public purpose of an action, the economic effects of the action (intended or incidental, direct or indirect, concentrated or diffused, immediate or longer term—all quantified as far as possible), any actions of other governments affecting the same trade, and the economic effects of those actions.

2. Commitment by all governments to public national reconsideration (presumably by the Congress in the case of the United States) of any action which was the subject of such a factual report by the multilateral forum—with a view (*a*) to discontinuing any action found no longer desirable or necessary for its public purpose and (*b*) to modifying any action where its public purpose could thereby be served with less adverse incidental effect. This is a commitment to reconsider—not to modify.

3. Commitment by all governments to consider cooperating, with any government which completes and acts on such national reconsideration of one of its actions—cooperating toward the most efficient accomplishment of the public purpose of the action.

4. A Secretariat to staff the multilateral forum. This could be the GATT, the UNCTAD, the UNECOSOC, some combination of them, or a new staff.

5. And, most importantly, an independent International Trade-Fact Authority responsible to parliaments—not to governments or to international secretariats. It would consist of national trade-fact officers with the sole responsibility of assuring that both the multilateral discussion and the subsequent domestic reconsiderations were as public and as fully informed as possible, and that any action affecting trade was publicly understood in relation to the problem it treated and to available alternative solutions to the problem. The trade-fact officers would have the necessary authority to know and to disclose facts and analyses. They would be entitled to ask the multilateral forum to consider particular trade-affecting actions, whether taken by their own governments or other governments.

Possible first steps. Whatever the particular framework, however, I strongly urge that the committee recommend enactment this year of authority to take exploratory steps. The following may suggest ways of starting:

1. Respond to the President's request for a statement of congressional intent with regard to the negotiation of nontariff barriers by approving the open, public, multilateral discussion of the purpose and effects of any U.S. Government action which foreigners consider a trade barrier, on condition that the foreign governments involved reciprocate by participating in similar public discussion of any of

their own acts which the United States may consider a trade barrier; request that the President report the results of such discussion in order that the Congress may reconsider the U.S. actions in question in the light of the facts brought out. (There would be no advantage, and possibly some very substantial disadvantage, in arbitrarily limiting such discussion to nontariff barriers.)

2. Recommend that the President consider inviting other countries—either directly or through an appropriate intergovernmental organization—to join in a Declaration of Economic Interdependence and to enter into open, public debate as to methods of consultation and cooperation appropriate for limiting their trade intervention to that essential to specific public purposes and for insuring the maximum expansion of world trade and production in the public interest.

3. Urge the President to propose the establishment (in connection with the UN, GATT, UNCTAD, or other intergovernmental organization or some combination of such organizations) of a continuing Multilateral Forum on Trade Problems—as a vehicle for carrying out the type of discussion mentioned under point 1 above.

(4) Take note that much of the controversy over Government action affecting trade is rooted in national differences regarding verifiable facts; and authorize the establishment of the U.S. Trade-Fact Office, reporting to the Congress and the American public, to obtain full and correct trade information and not be dependent on biased sources, whether Government or nongovernment.

(5) Since writing the paper you have before you, a fifth possibility has occurred to me to suggest as a line of immediate action, one perhaps related even more closely to the dilemma of the committee between short term and long term proposals.

It would be to request that the President invite the countries sending to the United States, imports of a product allegedly threatening to disrupt the U.S. market—invite them to join in an informal factfinding study group which would seek agreement on the full facts relevant to the trade in the product and report in time for consideration of its findings at the next session of Congress.

Such an expression of the wish of the Congress to reach wide international understanding of each difficult trade problem would be appropriate regardless of what Congress may decide to do regarding restriction of the trade this year.

A first step will "cool" things

It will be evident to the committee that, regardless of what may be decided about difficult current problems, any lead from the Congress in the direction of public international discussion of the specific trade problems of our interdependent economic world, any lead whatever, will tend to cool the present economic warfare attitudes that you have heard discussed at such length over the last few weeks and to stimulate informal communication and coordination among governments.

This committee has the opportunity now to establish a procedural framework within which legitimate trade interests can find equitable accommodation consistently with the public interest, just as the committee did 36 years ago for the problems of a very different kind of economic warfare.

Thank you, Mr. Chairman.

(Mr. Schwenger's prepared statement and the paper entitled "New Concepts and Methods in Foreign Trade Negotiation" follow:)

PREPARED STATEMENT OF ROBERT B. SCHWENGER

Summary.—I am grateful for this opportunity to appear before the Committee. The view I want to express is, in summary, that the world's great trading nations have become bogged down in a permanent public economic-warfare situation; they can not get out of it by continuing the method of reciprocal negotiation under the Trade Agreements Program by which they got into it; but they *can* escape by extending the representative process internationally through public deliberation of trade problems and open cooperation in solving them. Only the Congress can have the perspective and the authority to give the necessary lead. I urge that a first, exploratory step be taken this year, regardless of whatever action is taken on the short-term proposals before the Committee.

My credentials.—This view is based on experience in the working-level conduct of the Trade Agreements Program going back to its start in 1934. I was on the first interdepartmental country committee to complete a reciprocal trade agreement—the one with Brazil in 1936. In 1944, I was assigned to the group which planned and negotiated the ITO and the GATT. I participated in all but one of the six GATT negotiating "Rounds". Since retiring from the Civil Service in December, 1966, I have been studying, writing and teaching international trade policy. A statement of the social science rationale for my proposal today is being published this month in a paper entitled New Concepts and Methods in Foreign Trade Discussion, as part of the 1969 proceedings of the American Agricultural Economics Association. With your permission, Mr. Chairman, I would like to submit a copy of it for inclusion in the record at the end of this brief oral statement for the Committee.

The question.—It seems to me that testimony for freer trade or for reasonable protection does not address the important question facing the Committee. That question was put by the Chairman (Mr. Mills) on the first day of these hearings: How did it happen that American public opinion shifted away from confidence in our liberal trade policy? A corollary question was put by a member of the J.E.C. Subcommittee on Foreign economic Policy last December after hearing "Trade Policy for the 1970's discussed for three days by 15 very distinguished members of the international-trade community: "What form of association", he asked, "is . . . called for in the . . . new economic world?" What should be the framework for discussing trade problems with other countries? My remarks are addressed to these questions.

Response to economic interdependence.—The main thing that has happened is, as the President's message puts it, that "world economic interdependence has become a fact." We have gone from a shrinking, fragmented society to one that is expanding and integrating. To benefit fully from technological advance, the world must now function as a single economic continum. Many sectors of industry are responding to this imperative by internationalizing. Governments and parliaments are groping toward appropriately collaborative responses in a number of areas of economic (and particularly monetary) policy.

Blocked by adversary process.—In the trade field, however, our program has interfered with the appropriate response. In an interdependent world, the old policy concept of freer trade and the old program method of reciprocal negotiation produce a public posture of continuing economic warfare among the industrialized countries. This is because reciprocal negotiation is an adversary process rather than a deliberating, cooperative, problem-solving process.

The greatness of Cordell Hull.—Originally, in the fragmented, shrinking world of 1934, the Reciprocal Trade Agreements Program was a great act of statesmanship. The high "beggar-my-neighbor" barriers against depression had only made depression worse. Neither we nor any of the other trading countries wanted very much to keep its own barriers (except to avoid injury) and all wanted very much indeed to get rid of foreign barriers. Then, and during the reaction against wartime trade control in the late 1940's when we were all cooperating to restore war-damaged economies, the adversary negotiating process worked. It was a skillful way of correcting our depression mistakes.

Social purposes are not negotiable.—But the significant trade barriers of recent years are incidental to responsible government programs adopted to accomplish domestic social purposes—to support farm incomes, to reform tax systems, to help depressed areas, to enforce product standards, to assure minimum wages and working conditions, to protect public health, and so forth. They create trade problems because of world economic interdependence. Foreigners see them as trade barriers and want them discontinued. This has meant a very real reciprocal misunderstanding. The responsible government might be willing to discuss the limits of its domestic purpose and how to accomplish the purpose with least ad-

verse side-effect, but it cannot consider abandoning the purpose (or lowering its sights) in return for foreign concessions on unrelated matters.

Negotiation leads to bitterness.—Thus, the process of secret reciprocal negotiation crystalizes premature deadlock. Negotiating positions are prepared in advance; every sort of bargaining weapon is marshalled to "win"—i.e., to outnegotiate other governments; as the deadlocks are revealed, high officials begin to hurl accusations of illegality, of bad faith, of action contrary to self interest, and the like; public threats are made. The press and public opinion see the program as compromising basic conflicts of economic interest rather than as achieving cooperation toward a common economic goal. They begin to support retaliation. That is the main lesson of the Kennedy Round.

Trade is restricted irrationally.—A most unfortunate consequence of this economic-warfare attitude, in a time of accelerating economic innovation benefiting the world economy, is the support for irrational efforts to use trade restrictions to escape adjustment to innovation—innovation at home as well as abroad. Examples are the EEC poultry restrictions and the U.S. restrictions on carpets and glass. In each of these cases, I believe that open international discussion of the specific gains and costs of the new processes would have led to a mutually acceptable program with a minimum of government intervention. The tensions and misunderstandings attendant on the secret trade negotiation process kept us from trying. The poultry war is a particularly sad example because the economic and potential political gains were so great. In a protein-starved world, there was a U.S. technological breakthrough greatly increasing the availability of chicken. Until other countries could catch up technologically, the U.S. began to export a portion of its annual increase in production. The EEC slapped new restrictions on this temporary trade. We asked that they be removed as a matter of principle. The EEC increased them. We complained to the GATT, which scaled down our exaggerations and authorized a modest retaliation. The hysteria of the negotiating attitudes can be judged by the fact that our next decision was made at a meeting convened on November 22, 1963, just a few minutes after we had received word of the assassination. A motion to adjourn was defeated. Nothing could be permitted to delay our advising the new President to retaliate as his first act under the Trade Agreements Program.

A Public Process Solution. The constructive way out of this economic-warfare, in my view, lies through public international discussion of specific trade-barrier problems. The frustrating drama of exaggerated confrontation—stirring up animosity over alleged foreign iniquities day after day—would give way before a drama of cooperation—day-to-day international detective work ending in agreed analysis and reasonable mutual accommodation in the common economic interest. Much of such accommodating is done when government intervention creates major real trade problems; but it is done in closed meetings as an exception to trade policy. Therefore, it does not stimulate cooperative public attitudes. But industrial society advances by matching the extension of economic interdependence with the extension of representative public process.

Only the Congress Can Lead. It is a matter understood better in parliaments than in government or academic circles. Officials and economists have been studying the trade-policy problem—turning out reports and testimony—for three years now. They have greatly advanced understanding of the changes in our trade environment, but they have largely missed the political implications of those changes. For the most part, they recommend patching up the old program. Governments and officials have a natural bias against free public discussion of policy with foreigners. In their administrative structure, openness has a disorderly—even a disloyal—quality. By *open* discussion, they are apt to mean embracing wider subject-matter in *secret* negotiation. As for international economists, their basic theories are directed to national governments. They assume separate national economies. Interdependence means opening relations while retaining geographic separateness. They will have to revolutionize their techniques to deal with an integrated world economy. Only parliaments—being representative—can free themselves from these institutional biases against adjusting operations to the fact of an interdependent world. And only the Congress, as the world's most powerful parliament, can give an effective lead at this time.

A Mechanism of Cooperation. An eventual framework for achieving international public discussion of trade problems might include the following elements:

1. A continuing *Multilateral Forum* at which government actions affecting trade could be brought up for open discussion. There would be no multilateral decision but only a report of relevant facts—including the announced public

purpose of an action, the economic effects of the action (intended or incidental, direct or indirect, concentrated or diffused, immediate or longer-term—all quantified as far as possible), any actions of other governments affecting the same trade, and the economic effects of those actions.

2. Commitment by all governments to public national reconsideration (presumably by the Congress in the case of the U.S.) of any action the subject of such a factual report by the Multilateral Forum—with a view (a) to discontinuing any action found no longer desirable or necessary for its public purpose and (b) to modifying any action where its public purpose could thereby be served with less adverse incidental effect.

3. Commitment by all governments to consider cooperating, with any government which completed such national reconsideration of one of its actions, toward the most efficient accomplishment of the public purpose of the action.

4. A secretariat to staff the Multilateral Forum. This could be the GATT, the UNCTAD, the UN–ECOSOC, some combination of them, or a new staff.

5. An independent *International Trade-Fact Authority* responsible to legislatures—not to governments or international secretariats. It would consist of national *Trade-Fact Officers* with the sole responsibility of assuring that both the multilateral discussion and the subsequent domestic reconsiderations were as public and as fully informed as possible, and that any action affecting trade was publicly understood in relation to the problem it treated and to available alternative solutions to the problem. The Trade-Fact Officers would have the necessary authority to know and to disclose facts and analyses. They would be entitled to ask the Multilateral Forum to consider particular trade-affecting actions, whether taken by their own governments or other governments.

Possible First Steps. Whatever the particular framework, however, I strongly urge that the Committee recommend enactment this year of authority to take exploratory steps. The following may suggest ways of starting:

1. Respond to the President's request for a statement of Congressional intent with regard to the negotiation of non-tariff barriers by approaching the open, public, multilateral discussion of the purpose and effects of any U.S. government action which foreigners consider a trade barrier, on condition that the foreign governments involved reciprocate by participating in similar public discussion of any of their own acts which the U.S. may consider a trade barrier; request that the President report the results of such discussion in order that the Congress may reconsider the U.S. actions in question in the light of the facts brought out. (There would be no advantage, and possibly some very substantial disadvantage, in arbitrarily limiting such discussion to non-tariff barriers.)

2. Recommend that the President consider inviting other countries—either directly or through an appropriate intergovernmental organizaton—to join in a *Declaration of Economic Interdependence* and to enter into open, public debate as to methods of consultation and cooperation appropriate for limiting their trade intervention to that essential to specific public purposes and for insuring the maximum expansion of world trade and production in the public interest.

3. Urge the President to propose the establishment (in connection with the UN, GATT, UNCTAD or other intergovernmental organization or some combination of such organizations) of a continuing Multilateral Forum on Trade Problems—as a vehicle for carrying out the type of discussion approved under point 1 above.

4. Note that much controversy over government action affecting trade is rooted in national differences regarding verifiable facts; authorize the establishment of a U.S. Trade-Fact Office, reporting to the Congress and the American public, to obtain full and correct trade information.

A first step will "cool" things. It will be evident to the Committee that, regardless of what may be decided about difficult current problems, any lead from the Congress in the direction of public international discussion of the specific trade problems of our interdependent economic world—any lead whatever—will tend to "cool" the present economic-warfare attitudes and to stimulate informal communication and coordination (or agreement) among governments. This Committee has the opportunity to establish a procedural framework within which legitimate trade interests can find equitable accommodation consistently with the public interest—just as the Committee did 36 years ago this month for the problems of a very different kind of economic warfare.

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NEW CONCEPTS AND METHODS IN FOREIGN TRADE NEGOTIATION

BY

ROBERT B. SCHWENGER

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New Concepts and Methods in Foreign Trade Negotiation

ROBERT B. SCHWENGER

I PARTICULARLY appreciate the opportunity to discuss foreign trade policy at this meeting of your Association. The subject is officially "open"—much as it was just 25 years ago when I wrote my first foreign trade paper for your Journal as a by-product of work on the team that drafted the GATT (General Agreement on Tariffs and Trade) [7]. The government and Congress are again looking for a new program. The record of hearings held and official recommendations made in the past two years runs to some 7000 pages, and the debate continues.

Summary

That debate is taking place against the conceptual background known as "free-trade-versus-protection" which has traditionally framed foreign trade thought in the United States. This paper contends that the conceptual system, however socially useful it may have been during the 19th century when the nation was developing and consolidating in a colonizing, warring world, is irrelevant today. It highlights the wrong questions about our foreign trade problems. Therefore, the negotiating method based on those concepts has been working in reverse. Although directed to reducing trade barriers, it increases them. Although dedicated to peace, it stirs up international hostility over trade matters—often over minor ones. Worst of all, it militates against efforts to work out an alternative method of international trade discussion on the basis of a more pertinent set of public concepts ready at hand for the purpose. I will argue that governments should now by-pass the free-trade-versus-protection concepts, which assume an essentially isolated, static, laissez-faire national economy. Instead, they should be guided by the general concept of their collective responsibility for facilitating the prosperity of a dynamic world economy. In foreign-trade-policy terminology, that concept may be called "free-trade-versus-economic-fragmentation" or, more accurately, "free-trade-versus-Balkanization." It implies a mixed-economy, competitive-representative process for the world. One method for governments to work toward that kind of free trade would be through open joint deliberation of all facts relevant to a trade barrier, followed by public national reconsideration of the barrier with a view to eliminating it or modifying it to serve its purpose with minimum undesirable side effects, and then public consideration by other governments of cooperating toward that purpose. This approach would contribute not only to efficiency but also, by denationalizing trade conflict, to the building of positive economic peace.

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The Concept-Method Interface

As you can see from that summary, I take my assigned subject, "Concepts and Methods," to refer to concepts that pervade public debate and methods that governments formally announce. This takes us along a tortuous interface between science and art—that is, between social science theory and its application in governance. It is a tricky area for both theorist and official. It is especially dangerous for those who, like me, try to be dual purpose animals. Let me take a moment on this methodological point.

The role of the *social theorist* is threefold. First, he must perceive the real forces and trends that conduce to current social purpose as he reads that purpose (or, if he wishes to serve a group smaller than society, as his group reads it). Second, he must posit a model universe, incorporating as many as he can handle of the characteristics of the real world that are relevant to the purpose. Third, from his model, he must reason out concepts that can illumine for everyone the ways of accomplishing the purpose. The *policy official,* on his side, looks to the scientist's concepts for guidance in devising and support in making publicly acceptable methods of coping with real problems. Once publicly accepted, a concept, together with the assumptions built into it by its model, acquire a certain sanctity and resistance to change. Reality, on the other hand, changes rapidly. Different real characteristics become relevant and significant for social purpose; the model needs changing; the concept needs revision. The established scientist may be tempted to evade this challenge. He can say that his work is pure theory—or the exercise of, as your program so nicely puts it, the "tools of our trade"—leaving the real problems of society for the politicians and the general public. Or he may be tempted to patch up his model without retreating from his old policy conclusions. The official, of course, must go on dealing with the new problems, explaining his actions as modifications or exceptions to his announced method of acting.

At such times, the two may form a *defensive alliance.* Cooperation between social theorist and official is socially useful for assuring full public information regarding problems, policies, and proposals for change. But it can be a disservice if used to cover up the shortcomings of an out-dated model or, worse, to let such a model pass as the ideal to be achieved by a public program. Therefore, when re-examining the concepts behind a policy that is not functioning well, one must review the overall relationship of the science and the art, trying to avoid any subtext of unspoken values or assumptions.[1] To attack so broad a canvas in a half hour requires making assertions without sufficient qualification or demonstration. I hope we can share intuition—and allow reasonable benefit of doubt.

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[1] For pioneering studies of this problem, see [2, 3].

Present Concept and Method

To begin with, the economic *concept* behind U.S. foreign trade policy is free trade. It is expressed variously as freer trade, trade liberalization, reduction of trade barriers, withdrawal of intervention in trade, and so on. Withdrawing government intervention permits the expansion of mutually profitable trade. Then, by the operation of the mechanism of comparative international advantage, national resources are directed toward more efficient use. National income is increased. The sway of this concept over public policy in 1969 was evidenced by the general approval of opinion leaders when President Nixon said he was for freer trade.

But free trade is an "empty" concept—incomplete. It can be defined only in terms of something *not* done. Public power and public funds must not be used to check the flow of imports (or stimulate that of exports). Such government actions are called "protection" because they shelter or otherwise help domestic producers who must compete with foreigners. Free trade is zero protection. Free traders agree that if protection is withdrawn too rapidly or if there is substantial domestic unemployment or underemployment, the forces directing resources toward more efficient use may cause unusual suffering and loss. The domestic market for a product may be "disrupted." Some continued protection may, for a time, assure the most efficient resource use and the maximum national income. Also, some protection may be needed to develop a new industry. On the other hand, most public arguments for protection—whether or not logically consistent with the free trader's economic model—accept free trade as a desirable long-run goal. Although they differ as to which producers should be protected at a given time and for how long, free traders and protectionists make up a sort of community, contending publicly over common conceptual ground hallowed in U.S. history. When the President added to his freer-trade statement certain assurances of intervention to prevent disruptive foreign competition, the applause was widened—if not intensified.

There is one important *non-economic concept* usually associated with the free trade argument for our trade policy. Trade is mutually profitable. It strengthens the fabric of *international peace*. Government barriers to trade emphasize conflict of interests among nations and lead toward war. Removing trade barriers removes a cause of war; negotiating to reduce them reduces the danger of war.

The official *method* of reducing trade barriers is through *bargaining with foreign governments*. We tried tariff bargains from time to time through much of our history, but it was in 1934 that they became the core of our policy. The high 1930 tariff had helped deepen the depression. Other countries had retaliated in what proved a kind of reciprocal economic suicide. The world had learned that the trade purposes of almost

any government act could be frustrated by a foreign counter act. Cordell Hull had the genius to forge a broad consensus of free traders and protectionists by reversing this. We would negotiate to get a foreign country to reduce its barriers to our exports in return for our reducing our barriers to imports. By selecting barriers on products imported principally from the other country, by negotiating with all countries, and by making each reduction applicable to imports from all countries, we would eventually reduce all barriers. The negotiations were held in secret. It was a sort of game; the participants pretended to bargain vigorously, but all were assumed to want the same final result. By moving cautiously and in a period of economic recovery, we minimized disruption. After the war, we were in a position to persuade all the large trading countries to join us in the GATT—with its "rounds" at which many pairs of countries bargain simultaneously under common general rules. There have been six rounds, from the seven-month "first Geneva" of 1947 to the almost interminable "Kennedy Round," which ended, technically at least, in 1967.

Left Behind by Changing Reality

The concepts and the method presented in that oversimplified sketch have made their great contribution. However, judged by their own value premises—efficiency and peace—they do not now serve a useful public purpose. The free-trade-versus-protection *concept* distracts public attention from the essential issues facing us because it conjures up a picture—a "model" if you please—in which three vital characteristics of today's world are not adequately incorporated. The three are the flowering of a world economy, the speeding up of dynamic growth, and the evolution of a competitive-representative, mixed-economy process. Let us consider each of these and how it brings the wrong questions to public attention.

A world economy

The free-trade-protection concept assumes a distinct national economy with a production process and income level essentially separate from those of other countries. The basic theory, comparative international advantage, deals with the effect of opening an isolated national economy to trade. The proof of the wisdom of opening trade is the more efficient use of national resources. (Proponents argue that foreign resources are also used more efficiently in most cases, but this is treated as of secondary importance if it does not follow automatically.)

In the early 19th century, when our free-trade-protection debate began, the separate-national-economy assumption had a substantial basis in fact. Moreover, we were a young, developing nation. The great powers were contending for colonies and discouraging the industrialization of new areas. Concepts based on the national-economy assumption bolstered

those forces (toward national consolidation—against sectionalism) that far-seeing men then recognized as conducive to high social purpose.

In today's environment, however, it is most difficult to justify an economic model that posits a distinct national economy. The fact is that national economies are rapidly becoming interdependent parts of a world economy. Technological advance is daily stepping up the degree of their interpretation. Governments have more common interest than conflict in trade problems. Each national economy now achieves its greatest potential by functioning as part of a single world-production-consumption continuum. No national economy is viable when isolated, except in the rueful sense of being able to weather catastrophe. And, in the world of the superbombs, it would be difficult indeed to dispute that this common-economic-interest trend conduces to the self-interest and highest social purpose of any group one can conceivably serve—even weapons manufacturers, if they value posterity or their own lives. A foreign-trade-policy concept and method, to serve the national interest today, must assume a dependent, partial, national economy. (Incidentally, theorists could incorporate such an assumption into the static theory of international trade by simulating a complex world economy and then "wounding" it with controls introduced along an arbitrary geographic line within it. The implications of such an approach might be far-reaching for all international economic matters.[2])

Accelerated growth

The second shortcoming of the free-trade-protection conceptual system is its static base. It assumes a given "state of the arts." This is most strikingly manifest in a priori public concern with adjustment and with market shares, that is, anticipation of loss to a given domestic industry when foreigners expand their sales, even though the domestic industry is prospering. Taken together with the national-economy preconception, this produces some weird results. It is not unheard of for a domestic industry, which is the world leader in its product and which is booming, raising prices, investing in new plant, and advertising for more workers—it is not unheard of for such an industry to complain that it is losing a *share* of its market to imports and to get wide enough public sympathy so that Congress and the Administration put diplomatic pressure on foreign governments to restrain the imports. This, of course, is a rough description of the steel case in the United States—probably the textile case also. And most of the quota bills now in the Congress are designed to protect thriving industries from the anticipated trade consequences of world technological advance and growing American demand. Saddest of all, perhaps, is the poultry case where we and the EEC have managed to turn a technologi-

[2] This suggestion was originally made in [4].

cal breakthrough in the production of desperately needed animal protein into a full-scale economic war over a small, temporary trade shift due to the natural lag in the spread of the new technique. For a socially useful perspective on such world economic growing pains, one must take dynamic growth for granted. Innovation has become a way of life in much of industry and agriculture. We are, or soon will be, physically capable of producing enough to supply a decent minimum of necessaries to every human being; as we work at doing so, there will be demand enough to resolve almost any future trade problem. I understand that truly dynamic models—incorporating the unpredictable—elude scientists; perhaps concepts relevant to great change can not be derived from limited models. Nevertheless, intergovernmental discussion must conceive of trade as part of a world economy that is expanding rapidly and will expand ever more rapidly in the future.

The competitive-representative mixed economy

The third archaic assumption of the free-trade-protection concept is that trade within the national economy is already "free." If protection were removed, it is implied, laissez-faire would prevail, and the market would adjust the production-distribution pattern to a new equilibrium. In fact, of course, a mixed-economy, competitive-representative process has evolved within modern industrial countries. The production-distribution pattern is determined by the market power of a constantly shifting set of individuals, firms, associations, combinations, labor unions, community groups, clubs, societies, public corporations, "sub-governments" (as Douglas Cater dubbed them), and so on.[3] All of them compete, in a sense, for the custom and support of the paying and voting public. But all of them also try to influence government. And government intervenes as it considers necessary to modify the benefit pattern. It intervenes through subsidies, price supports, wage supports, transportation regulations, taxes of all sorts, social payments, procurement practices, administrative delays, prescribing standards, and innumerable other ways.

Now, government actions that influence domestic trade usually influence foreign trade also. (In fact, many of them are efforts to deal on a domestic policy basis with problems of the growth of the world economy.) Hence, they can be used to help domestic producers compete with foreign producers. They are protection under the accepted concept. The fashionable term for them is Non-Tariff Barriers (NTB's). Free trade means their discontinuance. The GATT rules require, in general, that those not discontinued be operated so as not to distort foreign trade. But the NTB's are constantly changing; they are thought of as determined primarily by domestic intervention purposes. Therefore, the GATT require-

[3] Cf. [1].

ment is often ignored. A limited amount of reciprocal ignoring might not make too much difficulty. But governments that protest more and more foreign NTB's have had to submit to more and more official foreign criticism of their own domestic economic and social policies that affect trade. This creates misunderstandings and bitterness.

It is not really surprising, then, that *the method of bargaining trade barriers down,* publicly guided by a concept with such serious blind spots, *has contributed in recent years to putting barriers up.* Its harm may have begun to outweight its benefits as early as the mid-1950's, by which time, with some help from inflation, it had reduced most of the depression barriers to little more than nuisance levels. By the end of the Kennedy Round, the negotiations were bogged down in problems they had not been designed to solve. It was no longer clear what mutually valued common objective sustained the concert of bargaining nations. Each government tended to defend its own measures as being in the overriding national interest and to attack foreign measures as being unfair or illegal distortions of trade patterns. Cordell Hull's great consensus of free-traders and protectionists had fallen apart under these reciprocal attacks on measures traditionally considered domestic. The adversary, secret procedure of the little bargaining game had degenerated into bitter intergovernmental wrangling and public recrimination among high-level officials. That is where we are today in public posture. Governments, ostensibly seeking trade agreement, convey the impression that there is an economic basis for international hostility. The secret discussion format gives little occasion—and the accepted concept provides no rationale—for public deliberation as to which national measures affecting trade might be desirable or which not. Instead, the whole process appeals to emotional economic nationalism. It creates public support for the indiscriminate, "retaliatory" increase of trade barriers. This carries over to intransigence on other foreign economic, diplomatic, and even military issues. The trade-peace concept itself seems to work in reverse. Our negotiating method has a number of other disabilities, but these are probably the major ones [5].

Intergovernmental Cooperation—As Improvised Exception

Meanwhile, of course, officials go on living with the trade consequences of one another's intervention. When substantial real problems are created, governments usually come to an understanding in some way—formal agreement, tacit consent, or something intermediate—outside the intention of the free-trade concept and contrary to the rules of the bargaining game. Sometimes the intervention involved is a tolerated substitute for a trade barrier that has been bargained away. In the very first trade agreement completed under the Hull program in 1934, we cut the duty on our largest competitive agricultural import—sugar—a full 50 percent; but, at

the same time, we put on a system of variable import controls to support the U.S. price, giving foreign suppliers some benefits also. Trade policy officials boast of the large duty reduction, but they wink at the absolute government control of the trade. At other times there is accommodation and positive coordination of intervention. My 1945 Journal article reported a plan to make an exception from the bargaining rules for certain crop programs, provided there was agreement on intergovernmental coordination looking toward a comparative-international-advantage production pattern [7]. When I reported at your 1957 Christmas meetings on the clauses of the GATT incorporating this exception [6], I had trouble getting my paper cleared for publication because that part of the GATT was being flouted by the United States. In the name of free trade, we were discouraging any intergovernmental commodity discussion whatever. But reality soon changed that. A PL 480 market-study team in Brazil that year discovered that trees already planted would shortly be bearing twice as much coffee as the world could consume, and planting was continuing. Important Latin-American economies were threatened. We began actively to promote the coffee agreement that we had been actively opposing. In one way or another governments have coordinated their intervention, as exceptions to the trade-freeing rules, to prevent extreme prices for a number of primary products, to block non-essential imports into redeveloping Europe, to move industrial-country food surpluses to hungry people in poor countries, to prevent dissipation of less-developed-country foreign exchange on luxuries, to limit the rapidity of trade increases considered disruptive, and to do many other things—small and great, narrow and broad—that the free market would not do but that governments considered necessary. Some conspicuous current cases are the arrangements for restraint of exports of meats, textiles, and steel. President Nixon's assurance regarding market disruption referred to this type of arrangement.

Guidance and Public Surveillance Needed

The successes and the failures of these efforts to solve problems through coordinated action point the way to the general concepts and formal methods needed today. Five points may be of special note. First, great good has often been done. Second, there has been abuse of both political power and secrecy. Third, there has been wider understanding and lessened intergovernmental conflict over the specific problems involved. Fourth, the GATT surveillance through the secret review of periodic reports has not been very effective. Fifth, the irrelevance of the free-trade concept for coordinated action and the lack of general agreement on any relevant concept have, on the one hand, facilitated abuses and, on the other, given an aimless, ineffectual quality to much that governments should have done proudly.

Proposed Concept: Collective Responsibility

Fortunately, a relevant and familiar public concept is ready at hand for governments to use. If one pictures a growing, integrating world economy, one is struck by the collective responsibility of governments to represent the interest of all people in its effective working. Moreover, one can see that, for that responsibility to be discharged well, something resembling the representative-competitive, mixed-economy, political-social process is needed at the international level. As a matter of fact, many of the components have been forming slowly for years [5]. All sorts of individuals and groups have international connections. The management and finance components have recently been developing quite rapidly. In fact, there is serious concern that they may outgrow governments. In the non-trade-policy areas—such as monetary management and the maintenance of business activity and employment—governments have been recognizing their mutual dependence through cooperative action. But in the trade field, the non-intervention concept and the adversary method undermine their own adaptations to reality. They hobble cooperation.

Proposed conceptual system: free trade versus Balkanization

Interestingly enough, the collective-responsibility concept applied to the trade field immediately suggests free trade. In fact, for many non-technical people, the common-sense meaning of free trade implies collective responsibility. You have all heard the popular dictum: The United States became the world's leading industrial country because we had free trade from ocean to ocean while Europe was cut up by national tariff walls. Unfortunately, experts and officials often take this public theory as support for their entrenched concept and method. But consider the implications of it! In the socio-economic process that it implies, trade is not free from government intervention—not at all! It is subject to all sorts of surveillance and interference in the public interest. In our great ocean-to-ocean free-trade area, government is *expected* to intervene to affect trade in connection with the supply of public necessities, natural monopoly, misrepresentation, private restraints on trade, public health, public morals, large crop surpluses, exploitation of workers, cutthroat pricing, excessive market power, and anything a majority of the people want it to affect. What it must *not* do is interefere with the movement of trade across fixed geographic lines within the economy. It must *not* allow us to be carved up into state economies or regional economies. This is the foreign-trade freedom that would advance national interest within an up-to-date world economic model. This trade freedom is not defined as the absence of protection, i.e., the absence of intervention affecting trade. It is defined as the absence of such intervention applied along arbitrary geographic lines. It is freedom from economic fragmentation—or, as it used to be called, Balkanization.

The deliberating method—eliminate intervention or coordinate it

With these concepts in mind, one can see the direction sovereign governments must explore to discharge their collective responsibility for letting trade flow freely and for intervening as cooperatively as possible when the public interest requires it. The general procedure I would propose that they try involves three elements: deliberation, decision, and coordination. Governments would agree to a continuing multilateral forum for deliberation—open for the public to hear and to be heard. A controversial government action affecting trade would be discussed in the light of its announced purpose. The object of the deliberation would be a factual report on all of the economic effects of the action—domestic and foreign, direct and indirect, concentrated and diffused, immediate and longer term, costs and gains. Facts regarding actions of other governments affecting the same trade problem could be included. As far as possible, these matters would be quantified. (Here is work aplenty for dedicated economists.) There would be no façade of multilateral decision to be struggled for and then ignored. Hence, there would be no national positions decided secretly in advance of the discussion. Decision would be left to the acting government, committed to subsequent reconsideration of its action—through its own constitutional processes, but in public—with a view to (a) discontinuing an action it found no longer desirable and (b) framing any further action needed for the originally announced purpose in such a way that it can be accomplished with a minimum of adverse side-effect on the world economy, its own citizens, and citizens of other countries. All governments would be committed to consider cooperation toward accomplishing the public purpose of an action announced after such national reconsideration. This would initiate a process of informal public communication, coordination, and, as necessary, agreement regarding the original problem.

There would be an independent International Trade-Fact Authority responsible to legislatures—not to governments. It would consist of national Trade-Fact officers whose only responsibility would be to assure that both the international discussion and the subsequent domestic reconsideration were as fully informed as possible. They would have the necessary authority to know and to disclose facts (but not to counsel or take action). Thus, any action affecting trade would be informed and would be publicly understood in its relation to available alternatives.

Some Elaborating Assertions

That is the proposal. The details, of course, will not be easy to work out. I discussed a few of them in the J.E.C. paper mentioned earlier [5]. Let me conclude with a few assertions:

(1) Unlike the bargaining method of foreign-trade negotiation, the deliberating method would reinforce other U.S. policy. Thus, it would en-

courage intergovernmental coordination of necessary farm supports, instead of abetting economic warfare over them. It would facilitate cooperation to use the world's basic-food production capacity to feed the world's hungry. It would lead to the mutual understanding of one another's intervention needs that is required if industrial countries are to join purposively in the trade arrangements needed to speed the development programs of poorer countries. It might focus intergovernmental consideration of problems related to multi-national firms without inhibiting their imporant contribution to growth. It would remove an ideological and prestige problem from trade discussion with state-ownership countries. In short, it would make overall foreign economic policy more coherent.

(2) Functionally, the most important part of the proposal is the independent International Trade-Fact Authority. Unless one has participated in trade negotiations, it is difficult to imagine the enormity of the role played by misinformation, misunderstanding, and unrecognized ignorance. Problems become conflicts before common solutions are sought. With a citizenry informed by modern communication and expecting to see the social benefits of technology realized, public authority must support institutions for assuring the full availability of relevant facts and a public sense of involvement in solving trade problems. Only thus can there be the eternal democratic vigilance needed to maintain dynamic balance in the mixed-economy process.

(3) Last April, Secretary Stans proposed "open table" discussions of NTB's. This may be intended as a step toward non-adversary deliberation. Unfortunately, he simultaneously demanded quotas to "protect" a thriving American industry; he threatened indiscriminate protectionism rather than wait for open deliberation of the need for quotas. Is our policy the cooperative new approach or the pugnacious old one? I believe that it would help in this, and in all efforts toward economic peace, if political economists were to promulgate such concepts as free-trade-versus-Balkanization and collective-responsibility-for-the-world-economy.

(4) The greatest benefit from open deliberation would be the "degeographicalizing" or "denationalizing" of economic conflict—and the associated recognition of what I call the "ethic of economic agreement." Governments would not, as now, face one another as surrogate competitors. They would be committed to public joint weighing of all the information relative to a given trade barrier, including that regarding their own interest in changing their own action. The format of discussion would highlight the obligation, for the common good, to carry economic discussion to the point of full, reciprocal understanding, and not to let it break off into political power conflict among sovereigns. Against the fragmenting "multi-polarity" (to use Kissinger's term for it) of the world's sovereign-state political system, it would help bring to bear the real unity—the "uni-po-

liarity" if you please—of the world's integrating economic environment. Institutions which can do that are necessary foundation stones in any enduring structure of world peace.

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Mr. BURKE. Thank you.

Are there any questions?

Mr. Gibbons.

Mr. GIBBONS. May I observe you certainly have presented the committee with some original and constructive thinking. I congratulate you. I appreciate what you have done here.

Mr. SCHWENGER. Thank you very much.

Mr. BURKE. Any further questions?

The committee appreciates your appearance and your testimony.

Our next witness is James Farrington, president of the National Association of Scissors & Shears Manufacturers.

STATEMENT OF JAMES FARRINGTON, PRESIDENT, NATIONAL ASSOCIATION OF SCISSORS & SHEARS MANUFACTURERS

Mr. FARRINGTON. Mr. Chairman and members of the Committee on Ways and Means, my name is J. F. Farrington. I am vice president of the Acme Shear Co., located in Bridgeport, Conn. I appear here today as president of the National Association of Scissors & Shears Manufacturers, the only national trade association of domestic manufacturers of scissors and shears.

SUMMARY

Mr. Farrington's statement on behalf of the National Association of Scissors and Shears Mnufacturers is in support of:

1. H.R. 17889, a bill to provide for orderly trade in scissors and shears; and
2. An amendment to the proposed Trade Act of 1969 to continue the provisions of Section 225(b) of the Trade Expansion Act of 1962.

H.R. 17889 provides that during 1970 imports of scissors and shears would be no greater than the average imports during 1967–68. The statement notes that in 1967 imports were equal to 45 percent of domestic production.

The proposed amendment to the Trade Act of 1969 would reserve from tariff negotiations scissors and shears valued over $1.75 per dozen. Imports of these scissors and shears in 1967 were 29 percent higher than domestic shipments.

To support these recommendations, Mr. Farrington outlines economic conditions in the domestic scissors and shears industry as follows:

1. Number of domestic firms manufacturing scissors and shears has declined from 50 to 9 since the end of World War II;
2. Shipments of the domestic industry dropped 50 percent from 1948 to 1967;
3. Imports of scissors and shears have increased from 150,372 pairs in 1949 to 20,025,091 pairs in 1969;
4. Imports of sewing and manicure sets have increased from $2.8 million in 1964 to $3.7 million in 1969;
5. Imports of electric scissors have increased from $92,997 in 1964 to $2,697,521 in 1969;
6. During the most recent six-year period imports of scissors and shears valued over $1.75 per dozen have increased 187 percent;
7. Wholesale value of imports in 1967 was equal to 75 percent of domestic shipments;
8. Imports are equal to more than 1,500 full-time jobs;
9. Tariff Commission found threat of serious injury to industry producing scissors and shears valued over $4.80 per dozen in 1954 and that economic condition had not improved in 1964.

Mr. FARRINGTON. During the past 20 years representatives of our association have appeared before this committee and other congressional committees, the Tariff Commission, and committees of the executive departments to present our views on the impact of imported scissors and shears on our industry. We have never requested or even suggested that a complete embargo be placed on the imports of scissors

and shears. All that we have asked for and desire is a fair competitive opportunity, not an advantage.

The National Association of Scissors & Shears Manufacturers is composed of six U.S. manufacturing firms producing more than 80 percent of this country's production.

The domestic scissor and shear industry should not be confused with the cutlery and flatware industry, which is large and automated. Our industry is small in number of establishments, employees, and value of products.

There are nine firms in the United States known to be producing scissors and shears. These firms have plants located in Arkansas, Connecticut, Florida, Massachusetts, New Hampshire, New Jersey, and Ohio.

The present condition of the U.S. shears and scissors industry is a classic example of what happens to an important domestic industry and its employees when sacrificed by the Government in trade negotiations. As a result of the U.S. trade policy our industry has been almost completely annihilated by low cost imports.

Before the import duty was reduced in 1950 and 1951 there were approximately 50 firms manufacturing in the United States. Since the duty reductions in 1950 and 1951 there has been a steady deterioration of the domestic industry, and since that time not a single new firm has been established to produce scissors and shears in the United States.

The value of domestic production in 1958 was $18.5 million. In 1967 the value was estimated by the Tariff Commission to be only $14.5 to $16 million. These figures do not take into consideration the decline in the value of the dollar between 1948 and 1967. If this is taken into consideration we find that the shipments by the domestic industry have declined by 50 percent. This decline took place during a period when there was an increase of 36 percent in the population of the United States.

During the period that domestic shipments declined 50 percent, imports increased 200 times from 76,000 pairs to over 15 million pairs and since then have increased another 30 percent to over 20 million pairs.

The wholesale value of imports in 1967 was $11,405,000, or 75 percent of domestic shipments. If we include scissors and shears in sewing and manicure sets in cases the import could well exceed the total shipments by domesic manufactures.

On the basis of both quantity and value, the majority of imports are those with an import value of over $1.75 per dozen, with an importer's selling price of over $4.80 per dozen. This selling price relation was established by the Tariff Commission during a study of the scissor and shear industry.

Domestic shipments of scissors and shears valued over $4.80 per dozen were approximately 8,250,000 pairs during 1967 which compares with imports of 10,652,367 valued over $1.75 per dozen. Therefore imports were 29 percent higher than domestic shipment.

There are also large quantities of scissors and shears sent by foreign producers directly to individuals in the United States as premiums in connection with the promotion of domestic consumer products. These individual shipments are valued at less than $1 per shipment and are

not subject to import duties and are not recorded in U.S. import statistics.

Section 225(b) of the Trade Expansion Act of 1962 provided that if the Tariff Commission found that economic conditions had not improved in an industry which they had earlier found threatened with serious injury from imports, its product would be reserved from negotiations. The Tariff Commission in 1954 in investigation No. 24 under section 7 of the Trade Agreements Extension Act of 1951 had found that scissors and shears valued over $1.75 per dozen "are being imported into the United States in such quantities, both actual and relative, as to threaten serious injury to domestic industry producing like or directly competitive products."

In 1964 the Tariff Commission by a vote of 6 to 0 found that economic conditions in the domestic industry had not improved since 1954. As a result of this finding scissors and shears valued over $1.75 per dozen were reserved from negotiations from October 11, 1962, to October 11, 1967. Therefore the President was not permitted to reduce the duty during the Kennedy round.

With this assurance that the duty would not be cut the industry went forward with programs to install more semiautomatic grinding and polishing machines to reduce costs. However, even after the expenditure of large amounts for capital improvements, imports with low labor costs were able to increase their sales in the domestic market.

The same equipment and improved methods in mechanization available to the domestic producers were also easily available to the foreign manufacturers. So once again the difference between our costs was labor. We find ourselves on the one hand being pushed to be an equal opportunity employer—to recruit and train the hard core unemployed—to increase our capital expenditures to fight pollution, and on the other hand to be tolerant of imported merchandise—manufactured under conditions illegal in this country by a labor force paid a wage below any level acceptable by our laws. These imports have taken such a large portion of our domestic market that we must now consider laying off our labor force and reducing our capital expenditures.

In importing scissors and shears the United States is actually importing labor which should be performed in the United States by workers with special training for this type of work.

The estimated number of man-hours to produce the total pairs of scissors and shears valued over $1.75 per dozen imported during 1969 would have provided jobs for over 1,500 full-time employees.

With the present conditions in the industry it is unthinkable that any consideration would be given to legislation under which the import duty on scissors and shears could be further reduced. Such action would only cause the United States to become entirely dependent on foreign production as a source of scissors and shears.

The only reason that the domestic manufacturers hold any part of the market is the inability of foreign producers to fill the total demand. Once they do—we are out of business.

The proposed Trade Act of 1969 would provide the President with authority to reduce the duty on scissors and shears valued over $1.75 per dozen by 20 percent. Since the last duty cuts in 1950–51, imports of scissors and shears valued over $1.75 per dozen have increased from

2,139,781 pairs in 1952 to 13,305,273 pairs in 1969. In fact, during the past 5 years imports have increased more than 50 percent. I don't think there can be any question what would happen to our industry and our employees if the duty were reduced again.

Therefore, on behalf of the domestic manufacturers of scissors and shears, I urge that no action be taken on the proposed Trade Act of 1969 without an amendment to continue the provisions of section 225(b) of the Trade Expansion Act of 1962.

However, even with the duties remaining at their present levels, there is every indication that imports will continue to take a larger and larger share of the domestic market. With the domestic industry reduced to nine firms from 50, this is the time to take action to limit imports. When there are no firms left in the United States it will be too late.

A bill, H.R. 17889, has been introduced and referred to the Committee on Ways and Means to provide for orderly trade in scissors and shears. The bill is similar to the title I of the legislation that has been introduced to provide for orderly trade in textiles and footwear.

We believe that any reasonable person will find H.R. 17889 a fair bill. It would not stop the import of scissors and shears. It would permit the domestic industry to share the domestic market with imports.

It is only through legislation such as H.R. 17889 that the United States can retain this important industry.

We do not feel that the adjustment assistance provided for in the Trade Expansion Act of 1962 and the proposed Trade Act of 1969 is the answer to our import problem. The workers in our industry don't want "adjustment assistance"; they want to use their skills, which have taken years to develop. These workers are not interested in retraining; they have developed a skill they are proud of and want to continue the work they are doing.

In conclusion, Mr. Chairman and members of the Committee on Ways and Means, the domestic scissor and shear industry has never requested or suggested that a complete embargo be placed on the import of scissors and shears. They have only asked for a fair competitive opportunity, not an advantage in the domestic market.

Thank you.

Mr. BURKE. Do you want all your charts included?

Mr. FARRINGTON. Yes, sir.

Mr. BURKE. They will be included in the record.

(Mr. Farrington's prepared statement follows:)

PREPARED STATEMENT OF J. F. FARRINGTON, PRESIDENT, NATIONAL ASSOCIATION OF SCISSORS AND SHEARS MANUFACTURERS

Mr. Chairman, and members of the Committee on Ways and Means, my name is J. F. Farrington. I am Vice President of the Acme Shear Company, located in Bridgeport, Connecticut. I appear here today as President of the National Association of Scissors and Shears Manufacturers (formerly known as Shears, Scissors and Manicure Implement Manufacturers Association), the only national trade association of domestic manufacturers of scissors and shears.

The present condition of the United States shears and scissors industry is a classic example of what happens to an important domestic industry and its employees when sacrificed by the government in trade negotiations. As a result of the United States trade policy our industry has been almost completely annihilated by cost imports.

This is the first time I have appeared before this committee, or in fact any Congressional committee. However, during the past 20 years representatives of our association have appeared before this committee and other Congressional committees, the Tariff Commission and committees of the executive departments to present our views on the impact of imported scissors and shears on our industry. In fact, representatives of our industry appeared before this committee in 1929 in connection with the legislation that became the Tariff Act of 1930. We have never requested or even suggested that a complete embargo be placed on the imports of scissors and shears. All that we have asked for and desire is a fair competitive opportunity, not an advantage. This is all we are asking for.

Before discussing our request for an amendment we propose for the "Trade Act of 1969" and legislation to limit imports of scissors and shears, I will give some background information on our product, our association, our industry and the impacts of imports.

THE PRODUCT

Scissors and shears are manufactured in the United States in over 150 sizes and shapes for various cutting purposes.

Many scissors and shears have names that indicate the purpose for which they are designed, i.e., blueprint or paper hangers' shears, leather or belt shears, tailors' shears, sailmakers' shears, barber shears, sewing scissors, embroidery scissor, rubber shears and electricians' shears.

One of three manufacturing processes is used in producing scissors and shears. The higher priced scissors and shears are produced by the hot forge process or casting process and the lower priced by the cold forging process.

NATIONAL ASSOCIATION OF SCISSORS AND SHEARS MANUFACTURERS

The National Association of Scissors and Shears Manufacturers is the only national trade association of domestic manufacturers of scissors and shears. The Association's membership is composed of six United States manufacturing firms producing approximately 80 percent of the scissors and shears manufactured in the United States.

DOMESTIC INDUSTRY

The domestic scissor and shear industry should not be confused with the cutlery and flatware industry, which is a large, automated industry. The United States scissor and shear industry is a small industry in number of establishments, employees and value of products.

There are nine firms in the United States known to be producing scissors and shears. These firms have plants located in Arkansas, Connecticut, Florida, Massachusetts, New Hampshire, New Jersey and Ohio.

In addition to the nine firms known to be producing scissors and shears there may be several small firms that have equipment and "know-how" to produce scissors and shears. These marginal producers operate their plants when they can obtain orders and would have only one or two employees. It would be difficult to justify these firms from an economic standpoint in the present market. The owners are hanging on to their equipment with the hope that adequate import controls will be placed on scissors and shears so that they will again have an opportunity to produce and sell scissors and shears.

Before the import duty on scissors and shears was reduced in 1950 and 1951 there were approxiamtely 50 firms manufacturing scissors and shears in the United States. The majority of these firms manufactured scissors and shears exclusively. Since the duty reductions in 1950 and 1951 there has been a steady deterioration of the domestic industry. Each year the number of firms manufacturing scissors and shears has declined. Since the 1950 duty reduction no new firm has been established to produce scissors and shears in the United States.

TARIFF

Scissors and shears now classified in TSUS Items 650.87, 650.89, and 650.91 were classified in Paragraph 357 of the Tariff Act of 1930, when it was enacted on June 17, 1930, and the scissors and shears in fitted cases classified in TSUS Items 651.11 and 651.13 were classified in Paragraph 1531. The rates of duty on items in these paragraphs on June 17, 1930, were as follows:

Par. 357.—Scissors and shears valued not over 50 cents per dozen, *3.5¢ each+45% ad. val.;* valued over 50 cents but not over $1.75 per dozen, *15¢ each+45% ad. val.;* valued over $1.75 per dozen, *20¢ each+45% ad. val.*

Par. 1531.—Leather, rawhide, or parchment cases fitted with sewing, manicure and similar sets, *50% ad. val.*

The rates of duty for the scissors and shears provided for in Paragraph 357 of the Tariff Act of 1930 were the same as those provided for in the Tariff Act of 1922.

During the hearings before the House Ways and Means Committee and the Senate Finance Committee, in connection with the drafting of the Tariff Act of 1930, importers of scissors and shears appeared before the committees and urged that the rate of duty established in the Tariff Act of 1922 be reduced. Domestic producers also appeared before the committees and pointed out the necessity of continuing the rates of duty then in effect.

Following consideration of the testimony, the Congress continued the rates of duty as shown above.

The 1930 rate of duty on scissors and shears in fitted cases provided for in Paragraph 1531 of 50 percent ad valorem was reduced to 35 percent ad valorem effective January 1939 under a trade agreement with the United Kingdom. The rate of duty on scissors and shears in fitted cases of reptile leather was further reduced to 25 percent ad valorem as a result of trade agreement negotiations with Argentina effective November 1941. The rate of 25 percent ad valorem on all others was negotiated at Geneva in 1948. The rate of duty was reduced to 20 percent ad valorem on all except cases of reptile leather effective October 1, 1951, as a result of the negotiations at Torquay, England. A duty of 20 percent ad valorem was negotiated on fitted cases of reptile leather at Geneva in 1955.

Tariff Schedules of the United States which became effective August 31, 1963 provided for a duty of 20 percent ad valorem for sewing sets, and pedicure or manicure sets in leather containers and 38 percent in other containers. These duties were reduced 50% during the Kennedy round of negotiations with the full reduction to be effective January 1, 1972.

The 1930 tariff on scissors and shears valued at not more than 50 cents per dozen and scissors and shears valued at more than 50 cents and not more than $1.75 per dozen provided for in Paragraph 357 were reduced 50 percent to 1¾¢ each plus 22½ percent ad valorem, and 7½ cents plus 22½ percent ad valorem respectively, effective May 30, 1950, following the trade agreement negotiations at Annecy, France.

The import duty on scissors and shears valued at more than $1.75 per dozen was reduced to 15 cents each plus 35 percent ad valorem as a result of the Annecy negotiations, and the duty was again reduced to 10 cents each plus 22½ percent ad valorem following the trade agreement negotiations at Torquay, England. This reduction became effective October 1, 1951.

The duties on scissors and shears valued $1.75 per dozen and less were again reduced during the Kennedy round of negotiations another 50% to take effect over a period of five years in five steps. This reduction will become fully effective January 1, 1972.

The present import duties on scissors and shears are:

Scissors and shears valued not over 50¢ per dozen: 1.22¢ each plus 15½ percent ad valorem;

Scissors and shears valued over 50¢ but not over $1.75 per dozen: 5.25¢ each plus 15½ percent ad valorem;

Scissors and shears valued over $1.75 per dozen: 10¢ each plus 22½ percent ad valorem;

Sewing and manicure sets in leather fitted cases: 14 percent ad valorem;

Sewing and manicure sets in other than leather fitted cases: 26 percent ad valorem.

As noted, the duty on four of the above items will be reduced further on January 1, 1971 and January 1, 1972 as a result of the Kennedy round.

On January 1, 1972 the rate of duty on scissors and shears, provided for in TSUS Items 650.87 and 650.89, will be only one quarter of the rates originally established in the Tariff Act of 1922 and reenacted in the Tariff Act of 1930. The rate on scissors and shears in leather fitted cases provided for in TSUS Item 651.11 will be only one-fifth of the rate established in the Tariff Act of 1930.

IMPORTS OF SCISSORS AND SHEARS

The imports of scissors and shears as reported by the Bureau of the Census are shown in Table II on the following page. This table does not include the imports of scissors and shears in fitted cases or certain low value shipments.

The scissors and shears imported in manicure, sewing and similar sets under Paragraph 1531 in fitted leather cases were not separately tabulated and reported by the Bureau of the Census before August 30, 1963. They have been reported since that date under TSUS Items 651.11 and 651.13.

The imports for the years 1964–69 were as follows:

TABLE I.—U.S. IMPORTS FOR CONSUMPTION

(As reported by the Bureau of the Census)

Sewing and manicure sets

Year:	*Value (U.S. dollars)*
1964	2, 845, 527
1965	3, 094, 484
1966	3, 631, 557
1967	3, 157, 892
1968	3, 330, 778
1969	3, 751, 339

TABLE II.—U.S. IMPORTS FOR CONSUMPTION—SCISSORS AND SHEARS

[As reported by the Bureau of the Census]

Year	Quantity (pairs)	Value U.S. dollars)	Year	Quantity (pairs)	Value (U.S. dollars)

TABLE II.—U.S. IMPORTS FOR CONSUMPTION—SCISSORS AND SHEARS

[As reported by the Bureau of the Census]

Year	Quantity (pairs)	Value (U.S. dollars)	Year	Quantity (pairs)	Value (U.S. dollars)
1931	842, 141	133, 881	1952	3, 121, 741	1, 174, 758
1932	1, 115, 358	80, 877	1953	4, 540, 006	1, 503, 542
1933	677, 025	60, 598	1954	4, 396, 123	1, 593, 668
1934	131, 105	47, 576	1955	5, 671, 816	1, 984, 722
1935	191, 514	72, 159	1956	5, 981, 033	2, 265, 258
1936	209, 763	82, 181	1957	6, 578, 527	2, 321, 373
1937	237, 806	92, 635	1958	7, 297, 269	2, 745, 469
1938	127, 754	59, 806	1959	11, 956, 375	3, 193, 557
1939	105, 946	48, 082	1960	11, 470, 885	3, 289, 464
1940	29, 524	6, 928	1961	10, 112, 482	3, 299, 798
Average, 1931–40	366, 794	68, 472	1962	12, 777, 082	3, 812, 436
1941–45 (war period).			1963	9, 986, 907	3, 708, 054
1946	11, 311	9, 756	1964	10, 319, 828	3, 846, 582
1947	20, 776	16, 162	1965	11, 420, 141	4, 220, 236
1948	76, 178	59, 632	1966	12, 857, 003	4, 775, 651
1949	150, 372	117, 608	1967	15, 097, 759	5, 653, 493
1950	825, 616	377, 843	1968	18, 615, 175	6, 822, 320
1951	2, 213, 031	892, 255	1969	20, 025, 091	7, 625, 660

In addition to imports of conventional types of scissors and shears, our industry is also faced with rapidly increasing imports of electric scissors. These imported electric scissors are used in the home and are directly competitive with conventional scissors and shears. The increase in these imports is shown below:

TABLE III.—U.S. IMPORTS FOR CONSUMPTION (AS REPORTED BY THE BUREAU OF THE CENSUS)

Scissors with self-contained electric motors and parts

Year:	*Value (U.S. dollars)*
1964	92, 997
1965	314, 080
1966	626, 778
1967	814, 068
1968	2, 165, 352
1969	2, 697, 521

As a result of the Kennedy round of tariff negotiations at Geneva, the import duty on electric scissors is being reduced from 13.75 percent to 6.5 percent. The duty during 1970 is 9.5 percent and will be cut to 8 percent on January 1, 1971.

Large quantities of scissors and shears are sent by foreign producers directly to individuals in the United States as premiums in connection with the promotion of domestic consumer products. These individual shipments are valued at less than one dollar per shipment and are not subject to import duties and are not recorded in United States import statistics.

It should also be noted that the imports reported by the Bureau of the Census and shown in Tables I, II and III are less than actual imports under these classifications because certain shipments valued at less than $250.00 are not included. A substantial quantity of scissors and shears are entered into the United States in shipments valued less than $250.00 each. This type of trade has developed through department stores and department-store-buying syndicates buying directly from German and Italian sources. Many small shipments valued less than $250.00 are made directly to individual stores from West Germany and Italy.

However, even using the imports of scissors and shears reported by the Bureau of the Census, which are substantially less than actual imports, it is clear *that as a result of the low level of import duties on scissors and shears import have increased to a point where the domestic manufacturers have been all but completely annihilated.* The manufacturers who have not been forced out of business up to this time are still fighting to retain a domestic scissor and shear industry and pray that the United States Government will limit the import of scissors and shears into the United States.

A review of the imports during the period of 1949 to 1952 and 1967 to 1969 clearly shows the effect of the reductions in the import duties on scissors and shears. As shown in Table II, imports increased from 150,372 pairs in 1949 to 3,121,741 pairs in 1952. The import duty on these imports was reduced in 1950, and the duty on those valued over $1.75 per dozen was reduced again in 1951.

Accelerated by the reductions in duty, imports continued to increase and in 1962 a total of 12,777,082 pairs were reported imported. A further reduction in the duty on certain scissors and shears which began on January 1, 1968 caused another sharp increase in imports.

Over 90 percent of the imports of scissors and shears during recent years have been from Japan, West Germany and Italy. During the past 20 years there has been a shift in imports to the country with the lowest production costs. During 1950, 92 percent of the imports were from West Germany, 3 percent from Italy and 2 percent from Japan. During 1969, 35 percent were from Italy, 30 percent from Japan and 26 percent from West Germany.

The cost of producing scissors and shears in Japan is less than producing them in West Germany and Italy, and in Italy less than in West Germany.

During the most recent 6 years, 1963 to 1969, imports have increased over 100 percent, which is a rate of more than 15 percent per year.

Based on value, a high percentage of imports are scissors and shears valued over $1.75 per dozen. During 1969 these higher priced imports accounted for 93 percent of the value of the total shown in Table II. It is these higher priced imports that are causing the greatest injury to the domestic industry. During the six-year period 1963–1969 imports of scissors and shears valued over $1.75 per dozen have increased 187 percent.

EXPORTS

The Bureau of the Census statistical reports on United States exports do not show exports of scissors and shears as a separate item.

Information developed by the United States Tariff Commission in 1968 showed that exports of scissors and shears by domestic producers were less than one percent of total shipments.

Domestic manufacturers of scissors and shears are unable to complete in foreign markets due to the low prices quoted by foreign producers. For this reason, the domestic market is the only market available to domestic manufacturers and the domestic market is saturated with imported scissors and shears.

DOMESTIC PRODUCTION

The value of domestic production of scissors and shears in 1948 was $18.5 million. In 1967 the value was estimated by the Tariff Commission to be only $14.5–16.0 million. These figures do not take into consideration the decline in

the value of the dollar between 1948 and 1967. If this is taken into consideration we find that the shipments by the domestic industry have declined 50 percent. This decline took place during a period when there was an increase of 36 percent in the population of the United States.

As shown in Table II, during the period that domestic shipments declined 50 percent, imports increased from 76,178 pairs to 15,097,759 pairs and since then have increased another 30 percent to 20,025,091 pairs.

The wholesale value (foreign value plus import duty, cost of transportation and insurance and importers mark-up) of scissors and shears imported in 1967 was $11,405,000 or 75 percent of domestic shipments. If we include imports of scissors and shears in fitted cases the imports could exceed the value of shipments by domestic manufacturers.

On the basis of both quantity and value of imports of scissors and shears, other than those in fitted cases, the majority of imports are those valued over $1.75 per dozen. The Tariff Commission during a study of the scissor and shear industry established that, "The minimum importers' selling price for imports entered in the more-than-$1.75-per-dozen classification, taking account of the duty, costs of delivery to the United States, etc., and importer's normal mark-up, is about $4.80 per dozen." This relationship is still valid.

Domestic shipment of scissors and shears valued over $4.80 per dozen includes approximately 25 percent (quantity) of the domestic shipments of scissors and shears.

Domestic shipments of scissors and shears valued over $4.80 per dozen were approximately 8,250,000 pairs during 1967 which compares with imports of 10,652,367 valued over $1.75 per dozen. Therefore imports were 29 percent higher than domestic shipment.

LABOR

The scissor and shear industry is a prime example of the impact of imports on American employment. While the total number of employees in our industry is not large, each one is the breadwinner for a family. Many of the American workers are drawn from minority groups.

Workers in the scissor and shear industry are highly skilled craftsmen and many have done no other type of work. The skill required in producing scissors and shears is unique to that production and cannot be readily adapted to other products. Therefore, those employees who have been forced from their jobs have found it extremely difficult to find other employment.

In importing scissors and shears the United States is actually importing labor which should be performed in the United States by workers trained for this type of work who are now unemployed.

The manufacture of one pair of quality scissors or shears in the United States requires approximately .3 hours of labor. Therefore, the estimated number of man-hours of factory work to produce the 10,652,367 pairs of scissors and shears valued over $1.75 per dozen imported during 1969 would be 3,195,710 hours. This would have provided jobs for 1,500 full-time employees.

ECONOMIC IMPORTANCE OF THE IMPORT DUTY ON SCISSORS AND SHEARS

Since the duty was reduced in 1950 and 1951 the imports of scissors and shears have increased at a rapid rate. This increase has been at the cost of domestic production and employment. The United States has lost the skills of a large segment of the employees and management of the industry as well as the capital investment in production equipment. When the cuts in the rate of duty were proposed in 1947, 1948, 1950 and 1963 representatives of our association presented statements to the Committee for Reciprocity Information and the Trade Information Committee in opposition to the proposed reductions. Probably few, if any, realized at that time the tremendous surge of imports the reductions would trigger.

The primary advantage imports have in the United States market is their low cost, which is due to the low cost of labor in foreign countries. The import duty tends to equalize the United States and foreign labor costs. However, it is obvious that the import duty at its present rate is inadequate to compensate for the difference in cost. At the present rate of duty importers are able to undersell the domestic manufacturers.

Some of the imported scissors and shears are very low in quality. However, they look nice in a blister or skin-packed packaging and the consumer has no way of knowing of the low quality until they open the package at home.

In spite of the fact that the domestic industry has reduced costs and improved the efficiency of its operations, there are many cases where scissors and shears imported under the present rate of duty are sold in the domestic market at prices below domestic production costs.

With the present conditions in the industry it is unthinkable that any consideration would be given to legislation under which the import duty on scissors and shears could be further reduced. Such action would only cause the United States to become entirely dependent on foreign producers as a source of scissors and shears.

Much basic industry in the United States is directly dependent upon domestic manufacturers as a source of quality shears and scissors of various specialized types. The high level of imports of scissors and shears is adversely affecting the operational efficiency and unit production of the domestic manufacturers. Many domestic firms have already discontinued the manufacture of specialized scissors and shears which are used by industry. The absorption of the balance of overhead expense on the small volume of such specialized industrial scissors and shears has and will further increase their costs to domestic industrial consumers or deprive industry of the domestic scissor and shear manufacturers as a source.

In the event of a national emergency during which imports were cut off, the United States would be without an adequate source of scissors and shears, basic tools for many industries and trades essential to our defense.

HELP FROM SECTION 225(b) OF THE TRADE EXPANSION ACT OF 1962

Section 225(b) of the Trade Expansion Act of 1962 provided that if the Tariff Commission found that economic conditions had not improved in an industry, which they had earlier found threatened with serious injury from imports, its product would be reserved from negotiations. The Tariff Commission in 1954, in Investigation No. 24 under Section 7 of the Trade Agreements Extension Act of 1951, had found that scissors and shears valued over $1.75 per dozen "are being imported into the United States in such quantities, both actual and relative, as to threaten serious injury to domestic industry producing like or directly competitive products". In 1964 the Tariff Commission by a vote of 6–0 found that economic conditions in the domestic industry had not improved since 1954. As a result of this finding scissors and shears valued over $1.75 per dozen were reserved from negotiations from October 11, 1962 to October 11, 1967. Since the President was granted authority to enter into trade agreements only from June 30, 1962 to July 1, 1967 he was not permitted to reduce the duty on scissors and shears valued over $1.75 per dozen during the Kennedy round.

With this assurance that the duty would not be cut the industry went forward with programs to install more semi-automatic grinding and polishing machines to reduce costs. However, as shown in Table II even after the expenditure of large amounts for capital improvements, imports with low-labor costs were able to increase their sales in the domestic market.

The proposed Trade Act of 1969 would provide the President with authority to reduce the duty on scissors and shears valued over $1.75 per dozen by 20%. Since the last duty cuts in 1950–51, imports of scissors and shears valued over $1.75 per dozen have increased from 2,139,781 pairs in 1952 to 13,305,273 pairs in 1969. In fact, during the past five years imports have increased more than 50%. I don't think there can be any question what would happen to our industry and our employees if the duty were reduced again.

Therefore, on behalf of the domestic manufacturers of scissors and shears, I urge that no action be taken on the proposed Trade Act of 1969 without an amendment to continue the provisions of Section 225(b) of the Trade Expansion Act of 1962.

LEGISLATION TO LIMIT IMPORTS OF SCISSORS AND SHEARS

The above recommendation to continue the provisions of Section 225(b) applies only to imported scissors and shears valued over $1.75 per dozen. And even with duties remaining at their present levels, there is every indication that imports will continue to take a larger and larger share of the domestic market. With the domestic industry reduced from 50 to 9 firms, this is the time to take action to limit imports of scissors and shears. When there are no firms left in the United States it will be too late.

A bill, H.R. 17889, has been introduced and referred to the Committee on Ways and Means to provide for orderly trade in scissors and shears. The bill is similar to Title I of the legislation that has been introduced to provide for orderly trade in textile articles and articles of leather footwear.

We believe that any reasonable person will find H.R. 17889 a fair bill. It would not stop the import of scissors and shears. It would permit the domestic industry to share the domestic market with imports. The bill provides for the import of 16,806,477 pairs of scissors and shears during 1970 which is 66 percent higher than the imports during 1961. In succeeding years imports would be increased or decreased by an amount proportionate to the increase or decrease in domestic consumption. It should be noted in 1967 imports were equal to over 45 percent of domestic production.

It is only through legislation such as H.R. 17889 that the United States can retain this important industry. As stated earlier, we believe that it is in the national interest to retain a scissors and shears industry in the United States. For this reason we do not feel that the adjustment assistance provided for in the Trade Expansion Act of 1962 and the proposed Trade Act of 1969 is the answer to our import problem. The workers in our industry don't want "adjustment assistance"; they want to use their skills, which have taken years to develop. These workers are not interested in re-training; over many years they have developed a skill they are proud of and want to continue the work they are doing.

REQUEST BY INDUSTRY

In conclusion, Mr. Chairman and members of the Committee on Ways and Means, the domestic scissor and shear industry has never requested or suggested that a complete embargo be placed on the import of scissors and shears. They have only asked for a fair competitive opportunity, not an advantage in the domestic market.

We urge enactment of H.R. 17889.

We urge continuation of Section 225(b) of the Trade Expansion Act of 1962 if the Trade Act of 1969 is reported.

Mr. BURKE. I notice on page 2 you say there were nine firms with the United States producing scissors and shears. I was wondering if we could leave the record open at this point and you could submit to us the names of these firms, and their location.

Mr. FARRINGTON. We will be glad to submit those for the record; yes.

Mr. BURKE. I am particularly interested in those in Arkansas, Massachusetts, and Ohio.

Mr. FARRINGTON. All right, sir.

(The material requested follows:)

UNITED STATES PRODUCERS OF SCISSORS AND SHEARS

Name of Company, and plant location:

Acme Shear Company, Bridgeport, Conn.
John Ahlbin and Sons, Bridgeport, Conn.
Case Shear Corporation, Nashville, Arkansas
Clauss Cutlery Company, Fremont, Ohio
The W. H. Compton Shear Company, New Bedford, Mass.
The A. Lincoln Company, Bridgeport, Conn.
Millers Forge Manufacturing Corp., Keen, N.H.
Southern Supply & Manufacturing Co., Inc, St. Petersburg, Fla.
J. Wiss and Sons Co., Newark, N.J.

Mr. BURKE. Are there any questions?

Mr. GIBBONS. May I ask this question: Where does your chief competition come from in this area?

Mr. FARRINGTON. Originally, when we started back 20 years ago, it was in Germany. They have had inflation also. It has now moved to Italy. We expect very shortly because of the economic conditions there that Japan will come into the picture also.

Mr. GIBBONS. Right now it is in Italy?

Mr. FARRINGTON. Right now on the higher priced merchandise it is Italy. In the middle class merchandise it is Japan. They are coming in just as fast as they can produce merchandise. It is those two countries at this time.

Mr. GIBBONS. Thank you.

Mr. FARRINGTON. Thank you, Mr. Chairman.

(The following statement was received for the record:)

STATEMENT OF HARRY L. MARKS, CHAIRMAN OF THE BOARD, MARKS SPECIALTIES, INC.

This brief is submitted by Harry L. Marks, Chairman of the Board of Marks Specialties, Inc., Norwood, Massachusetts, a substantial importer of scissors and shears covered by item #650.91, a member of the United States Importers Committee of the scissors and shears industry and a member of the Foreign Trade Committee of the National Retail Merchants Association.

Marks Specialties, Inc. imports scissors and shears from Brazil, Germany, Italy and France. Its products are currently being sold in over 3,000 retail stores in every state of the United States. The largest percentage of these scissors and shears are manufactured in a modern plant in Porto Alegre, Brazil where over 3,000 workers are employed.

Approximately eight years ago I travelled to Brazil, and as an unpaid consultant, assisted this factory in Brazil to raise its standards of quality so it could compete in the various export markets. Up to that time it had never exported one single pair of scissors or shears. In 1963 it began slowly to export scissors and shears to the United States and by 1967 the value of its exports to the United States in scissors and shears amounted to approximately $150,000.00. In 1969 this figure had grown to over one half million dollars and it is anticipated that this figure will be doubled within the next two years. In addition to this, because of the acceptance of their fine quality in the United States, this factory is now exporting their scissors and shears to more than 25 countries of the world. It is therefore obvious that the passage of H.R. 17889 would drastically cut back the production and exports of this developing country and developing industry, and create unemployment in Brazil but it would also seriously affect our business here in Norwood, Massachusetts and limit the choice of consumers in the United States in the field of scissors and shears.

It has been the publicly expressed policy of our administrations in Washington for the past thirty years to encourage industrial growth in developing countries particularly in Latin America and to assist them to improve their standard of living by obtaining a fair share of the various international markets. Only by reducing their dependency on agricultural and mineral exports can political and economic stability be achieved and new sources of predictable dollar reserves developed. Our government has constantly expressed its support for the Alliance for Progress which has this as one of its principal objects.

It is clearly evident that the passage of this bill would destroy the scissors industry in a friendly developing nation. By the very use of the word "developing" we recognize that change is basic. No one who deals with a developing country assumes that production will be stagnant. The increase of production and the development of increasing markets are a necessary part of dealing with manufacturers in developing countries. It is also true that because of the often precarious financial condition of some developing countries the greatest amount of security and confidence are necessary to promote the growth of their exports. It must indeed mystify developing countries throughout the world to find us advocating such programs as the Alliance for Progress on the one hand and on the other hand suggesting quotas which would restrict exports into the United States. Because of this two sided attitude on the part of the United States, many manufacturers in developing countries are apprehensive about dealing with us. If we are sincerely interested in the welfare of the people in these countries, and ultimately, our own standing in the world we must commit ourselves to a consistant position in favor of encouraging developing nations.

To sum up our position briefly, we wish to state:

1. The American consumer has as much wider choice in the market than he would have if imports were retarded or made economically prohibitive.

2. The American consumer is able to obtain top quality scissors which would

be unavailable from American producers because over 90% of the cost of quality scissors is represented by hand labor.

3. Imports act as a curb on inflation by restraining domestic prices and the American consumer is able to purchase both domestic and imported scissors at competitive, realistic prices because there is a free market and competition forces restraint in the pricing of both domestic and imported scissors and shears.

4. Scissors and shears imports are supplementary to domestic production which is proven by the fact that most of the American producers supplement their American production by their own imports from abroad.

5. Imports have not injured the domestic industry and any investigation into the leading domestic manufacturers will prove that their volume and profits have constantly been improving. The net earnings of the manufacturer in Bridgeport, Connecticut which calls itself the world's largest manufacturer of shears and scissors showed that their six months net income rose from $220,000.00 in 1968 to $390,000.00 in 1969, which does not indicate that they have been suffering from the competition of imports. The other substantial manufacturer of scissors and shears in the United States is located in Newark, New Jersey and despite a constant expansion of their facilities, has not been able to keep up with the orders they receive which seems to be a very clear indication that their production is unable to keep up with their sales.

6. The restriction of imports of scissors and shears would not create jobs for American workmen. Workers in the scissors and shear industry are highly skilled craftsmen who are becoming more and more difficult to find in America because the work is difficult and unpleasant and very few Americans wish to do this type of work which can be proven by the difficulty that American manufacturers have constantly in finding labor.

Finally, we wish to state that for the sake of world peace and justice and political stability it is necessary for the United States to stand unequivocally committed to the welfare of the peoples of developing nations. We feel that a policy which encourages and emphasizes trade rather than aid will have far greater benefits to the dignity of developing nations. It will give them something permanent, secure and stable as the basis for their lives and it will cost us far less in every way. We are enclosing photostats of five articles from the United States press which we believe bears out the above statements. We thank you for your consideration.

[From the New York Times, June 11, 1968]

RUSK AND FREEMAN OPPOSE IMPORT QUOTAS—RETALIATION FEARED BY ADMINISTRATION, CONGRESS IS TOLD

WASHINGTON, June 10 (AP)—Secretary of State Dean Rusk told Congress today that the United States would pay "a very heavy price" and face retaliation if Congress passed protectionist legislation affecting world trade.

A liberal trade policy is not a giveaway program, Mr. Rusk told the House Ways and Means Committee as it continued the first major Coongressional review of U.S. trade policy since 1962.

A second Cabinet witness, Agriculture Secretary Orville L. Freeman, testified that agricultural protectionism was tried once, didn't work and, "There's no reason to believe it will work today."

Both are supporting an Administration program designed to bolster a 34-year policy of freer trade threatened by several import quota bills pending in the House and Senate.

ADMINISTRATION POSITION GIVEN

The Administration position was outlined last week by Ambassador William M. Roth, President Johnson's special representative for trade negotiations.

Mr. Roth told the committee the Administration has ruled out a tax on imports. Instead of helping the trade picture a tax or passage of even one import quota bill would bring on massive retaliation, Mr. Roth said.

Mr. Rusk said his department "is not oblivious" to nontariff restrictions which are imposed by various countries on U.S. exports and he pledged continued efforts to reduce or eliminate them.

"It is difficult to see how we could count upon Japan as a major partner if we had not deliberately fostered—or if we were suddenly to change—a system of world trade which permits Japan's 100 million people to achieve through trade

what they could not attain in the narrow confines of their crowded islands," Mr. Rusk said.

Mr. Rusk also said that additional trade restrictions by this country affecting the developing countries "would breed resentment and store up additional problems both for today and for the years ahead."

There is no doubt, Mr. Rusk added, that foreign countries would retaliate against quota restrictions in the United States.

"The partnership we have nurtured with Japan would be put to a very severe test—and it might not survive if we were to adopt wholesale restrictions which would have a serious impact on Japan's ability to make its way in the world," Mr. Rusk said.

Mr. Freeman told the committee there are increasing signs of protectionism in many foreign countries. He added the quota proposals show a touch of "the virus" existed in Congress.

* * * * * * *

Mr. Freeman said, "if we stick to sound trade principles that have been serving us so well, our agricultural exports will continue to expand. But if we turn instead toward protectionism, we run the risk of eventually seeing a disastrous decline in our farm production export trade."

QUOTAS PLACED ON MILK

In another trade development, President Johnson today ordered temporary quotas on imports of condensed and evaporated milk and cream. The restrictions will remain in effect pending an investigation by the United States Tariff Commission.

The quotas were imposed, effective immediately, upon the recommendation of Agriculture Secretary Orville L. Freeman.

Mr. Johnson also asked the Commission to investigate possible quotas on a number of other dairy products which are not now subject to import restrictions.

Mr. Freeman called the action, a "realistic move which is urgently needed to meet a threat which is widespread, and to carry out a policy established last year with respect to dairy product imports."

A year ago the United States extended import quotas to a number of dairy products to stop what the Department of Agriculure called "widespread evasions" of the quota system.

Since then, the Department says, imports of certain dairy products not covered by the restrictions have risen sharply.

"Except for canned milk, most of the increases have in items used by processors, not in items which go directly to consumers," the department said.

NIXON BIDS WORLD GIVE TARIFF HELP TO POORER STATES—SAYS U.S. WILL ACT ALONE TO AID LATINS IF INDUSTRIAL LANDS BALK AT PROPOSAL—PLAN GIVEN TO O.E.C.D.—ISSUING ROCKEFELLER REPORT, PRESIDENT SUGGESTS STEPS TO SPUR AMERICAS TRADE

(By Tad Szulc)

WASHINGTON, November 10—President Nixon announced today that the industrialized nations had been invited to join the United States in granting special tariff preferences to all the underdeveloped countries.

If the other industrialized nations do not agree to the proposal, he said, the United States will move on its own toward preferential treatment for Latin America alone.

The proposal for global preferences for the underdeveloped countries was introduced in Paris today by the United States delegate to the Organization for Economic Cooperation and Development, Mr. Nixon said.

A FAR-REACHING INNOVATION

Preferential treatment for Latin America alone, a step requiring Congressional approval, would represent one of the most far-reaching innovations in United States trade policies since the end of World War II. The United States now, under law, grants no trade preferences to any country although, as a matter of executive policy, it has been exempting Latin American green coffee from duty.

Mr. Nixon made the announcement as he and Governor Rockefeller formally issued at the White House the Governor's report on conditions in the Western Hemisphere, along with its 83 specific recommendations for action to deal with the economic and social situation in Latin America and improve the area's deteriorating relations with the United States.

STUDY OF REFINANCING ASKED

Excerpts from the 137-page report, painting a grim picture of political instability in the Americas, were published today in The New York Times.

In another move concerning Latin America, the President said, the Secretary of the Treasury, David M. Kennedy, has been instructed to begin studying ways to refinance the huge amounts—running into billions of dollars—owed to the United States by Latin, American countries.

Both the trade preferences for Latin America and the debt stretchout were recommended by Governor Rockefeller. But in asking for the tariff liberalization, the President went even further than the Rockefeller report's proposals.

The likelihood that the industrialized counrties of Western Europe, along with Japan and Canada, will accept the United States proposals appears to be slim, and Mr. Nixon took note of this in his remarks.

This was why he made a point of announcing that the United States was prepared to proceed unilaterally to favor Latin America, a region with which, he and Mr. Rockefeller agreed, this country must maintain a "special relationship."

POLICY SPEECH RECALLED

Referring to the speech on Latin American policy that he made an Oct. 31, the President recalled that he had spoken "the necessity of having special trade preferences for all the developing countries."

"I pointed out," he said, "that there were countries outside of the Western Hemisphere that had special relationships with other countries, and particularly their former colonial countries, and that our first step would be to attempt to work out a general system of trade preferences which would apply equally and fairly to all the developing countries, including those of Latin America."

"We are beginning to implement that recommendation as contained in my speech," he said.

"However," he went on, "the Rockefeller report indicates that, if it is not possible to work out a satisfactory arrangement in the direction of implementing a recommendation for trade preferences for all the developing countries because of the ties that many of those countries will have with former colonial nations, then the goal that we have is to have special trade preferences for Latin America."

Mr. Nixon said that if the type of international agreements proposed by the United States could not be negotiated "within a reasonable time, then the United States will be prepared to consider other alternative actions it can take to assure that the American nations will have preferential access to the U.S. market."

EARLY ACTION HINTED

Governor Rockefeller, who stood beside the President, said that the United States would act "within a matter of months" to seek special treatment for the Latin Americans and possibly for other underdeveloped countries not now enjoying preferences from other industrialized nations.

To obtain the trade preferences for Latin America, the President would have to propose the necessary action to Congress either in a special bill or as a section of the general trade bill scheduled to be presented next year.

The Rockefeller report recommended that, in exchange for receiving preferential treatment, the developing nations should agree to a gradual reduction of tariffs on imports from the industrialized countries over a period ranging from 10 to 20 years. The President did not touch on this point at today's news conference.

PROFITS OUTWEIGH NEW INVESTMENT—BIG CORPORATIONS EXPLOIT LATINS

(By David Deitch)

Latin America handed President Nixon a list of complaints this week—all very logical and long-standing—but which clearly won't be met for the same reasons that the United States is unable to deal adequately with the problems of its own society.

There is no way that the U.S. can substantively help Latin America except by creating more competition for the big American corporations which is also

precisely why large amounts of public funds are not redirected from the military-industrial complex into social programs.

The plain fact of the matter is that big corporations do not want competition—at home or abroad—and expend fantastic energies to achieve monopoly positions in their marketing areas. This is a normal bureaucratic function of a big corporation and has been well documented by economists such as John Kenneth Galbraith.

The very obvious behavior patterns of big corporations has given rise to the term "monopoly capitalism" which describes the present state of the world economy in a quite different way from the 19th century when the corporations were just reaching beyond the boundaries of their own countries and competition had greater meaning.

This week, the Foreign Minister of Chile, Gabriele Valdes, on behalf of 21 Latin American governments, made two very important complaints which the United States has heard many times before but has no intention of rectifying: American corporations are taking a good deal more out of Latin America than they are putting in, and that U.S. import barriers to trade must be eliminated.

It is impossible to believe that Washington is seriously interested in the economic development of Latin America while these two conditions exist and while all the evidence points to a permanent state of affairs subjecting Latin America (and all underdeveloped countries) to inferior status. This is so obvious to the people of Latin America that rioting turned Governor Rockefeller's "fact-finding" tour into a disaster.

In view of the fact that the source of the Rockefeller fortune is Standard Oil Co. of N.J. and other corporate elements draining profits out of Latin America, appointment of the New York governor as President Nixon's emissary to solidify U.S.-Latin American relations shows a fantastic lack of empathy in Washington with the feelings of other countries, or outright arrogance.

Chile's Dr. Valdes, who told Mr. Nixon that Latin America could no longer accept the fact that repatriation of U.S. corporate profits was running several times that of new investment (and Valdes is no radical), said Mr. Nixon fully agreed that private investment was business, not aid.

Similarly, this is why U.S. business interests continue to take more out of ghettos at home than they put in. Developing the ghetto is business, not aid, and so is "black capitalism." American corporations don't want to create the condition that would give rise to more competition for themselves that might result in smaller profits at home or abroad.

Meanwhile, monopoly capitalism inevitably produces confrontation between the U.S. Government as representative of the big corporations, and Latin American countries.

The reason confrontation cannot be avoided is that economic development is impossible unless the operations of the big corporations are somehow restricted. Take the problem of Peru's territorial waters which Lima says is 200 miles out to sea and the U.S. says 12 miles:

Peru is the largest producer of fish in the world. Just the right combination of ocean currents, land shape and temperature makes Peruvian water teem with fish from which many thousands of Peruvians make a living. "Peru has tried to keep control of this source of wealth since most other Peruvian resources are controlled by international corporations," according to Harry Kantor, professor of political science at Marquette, who testified last April 14 before the Senate Foreign Relations Committee.

"Is the United States not rich enough to lean over backward and to allow Peru to control this source of wealth so close to its shores?" Kantor asks.

What this means is that international monopoly capitalism is causing underdeveloped countries to go to extra lengths in the struggle for a more suitable distribution of wealth in the world. Peru is saying that in order to survive it, too, must have monopoly status over certain resources.

Kantor also has some interesting things to say about the conditions under which the corporations originally came to Peru.

"The governments which ruled in Peru during the country's first hundred years usually managed to finance their stay in office by obtaining loans from British and other foreign bankers. They never paid most of these loans in cash, but instead gave concessions to exploit various national resources. Thus through a hundred years foreign financial interests took control of the country's most valuable natural resources. . . .

"One thing is clear," Kantor goes on, "the governments which made the conces-

sions were transient, undemocratic and corrupt. The ordinary Peruvian in 1969, therefore, sees no reason why Peru should honor the past agreements of which he is so skeptical. I might point out that a committee of the U.S. Senate in 1930s, holding a hearing on why payments on Latin American bonds by the governments of Latin America were not being made, discovered that the son of the President of Peru had received a commission of about $1 million on just one deal with a New York bond house."

This gives rise to some very fundamental questions about property. How long must an underdeveloped country, or a poor person, be condemned to a certain life style by historical conditions over which he had no control? And how long can the big corporations continue to justify their acquisition of property that has resulted in such profound exploitation?

The underdeveloped peoples in Latin America have no choice but to support any government, military or democratic, that improves the possibility of restricting the operations of U.S. corporations.

NIXON IS TOLD THE "TIME HAS COME FOR ACTION"

(By Benjamin Welles)

WASHINGTON.—During the campaign candidate Richard M. Nixon used frequently to propose that United States policy toward Latin America shift to "trade, instead of aid."

Last week however two Latin American leaders came separately to the White House to tell him that both United States trade and aid policies in the hemisphere are in deep trouble.

Mr. Nixon described his prolonged discussions as a "major step forward" in developing new hemisphere policies—the "first fruits" of which, he said, would begin emerging at the meeting in Trinidad this weekend of United States and Latin economic experts. Observers, however, were dubious. The power to open United States markets and easeonerous aid conditions for the Latins, one said, lies not in the hands of technical experts but in the hands of a small group of powerful American Congressional leaders more attuned to domestic pressures than to foreign policy.

On Wednesday Gabriel Valdes, Chilean Foreign Minister, handed Mr. Nixon a 6,000-word catalogue of Latin complaints aimed, it seemed, less against United States policies as such than against the erratic, insensitive, often Byzantine and politics-ridden methods by which budding Latin exports are blocked from United States markets, and United States aid is used less for "development" than to boost United States products.

In handing Mr. Nixon the "CECLA" report, named for the Latin American Special Economic Coordinating Committee of 21 nations that drew it up between March and May in Vina del Mar, Chile, Mr. Valdes stressed that the Latins wanted no "confrontation" with the United States.

However, he said, they were tired of sitting as fictive "equals" with the United States in hemisphere organizations and having their complaints ignored out or ignored. They wanted United States markets for the goods the United States was encouraging them to produce; they wanted investments-tailored to their own needs and not solely to benefit foreign stockholders; they wanted development aid uncluttered with various conditions imposed by powerful Congressmen to placate United States pressure groups.

Citing "countless" meetings and documents produced over past years, Mr. Valdes said that "everything has been said that can be said; the time has come for action." Mr. Nixon promised "serious consideration."

FIRST LATIN GUEST

The following day Mr. Valdes' warnings were echoed and amplified by Carlos Lleras Restrepo, President of Colombia and Mr. Nixon's first Latin state guest.

Talking Thursday and Friday with Mr. Nixon and his chief aides—notably Charles Appleton Meyer, assistant secretary for inter-American affairs and a one-time resident of Columbia—President Lleras stressed the inconsistency in the United States policy of granting aid for "development" on one hand and then vitiating its utility with cutbacks, restrictions and various "fine print" clauses.

As an example he cited Colombia's hopes of exporting to the United States this year—$4-million worth of rice—developed largely with United States aid. He had been warned, he said, that if Colombia exports rice it may lose $15-million

in United States-financed wheat because Congress has insisted that countries receiving wheat cannot export agricultural products—such as rice or corn—that compete with United States agricultural exports.

"The State Department tells us to diversify exports so as not to be dependent on aid," one Colombia official told a visitor. "Then the Department of Agriculture insists we must not compete with United States exports. It's crazy."

The latest statistics show the gravity of Latin America's trade problem.

Latin America's 1967 export figures showed a dangerous 1 percent decline from 1966 figures; a major setback in an export growth program under way since the start of the Alliance for Progress in 1961.

First figures for 1968 indicate an inadequate two percent rise in exports—compared with average 5 per cent growth rates for the world as a whole, and 4.8 per cent for other "developing" areas.

AID GRIPES

Apart from the quotas that United States pressure groups have the Government impose whenever Latin products—petroleum, textiles, meats, cheese, strawberries among others—begin breaking into the United States market, the other major gripe of the Latins lies in "aid."

"The developed nations are not aiding Latin America" Mr. Valdes told President Nixon. "It is the other way around."

He charged that in 1968 the United States repatriated five times the amount of private earnings made in Latin America that it invested there and he warned that the Latins "will not accept this indefinitely."

Apart from private profits, however, the Latins were also exercised over the multitudinous "gimmicks" attached to United States aid programs.

Among these gimmicks one source listed:

Aid "tied" to procurement of goods and services in the United States—often at 20 to 40 per cent higher cost than could be found elsewhere. Since 1965 for instance 99 per cent of all aid ($336.5-million last year) has been spent inside the United States.

"Additionality"; a device imposed in 1964 by the Treasury to help ease the dollar drain by forcing aid recipient countries to continue buying as many United States goods—regardless of the recipient's financial plight—as they had been buying before receiving aid.

This device has irritated many Latins and its effect now seems minimal. William S. Gaud, former aid administrator, told Congress in January that "all our additionality efforts only saved us about $35-million a year over the last four years." Of this world total, specialists believe, the saving to the United States Treasury in Latin America amounted to no more than $15-million—compared with $8-billion yearly in overall United States-Latin trade.

OPPRESSIVE CONTROLS

Not only has the Treasury's insistence on additionality led to "positive" lists of goods which do not compete with United States products and which aid-receiving countries must buy with their United States credits but "negative" lists of goods which they must not buy. To police the Latin American aid program—involving $3-billion and 2,000 employees handling 778 projects in 20 countries—the Treasury has insisted on a paraphernalia of controls that few Latin countries have, or can effectively administer, and which the United States is officially pledged to help eliminate.

Other restrictions to aid imposed by Congress—or by Government bureaucrats trying to impress Congress—include:

A cumbersome requirement that any Latin merchants wishing to buy goods in the United States must give at least 45 days notice to the controversial Small Business Administration;

A requirement that half all aid goods must travel in United States ships, although lower freight rates are available in non-United States ships;

Various Congressional sanctions aimed at "punishing" Latin countries whose policies offend Congress by cutting off development aid—thus prolonging the very conditions for which aid was granted. Such amendments include the Hickenlooper, Conte-Long, Pelly and similar acts of legislative retribution.

"Aid is like a little donkey that's so piled high with burdens it can hardly stagger," said one source. "Congress doesn't seem inclined to eliminate these burdens—at least until President Nixon calls in the leaders and asks their help. Maybe after Rockefeller has finished his mission things will improve."

[From U.S. News & World Report]

WHAT LATIN AMERICANS WANT FROM U.S.—HOSTILITY TOWARD THE UNITED STATES IS HEATING LATIN AMERICA TO A FLASHPOINT; WHAT'S THE MATTER?—FROM LATIN-AMERICAN MINISTERS PRESIDENT NIXON HEARD A MAJOR GRIEVANCE; THEY WANT A BETTER BREAK IN U.S. TRADE AND AID

WASHINGTON.—President Nixon now has in his hands—at a time when anti-U.S. feeling is mounting in Latin America—a 46-point list of what the Latin Americans really want of the United States.

If Latin America were to get what it is asking, U.S. trade and aid policies in Latin America would be drastically altered.

The requests were presented to Mr. Nixon on June 11 at the White House in the form of a declaration of Latin "consensus." It emphasizes the following points:

Latin Americans desire an economic "special relationship" with the U.S. that will give them a boost up the development ladder.

The area wants to eliminate all strings on the economic aid it receives. It objects to what it considers U.S. political and economic "coercion." Instead, it seeks a new partnership based on equality.

Negotiations are wanted at the highest national levels to create new forms of cooperation in trade, investment, financing, transport and social and technological development.

Action on all this, the Latin Americans warn, cannot wait until "tomorrow." A deep crisis is at hand. As Chilean Foreign Minister Gabriel Valdés put it:

Rising frustrations and resentment of U.S. policy might "provoke at any moment irreparable actions" south of the border.

This is just the kind of warning that New York Governor Nelson Rockefeller has been hearing on his violence-marred mission to Latin America for the Nixon Administration.

Although proposed trips to Peru, Venezuela and Chile have been canceled, Governor Rockefeller planned to continue his mission.

Latin-American Ministers drew up their manifesto in May at a meeting of the Latin-American Special Co-ordinating Commission (CECLA) in Viña del Mar, Chile. Foreign Minister Valdés, accompanied by Latin-American ambassadors, formally presented it to Mr. Nixon at the White House.

In broad terms, the consensus sought action on these major issues:

TRADE

Latin America wants its manufactured and semimanufactured goods to enter the U.S. market at a "preferred" tariff rate.

Without these preferences, the representatives argue, their goods are too high-priced to compete with products from industrial nations.

Quotas and other nontariff restrictions on Latin-American products must be erased. Central American countries, for instance, recall unhappily how U.S. officials urged them to diversify their economies to produce beef cattle and textiles. When they did so, North Americans slapped on import quotas.

Fear is rising that the U.S. Congress will introduce new restrictions on imports to "protect" American business. So Latin Americans want the *status quo* to continue until an over-all program of liberalized trade can be worked out.

FINANCING AND INVESTMENT

Aid granted by the U.S. should be "untied." This would allow U.S. funds to be used to buy products anywhere. Now most aid money must be used to purchase goods only in the U.S.

Latin-American countries want lower interest rates and more time to pay off foreign debts. Payments on such debts are eating up big chunks of earnings.

Foreign investment is welcomed, but Latin Americans want more say about the amount of profits that American companies send home. In the long run, they want greater participation in foreign-financed firms. Private investment by foreign firms in Latin America—some 12 billion dollars' worth by U.S. companies—is not financial assistance, the representatives insist. Mr. Valdés, for example, pointed out that in 1968 total earnings sent out of Latin America to the U.S. amounted to five times the total of new U.S. investment in the same year.

"In a word," he said, "we believe Latin America gives more than what Latin America receives."

OTHER GRIEVANCES

The wide-ranging consensus also pinpoints grievances running from high rates for ocean freight to the need for funds to close the technology gap with the more developed parts of the world.

In the view of some North American observers, the Viña del Mar declaration was little more than a new "shopping list." Its authors maintained that it was not.

As Mr. Valdés explained it, Latin Americans want no new treaties, no new institutions, no more "wise men and experts" making reports. They seek simply "negotiations with everybody's cards on the table."

What are the chances that the U.S. will accept these proposals? Even Latin Americans were not optimistic.

The U.S. is burdened by a balance-of-payments crisis, a costly war in Vietnam, and pressing domestic needs. Congress at this time is in no mood to take on new foreign-aid commitments.

Mr. Nixon's problem, as he studies the declaration, is this: Latin Americans are arguing that action cannot be put off. The Hemisphere, they say, is at a crisis point.

[From the New York Times, Oct. 27, 1969]

PRESIDENT NIXON CONFRONTS A RESTIVE HEMISPHERE

(By Graham Hovey)

(Graham Hovey is a member of the editorial board of the Times)

Richard Nixon's speech to the Inter-American Press Association in Washington Friday will be one of the most important ever delivered on Latin America by a President of the United States. A galloping crisis in the hemisphere and the accident of timing have combined to make the occasion a kind of political watershed.

Not only this country's relations with the hemisphere for a long time to come, but the very survival of the inter-American system and the 21-year-old Organization of American States may be at stake. For many Latins, the speech will answer the question of whether the United States any longer attaches enough significance to this system to support it with more than the familiar tired rhetoric about New World interdependence and solidarity.

IMPATIENCE WITH U.S.

Some Latin leaders have already concluded that they can expect nothing effective from an Administration that has taken nine months to come up with a statement of policy for the Americas. They are determined to build new inter-American political and economic machinery from which the United States would be excluded and with which they, as a bloc, could confront this country exactly as they might deal with any major non-American state.

This group is still a minority in the O.A.S. and its separatist idea may be unrealistic, but this is certain: its ranks will swell if what Mr. Nixon has advertised as "a major new pronouncement" on hemisphere policy fails to promise action on the just grievances of the Latins and a readiness to negotiate realistically on their pressing needs.

CONSENSUS WARNING

"Only the United States can give the separatists any chance of success," one of the shrewdest of Latin statesmen said recently. He meant the United States could do this unintentionally through continued insensitivity.

The Administration should have gotten the message last June when Chile's blunt-talking foreign minister delivered to Mr. Nixon the remarkable Consensus of Vina del Mar, a catalogue of grievances and proposals agreed to by 21 Latin governments. On that occasions, Gabriel Valdes warned the President of a "growing and harmful resentment" against United States policies.

Part of the Consensus may be pie-in-the-sky and many of its goals can be reached only over the long haul. But the storm warnings and many of the recommendations were not new. They were in fact identical with much of what Gov. Nelson Rockefeller heard during his turbulent Latin travels for Mr. Nixon.

It is thus difficult to understand why the Administration has taken so long to fashion some basic policies for the hemisphere. What is required is not those "fine slogans," against which Mr. Nixon warned the O.A.S. last April, but the political resolution to fight for policies clearly in the best long-run interests of the United States, as well as of Latin America.

It will not help for Mr. Nixon to repeat his preference for "trade, not aid." Latin America needs both under new ground rules. Trade does not change institutions or build the infrastructure essential for development. Trade can actually hamper development, even as private investment in Latin America can widen rather than narrow the gap between rich and poor.

AID IN REVERSE

Senator Frank Church rightly says that "aid" for Latin America has become "an ill-concealed subsidy for American exports." Aid is loans, not grants, and 90 cents of each dollar is spent in the United States. Aid is increasingly hedged by Congress with conditions that defeat its purpose and humiliate its recipients.

"In terms of net capital flow, Latin America is actually aiding the United States," Galo Plaza, Secretary General of the O.A.S., said recently. This net inflow from Latin America was half a billion dollars for 1967 alone and more than two billion dollars for the first eight years of the Alliance for Progress.

PRIORITY DEMAND

The most crucial economic problem of all for the Latins is that of diversifying and expanding their exports. Thus, a relaxing of tariff and other trade barriers gets—and deserves—high priority among their demands on the United States.

By waiting so long, Mr. Nixon in some ways has made his job of forging a viable hemisphere policy more difficult. He has lost the momentum that any new Administration can generate with Congress and the country. The protectionist tide has risen and the foes of foreign aid have become bolder. More of Latin America is buffeted by virulent nationalism and revolution and anti-Americanism than was the case nine months ago.

There still may be time, however, to build new bases for inter-American cooperation and development. It is not too late—if Mr. Nixon has something of substance to say.

Mr. BURKE. Our next witnesses will be Messrs. Milton Gordon and Andrew Arcuri representing the International Union of Doll and Toy Workers.

STATEMENTS OF MILTON GORDON AND ANDREW ARCURI, ON BEHALF OF INTERNATIONAL UNION OF DOLLS, TOYS, PLAYTHINGS, NOVELTIES AND ALLIED PRODUCTS OF THE UNITED STATES AND CANADA

Mr. GORDON. I wish to speak to the committee on behalf of the situation on a national scale. Our industry, which has been fighting imports since 1947, has seen segments, complete segments, of the industry wiped out one by one, such as cheap sporting goods, Christmas items, dolls, et cetera. In fact, some of the imports that came in, as members of the committee have read, were dolls from Poland that exploded when the children were playing with them. A warehouse full of them in the State of New Jersey was condemned by the State officials and weren't even allowed to be sold. Most of those who speak in behalf of the imports being allowed to come in argue that the consumer saves. Yes, the consumer saves at the beginning until the American part of the industry is wiped out, and then the prices go up and the American manufacturer, who is the one that originally put these people into business, now gets the same price for an import made under much worse working conditions in this country and gets the same price.

For example, if anyone of you have daughters and have ever had these small 12-inch dolls, the clothing for these dolls today, of which very little, or I doubt if any, is made in this country today, is running $4 and $5 per outfit.

When originally they were made and brought in from Japan, Taiwan and these other countries they were selling for $2. This is a game of the American manufacturer, having the item made on the other side, brought in and when the American competition is wiped out, he then establishes a price.

What has happened in the American industry today is that you now find old line firms that have been in families for 50 and a hundred years are completely out. They have either sold out to the conglomerates—we now find in the toy business outfits like General Mills, Quaker Oats, Gulf and Western—these are the companies that are buying up because the old line family firms have gotten tired of competing.

This is an industry that employs semiskilled and unskilled workers in the minority groups. These workers when they lose their jobs have no other jobs to go to and eventually wind up on the relief rolls. The fact that items are brought in, as some of the manufacturers say, and sell at a cheaper price is of no value to the man who does not have the money in his pocket to buy anything, no matter how cheap it is being sold.

The quality of these said items if looked at, sure, they are cheaper but in the end, compared with the American same item made in this country, would cost you four times as much if you compared the quality, how long they last, and the type of merchandise that is used in them.

We are asking for relief to prevent this dumping, as we call it, of all of these toys in this country so that the American manufacturer can continue to remain in business and keep these minority groups working. We have now come up with a new problem. The items that could not be made in Taiwan, Japan, Philippines, and therefore factories are now being opened up on the Mexican border and items are being brought in because the shipping charge might add to much in some cases. These items are now being brought into this country.

We ask in behalf of our employees and those employers whom we represent that some relief of some kind should be given by either this committee or the Tariff Committee to save this industry.

I wish to thank you.

Now I would like Mr. Arcuri, who represents one of the biggest toy locals in the world, to expound on the remarks I have made.

Mr. ARCURI. Mr. Chairman, gentlemen of the committee, what I am going to tell you is not very pleasant because, as Brother Gordon mentioned, I am the manager of the largest toy local in the United States. I don't know about the rest of the world. We at one time had 16,000 members just in the metropolitan area of New York City. We had 400 shops and they were nothing but toy shops, toys, dolls, games, Christmas items, anything that had a play value, because we stood within our jurisdiction.

We have fallen down now to approximately 9,000. The law of attrition where imports are concerned has done this to us. We have lost since 1955 over 300 toyshops. They have opened and closed.

As Brother Gordon pointed out, we have had shops that have been

in business 70 years that have closed up with a loss of jobs in just this one particular shop of over 300 people.

Our shops average anywhere from 10 to 2,000 people, 3,000 people. And we are worried. We are not only worried, we are scared stiff. We have complained, we have cried, we have begged the administration, different committees. I have testified many times before the Tariff Commission, before the congressional committees. We have gotten nowhere. Asking for relief just on an increase in the tariffs is not going to help us now. They can increase the tariffs 500 percent, 700 percent, it is not going to do a darn bit of good for us.

We have now roughly 190 shops. We have workers who have worked in the industry for 60 years and better. We are worried that they are going to lose their jobs. We are scared. And we are running scared. Something has to be done because our workers, especially in doll shops, if they put in—they are talking about a full complement of union members—if they put in 6 months a year that is a good year. We are a marginal industry, we realize that. We only have two seasons, Easter and Christmas. When you have a man or woman working 25, 30, 40, 50 years in one shop and she can't put in or he can't put in 6 months, this is pretty darn tragic. There is only one reason why. The flood of importations in this country with the lowering of the tariff, not the increase of the tariff.

As I said before, if we increased it 500 percent it would not do a darn bit of good. But here we are talking about lowering tariffs. The Kennedy round is talking about lowering tariffs. We are trying to compete with the Far East. We can't compete with them. Our American manufacturers are in such a bind that they are forced to import. They don't want to import. I say the vast majority of them don't. But they are forced to import in order to stay in business. You go into any Woolworth store, Kresge, Penney, you will find on the shelves toys, dolls, games from approximately 57 different countries. Some are rather negligible so far as importations are concerned but some import one heck of a lot of material in here.

If the city of New York did not have a welfare setup most of our workers, and as Brother Gordon said, it is semiskilled and nonskilled, if they did not receive subsidies from the city of New York I think most of them would be half starved to death.

Gentlemen, this is not a very nice picture but it is the truth. We beg of you gentlemen that something be done, something drastic, because we are in dire need of help. We need it badly.

That is about all, gentlemen.

(The prepared statement of the union follows:)

STATEMENT ON BEHALF OF INTERNATIONAL UNION OF DOLLS, TOYS, PLAYTHINGS, NOVELTIES AND ALLIED PRODUCTS OF THE UNITED STATES AND CANADA, AFL–CIO

This statement is presented by our International Union pursuant to a press release issued on or about April 17, 1970—P.R. 20— by Wilbur D. Mills, Chairman, Committee on Ways and Means, U.S. House of Representatives.

That release announced that the Committee would shortly hold "public hearings on the subject of foreign trade, with particular emphasis on the President's foreign trade proposals, and including all other trade proposals pending before the Committee (such as H.R. 16920), as well as proposals to stimulate exports."

We are presenting this brief because our International Union represents tens of thousands of American workers whose livelihood and jobs depend, directly or indirectly and to a greater or lesser degree, upon affirmative amelioration of the impact created by the flood of imports from abroad.

BACKGROUND AND INTRODUCTION

This hearing is being conducted against a general backdrop of a deterioration of American position in world trade—a deterioration which has affected not only members of our Union but also every sector of our society. This deterioration has been accelerated in the period since the United States signed the GATT agreement in June 1967, and during the two years—1968–69—we have witnessed, for the first time since 1894, a situation in which the United States actually sells more to foreign nations that it has bought.

The worsening position of the United States, measured by the contrast between the levelling-off of American exports and the 300% increase in the imports of manufactured goods from 1960 to 1968, has been, and can be properly, attributed to the following major economic developments during the past decade:

1. The spread of managed national economies, together with the emergence of trading blocs such as the European Common Market, with coterminus direct and indirect government barriers to imports and aids to exports as part of an overall pattern of protectionism;

2. The internationalization of technology, coupled with the skyrocketing rise of foreign investments by U.S. firms and the corresponding rapid spread of multinational corporations which can manipulate the location of operations (depending upon labor costs, taxes and foreign exchange rates) as well as juggle exports, imports, prices and dividends from one country to another within the corporate structure—considerations which tend to reduce or eliminate the former U.S. productivity—lead in many industries;

3. The continuing, and in many instances the ever-increasing, disparity between the wages and standards of American workers and those overseas has become an even more pronounced prod during the 1960s for the surge of imports in all sectors of the American economy, particularly in such relatively labor-intensive products as are worked upon by employees in the jurisdiction of our International Union as well as shoes, textiles, clothing, steel, autos, ceramic tile, radios and TV.

The cumulative impact of these trends is that imports are becoming, more and more, a major factor in the American market. At the start of the Sixties, only about one-third of imports from abroad were competitive with American-made products; by the end of the decade, approximately three-fourths were in that competitive posture. In other words, we are confronted with the reality that imports are cutting an ever-wider swathe in America and that the trend is most definitely upward.

As a consequence, as was underscored by Secretary of Labor Shultz, in 1968 it would have taken nearly 2.5 million jobs to produce the equivalent value of the nearly 75 percent of imports into the U.S. that were competitive with U.S.-made products—and this three-quarter percentile figure, in turn, was a marked increase over the one-third percentile figure existing at the beginning of the decade of the 1960s. By the projection of these figures it is estimated that in 1969 nearly three million Americans were unemployed as a consequence of the impact of imports.

The loss of such job opportunities has occurred at a time when unemployment is mounting. Indeed, the percentage of unemployed rose in April 1970 to 4.8—the highest such point in five years, and the trend has been up during the past year. Such job erosion has severe economic and social consequences. From an economic standpoint there is most urgently needed both unskilled and semi-skilled production jobs for the American labor force, growing at an estimated 1,500,000 each year. Such acuteness of need is especially accentuated for members of minority groups who are seeking to enter the mainstream of the American economy. Failure to do that can contribute only to mounting frustration and discontent which can only militate against the constructive solution of the problems of American society.

The impact of escalating imports is most harsh on affected businesses, workers and communities. The latter, for example, see an erosion of employment and of their tax base at a time when finances are crucially needed to maintain and elevate services in such crucial areas as safety, education and housing. The mortality and bankruptcy of business firms which are vulnerable to competition from imports exact a fierce toll not only upon employers but also workers as well as trade unions which represent these workers.

It is a fact of economic life that those industries where the impact of imports has been greatest are also those in which (a) labor costs constitute a significant part of the total costs and as a consequence are usually most susceptible to wage-

cost competition, and (b) a considerable part of the employment tends to be lesser-skilled and lower-paid, at least within the total context of the American economy, with large concentrations of older workers, women and minority groups.

The juxtaposition of these two facts tend to place labor organizations, and certainly our own International Union, in a collective bargaining bind. On the one hand, the members of our organization are pressing, understandably, for wage increases and other adjustments if only to meet the soaring escalation in living costs. On the other hand, the contractual implementation of these demands may result in placing employers in an even more difficult economic posture and may even literally price the company out of the market. The jobs of our members and the standards and conditions built up over the years are thus sacrificed upon the altar of a trade policy which has become, regardless of intent, the scaffold on which is executed the hopes and aspirations of American policy. As President Nixon put it so eloquently in his State of the Union message last January: "People do not live at the summit. They live in the foothills of everyday experience and it is time for all of us to concern ourselves with the way real people live in real life."

It is out of such concern that we must view the proposals, as set forth by President Nixon and in such bills as H.R. 16920, to liberalize adjustment assistance for firms and workers. Such a step is most desirable and appropriate, for the experience of the Trade Expansion Act of 1962 in this regard has left much to be desired. In fact, the U.S. Tariff Commission generally took a jaundiced view of applications for such adjustment assistance, and it was not until last year that affirmative action on that score was taken, albeit in only a limited sense. Anything that would ameliorate the conditions of both employers and employees who have been adversely affected by the flood of imports would therefore be a consequential improvement upon past practise.

But one should not be too sanguine, we submit, about liberalizing the guidelines for adjustment assistance. Those who look to retraining of workers as a solution to the problems created by imports must face up to the reality, for example, that shutdowns of plants and/or departments usually result in the loss of workers of seniority and seniority-related benefits. Unless the worker involved would transfer within his own union—a situation which would be desirable but not always feasible—he could be deprived of many benefits, including retirement benefits which are always linked to length of service and in many instances to length of service in either a particular plant or a particular sector of an industry. Unless legislation is promulgated with respect to portability of benefits, this worker would forfeit such benefits—and nothing in the law as it now stands or as it would be amended would alter this situation.

Another consideration is that there is a marked limitation upon retraining—for example, and unskilled worker in a factory would hardly be a fit candidate for employment as a computer expert. Loss of a job means that special work-skills, developed and refined in a specific plant or industry, cannot be readily and automatically applied elsewhere. Even the assumption of an effective program of retraining does not carry with it a guarantee that there would be a job available for the worker in a new plant or industry in the locality in which he has lived.

Accordingly, one consequence of job loss that is tempered by a program of retraining is that workers and their families may be required to move from one community to another. Even if the expenses of such a move were to be absorbed by the program of retraining and other adjustment assistance, nothing can be done about the loss of friends, schools, church and social relationships that have been developed over many years. In the impact of imports there is a social as well as an economic factor that cannot be ignored. Or it can be ignored only at the pain of frustration and resentment, the kind of pyschological qualities hardly attuned to the process of readjustment.

11. The Economic Anatomy of the Toy, Games, Dolls and Related Industries: These general considerations to which we have addressed ourselves must be projected against the backdrop of the specific economic elements in the industries which lie within the jurisdiction of our International Union—dolls, toys, playthings, novelties and allied products.

During the 1960s there was a substantial accretion in the value of shipments in the industry, including an increase in toys and games from $568 million in 1960 to $1,032 million in 1969, and in dolls and stuffed animals from $198 million to $243 million. In the same period there was only an insignificant increase in

the number of production workers—from 54,600 in 1960 to 57,500 in 1969. It is anticipated by the Department of Commerce that these trends will be projected during the decade ahead—namely, a modest increase in toys and games, an even slighter adjustment with respect to dolls and stuffed animals, and relative stability with respect to the number of production workers in the industry.

But the demand will continue to escalate in this decade, owing primarily to rising income and the growing number of children under 15 years of age. But much of this demand will be funnelled into imports—which, as the U.S. Department of Commerce noted recently, "are taking an increasing share of the U.S. market." The Department also pointed out that "imports have been increasing at a faster rate than domestic shipments."

What these imports mean in statistical terms are set forth in considerable detail in Volume 4 of the "Summaries of Trade and Tariff Information", pages 171–198, to which reference can be made for import and export figures for the period from 1960 to 1966 as well as for cogent comments on the nature of the industry. The chief point made in this summary, prepared by the U.S. Tariff Commission and released in 1968, is that Japan and Hong Kong "because of price differentials" had become increasingly competitive not only to American exports but also on the American market.

More recent developments are pinpointed in Table I and Table II.

TABLE I.—U.S. FOREIGN TRADE IN TOYS, GAMES, DOLLS, AND WHEELED GOODS, WITH MAJOR COUNTRIES OF ORIGIN AND DESTINATION

[In thousands of dollars]

Countries	1967		1968		Percentage change, 1967–68	
	U.S. imports	U.S. exports	U.S. imports	U.S. exports	Imports	Exports
Total	115,389	26,809	159,735	26,428	38.5	−1.4
Japan	52,687	1,256	61,288	913	16.3	−27.3
Hong Kong	30,220	797	43,503	841	44.0	5.5
United Kingdom	13,314	1,561	16,645	1,486	25.0	−4.8
West Germany	6,266	1,400	9,112	1,407	45.4	.5
Italy	4,398	580	6,276	423	42.7	−27.1
Canada	2,096	7,840	2,200	9,140	5.0	16.6
Mexico	1,280	963	10,614	1,419	729.2	47.4
Other	5,108	17,412	10,097	10,799		

Source: Bureau of the Census.

TABLE II.—MODELS, DOLLS, AND TOYS—IMPORTS FOR CONSUMPTION

[In thousands of dollars]

Year	Models	Toys	Dolls	Total
1963	2,373	39,245	26,786	68,405
1964	2,098	44,058	27,032	73,188
1965	4,440	47,037	26,888	78,358
1966	9,237	48,725	31,216	89,178
1967	15,227	54,246	35,851	105,324
1968	24,087	75,023	47,097	146,207
1969	25,736	99,105	50,729	175,570

Source: Compiled from official statistics of the U.S. Department of Commerce.

In the past seven years, therefore, we have seen a constant burgeoning of imports. Models went up 985% in this period, toys 153% and dolls 89%. During the decade of the 1960s as a whole, imports as a percentage of the total American market went up more than 300%—from a miniscule four percent in 1958 to 13 per cent in 1968 and an estimated 17% in 1969. With the full impact of the Kennedy Round tariff decreases in 1972, it is anticipated that even on the basis of official figures we will have a situation where imports will escalate to approximately one-fourth of the total American market.

But these official figures do not tell the whole story. U.S. companies, particularly in the toys and games sector of the industry which accounts for approximately 75 percent of total imports as well as approximately the same

proportion of total product value of domestic shipments, have subsidiaries in Canada, Liberia, The Netherlands, the United Kingdom, Italy, Belgium, Norway, Sweden, West Germany, France, Spain, Australia, New Zealand, Switzerland, the Republic of China, Hong Kong, Mexico, Venezuela, Colombia and South Africa.

In testimony presented before the United States Tariff Commission on May 5, 1970, the AFL-CIO, of which this International Union is an integral part, pointed out that the mushrooming expansion of foreign subsidiary operations of U.S. firms, thanks primarily to Item 807.00 of the U.S. Tariff Code, have been a major factor in the deterioration of both the volume and composition of the U.S. trade balance. This item provides reduced U.S. tariff duties on imports which contain U.S. produced components and which have been assembled or processed abroad. The tariff duty, therefore, is applied effectively to merely the value added in foreign assembly or processing—often, to merely the very low wages of workers in the foreign operations. Under 807, the firm's advantage twofold. There is substantial advantage from the utilization of American equipment and know-how, usually combined with wages and fringe benefits that are 50% to 90% less than in the U.S. 807 adds to this a reduced-tariff subsidy.

Like many tax loopholes, 807 and similar provisions tend to grow. Reported imports under 807 shot up from $577 million in 1965 to $1.6 billion in 1969. In Table 1, dealing with the products of our industry particularly, the largest percentage change in 1967–8 was in Mexico—729.2% and that trend became even more accentuated in 1969 (*U.S. Imports, General and Consumption, Schedule A Commodity and Country*, Bureau of the Census, U.S. Department of Commerce, December 1969, pp. 239–41).

Moreover, these figures may well be understated, since multinational firms can juggle their prices in intra-corporate transactions for the benefit of the firm.

The practice, under 807, started as a mistake and it became part of the law. It is now one of a number of various devices available to U.S. companies, including those in the toy and games industry, to spur the expansion of the production of goods in foreign subsidiaries for importation into the U.S.—to encourage the avoidance, by such companies, of U.S. wages, labor and social standards. The profit margins of such operations are thereby aided, to the detriment of American workers and communities.

Whether or not the operations of U.S. firms under 807 are rational decisions for the firms should not be a major consideration in this study. The issue is the consequences on the American economy, on American workers and their communities. Business decisions for the sales and profit advantage of the firm are not necessarily identical with the interests of the U.S., as a nation, and of the American people as a whole.

The AFL–CIO has called attention repeatedly to growing problems concerning Mexico, a friendly neighbor to the South, where in a substantially different economic, social and political environment, U.S. companies utilize 807 to the detriment of jobs for U.S. workers without building the interchanges that are supposed to occur under U.S. trade policy. Imports from Mexico, under 807, rose from $3.1 million in 1965 to $145.2 million in 1969, with toy and games imports pacing that advance. These are low-wage imports—with wages about 75% lower than in the U.S. U.S. exports under this item rose from $1.3 million in 1965 to $95.8 million in 1969.

Mexico follows a protectionist policy, designed to promote industrialization on a Mexican basis, on the foundation of its own determination of its national interests. The United States trades with Mexico as if Mexico were a member of the General Agreement on Tariffs and Trade, which Mexico is not, and as if there were a "two-way street," which there is not. No analysis that ignores these operative facts is a realistic economic analysis of the problem.

Perhaps the best description of 807's operations in Mexico is described in the April 1970 issue of *Fortune:* "Under Schedule 8 of the U.S. Tariff Code, goods can be exported from the U.S. for assembly or processing abroad and then sent back to the U.S. at highly favorable tariffs. Duties are levied, in effect, only on the value added by foreign labor and not on the full value of the returning goods. *This arrangement provides a kind of preferential access to the U.S. market.*

"Where the economics of transportation permit, U.S. companies can perform technical or capital-intensive operations at home and labor-intensive operations abroad, and then bring the products home again for final processing and marketing.

"A special beneficiary of Schedule 8 is Mexico. The transportation costs permit such shuffling of goods across the border on a very substantial scale. As a result Schedule 8 has spawned a sizeable border-industry complex. According to Mexico's Ministry of Industry and Commerce, 140 factories have set up operations on the Mexican side of the border since 1966. These plants employ 17,000 people and have an annual payroll of $16,800,000. Eighteen other installations are currently under construction. Many of the Mexican affiliates of U.S. companies shun publicity to avoid being branded as "runaway" plants. At some facilities there are no signs to identify the premises, and security guards turn away all questioners. The only way U.S. labor unions can find out what these companies are doing is to interview workers in nearby cantinas."

A *Wall Street Journal* story on July 20, 1967, also reported that "Production in Mexico is negotiated for ananymous U.S. clients by a California concern, Cal-Pacific, Newport Beach, Cal Pacifico says the service is for companies that would be embarrassed, for one reason or another, by disclosures that their products are made outside the U.S."

According to these business publications, firms are "embarrassed" to reveal that their products are produced outside the U.S., even though U.S. law requires labelling of all products imported from abroad. It is not just labor unions who should be interested, because there are millions of Americans—many of them unorganized workers—who are affected by the loss of these jobs, losses to other countries, and the threat of much greater losses in the next few years.

And, according to *Fortune*, 807 provides a preferential access to the huge and lucrative American market—preferentially lower tariff duties for manufactured imports, produced by foreign subsidiaries of American firms or their licensees, for sale in the most open market of all industrial nations.

As for conditions along the Mexican border, Charles A. Meyer, Assistant Secretary of State, declared in September, 1969:

"Nearly three million people live in the 25 U.S. counties on the border. More than two million live in the adjacent communities of Mexico. Unemployment is high in the U.S. border counties—nearly six percent over-all and nine percent in at least five. Per capita income is about 50 to 75 percent of the national average, except in a city such as San Diego. It has been estimated that about 400,000 people in South Texas alone belong to families with incomes less than $2,000. Birth rates are high, levels of educational attainment low. Trends in agricultural employment, which has been an important factor in the area, are toward fewer jobs. Throughout much of the area, gains in employment and income lag behind national standards.

"Conditions in Mexico's border cities are better than in most areas of the interior, but still depressed by U.S. standards. The result has been large-scale internal migration to Mexican border cities. This process has been accompanied by unemployment, rising expectations, inadequate housing, and inadequate health conditions."

U.S. productions and jobs, therefore, are exported to subsidiary operations in Mexico, while high unemployment and poverty pervade most of the U.S. border counties. And the export of jobs is subsidized by 807.

At the same time, these 807 operations in Mexico tend to attract a large-scale internal migration from the Mexican interior to the northern border areas—with resultant depressed conditions and additional pressures on U.S. border areas from illegal entrants and green-carders. Item 807, thereby, is a contributing factor to troubles on both sides of the border.

It would be well for Congress to contemplate how long the United States labor force and the U.S. market can withstand the pressures from those who wish to maximize their short-term dollar returns on investment by using the U.S. market for their sales, while they export production and jobs to the lowest possible wage areas in foreign countries.

In this game of immediate advantage, American workers and communities are adversely affected. Each foreign country, from the vantage-point of its own national interests, views these trade issues as if they were bilateral arrangements, with the huge and relatively open U.S. market as the target. And U.S. firms view it, in terms of their private advantage, to maximize sales and profits. But these short-run advantages and goals, for them, are not necessarily rational goals for the U.S., as a nation. And in the long-run, these goals may be irrational for both the foreign countries and the multinational firms.

The Companies which have set up subsidiaries abroad to produce toys naturally take advantage of government incentives provided to them. These kinds of

arrangements, as in 807, help to create trade losses of the U.S. They are not part of a liberal trade policy. They are preferential arrangements, for special benefits to some U.S. companies—usually unknown to most Americans, not explained in detail to the Congress and without adequate data to support the continuation of the preferential practices.

The reported value of shipments under 807 depends upon intracorporate valuations. As a result, we do not accept the data as precise or even as necessarily a close approximation of reality, although we are compelled to use them, as the only available indication of trends. The customs officials' advance agreements with the companies, however honestly motivated, make it impossible for a private citizen or public group like our own to accept the data as valid. The actual impacts are probably greater than the data implies. The U.S. Tariff Commission's investigation of this issue, therefore, cannot be based on statistics of shipments, alone.

For the U.S., the effects are obvious—the displacement of production and employment not only in our industry but throughout the American economy. 807 operations contribute to mushrooming developments and, also, to the reduction of competition in the U.S. economy. Once such trend is begun effectively in a product line, the development mushrooms, as indicated by the reported shipments of toys of the past several years. The 807 operator has the distinct advantage of the U.S. government's preferential treatment—with substantially lower unit costs and greater profit margins. Domestic competitors are thereby compelled to go out of business, reducing competition in the product-line, or to join the parade by establishing their own foreign subsidiaries, which displace additional U.S. production and employment.

Within the dynamic functioning of the American economy generally and our industry particularly, 807 is a disruptive and harmful factor—contributing to adverse impacts and to the speed of adverse trends. Even the U.S. Department of Commerce took official cognizance of this development in a statement published in *U.S. Industrial Outlook, 1970:* "This provision (Item 807) in the tariff regulations has enabled U.S. toy producers to take advantage of the lower wages by shipping raw materials and/or parts for assembly and then return them for sale in the U.S. at duties lower than those applied to other imports in the same categories." The Department also noted that a similar development has taken place in Canada, Japan, Venezuela, West Germany, the United Kingdom and Hong Kong.

LABOR COSTS AND DIFFERENTIALS

Perhaps the most cogent point made by the U.S. Department of Commerce in this analysis was the reference made to "lower wages". Like in other labor-intensive industries, labor costs play a decisive part in the overall selling cost and is a key factor in understanding the nature of the import explosion which has raised such havoc among our members and which will undoubtedly contribute to a further deterioration of the standards and conditions which our Union has built up over the years—unless something affirmative is done with respect to our policy on international trade.

We will be the first to assert that it is difficult, if not impossible, to explain deterioration into the U.S. trade balance simply in terms of differences in hourly wage rates or overall labor costs between the U.S. and other countries. These are important and crucial but are not the only causative factor. Indeed, economists of the AFL–CIO have been at pains to establish that fact in testimony before the Committee as well as before other agencies in government. But buyers do not purchase monthly or weekly or hourly salary and/or wage rates—they buy products at a price. The price is importantly affected by profit margins and such costs as raw materials and energy (electricity or coal, etc.) per unit, as well as the cost of labor per unit.

Foreign trade economic competition does not center on prices, alone. Product design, for example, is of great importance in the export and import of many items. Other non-price, competitive factors in world trade include patent and licensing arrangements and the servicing of foreign-purchased equipment.

The labor cost, therefore, is one of several different economic factors. Moreover, the unit labor cost is the result of productivity (output per manhour) and the hourly compensation of employees, so that the combination of high wages and high productivity can result in low unit labor costs. Indeed, America's traditional prowess in world trade has been largely based on high wages, combined

with high productivity—on technology, efficiency of operations, man-power skills, large volume of output and a highly educated population—as well as on the availability of raw materials and sources of energy.

However, new factors, like the internationalization of technology, the multinational corporations, managed national economies with trade subsidies and barriers have changed the trade relationships of labor rates and unit costs in recent years. American production can hardly compete, for example, with the output of foreign subsidiaries of U.S.-based multi-national companies—using American technology, achieving productivity levels that are close to those of American plants and paying wages and fringe benefits that are 50% to 90% lower than American wages.

It is in this context that we must understand labor costs, and the impact that differentials create with respect to our industries and the members of our Union who are employed in them. It is the best part of wisdom to fully understand that in these industries there is a substantial, continuing and at times even mounting difference between wages paid to American workers and wages paid to workers in foreign lands whose products are competitive to ours. Superimposed upon these wage differentials are other benefits, including the panoply of paid vacations, paid holidays, premium pay for overtime, and such benefits as health and welfare, pension and severance. The contrast between American and foreign standards is comparable to factory conditions today in contradistinction to those obtaining in the era of the sweatshop.

Authoritative studies, published under the imprimatur of the International Labor Office, The Twentieth Century Fund and the Brookings Institution, established in abundant detail that the manufacturing of toys, games and dolls is a ready source of employment for unskilled and semi-skilled workers, particularly plethoric in the underdeveloped countries of the world. Despite the existence of vast and unfulfilled needs in their own countries, these manufacturers have chosen to concentrate on the export market. Especially inviting on this score has been the United States where relative freedom for the entrance of imports is coupled with the material wherewithal which establishes the American market as the richest in the world. And if this is not incentive enough, many countries offer an added impetus to exports from their lands in the form of tax rebates and similar measures. It is understandable, therefore, why manufacturers in so many different countries have preferred to take the quick profits from exporting to this country as an alternative to following the economically sounder and socially more responsible path of building factories that will cater to the domestic needs of those countries.

Nor can manufacturers of dolls, toys and games offset, as we have already established, the low-wage competition from abroad with such improvements in machinery and operating methods as at one time gave other sectors of the American economy a distinct advantage. As J. J. Servan-Schreiber has so convincingly pointed out in his *The American Challenge*, American investment and management has made this this past offsetting advantage no longer relevant, for technological advances are readily available to producers throughout the world. The export of American capital and know-how possible for toy manufacturers to equip their plants with virtually the same machinery and the same equipment as can be found in the most advanced American factories.

But there is more to this situation than can be found in the fact that there is little or no technological advantage for American manufacturers of toys, games and dolls as compared with their foreign competitors. On this score the experience of "Operation Bootstrap" in Puerto Rico is highly relevant. A little more than a decade ago, producers of games, dolls and toys began to gravitate to the Island. In consequence of a favorable climate for economic growth—a long period of tax exemption, low rentals on factories built at government expense, financial subsidies for training of workers and low wages—these companies flourished. The workers in Puerto Rico took to such employment as a duck to water, reaching in a comparatively short time that high level of proficiency which eliminated differences in productivity between the mainland worker and his Puerto Rican counterpart. So adept were they, in fact, that Island employers who had in the past objected to wage increases for Puerto Rican workers on the grounds that the latter had productivity capability below that of the mainland workers officially acknowledged that productivity in Puerto Rico was actually on a par with productivity on the mainland.

What has been demonstrably true for Puerto Rico is true in other quarters of the globe. When we are dealing with manual dexterity—and for most jobs in

our industries this is applicable—any argument based on productivity differentials is spurious and ill-founded.

In his article on "Trends in Labor Compensation" in *Western European Labor and the American Corporation* (edited by Alfred Kamin and published in March 1970 by the Bureau of National Affairs, Inc.), Peter Henle, the Chief Economist of the Bureau of Labor Statistics of the U.S. Department of Labor, points out that while data on "average hourly earnings for production workers in manufacturing" may not always be complete, "yet only by focusing on such an indicator is sufficient data available for comparisons" (p. 317).

A toy or doll worker in the United States receives, on the average, $2.27 hourly. Converted to U.S. currency units at official exchange rates, the average for various competitive countries is, as follows: $1.07 for male workers and .73¢ for female workers in the United Kingdom (where a combined figure for both sexes is not available), $1.05 in Germany; .88¢ in France; .87¢ in Mexico; .65¢ in Italy; .52¢ in Japan; .49¢ in Venezuela; .22¢ in Hong Kong; and .23¢ in Taiwan.

With a national average of $2.27 an hour the rates for toy and doll workers are among the lowest in the private sector of the American economy. Nevertheless, the comparable wage rates existing in competitive countries, as can be seen above, range from one-tenth to one-half of the American wage structure. This differential, which looms large in a labor-intensive industry like ours, is an open sesame for an accretion of imports and the resulting deterioration of the standards and conditions which members of our Union have built up over the years as well as a threat to the very existence of their jobs.

The continuation of American Policy on international trade is, like it or not, an encouragement to subsidize and encourage the export of U.S. jobs. The problems our members will face, accordingly, are graphically depicted in a statement to the Senate Subcommittee on Manpower on March 25, 1970.

"During at least the past two decades, the growth patterns of our affluent society have created vastly different conditions in the upper and lower sectors of our labor market. Less-skilled and less-educated workers have faced conditions of shrinking job opportunities and chronic looseness in their part of the labor market. Their reported unemployment rates have risen relative to those in the upper sector; and hundreds of thousands of them, perceiving the search for work as futile, have stopped looking, even though many or most of them—especially those still in the prime of life—are undoubtedly still able and willing to work. The great majority of the workers in this lower sector still have jobs, of course; but the increasingly bitter competition for the shrinking job supply has retarded increases in earnings; although those still employed in this labor market sector are better off economically than they were two decades ago, they have had a much smaller share than their brethren in the upper sector in the increasing bounty of an affluent society. Higher-skilled and better-educated workers have lived in a quite different world—one with abundant and growing opportunity, with falling unemployment rates, with a chronically tight labor market..."

In addition to aiming to permit our members to continue to operate in the mainstream of the American economy, we are anxious to elevate their standards and to give them an added measure of job security. But we are confronted here with a basic dilemma, for any improvement to our members may run with it the risk of pricing ourselves out of the market. Were we to fully deploy our collective bargaining strength, we undoubtedly could achieve a higher rate of pay than the average of $2.27 an hour, together with ancillary welfare and pension benefits. But such elevation of standards, while necessary from the standpoint of enabling our members to cope with increased living costs, will only make the industry less competitive and open further the sluice gates for those imports of toys, dolls and games which have been taking over an increasing share of the American market.

SUMMARY AND RECOMMENDATIONS

We have seen accordingly that:

1. Imports have taken over during the past decade a progressively larger sector of the American market and the prospects are for an even greater penetration of that market in the decade ahead, with a corresponding loss of American jobs and a threat to standards and conditions built up by our members through the process of collective bargaining.

2. The major factors contributing to the accretion of imports have been the export of American technology and know-how abroad, the present provisions in existing tariff laws and the disparity between American and foreign labor costs.

We therefore respectfully request that the following steps be taken:

1. The imposition of mandatory quotas, as set forth in H.R. While voluntary quotas would be something all of us would prefer, experience has underscored the untenable nature of such an arrangement. Quotas would not mean the end of imports—they would serve to guarantee a limit beyond which these imports would not go. It is important, in our estimate, that this mandatory arrangement be worked out, for the continuation of present policies or dependence upon a voluntary quota would not materially alter the festering problem which confronts us.

2. In forthcoming conferences on trade and tariff, including those under the aegis of GATT and the United Nations, emphasis be placed by American spokesmen on the need for international fair labor standards—that is, making adjustments in duties and other tariff concessions predicated upon an appropriate upward adjustment in the wages and working standards of the exporting countries.

3. In addition to these two specific recommendations, the AFL-CIO in testimony before this committee last month presented a comprehensive program on tariffs and trades which we endorse as a constructive approach to this problem.

Mr. BURKE. Thank you, gentlemen.

Are there any questions?

I would like to ask you, have you many members that live in Harlem and Brooklyn, New York?

Mr. GORDON. Yes, 70 percent of our membership are the minority group. I wouldn't specifically say they live in Harlem. They may live in Brooklyn, they may live in the Jamaica section of Queens. They may live in the Bronx, Bedford-Stuyvesant section. They are Puerto Rican and Negro.

Mr. BURKE. Thank you. The committee appreciates your testimony.

Mr. GORDON. We thank the committee.

Mr. BURKE. Our next witness is Mr. Ira Weinberg of the Empire State Novelty Corp.

We welcome you to the committee, Mr. Weinberg.

STATEMENT OF IRA WEINBERG, VICE PRESIDENT AND GENERAL MANAGER, EMPIRE STATE NOVELTY CORP.

Mr. WEINBERG. Mr. Chairman and members of the committee, my name is Ira Weinberg. I represent Empire State Novelty Corp., manufacturers of handbag frames and purse frames.

I would like to thank you and members of the committee for allowing me to appear today. I should also like to thank Senators Dodd and Ribicoff for the interest they have shown in this matter.

You have heard testimony from trade organizations as well as from union representatives. You have seen statistics that show, quite vividly, how great an impact imports have made upon our industry in the past 5 years. They now represent more than 50 percent of all handbag sales. I think, however, I can best present our position from a personal point of view. We manufacturers seem to be caught between opposing forces. On the one hand we have a Government policy, now more than three decades old, fostering free trade. On the other hand, we have a huge defense industry, sponsored and underwritten by the Government, competing with the private sector of the economy for a finite number of workers. It is a case of supply and demand, and these defense contractors, as well as those defense-related manufac-

turers, forced from the structures of open market competition, have raised the price of labor to that point where we can no longer effectively compete with foreign manufacturers. These same foreign manufacturers enjoy not only cheap labor, but also cheaper raw materials. Automation alone is not the answer. Today we produce more handbag frames and purse frames with only 80 people, than that which required nearly 400 employees 35 years ago.

Within the past 5 years six of our competitors have failed primarily because of these factors. It is, for those of us who remain, a most vital question as to how much longer we can continue without some sort of Government relief. A company of our size cannot close down a domestic operation and open another plant abroad with foreign labor. We do not have the flexibility and the resources of the industrial giants, nor could we face our senior employees and tell them "you cost too much, we will open a new plant overseas where labor is cheap."

Although I would like to see the level of imports rolled back to a 1963 or a 1965 level, I do not have too much hope that this can be accomplished by instituting quotas or higher tariffs. Higher tariffs or import quotas would invite retaliation at a time when our Government is attempting to improve its balance-of-payments position. I don't feel that price supports, which have aided the farmer, would be applicable, nor do I believe that the "American selling price", used by the chemical industry, would help us in the long run. I feel, however, that our Government does have a policy of protecting and assisting various segments of the economy. For example, in the case of the SST the Government is directly supporting development of a new commercial product. Our Government provides indirect support, too. After all, we don't buy submarines, or jet planes, or helicopters, or rifles in Europe or Japan because they are less expensive there.

In light of all of these factors, I believe that the most practicable form of assistance we can obtain from the Government would be some form of tax relief. If we knew that we could exempt from taxation the first $50,000 of earnings each fiscal year, we could regain a large share of our former market in purse frames. For example, in 1967 we sold between 2,000 to 3,000 gross of purse frames each month, with an average selling price of $10 per gross. Today we sell less than 25 percent of that amount at an average selling price of $7 per gross. This price does not cover our expenses, and soon we will be forced to withdraw from this basic market entirely. The purse frame market has been taken from us by inexpensive Japanese and German imports.

With the exemption form of tax relief to help us, American handbag frame manufacturers would have the necessary capital for plant expansion and the development of new products and markets. We need the same degree of interest and benevolence our Government shows in other areas of the economy.

Mr. Chairman, gentlemen, thank you for the time and consideration given to me.

Mr. BURKE. Does that complete your testimony?

Are there any questions?

Mr. GIBBONS. A very interesting observation, Mr. Weinberg. I want to commend you for the novelty of your approach in attacking the problem.

I wonder, though, how a tax benefit would help you. If you weren't

making a profit, tax relief would not help you any. If you are just breaking even, tax relief won't help you, really, will it?

Mr. WEINBERG. Congressman Gibbons, we are not going broke yet. We are still managing to stay in business and we still pay our taxes. What I would hope is that some of the money that is now going for taxes would be retained and used by us for the development of other machines and for other markets.

For example, sir, at the present time we are in the process of going into the manufacturing of office accessories, that is, "in" and "out" baskets, book ends, and items of that sort. Of course this takes a great deal of time. There is necessarily a lead time of from a year, to 15 or 16 months, for development of the necessary machinery. Then of course it takes time to develop a name or reputation and the markets and outlets for these items. We are not sitting around waiting until the walls crumble upon us.

Mr. GIBBONS. I commend you for that.

I would like to point out that I think you have hit the nail upon the head, that a lot of our problems are caused by the fact that we have subsidized defense-related industries whose competition has made it terrifically tough for those of you who are not subsidized to survive. I think you have put a finger on a good point.

Mr. WEINBERG. Congressman, if I may add one last point before I am excused, I don't ask for a long-term subsidy or long-term tax relief. I feel that 3, perhaps 4 years at the outside should be ample for those people who have the desire and the initiative, those that would survive in any case. With this additional time we can get ourselves established in other areas. Without that sort of assistance I don't feel that we would necessarily survive in the long run.

Mr. BURKE. Thank you for your testimony.

Mr. WEINBERG. Thank you, Mr. Chairman.

Mr. BURKE. Our next witness is Jack Sloane of Standard Cellulose & Novelty Co. of Ozone Park, N.Y.

STATEMENT OF JACK SLOANE, PRESIDENT, STANDARD CELLULOSE & NOVELTY CO.

Mr. SLOANE. Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, my name is Jack Sloane, president of the Standard Cellulose & Novelty Co. Our industry is probably the smallest to appear before this committee—it is an offshoot of the toy industry producing artificial Christmas trees and decorations. There are approximately 30 manufacturers, as shown on the summary sheets you have before you. These companies employ between 50 and 300 people each and have been in business at least 20 years.

The vast majority of our merchandise is produced by unskilled workers, at least 80 percent of whom are from minority groups, doing hand finishing on machine produced components. Unfortunately the workers from the minority groups are plagued with the highest percentage of unemployment. Now we are faced with even greater amounts of unemployment in our industry due to foreign competition at prices that are impossible to compete with due to the cheap labor employed in these foreign countries.

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The industry has set standards of safety such as flameproof Christmas trees and garlands that has greatly reduced the fire hazards during the Christmas holiday.

Now we see all of our hard work and development being lost. In the past 5 years there have been nine companies in our industry that have either gone bankrupt, sold out, or stopped manufacturing Christmas decorations.

Gentlemen, out of an industry of 30, that is an incredible 25 percent. At this rate in 10 years we will be virtually nonexistant.

In the last 7 years, 1963–69, the total amount of imports in the tariff Item No. 772.97 which includes all decorations other than tree ornaments jumped from 330,000 to 15,708,000, a jump of 5,000 percent. Yes, there are 50 times more goods coming into this country now than just 7 short years ago. Our industry is a small one, possibly with total sales less than $70 million. In this one category the total imports are more than 20 percent. There are other tariff schedule items such as glass ornaments, electric tree lite sets, Christmas trees, and wreaths, that if they could be broken out of the tariff schedules in individual categories would show a total of more than 50 percent of the entire decorations being used in this country are imports. And, gentlemen, in very many cases they are flammable and not Underwriter Laboratory approved for safety. In the year 1963, in figures supplied by the National Board of Fire Underwriters, there were over 5,000 fires in homes caused by Christmas trees having inferior wiring.

The jobs of our employees are now at stake and we feel strongly that since Congress is so concerned at this moment with providing jobs for minority groups, here is an instance where these jobs should be protected and relief provided to our industry.

Gentlemen, I sincerely appreciate the opportunity to appear before this committee and I pray that you will act to assist our industry. For as surely as a surgeon's scalpel removes a cancer to save a life, your action will save our industry from the cancer of the import.

(Attachment to Mr. Sloane's statement follows:)

LIST OF MANUFACTURERS OF CHRISTMAS DECORATIONS

State

New York:
- Decorative Novelty, Brooklyn, N.Y.
- Lidco, Inc., Freeport, N.Y.
- Standard Cellulose, New York City.
- Premier Decorations, Brooklyn, N.Y.
- Holiday Decorations, Lynbrook, N.Y.
- Ackerman Chenille, New York City.
- R. O. Kent, Newburg, N.Y.

New Jersey:
- Artistic Manufacturing, Linden, N.J.
- Puelleo Novelty, Elizabeth, N.J.
- Consolidated Novelty, Paterson, N.J.

Illinois:
- Dalyn Manufacturing, Chicago.
- Nesbit Industries, Chicago.

Massachusetts:
- Bradford Novelty, Boston.
- Mystic Novelty, Wakefield.

Connecticut: Paper Novelty, Stamford.

Georgia:
- Tieder Floral, Atlanta.
- Peco Industries, Austel.

Wisconsin:
Philip Sales, Belgium.
National Tinsel, Manitowel.
Maryland:
Geo. Frankee Company, Baltimore.
United Artifical Flower, Baltimore.
Rhode Island: Mr. Christmas, Providence.
Ohio: Queen City Floral, Cincinnati.
Kentucky: American Trees & Wreaths, Paducah.
Virginia: Star Band Company, Portsmouth.
California: Home Pool, El Monte.
Pennsylvania:
Rice Bayersdorf, Philadelphia.
Carry McFall, Philadelphia.
Brite Star, Philadelphia.
Herman Rynvelt, New Albany.
Beistle Company, Shippenburg.
Master Piece, Blakely.
Jacobson, Scranton.

LIST OF MANUFACTURERS WHO HAVE GONE BANKRUPT OR FORCED TO SELL OUT OR STOPPED DECORATION MANUFACTURING DUE IN PART OR COMPLETELY TO A DEPRESSED MARKET SITUATION BECAUSE OF IMPORTS

B & S Artificial Tree, Brooklyn, N.Y.
Aluminum Specialty, Manitowoc, Wis.
King Brush, McAffe, N.J.
A & O Novelty, Queens, N.Y.
Lerner, Corwin & Young, Stamford, Conn.
Krain & Canton, Bloomfield, N.J.
Dura Lite, Paterson, N.J.
Living Aluminum, Farmingdale, N.Y.
International Assembly, Chicago, Ill.
B. Wilmsen, Philadelphia, Pa.
Holi-Gay, Chicago, Ill.

Mr. BURKE. Thank you, Mr. Sloane, for your testimony.

Are there any questions?

The committee appreciates your appearance here pointing out graphically the problems of your industry.

Mr. SLOANE. Thank you.

(The following statements were received for the record:)

JOHN R. CHRISTENSEN ASSOCIATES,
Green Bay, Wis., June 25, 1970.

HOUSE WAYS AND MEANS COMMITTEE,
Washington, D.C.

GENTLEMEN: As it has been brought to my attention that you are now engaged in pubic hearings on foreign trade and tariffs, I feel I should add my comments to it.

The common statement which one hears today that foreign competition is unfair to the American market is very incorrect. It is not the foreign producers who caused the great differences in price and quality between foreign-made and American-made products but the politically motivated Congress who grants the ridiculously high-pegged minimum wage and is refusing to hold down organized labor's unrealistic demands.

It does not take much investigation to notice that there are many people who could be employed in this country, especially youth if there were a wage bracket which would apply to their value.

It is also not very difficult to note that the quality of the American product produced today has slipped to a very deep low due to the fact that labor no longer takes any responsibility in his product; nor does he have any pride in same.

The imports today offer better comparable prices, quality, and durability. Where do you suppose the people of low income could obtain clothes if it were not for the inexpensive imports today? Do you for one minute think that they could clothe themselves with the poorly produced, over-priced American wearing apparel?

As an importer, we are in a market possibly unnoticed by your committee in the way of importance; but, I am sure you have children or grandchildren. If it were not for the fact that party goods were produced in the Orient, what would happen to the old American institution known as the "Birthday Party?" People could not afford it if it were that only American goods were available.

I realize, of course, that you people generally look at this from the standpoint of losing a certain group's vote; but when we are isolated economically from the world, what difference will it make then?

There is only one way to compete with the foreign markets today and that is to bring back a realistic wage standard in this country, reduce the minimum wage to a point where handcrafted and hand goods can once again be produced in this country, and somehow instill a feeling of responsibility in labor once again. In other words, let's correct our mistakes here first before we criticize those abroad.

Most of the industry which has left this country I do not believe left it because it was anything other than the fact that they had no other choice of they were to exist. I can name product after product that was once made in this country which still could be but had to find a better labor market. Therefore, America suffered.

For the last twenty-five years, since the war, our government, in the way of Congress and the Senate, has played a game of closing their eyes and hoping that the problem would go away. Now maybe some of you can be men enough to stand up and admit the folly which has been created and do something constructive to hold the line and make America competitive again.

Sincerely,

JOHN R. CHRISTENSEN.

NATIONAL ASSOCIATION OF GLUE MANUFACTURERS, INC.,
New York, N.Y., June 9, 1970.

Subject: Press release dated Monday, May 4, 1970 announcing details in regard to public hearings on Tariff and Trade Proposals by Committee on Ways and Means.

Mr. JOHN M. MARTIN, Jr.,
Chief Counsel, Committee on Ways and Means, Longworth House Office Building, Washington, D.C.

DEAR MR. MARTIN: The notice on public hearings that your Committee has had on the subject of Foreign Trade and Tariffs did not come to our attention in time to file a request to make an oral presentation in behalf of the Animal Glue Industry and on the advice given us in your letter of May 25, 1970, we file this written appeal in which we trust we have included information that you will find helpful in taking action to obtain tariff relief for our industry that is severely hurt through increased imports of Animal Glues.

The items with which we are concerned include Animal Glues and Inedible Gelatines, Item 455.40 and Item 455.42, included in the United States Tariff Schedule. The rate of duty established for these products in the Tariff Act of 1930 was 2¢ per pound plus 25% ad valorem. The rates of duty, effective September 18, 1932, were changed to 2½¢ per pound plus 20% ad valorem. As a result of concessions granted in the General Agreement of Tariffs and Trade, the duty on these products was reduced to 1¼¢ per pounds plus 10% ad valorem in the case of Gelatine, effective January 1, 1948, and to 2½¢ per pound plus 10% ad valorem in the case of Animal Glue, effective July 31, 1948.

As a result of subsequent tariff hearings, including the Escape Clause Investigation #36 under Section 7 of the Trade Agreements Extension Act of 1951, as amended, it was established that Animal Glue and Inedible Gelatine are products that are the same and the applicable duties were again made equal. The glue duty was reduced in October 1951 to 2¢ per pound and 10% ad valorem and in the new Tariff Schedule at that time, it was established at 1.625¢ per pound plus 10% ad valorem for Animal Glues and Inedible Gelatines.

As a result of the Kennedy Round Agreement of Duty Rates, the duty for Animal Glue and Inedible Gelatine, valued at less than 40¢ per pound, was reduced 50% to 0.8¢ per pound plus 5%, effective January 1, 1968, subject to further reductions in five equal annual steps beginning January 1, 1968. As a result of the reduced rates of duty, imports have continued to increase and in all probability will continue to increase each year as they have for the past several years.

In the attached list, we include the total imports of Animal Glues during

the past 15 years, from which you will note the imports averaged about 9–10,000,000 pounds per year in the late fifties to in excess of 25,000,000 pounds during the past two years. Prior to the late 1950's, the imports averaged around 5,000,000 pounds per year. During the same period of time, the United States production has dropped from in excess of 110,000,000 pounds to about 75,000,000 pounds and with the increase of imports, the domestic production will likely be lower because Glues of like quality cannot be manufactured and sold in this country at prices as low as prices at which the imported glues are offered to consumers.

At the time of the Escape Clause Investigation, there was a total of 18 manufacturers of Animal Glues in the United States whereas today only 6 manufacturers are in production. The industry is seriously hurt and to preserve what is left and taking into consideration essential requirements for Animal Glues that cannot be satisfied with substitute products, we urge that any further cuts in the rates of duties be withdrawn and the original rate of duty as established by the Tariff Act of 1930 be restored.

The injury to the Animal Glue Industry simulates injury to the Tanning and Shoe Industries whereby the United States has become exporters of Animal by-products and raw materials used by these industries, resulting in finished products being manufactured in foreign countries and the finished products returned to the United States at prices considerably lower than the products can be manufactured in the United States. Through the closing of plants as enumerated above, the loss of employment to American workers is evident.

If the Committee of Ways and Means desires and requires further and more specific information in detail from our industry, we are in a position to provide further statistics about the industry, as well as any information as to costs and other data that will enable you to arrive at a just conclusion.

Thank you very much.

Yours very truly,

W. R. O'CONNOR,
Chairman, Tariff Committee.

Imports of Animal Glues

(In thousands of pounds)

1955	8,045	1963	18,760
1956	6,670	1964	19,940
1957	8,176	1965	23,341
1958	11,104	1966	23,942
1959	15,090	1967	24,616
1960	17,337	1968	27,889
1961	9,883	1969	25,893
1962	12,494		

CANDLE MANUFACTURERS ASSOCIATION
Newcastle, Maine, May 26, 1970.

Mr. JOHN MARTIN, Jr.,
Chief Counsel, House Ways and Means Committee, Longworth Building, Washington, D.C.

MY DEAR SIR: This brief is filed in behalf of the Candle Manufacturers Association to protest against the dangerously increasing penetration of candle imports. The last brief on record was filed before the Mills Committee on June 25th, 1968.

The comparisons listed below show the enormous import increases since the Trade Agreements Extension Act of 1951 when we filed a brief before the Committee on Finance, U.S. Senate, 82nd Congress, 1st Session 1951—HR 1612.

Year	Imports			Value of shipments		
	Amount	Change over previous period	Percent change	Amount	Change over previous period	Percent change
1951	$101,430			$20,851,000		
1958	606,804	$505,374	+498.2	33,802,000	$12,951,000	+62.11
1968	4,201,499	3,594,695	+592.3	53,257,000	19,455,000	+57.55

Over the period 1951–1968 imports have increased 4,042.2% while candle sales have increased only 155.4%. If the import values were converted into the invoice value to the retailer instead of using dock-side costs the import mark-up would be on the order of an extra 70%. Many of the countries supplying candles to the U.S. during the past few years were not even shipping candles in 1951.

The Value of Shipments covers all types of candles. The imports are confined almost wholly to the Drawing Room candle which requires special, expensive and entirely different machinery to manufacture. Statistics show that this type of candle accounts for 38.3% of the total dollar value of the industry output. If this factor is applied to the Census figure of $53,257,000 for 1968 we have $20,397,331 as the true value of shipments to which to compare the imports, which then become 20.6% of domestic shipments.

Action must be taken before the saturation point is reached. We respectfully ask the same consideration on tariffs and quotas that are suggested for the big five. Given that help, we will survive.

Very truly yours,

H. R. PARKER, *Secretary.*

STATEMENT OF THE SPORTING ARMS AND AMMUNITION MANUFACTURERS' INSTITUTE, ROBERT C. ZIMMER, COUNSEL

This statement of the Sporting Arms and Ammunition Manufacturers' Institute (SAAMI) is submitted on behalf of the following U.S. manufacturers, which together produce over 75 percent of all American sporting shoulder arms and approximately 95 percent of all sporting ammunition:

Amron (Division of Gulf & Western Industries, Inc.)
Small Arms Division, Colt Industries Inc.
E. I. du Pont de Nemours & Company, Inc.
Federal Cartridge Corporation
Hercules Incorporated
The Leisure Group, Inc.
Ithaca Gun Company, Inc.
O. F. Mossberg & Sons, Inc.
Remington Arms Company, Inc.
Savage Arms Division (Emhart Corporation)
Winchester-Western Division (Olin Corporation)

The domestic sporting arms and ammunition industry's steadily increasing balance of trade deficit adversely affects the total U.S. balance of trade and therefore contributes to our serious balance of payments problem. We would hope that the Congress would recognize the balance of payments benefits to be obtained by increasing exports of sporting arms and ammunition.

Exports of all sporting arms and ammunition have declined steadily from $9.6 million in 1967 to $7.2 million in 1969. The combination of this decline in exports and the steep increase in imports has caused the total U.S. trade balance in sporting arms and ammunition to deteriorate from an unfavorable balance of $7.6 million in 1963 to a more unfavorable balance of $34.5 million in 1969.

Compared to the volume of rifle and shotgun imports, U.S. exports of these items seem insignificant. The largest source of U.S. rifle and shotgun imports is the Common Market (EEC), which accounted for $20.4 million of the total of $30.7 million imports to the United States in 1969. By comparison, rifle and shotgun exports from the United States to the Common Market in the same year amounted to only $970,000. The largest foreign market for United States shoulder arms exports over the years has been Canada. In 1969, of the total rifle and shotgun exports of $4.3 million, over $2.3 million went to Canada.

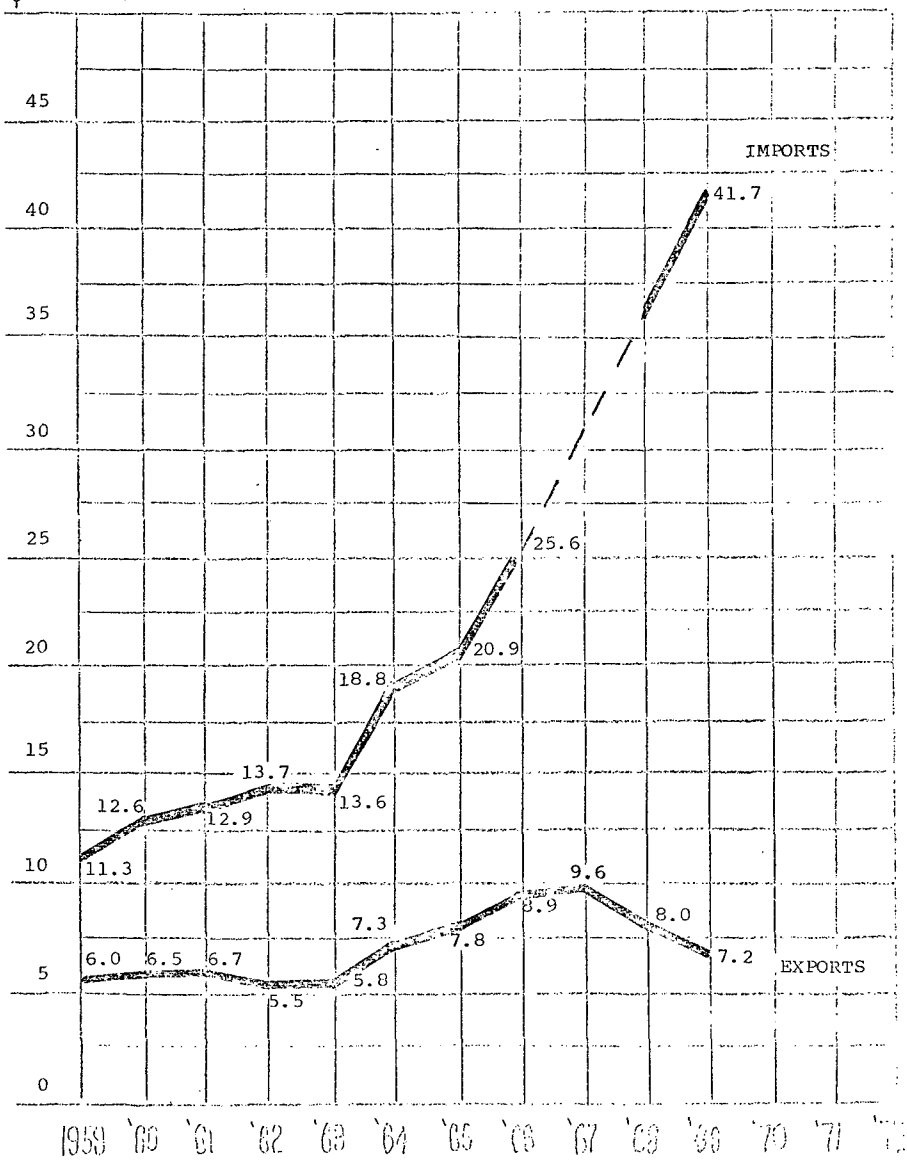
To reduce the continued deterioration of the United States balance of payments, and to encourage the economic viability of the domestic sporting arms and ammunition industry, the Congress should enact legislation such as the Administration proposal for tax incentives, to stimulate the export of U.S. products, including sporting arms and ammunition.

Respectfully submitted,

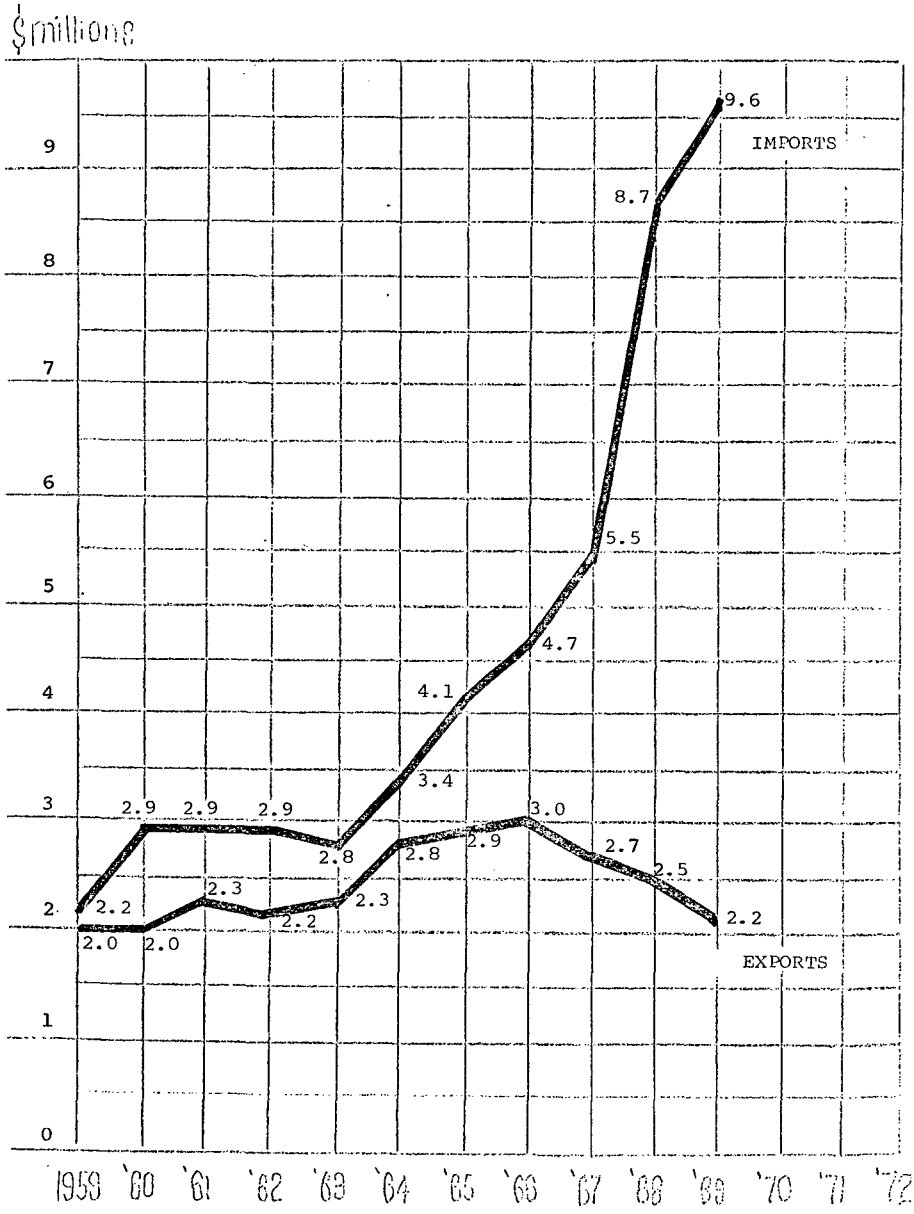
ROBERT C. ZIMMER,
Counsel.

TOTAL IMPORTS AND EXPORTS OF ARMS AND AMMUNITION

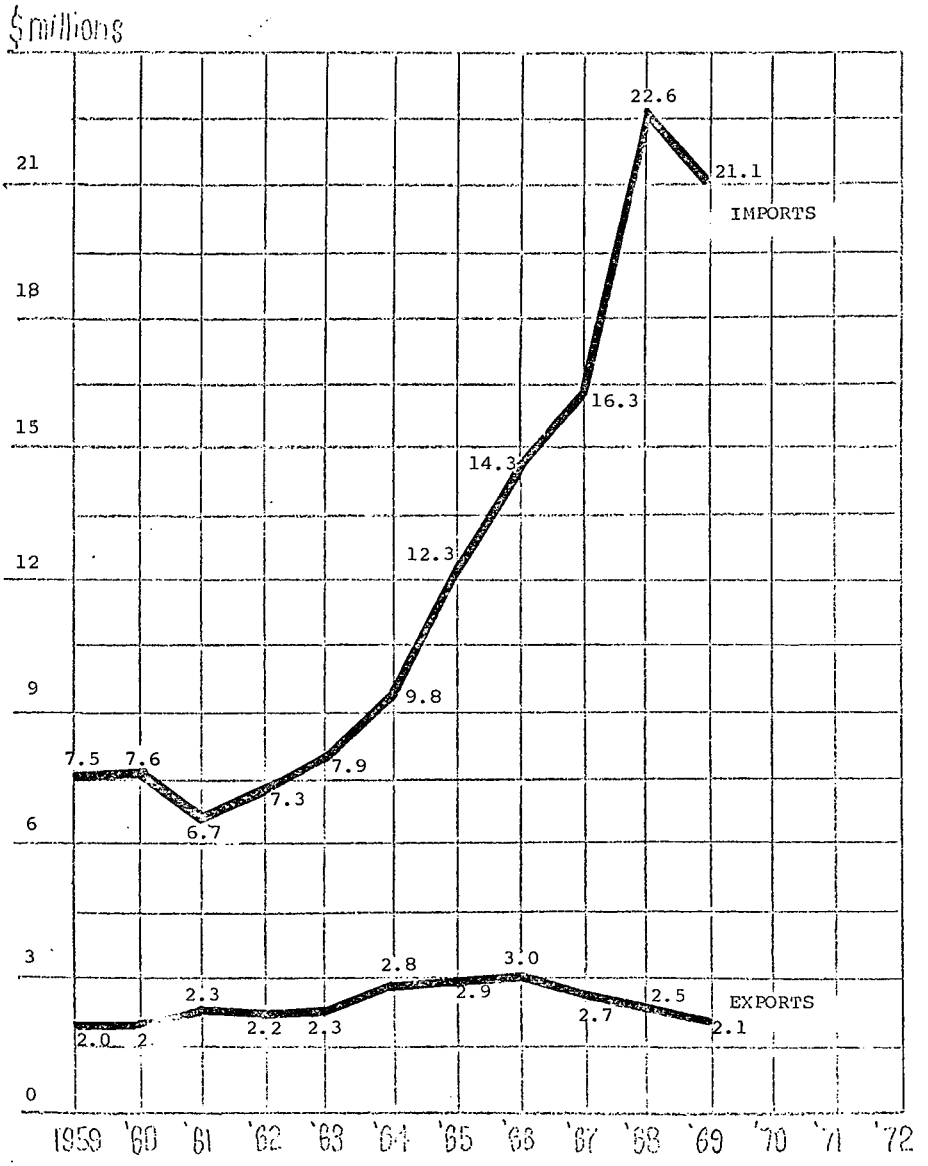
(Accurate total import figures not available for 1967 and 1968 because of erroneous inclusion of empty shells in Census Bureau ammunition statistics. Error corrected in 1969.)



RIFLE IMPORTS AND EXPORTS



SHOTGUN IMPORTS AND EXPORTS



Mr. BURKE. Our next witness is Leonard E. Finkel, president of the Umbrella Frame Association of America and also on behalf of the Finkel Umbrella Frame Co. and S. W. Evans & Son.

STATEMENT OF LEONARD E. FINKEL, PRESIDENT, UMBRELLA FRAME ASSOCIATION OF AMERICA; ACCOMPANIED BY S. W. EVANS, MEMBER

Mr. FINKEL. Mr. Chairman and gentlemen, my name is Leonard Finkel. I am president of the Umbrella Frame Association of America. I am connected with one of the members of the association, the Finkel Umbrella Frame Co., Inc. The other member of the association is seated beside me, Mr. S. W. Evans, president of S. W. Evans & Son. We two are all that remain of the umbrella frame industry.

Mr. BURKE. You are the last two?

Mr. FINKEL. The last two.

Mr. BURKE. Let us hope that both of you can appear again next year.

Mr. FINKEL. A dubious honor, if you please.

Before proceeding to summarize my remarks, Mr. Chairman, as a preamble, so to speak, I would like you to know that basically we are sympathetic with the problems of the State Department in the area of international trade. We recognize that quotas and high tariffs and surcharges and regulations from a philosophical standpoint and from a practical standpoint in the Nation are repugnant to our best interests, but we respectfully submit that you cannot lay down ground rules in international trade without considering the unusual cases that exist in the country.

Seated in the back of the room this morning I listened to some of them and I submit that our case is probably the most unusual and the most meritorious of relief. I wish you would keep that in mind in listening to the few remarks that I have to make.

On June 21, 1968, I testified before this committee with respect to umbrellas, umbrella frames, and umbrella bases and the impact on this industry from foreign competition. At that time I submitted a brief documenting our case and describing the gravity of the injury caused by imports to the domestic producers.

My testimony and the brief that I submitted on behalf of the umbrella frame manufacturing industry are reported in detail in the record of the proceedings, part 7, pages 3139 to 3157, inclusive.

A letter addressed to the committee by Lawrence R. Katz, president of Polan Katz & Co., Inc., one of the largest manufacturers of umbrellas in the United States was also included in the record beginning on page 3157 and concluding on page 3159.

I am not aware of the character of this proceeding, but in the event that this hearing is being conducted de novo and is not a continuation of the hearings held in June and July of 1968, then I respectfully request that the report of my testimony, the brief that I submitted at the time that I testified, and Mr. Katz's letter of July 9, 1968, all be printed in full in the record of these proceedings so that they may be available to the committee for consideration. Of course, this will not be necessary if the present hearing is a continuation of the previous hearing.

Mr. BURKE. That is already a part of the committee's public record,

the testimony that was given in 1968, and it won't be necessary to reprint it in the present record. It will be before the committee in its deliberations.

Mr. FINKEL. Thank you, sir.

To briefly summarize the testimony in 1968, I described the product of our industry, which is an umbrella frame which consists of the steel superstructure on which an umbrella cover is mounted, the finished umbrellas, and also umbrella bases. An umbrella base is a completed umbrella without the handle. It is usually imported in that fashion to enable the shipper to have a better package that is not made difficult by handles of unusual sizes and shapes.

I discussed the number of companies in the industry. At that time there were three companies left of an original group of eight companies. At that time in 1968 the employment of the industry had been reduced from 2,500 to less than 500. The market for the frames, which in the umbrella manufacturers, had been reduced from 100 to less than 35 in 1968.

I also outlined the efforts of the industry for relief from the ruinous competition of imports. We started in 1954 by presenting our views before the committee on reciprocity information. Thereafter we made numerous applications to the Tariff Commission. One proceeding was made under section 225 of the Trade Expansion Act of 1962 and the Tariff Commission as a result of the conditions it found recommended that the importation of umbrella frames and umbrellas be reserved in the Kennedy round from negotiation.

I discussed also the tariff rate on umbrella frames which originally was 60 percent ad valorem and is currently 30 percent. The rate on finished umbrellas was originally 40 percent ad valorem and is now 20 percent.

I also went into the statistics of imports and the impact that they had on the domestic manufacturers and at that time in 1968 the domestic industry was enjoying 27 percent of the market. I use the word enjoying advisedly.

A comparison of the umbrella frame and umbrella industries in the United States and one of the leading exporters, Japan, indicated that the U.S. production was 600,000 dozen and the Japanese was 4 million dozen. I discussed at that time what we believed was the solution in the form of quotas and higher tariffs.

My purpose in appearing before the committee today is to update my earlier testimony and to present certain new facts for the consideration of the committee.

Almost 2 years have passed since our testimony was adduced and certain changes in conditions have taken place and new facts have developed which we would like to include in the record.

At the previous hearing I stated that in 1967 the domestic frame manufacturers produced approximately 600,000 dozens of umbrella frames. In 1969 the domestic frame makers produced approximately 300,000 dozens of umbrella frames.

In 1967 the domestic market of umbrellas was approximately 2 million dozen and the domestic frame makers had 27 percent of the market. In 1969 the market was approximately the same and the domestic frame manufacturers had only 14 percent of the domestic market. Exhibit I is annexed hereto which shows the percentage of the domestic market that the domestic producers have been able to service.

EXHIBIT I.—UMBRELLA FRAMES AND UMBRELLAS—IMPORTS' SHARE OF U.S. MARKET, YEARS 1950-69

Year	Imports			Domestic frame production	Total dozens	Percent of total	
	Umbrella	Frames	Total			Imports	United States
1950	59,094	8,121	67,215	894,183	961,398	7.0	93.0
1951	114,876	9,901	124,777	[1] 700,000	824,777	15.1	84.9
1952	115,932	16,091	132,023	[1] 700,000	832,023	15.9	84.1
1953	137,842	39,163	177,005	[1] 700,000	877,005	20.2	79.8
1954	140,585	34,762	175,347	745,514	920,861	19.0	81.0
1955	190,337	59,530	249,867	845,879	1,095,746	22.8	77.2
1956	299,139	344,380	643,419	715,080	1,358,499	47.4	52.6
1957	333,353	135,648	469,001	651,547	1,120,548	41.9	58.1
1958	551,435	122,186	673,621	629,329	1,302,950	51.7	48.3
1959	723,385	96,475	819,860	558,276	1,378,136	59.5	40.5
1960	504,479	114,375	618,854	574,510	1,193,364	51.9	48.1
1961	385,482	119,635	505,117	628,983	1,134,100	44.5	55.5
1962	550,795	142,828	693,623	788,006	1,481,629	46.8	53.2
1963	460,820	109,228	570,048	643,000	1,213,048	47.0	53.0
1964	498,150	116,374	614,524	570,000	1,184,524	51.9	48.1
1965	743,348	105,354	848,702	590,000	1,438,702	59.0	41.0
1966	1,016,728	103,108	1,119,836	597,000	1,716,836	65.2	34.8
1967	1,479,230	127,610	1,606,840	522,000	2,128,840	75.5	24.5
1968	1,695,000	150,327	1,845,327	[1] 391,500	2,236,872	82.5	17.5
1969	1,578,186	125,534	1,703,720	[1] 293,625	1,997,345	86.3	14.0+

[1] Estimated.

Figures for the first quarter of 1970 indicate that the U.S. manufacturers of frames will have an even lower percentage of the market than they presently have.

If you will glance at it briefly, it starts in 1950 at which time we had 93 percent of the market and it finishes in 1969 at which time we had approximately 14 percent of the market.

I might add that the first quarter of 1970 indicates that we will have an even lower percentage, approximately 10 percent.

In 1968 I indicated that of the eight companies engaged in the manufacture of umbrella frames in 1954, only three remained. As of the present time there are only two manufacturers remaining. This represents an attrition of 75 percent. During 1969 the Newark Umbrella Frame Co. ceased operating. The two remaining frame manufacturers are sharing the 14 percent of the market that the importers left us at the end of 1969. The trend in 1970 indicates that this percentage will be even smaller, possibly 10 percent or less. The two producers of umbrella frames cannot run plants on this amount of volume. As a matter of fact it is not even enough for one plant. It seems almost certain that in due time, possibly within 6 months, another or even both of the manufacturers remaining in the umbrella industry will have to give up.

As of 1967 it was estimated that 500 persons were employed in the umbrella frame industry as compared to 2,500 persons in 1954. Now it is estimated as at the end of 1969 less than 300 persons are employed by the industry. This is a reduction of approximately 88 percent.

In our brief, submitted at the hearing on June 21, 1968, we traced the history of the industry's efforts to obtain relief by a succession of petitions to the U.S. Tariff Commission. On March 5, 1970, the umbrella frame industry filed a petition to the U.S. Tariff Commission pursuant to section 301(a)(1) of the Trade Expansion Act of 1962 for tariff increases, quotas and other relief and an investigation was instituted.

This investigation bears No. TEA-1-16. The hearing was set for June 2.

On that date the Umbrella Frame Association of America through representatives of the two remaining frame manufacturers presented its case to the U.S. Tariff Commission. Also were heard witnesses for importers.

In order to complete the record for the consideration of this committee I respectfully request at this time that the record of the proceedings before the U.S. Tariff Commission at the hearing held on June 2, 1970, including the petition, the evidence submitted and the testimony adduced, be included in full in the record of this hearing before the Committee on Ways and Means and that such evidence and information be considered by the Committee on Ways and Means in connection with these hearings.

I have these in the form I can submit here, Mr. Chairman.

Mr. BURKE. Are these proceedings now under consideration by the Tariff Commission?

Mr. FINKEL. Yes, sir.

Mr. BURKE. And a decision has to be made?

Mr. FINKEL. Yes, sir.

Mr. BURKE. Then the material you have there is already a part of the public record of the Tariff Commission proceeding. It would be somewhat duplicative to reprint it in our record, but certainly the committee will want to consider it, any of you may submit the material so that it will be available to us when we go into executive session.

Mr. FINKEL. I will submit them and you can make your determination on that basis.

Mr. BURKE. That will be fine.

Mr. FINKEL. Exhibit I shows that in 1950 the domestic framemakers served 93 percent of the market and that in 1969 the remaining American frame manufacturers had only 14 percent of the market.

An examination of the exhibits and the comparative price structures that we set forth in our tariff application and the testimony adduced in connection with the tariff hearing will indicate very clearly the reasons for this falloff. The landed prices of the imported products were and are substantially lower than the same products of domestic manufacture.

In order to put the whole matter into perspective we should like to compare the conditions that existed in Japan, one of the leaders in the Far East, with the United States as far as capacities and volume are concerned.

Japan is a country with approximately 100 million people, living in a territory approximately the size of California. The United States has approximately 200 million people in a country 50 times as large.

The United States has two frame manufacturers—Japan has 70.

The United States has 35 umbrella manufacturers—Japan has 450.

The U.S. producers make approximately 300,000 dozens per year. The Japanese producers make approximately 4 million dozen per year. Latin America, and 10 percent for othr countries.

Japan is ranked first in the production of umbrellas.

Fifty percent of Japan's exports sales are intended for North America. For Europe 27 percent, 4 percent for Africa, 4 percent for Latin America, and 10 percent for other countries.

U.S. producers have practically no foreign markets.

The United States is reluctant to speak about the quotas and trade

barriers. Japan makes no pretense about agreements establishing quotas.

From information given to me which I believe is reliable, Japan and Germany have an agreement for the imposition of quotas on umbrellas and umbrella frames. This quota allows approximately 2.5 million units per annum equally divided into folding umbrellas and long-rib umbrellas, including self-openers. Compare this with 7,850,988 units exported to the United States in 1969 and realize that Japan represents a little less than 50 percent of the imports from the Far East into the United States.

The same informant advised me that firms having records of exports are given allocations while firms without export records are given very limited quotas—about 100 dozen per annum. I am also advised that the allocation is issued by the Exporters Association in the name of MITI. Only two exporters are allowed to ship goods to one customer in Germany, presumably to avoid competition among exporters.

Apparently at least some of the countries with whom we have to compete, countenance what appears to be cartels, allocation of customers, and controls, all of which are not only frowned upon in the United States but are in many cases violations of our laws.

I am informed there is a Japanese-German economic conference held each year alternatively either in Japan or Germany and the umbrella business is part of the agenda. However, it appears that prior to the meeting, representatives of both the Japanese and the German umbrella groups come to an agreement and the conference merely adopts such agreements.

This brings our testimony of June 21, 1968, and the material submitted in connection herewith substantially up to date.

It is respectfully suggested that increased tariffs and quotas assigned country by country are the only manner in which umbrella frame and umbrella industries can be saved from extinction. We therefore earnestly advocate the passage of the so-called Mills bill, H.R. 16920, with a modification, however, of the base period.

An examination of exhibit I attached hereto will show that using 1967–68 as a base period would be most unfair. It is submitted that the years 1957 and 1958 would be more appropriate inasmuch as in those years the average portion of the U.S. market enjoyed by the domestic producers was in the approximate area of 50 percent.

The plight of the umbrella frame industry, as documented by the evidence submitted, dramatically demonstrates the crying need for legislation such as H.R. 16920.

Mr. BURKE. Does that complete your testimony?

Mr. FINKEL. That completes my testimony.

Mr. BURKE. I wish to make this observation: That this is the most shocking testimony that has been received by this commitee. It indicates a complete obliteration and extermination of the umbrella frame and umbrella industry here in the United States. You two are then the last of the Mohicans?

Mr. FINKEL. If I may, Mr. Chairman, indicate that I believe both our companies have employed the highest degree of sophistication and automation in advanced equipment to perform our manufacturing functions. We have spent large sums of money over the past years in

research and development in an endeavor to overcome this problem. It is just impossible. We have come to the point where there is nothing left to give our people in this age of advanced benefits for labor. We can't give them what they really should get.

As I stated in my testimony, we have seen six of our competitors fall by the wayside over the years. We are at the point where we have the same thing to look forward to in the near term. We spent an entire day submitting evidence before the Tariff Commission and these papers, if you find it consistent with your practice to admit them, will give you a complete picture which is much more shocking than I was able to portray.

Mr. BURKE. With reference to these papers in the hearing before the Tariff Commission, if you will submit them to John Martin, the chief counsel of the House Ways and Means Committee, we shall be glad to receive them.

Mr. FINKEL. Thank you very much.

Mr. BURKE. Mr. Schneebeli.

Mr. SCHNEEBELI. Mr. Finkel, under exhibit 1 you show under import both umbrellas and frames but you only show frame production under domestic manufacture. Do you have the figures for domestic umbrella manufacturing?

Mr. FINKEL. The umbrella manufacture is represented by the frame production because the frame producers have been selling all they produced and each frame goes into the umbrella of a domestic manufacture. They have no imports.

Mr. SCHNEEBELI. I notice there is a tremendous difference in frames and umbrella imports. Are you saying that the domestic umbrella manufacturing is the same as the frame production in the United States?

Mr. FINKEL. The domestic umbrella manufacturing is the same as the domestic frame manufacturing.

Mr. SCHNEEBELI. Did we import frames, let us say, 125,000 in 1969? What did you do with those?

Mr. FINKEL. We don't import them. The umbrella manufacturers import them because they are cheaper.

Mr. SCHNEEBELI. Then the umbrella manufacturing is 300,000 plus 125,000?

Mr. FINKEL. But that is not American production.

Mr. SCHNEEBELI. I am talking about the production of umbrellas.

Mr. FINKEL. You add the imported frames and the domestic frames and you will get the complete umbrella production.

Mr. SCHNEEBELI. That is domestic production?

Mr. FINKEL. That is right.

Mr. SCHNEEBELI. That has not gone down quite as dramatically as the frame.

Mr. FINKEL. No. The reason for that, sir, is this: As we pointed out in the Tariff Commission with a graph, the import of umbrella frames is almost level. The reason for that is that the import tariff on umbrellas is 30 percent. The import tariff on completed umbrellas is 20 percent. So that in importing all umbrellas they bring a frame in at 20 percent rather than at 30 percent. So it would be foolhardy economically to bring in a frame and pay 30 percent on it when you could bring the same frame in the form of an umbrella and pay only 20 percent.

Mr. SCHNEEBELI. I notice that while your frame domestic total of the market went from 93 to 14 percent in about 20 years, our domestic umbrella production went from about 900,000 to a little over 400,000. So it was just about cut in half.

Mr. FINKEL. That is right. We are not in the umbrella business. Let me point this out to you, too: With the advent of the demise of the frame people there will be no domestic umbrella business at all.

Mr. SCHNEEBELI. Would it not be to the advantage of the present umbrella manufacturer to absorb one or two of you fellows to make sure that he has a source of supply so that they are not at the total mercy of the foreign supplier?

Mr. FINKEL. So far we have not had any offers.

Mr. SCHNEEBELI. With this conglomerate action that is going on I should think it might be a matter of survival.

Mr. FINKEL. One last point: If we leave the scene you will have an open arena here for a monopolistic situation because there will be no one that the importers will have to compete with.

Mr. SCHNEEBELI. That is right.

Thank you.

Mr. BURKE. Mr. Gibbons.

Mr. GIBBONS. Mr. Schneebeli has asked all the questions I had in mind.

Mr. BURKE. You have no further questions?

Mr. GIBBONS. No.

Mr. BURKE. What do you think will happen once you two fellows leave the industry? Do you think the foreign importers will then have control of the American market and will be able to raise their prices?

Mr. FINKEL. Without question. We have had experiences in our tariff proceedings, particularly the one in which the Tariff Commission recommended relief to the President and the President sent the case back for further information, and during that period the imports went down, the President became convinced that the problem had stopped and rejected the Tariff Commission recommendations. After this they went up.

Mr. BURKE. The only thing I can say is, that you two gentlemen being the last of your industry in America, you are deserving of some award. I don't know what it is. Almost like Custer's last stand, you will be in there to the very end.

Speaking for myself, I certainly hope and pray that you are able to survive and continue on because I don't want the termination of any industry.

Mr. FINKEL. Thank you, sir. We are not looking for any handouts or any subsidies.

Mr. BURKE. You have not asked for any.

Mr. FINKEL. We are just trying to have the ground rules equalized.

Mr. BURKE. Even though you are bloodied and wounded and everything else, you are still very fair in what you presented today.

Mr. EVANS. We need a competitive environment, which we don't have.

Mr. BURKE. Thank you very much for your time.

Mr. FINKEL. Thank you, sir.

Mr. BURKE. Our next witness is Douglas R. Gordon, assistant executive director of the Society of American Florists.

STATEMENT OF DOUGLAS R. GORDON, ASSISTANT EXECUTIVE DIRECTOR, SOCIETY OF AMERICAN FLORISTS

Mr. GORDON. My name is Douglas R. Gordon, assistant executive director of the Society of American Florists. The society was organized in 1884 and was incorporated by an act of Congress on March 4, 1901, as a nonprofit organization. The society is the national trade association for commercial floriculture—representing growers, wholesalers, retailers, and allied tradesmen.

It is a privilege to appear before the Ways and Means Committee and to have this opportunity to bring to your attention a very serious problem confronting our industry.

GROWTH OF FLOWER INDUSTRY IN UNITED STATES

The flower industry has expanded at a commendable rate since World War II. The primary reason for this has been the time, energy, and money which the industry has put into improving facilities, developing new and better varieties of flowers, and creating a demand for our product. Presently our industry exceeds $1.5 billion in annual retail sales.

Up to this time, floriculture has been a healthy industry providing thousands of jobs and paying good wages well above the national average for agricultural employees.

The average producer of greenhouse flowers and plants has an investment of from $25,000 to $50,000 for every employee. Firms in the industry of commercial floriculture have invested this money in good faith based on the American free enterprise system. Yet, we now find ourselves in a position of competing unfairly with foreign produced flowers where the average daily wage is less than the hourly rate which we must pay in the United States. In addition, foreign transportation costs to U.S. markets are often less than half of what we must pay for the same distances domestically.

FLORICULTURAL INDUSTRY HAS ADVOCATED FREE TRADE

The Society of American Florists and the industry of floriculture have advocated and actively supported efforts by our Government to expand international trade. With the blessing of our industry, the U.S. Government has encouraged the expansion of international trade in floriculture by constantly reducinng duties on bulbs, cut flowers, nursery stock, and so forth. As a result, we find that imports of cut flowers increased 686 percent in the 5-year period 1963 to 1968. The increase from 1967 to 1968 was an astonishing 97 percent. The increase from 1968 to 1969 was another 49 percent.[1]

It is obvious that this increase will continue to accelerate for reasons which I will outline in a moment.

The treatment of imports of bulbs, flowers, and plants by foreign countries who enjoy our advantageous import regulations and low tariffs is not a reciprocal treatment. Almost all, in addition to higher

[1] Source: Tariff Commission Publication 308, vol. 14, Summaries of Trade and Tariff Information, December 1969, p. 164.

tariff rates, utilize one or more nontariff barriers such as turnover and sales, taxes, appraised value taxes, and plant health restrictions. As a result, during the same period mentioned earlier, the growth of exports has been less than half that of imports.

IMMEDIATE PROBLEM—LATIN AMERICAN IMPORTS

Because of time limitations, I will concentrate mainly on the problem we face from the Latin American countries, though the threat is just as real from Northern Europe, particularly in light of the aggressive marketing plan which Dutch producers and the Dutch government have initiated in the United States.

We are confronted now with the prospect of the Latin American countries—particularly Brazil, Costa Rica, Colombia, Ecuador, Guatemala, Honduras, and Panama—by taking advantage of U.S. aid, liberal U.S. foreign trade policies, and low air cargo rates—dominating the U.S. market. Presently in Miami 70 percent of the cut flower consumption is imported from Central and South America.

We have seen, in the past 2 years alone, staggering increases in the amount of cut flowers shipped into our country from Latin America. Five key factors—

1. Abundance of cheap labor;
2. Availability of air freight rates substantially lower than those which domestic producers must pay;
3. Favorable year-round climates;
4. American capital; and
5. Favorable tariff treatment at U.S. borders.

These five key factors have contributed to the phenomenal growth of the Latin American floricultural industry. Because many cut flower crops can be grown in open fields and in cheaply constructed facilities in Latin American countries and because cut flowers can be produced on short growing schedules, it will take only a short period of time for our domestic market to be flooded with inexpensively produced and transported cut flowers from Latin America.

We have seen firsthand the aggressive and rapid measures these countries have taken to become major exporters of cut flowers. It is no secret that these countries are eyeing the United States as their market. As I have stated earlier, because of the very simple and reasonable import regulations on flowers and plants and the attitude which our Government maintains toward aiding these developing countries, we can see in the not-too-distant future very serious injury to the U.S. floricultural industry, resulting in great losses of jobs.

In his recent report on the Quality of Life in the Americas, Gov. Nelson Rockefeller recommended to the President that:

> "The United States should allocate a major part of future growth in its agricultural consumption to hemisphere nations and reexamine the present limitations on the flow of farm products into the U.S. market from our neighbors to the south."

You have already heard, or will hear during the course of these hearings, how the U.S. consumption of many perishable agricultural commodities, such as tomatoes, strawberries, and green vegetables, has been siphoned off by imported goods. Agricultural economists predict we will continue to lose at a rapid rate to agricultural imports from foreign markets.

MUST HAVE PROTECTION FOR DOMESTIC INDUSTRY

We realize that the purpose of these hearings is to consider the administration's trade bill as well as Chairman Mills' bill—H.R. 1692. We are not experts on the problems confronting the domestic textile and leather footwear industries. We are aware, however, of the economic crisis presently facing the textile and shoe industries. We have watched this happen in a relatively short period of time, and circumstances have drawn us to compare the situation in these industries with that of our own industry.

In our judgment, we feel that we must ask the Congress to establish a successful program for the control of imported flowers into this country. It is not our intention to launch an effort to close our borders completely to imported cut flowers. Measures for balancing the import of cut flowers with the growth of U.S. consumption would be the best approach, we feel.

ADJUSTMENT ASSISTANCE NOT ENOUGH

It is true that under the Trade Expansion Act of 1962, there are adjustment assistance provisions designed to aid workers and producers who are adversely affected by imports. I know that at this time your committee is considering measures to expand these provisions. For the greenhouse flower industry, however, this will not work. Never, to my knowledge, has anyone found a use for an abandoned greenhouse. A shoe factory can at least be converted into a warehouse. A textile mill can house an auto body shop. Greenhouses are only good for the purpose for which they were built.

SUMMARY

We have not come here today to ask that you prohibit the importation of cut flowers and plants. We have considered, however, the chairman's well-thought-out approach for orderly trade in textile articles and articles of leather footwear. We respectfully urge you to broaden the coverage of this legislation along the lines which Congressman Burke from Massachusetts recommended in his Orderly Marketing Act of 1969. Such provisions would sustain the economic stability of commercial floriculture in the United States and, at the same time, allow our foreign trading partners to share in the growth of our U.S. market.

Thank you.

Mr. BURKE. Thank you very much, Mr. Gordon.

Are there any questions?

Mr. SCHNEEBELI. Mr. Gordon, I presume you are aware of the fact that virtually every agricultural organization in the United States favors an extension of our present lowering of tariffs because the agricultural community is a net beneficiary of much of this trade increase. I believe we export probably over $1 billion a year of agricultural products to Japan alone and it constitutes probably at least 25 percent of our trade export to Japan. So the agricultural community generally is not in sympathy with your position of quota application.

Mr. GORDON. We are well aware of that. We have been told directly by the Department of Agriculture that they would oppose any effort on our part to limit the imports.

Mr. SCHNEEBELI. I assumed so, because our agricultural industry benefits so much.

Mr. GORDON. However, we are not going to stand idly by and see our industry go down the drain such as the umbrella frame manufacturers.

Mr. SCHNEEBELI. Yes. You don't want to get in the same "frame" as the umbrella manufacturers.

Mr. GORDON. Our industry cannot mechanize. You cannot pick a rose or a carnation by machine.

Mr. SCHNEEBELI. I commend you for pointing out to the committee the problem your industry has. I think you are in order and proper in pointing this out to the committee, and I congratulate you.

Mr. BURKE. Thank you, Mr. Gordon, for your testimony.

Mr. GORDON. Thank you, gentlemen.

(The following statement was received for the record:)

STATEMENT OF GEORGE T. BEEMER, MANAGER, FLORIDA FLOWER ASSOCIATION, INC.

The Florida Flower Association appreciates very much the opportunity to present this statement to the Committee on Ways and Means. We would appreciate this statement being considered with the testimony in the hearings on traffic and trade proposals. The Florida Flower Association is a trade association, incorporated in 1956. Its members are growers and shippers of cut flowers and flowering plants and represents over 65% of the flower production in the state of Florida.

The flower growing industry of our state and the rest of the nation is tremendously concerned with the rapidly growing competition we are realizing from the flower growing industry in South and Central America.

It seems that we are faced with a problem of philosophy in foreign trade. This country's policy as viewed by our industry is lacking in firmness and practicality. Every other country in the world with whom we trade has a well oriented national policy on trade which fits its needs regardless of what other nation's wishes might be in trading relations with them.

We feel that the time has long past when our government can afford to say that certain industries in the United States can be sacrificed for the benefit of the growth of foreign industry. We may in many ways feel a sense of responsibility for the welfare of other nations, especially Latin America, but this concern should not overshadow the needs of our own people.

There are many liberal thinkers who state that it is a simple matter for the employees, management, plant facilities and invested capital be transferred to another industry when one is severely damaged by foreign competition. Unfortunately, this day has long past. It is of extreme importance to preserve our own industry for this country to continue to prosper.

The flower industry has expanded at a commendable rate since World War II. The primary reason for this has been the time, energy, and money which the industry has put into improving facilities, developing new and better varieties of flowers, and creating a demand for our product. Presently, our industry exceeds one and a half billion dollars in annual retail sales.

Up to this time, floriculture has been a healthy industry providing thousands of jobs and paying good wages well above the national average for agricultural employees. The average producer of greenhouse flowers and plants has an investment of from 25 to 50 thousand dollars for every employee. Firms in the industry of commercial floriculture have invested this money in good faith based on the American free enterprise system. Yet, we now find ourselves in a position where we must compete unfairly with foreign produced flowers where the average *daily* wage is less than the *hourly* rate which we must pay in the United States. In addition, their transportation costs to our markets are often *less than half* of what we must pay.

We have seen in the past five years over a 300% increase in the amount of cut flowers shipped from Latin America. There are several basic reasons, which we are listing below, causing this phenomenal growth in competition:

1. Abundance of cheap labor
2. Extremely low air freight rates

3. Favorable year round climate
4. The availability of American capital
5. The lack of reciprocity on foreign trade items
6. Double invoicing

We understand that the hearings on tariff and trade proposals will include the consideration of your Chairman's Bill H.R. 16920. We concur that this is a well thought out approach to the handling of damaging importations. We have seen this in the shoe and textile industry and now, we see it in our flower industry.

We respectfully request that cut flowers, flowering plants, foliage and fern be included on the list of quota items as proposed in Chairman Mill's H.R. 16920.

Mr. BURKE. Our last witness is Mr. Abraham S. Weiss, legislative representative of the Distillery, Rectifying, Wine and Allied Workers International Union, AFL–CIO.

STATEMENT OF ABRAHAM S. WEISS, LEGISLATIVE REPRESENTATIVE, DISTILLERY, RECTIFYING, WINE AND ALLIED WORKERS INTERNATIONAL UNION, AFL–CIO

Mr. WEISS. My name is Abraham S. Weiss. I am the legislative representative of the international union so indicated. Having already appeared for another international union with a somewhat different problem, I appreciate that it is sometimes difficult for the mind to absorb what a seed can endure. I will make my point as brief as possible.

Our international union is not opposed to imports. We welcome imports. As a matter of fact, many of our people are the beneficiary of such imports because we have in addition to production workers salesmen both on the retail and wholesale level.

In addition, many of the imports, particularly Scotch and Canadian whiskies, come in bulk and many of the bottling lines we have in Maryland, in Ohio, and in Kentucky employ substantial numbers of people as a result of this bulk shipment of Scotch and Canadian whisky. We recognize that in the economics of these industries there is certain competition with our own industry, but the American industry is going through a process of change and when we discuss the alcoholic beverage industry it is basically a matter of taste. As Alexander Pope once wrote in his essay on man "T'is with our judgment as with our watches, none go just so but each believes his own." Everyone likes his own preference whether he likes hard whisky or light whisky, although I must say the general tendency is in the direction of lighter whisky.

Now there has been a tremendous increase in imports into the United States both of whisky and of wine. On the other hand, the exports of American whiskies and wines have been very small and very limited. The rise in the period of a decade has been virtually minimal. Now what we are asking this committee to do in substance, in whatever recommendations they make, is to present a balanced presentation for any negotiations we may have with regard to tariffs in the future.

We find that American wines and whiskies abroad are limited and circumscribed by a tremendous maze of restrictions ranging from prohibition on advertising to discriminatory levies, to encumbrances dealing in some instances with chemical analysis of the product accompanying each shipment. We ask that this committee in its judgment place emphasis on elimination of these nontariff barriers to trade.

As I indicated earlier, our people are not adversely affected or have not been so far, by imports with the one exception of the wine industry, and particularly wine industry in California. Here there have been a number of changes. The taste in wines apparently has drifted away from the dessert wines to the table wines and we find that more and more people are turning to wine, which may be attributed to cultivated taste, but in any case, what we find with respect to our California wine particularly is that we are having increasing competition with foreign wines and here there is a most interesting development.

For example, in France, and I use that as an illustration, the material progress which has been made by France during the past decade has enabled the French to consume virtually all of their better and superior wines. So what they do is to import inferior wines, particularly from Algeria. Then they couple this Algerian wine with their own wine and palm it off on the American consumer as French wine. Now this of course adversely affects our situation and if the principle of quotas were to be established I think this is an area that the committee could well look into. In any case, I would say that there should be a reciprocal attitude adopted that if there are countries that establish quotas or have a blanket interdiction of American wines and whiskys, that the committee should give serious consideration to the possibility of such a negative reciprocal arrangement. But actually, what we would like to see is a two-way street, one in which their products come in and one in which our products can freely go abroad.

(Statement submitted on behalf of Distillery, Rectifying, Wine, and Allied Workers' International Union of America, AFL–CIO follows:)

PREPARED STATEMENT ON BEHALF OF DISTILLERY, RECTIFYING, WINE AND ALLIED WORKERS' INTERNATIONAL UNION OF AMERICA, AFL–CIO

This statement is presented by our International Union pursuant to a press release issued on or about April 17, 1970—P.R. 20—by Wilbur D. Mills, Chairman, Committee on Ways and Means, U.S. House of Representatives.

That release announced that the Committee would shortly hold "public hearings on the subject of foreign trade, with particular emphasis on the President's foreign trade proposals, and including all other trade proposals pending before the Committee (such as H.R. 16920), as well as proposals to stimulate exports."

We are presenting this brief because our International Union represents tens of thousands of American workers whose livelihood and jobs depend directly or indirectly and to a greater or lesser degree, upon affirmative amelioration of the impact created by the flood of imports from abroad.

I. BACKGROUND AND INTRODUCTION

This hearing is being conducted against a general backdrop of a deterioration of the American position in world trade—a deterioration which has affected not only members of our Union but also every sector of our society. This deterioration has been accelerated in the period since the United States signed the GATT Agreement in June 1967, and during the two years—1968–69—we have witnessed, for the first time since 1894, a situation in which the United States actually sells more to foreign nations than it has bought.

The worsening position of the United States, measured by the contrast between the levelling-off of American exports and the 300% increase in the imports of manufactured goods from 1960 to 1968, has been, and can be properly, attributed to the following major economic developments during the past decade:

1. The spread of managed national economies, together with the emergence of trading blocs such as the European Common Market, with coterminus direct or indirect government barriers to imports and aids to exports as part of an overall pattern of protectionism;

2. The internationalization of technology, coupled with the skyrocketing rise

of foreign investments by U.S. firms and the corresponding rapid spread of multinational corporations which can manipulate the location of operations (depending upon labor costs, taxes and foreign exchange rates) as well as juggle exports, imports, prices and dividends from one country to another within the corporate structure—considerations which tend to reduce or eliminate the former U.S. productivity-lead in many industries;

3. The continuing, and in many instances the ever-increasing, disparity between the wages and standards of American workers and those overseas has become an even more pronounced prod during the 1960s for the surge of imports in all sectors of the American economy, particularly in such relatively labor-intensive products as are worked upon by employees in the jurisdiction of our International Union as well as shoes, textiles, clothing, steel, autos, ceramic tiles, radios and TV.

The cumulative impact of these trends is that imports are becoming, more and more, a major factor in the American market. At the start of the Sixties, only about one-third of imports from abroad were competitive with American-made products; by the end of the decade, approximately three-fourths were in that competitive posture. In other words, we are confronted with the reality that imports are cutting an ever-wider swathe in America and that the trend is most definitely upward.

As a consequence, as was underscored by Secretary of Labor Shultz, in 1968 it would have taken nearly 2.5 million jobs to produce the equivalent value of the nearly 75% of imports into the U.S. that were competitive with U.S.-made products—and this three-quarter percentile figure, in turn, was a marked increase over the one-third percentile figure existing at the beginning of the decade of the 1960s. By the projection of these figures it is estimated that in 1969 nearly three million Americans were unemployed as a consequence of the impact of imports.

The loss of such job opportunities has occurred at a time when unemployment is mounting. Indeed, the percentage of unemployed rose in April 1970 to 4.8—the highest such point in five years, and the trend has been up during the past year. Such job erosion has severe economic and social consequences. From an economic standpoint there is most urgently needed both unskilled and semi-skilled production jobs for the American labor force, growing at an estimated 1,500,000 each year. Such acuteness of need is especially accentuated for members of minority groups who are seeking to enter the mainstream of the American economy. Failure to do that can contribute only to mounting frustration and discontent which can only militate against the constructive solution of the problems of American society.

The impact of escalating imports is most harsh on affected businesses, workers and communities. The latter, for example, see an erosion of employment and of their tax base at a time when finances are crucially needed to maintain and elevate services in such crucial areas as safety, education and housing. The mortality and bankruptcy of business firms which are vulnerable to competition from imports exact a fierce toll not only upon employers but also workers as well as trade unions which represent these workers.

It is a fact of economic life that those industries where the impact of imports has been greatest are also those in which (a) labor costs constitute a significant part of the total costs and as a consequence are usually most susceptible to wage-cost competition, and (b) a considerable part of the employment tends to be lesser-skilled and lower-paid, at least within the total context of the American economy, with large concentrations of older workers, women and minority groups.

The juxtaposition of these two facts tend to place labor organizations, and certainly our own International Union, in a collective bargaining bind. On the one hand, the members of our organizations are pressing, understandably, for wage increases and other adjustments if only to meet the soaring escalation in living costs. On the other hand, the contractual implementation of these demands may result in placing employers in an even more difficult economic posture and may even literally price the company out of the market. The jobs of our members and the standards and conditions built up over the years are thus sacrificed upon the altar of a trade policy which has become, regardless of intent, the scaffold on which is executed the hopes and aspirations of American policy. As President Nixon put it so eloquently in his state of the Union message last January: "People do not live at the summit. They live in the foothills of everday experience and it is time for all of us to concern ourselves with the way real people live in real life."

It is out of such concern that we must view the proposals, as set forth by President Nixon and in such bills as H.R. 16920, to liberalize adjustment assistance for firms and workers. Such a step is most desirable and appropriate, for the experience of the Trade Expansion Act of 1962 in this regard has left much to be desired. In fact, the U.S. Tariff Commission generally took a jaundiced view of applications for such adjustment assistance, and it was not until last year that affirmative action on that score was taken, albeit in only a limited sense. Anything that would ameliorate the conditions of both employers and employees who have been adversely affected by the flood of imports would therefore be a consequential improvement upon past practice.

But one should not be too sanguine, we submit, about liberalizing the guidelines for adjustment assistance. Those who look to retraining of workers as a solution to the problems created by imports must face up to the reality, for example, that shutdowns of plants and/or departments usually result in the loss of workers of seniority and seniority-related benefits. Unless the worker involved would transfer within his own union—a situation which would be desirable but not always feasible—he could be deprived of many benefits including retirement benefits which are always linked to length of service and in many instances to length of service in either a particular plant or a particular sector of an industry. Unless legislation is promulgated with respect to portability of benefits, this worker would forfeit such benefits—and nothing in the law as it now stands or as it would be amended would alter this situation.

Another consideration is that there is a marked limitation upon retraining, for example, an unskilled worker in a factory would hardly be a fit candidate for employment as a computer expert. Loss of a job means that special work-skills, developed and refined in a specific plant or industry, cannot be readily and automatically applied elsewhere. Even the assumption of an effective program of retraining does not carry with it a guarantee that there would be a job available for the worker in a new plant or industry in the locality in which he has lived.

Accordingly, one consequence of job loss that is tempered by a program of retraining is that workers and their families may be required to move from one community to another. Even if the expenses of such a move were to be absorbed by the program of retraining and other adjustment assistance, nothing can be done about the loss of friends, schools, church and social relationships that have developed over many years. In the impact of imports there is a social as well as an economic factor that cannot be ignored. Or it can be ignored only at the pain of frustration and resentment, the kind of psychological qualities hardly attuned to the process of readjustment.

II. ECONOMIC ANATOMY OF THE ALCOHOLIC BEVERAGE INDUSTRY

In 1969 approximately 366 million gallons of distilled alcoholic beverages were consumed, equivalent to 1.8 gallons for every person in the United States. In 1960, 234.7 million gallons had been consumed, or 1.3 gallons per person. Thus, during the decade of the 1960s, the industry expansion—of approximately 5% per annum—was in conformity with the general thrust of the American economy.

In this period there had been a number of significant changes, including a trend away from "heavier" and toward "lighter" drinks. While there had been some slackening in the amount of consumption for so-called straight whiskeys—down 3.7% in the decade—there had been a more meaningful tobogganing of spirit blends—down from 33.4% to 21.7%. Steepest decline of all was in bonds—down 330% in the decade.

The largest upsurge was both in so-called light whiskeys and in imports as well as vodka, rum and gin in the so-called nonwhiskey category. Whereas total whiskey sales declined from 76.9% to 66.4%, non-whiskey sales during the decade went up from 23.1% to 33.6%. Scotch and Canadian sales in the same period increased 81% and 83%, respectively.

In 1969, wine entering distribution channels in the U.S. reached 225 million gallons. Table wines soared from the 48 million level in 1960 to the 100 million gallon mark last year, out pacing dessert wines which had loomed larger in the economic picture of that sector of the industry a decade earlier.

"The United States" according to the U.S. Tariff Commission, "is the world's leading producer, importer, and consumer of whiskey, absorbing nearly all its own production as well as over half the exports of Scotch and Irish whiskey from the United Kingdom and over 90% of Canadian exports of Canadian whiskey." (United States Tariff Commission, *Summaries of Trade and Tariff Information*, Schedule I, Volume 10, p. 187, 1970). The Commission, in this au-

thoritative study of the beverage industry, also notes that "exports" of both whiskey and wine "have been small."

In the decade of the 1960s, imports of wines and brandy rose in dollar value from $52.9 million to $123.3 million. The latter figure constituted an increase of 10% above that of the previous year, and it is anticipated by estimates and projections of the Department of Commerce that there will be an additional increase of 10% to $135.5 million in 1970. With respect to distilled spirits, the increase was from $206.0 million in 1960 to $479.4 million in 1969, the latter figure being 10% above 1968 and with an additional 10%—to $527.3—projected for 1970. (See, U.S. Department of Commerce, *U.S. Industrial Outlook, 1970*, p. 95.) For specific delineation of imports during the past two years see table attached to this brief. The figures in that table will underscore the escalating nature of imports, including Scotch, Canadian and foreign wines during this most recent period, culminating a trend that has been accentuated in the1960s.

III. RESTRICTIONS ON TRADE

We in the DWU believe in fair trade—not in protectionism or in free trade. We would like to see an expansion in trade—but we want trade to be a two-way street. There is an advantage to such international trade not only in terms of the general economy but also within the specific framework of the needs and aspirations of our members. For example, there has been a tremendous increase in Scotch and Canadian imports—and this has redounded to the material advantage of our members who are liquor salesmen. Much of these imports also come in the form of bulk shipments—and this, too, has meant employment to our members on the bottling line.

On the other hand, we recognize that the stability of the wine industry, particularly in California where thousands of our members are employed, is threatened by the accretion in the imports of low quality, low priced wines, principally from Western Europe. In France, for example, improved living standards has resulted in a demand for the fine quality wines, and lower-grade Algerian wine is now being sent to the United States to absorb the surplus wine production characteristic of many wine-producing centers.

Complicating the situation is the fact that while exports of liquor and wines to America is encouraged by all sorts of financial subsidies and incentives, exports from the U.S. to other countries are circumscribed by the following maze of restrictions, encumbrances, limitations and discriminatory practices:

1. Advertising

If American producers of distilled spirits and wines are to be able to sell their products abroad, they must develop foreign consumer acceptance. One of the principal ways of doing this is by advertising. It is appropriate to cite the fact that for one category alone—imported cordials and liqueurs—and in one medium alone—magazines—there was spent in the U.S. upwards of $3,000,000 in advertising in 1969. But there are no less than 14 countries which have a blanket prohibition on this form of advertising. Of these perhaps the most flagrant example is France which persists in its Beverage Code prohibition against the advertising of spirits produced from grain. But this does not preclude the advertising of spirits, such as brandy, produced from grapes. It is typical of Gallic rationale, and illustrative of the complex nature of negotiations on non-tariff barriers, that the French do not look upon this prohibition as a non-tariff barrier. Indeed, when the point was drawn to their attention during the current GATT discussions in Geneva, the French rejoinder was that the ban is a "social regulation." We cite this nonetheless as a fact of life which has militated against American exports.

2. Quotas—and Blanket Bans

(A) The classic form of protectionism is the outright ban of imports, such as that imposed by Italy with respect to ordinary wines. More covert, but nonetheless equally effective, is the nomenclature process—the French system of Appellation Controlee or its Italian variant adopted in 1967 or similar statutes in Germany, Spain and Portugal whereby certain wines are declared endemic to a particular region—Champagne or Burgundy or Chianti or Reisling or Sherry or Port—and no other wine bearing that label can enter the country.

(b) Import quotas on a quantitative basis are another means of frustrating attempts to ship American spirits and wines abroad. France generally allocates import quotas to the North African countries, permitting further imports only if the import quotas imposed are not likely to meet demand. West Germany,

Switzerland and Austria impose quantitative import restrictions in only one category—white wines (which are, of course, produced locally and warrant protection from the standpoint of these countries). Another invidious method of effectuating quotas is that practiced in Canada where provincial liquor control commissioners determine what American brands of whiskey will come in, the size of bottles, the markup (at a rate considerably higher than for Canadian whiskey, thus raising the price).

3. Discriminatory taxes

From its inception, the American alcoholic beverage industry has been subjected to a maze of regulations and to a burden of taxation that exists in this industry for few, if any, other countries. These regulations are incorporated in a series of comprehensive tomes and run the gamut from a delineation of price markups and practices (quite complex) to a prohibition on the use of used cooperage (only recently modified by the ATTD to become effective in 1971) through procedures for licensees that are interlarded with all sorts of interdictions (such as are unheard of abroad). That the American industry has accepted control as the price of legal existence does not mitigate the severity of operating under such restraints—in sharp contrast to the encouragement accorded foreign producers by their governments.

This is particularly manifest with respect to taxation. Superimposed upon Federal excise taxes and rectification levies are a vast array of State and local taxes, the cumulative impact of which is to make the tax bite equal to sixty-two cents out of the retail dollar on the products of the industry. Indeed, the industry has assumed the posture of "whipping boy" to correct any budgetary imbalance. Foreign governments, by way of contrast, range far and wide in an effort to cushion the tax bite on the alcoholic beverage industry of their respective countries as a means of enhancing their competitive posture in the pursuit of an export market.

Among the specific mechanisms pursued are:

(A) Tax rebates to exporters

Present GATT rules allow governments to rebate to exporters "indirect" taxation, such as sales taxes. But rebate of any "direct" taxes, such as an income tax, is prohibited. This system favors European exporters, including those from the wine-producing countries where most revenue from business is in the form of indirect levies, over U.S. exporters, actual and potential, whose principal tax is the Federal (and State) income tax.

(B) Discriminatory incidence of taxation

Other non-tariff barriers in the tax category involve major national policies that countries are reluctant to change for the benefit of foreign businessmen. Two years ago, for example, Germany changed its method of assessing sales taxes—allegedly to harmonize its sales-tax system with that of its Common Market partners. Germany had previously levied sales taxes at the manufacturers' level on the full value of products—but at relatively low rates. Now the rates have been increased, but inside Germany they apply only to the value a distiller or a vintner adds to his raw materials. Foreign goods, including bourbon shipped in bulk and bottled in German plants, are taxed at their full value, thus adding up to five percent in price and acting as a further competitive drag for American exporters of spirits and wines.

4. Other Obstacles

It would require a document of larger compass than this Report to point up in detail the other types of encumbrances and descriminatory practices employed to curtail shipment of the products of the American alcoholic beverage industry. But for illustrative purposes the following can be cited as peculiarly flagrant:

(A) Advance deposits and surcharges

There are approximately 23 countries which insist upon the use of advance deposits to secure import licenses or to satisfy exchange control directives. Greece, for example, will not grant import licenses until 150% of the value of the merchandise is deposited—a modification, incidentally, of the 200% requirement previously obtaining. It was left to Argentina, however, to bring restraints on American whiskey to a point which would be ludicrous were it not tragic. Almost five years ago there was promulgated a statute prohibiting importation of any article bearing a surcharge of 150%—and this was followed up by a surcharge of 170% on Bourbon!

(B) Discriminatory practices

In West Germany an importer of foreign wines must have a permit from the Department of Agriculture at Bonn. Such permits for French, Spanish and Italian wines were readily available but it was not until two years ago that a permit for American wines became available.

There was for many years an Italian requirement that a chemical analysis of each brand of distilled spirits accompany shipment into the country. In 1956 this requirement was abolished for the importation of Scotch and Irish whiskey, and a system substituted whereby Scotch and Irish exporters could keep on file at each point of importation into Italy for each consignee a certificate of chemical analysis for each brand showing that the brand meets the standards of purity of Italian law. It was not until quite recently that the same privileges were obtained for American spirits—but since American exports are such a rarity, each brand will have to go through the red tape that adds to the difficulty of expediting shipments.

In sum, the thrust of the non-tariff restraints on trade, so far as the alcoholic beverage industry is concerned, has been to discourage American exports while encouraging the export to the U.S. of the products of the alcoholic beverage industry of other lands. It was undoubtedly in the light of the problems of this industry that the AFL–CIO recently adopted a resolution urging that "The Trade Expansion Act of 1962 should be implemented to help remove non-tariff barriers in foreign countries against U.S. exports, including barriers to distribution facilities and advertising rights."

IV. LABOR COSTS AND DIFFERENTIALS

There is no question, as the facts above cited amply underscore, that the creation and maintenance of such barriers to trade as quotas, discriminatory taxes, inequitable practices and buy-national policies have adversely affected the U.S. alcoholic beverage industry which could otherwise have become competitive on a more affirmative basis in world markets.

Admittedly, that competitive posture is compromised in some degree by the disparity in wage and other labor standards between American workers in the alcoholic beverage industry and their foreign counterparts. Confining ourselves solely to wage considerations, and without detailing the many other benefits (health and welfare, vacations, holidays, sick leave, pensions, job security, etc.) which are contractually stipulated it is relevant to note that the average hourly wages of American distillery and winery workers are $3.50 an hour and more. Only the Canadian workers can compare favorably on this score, and that is because they are members of our International Union which has consistently and successfully strived to achieve contract parity and uniformity in Canada vis-a-vis the U.S. American wage standards are approximately 300% higher than those in England and Germany, where average earnings are less than $.99 an hour, and astronomically higher than such exporting countries as France ($.79), Italy ($.73), Spain ($.54), and Portugal ($.52).

While the alcoholic beverage industry is not an industry where wage rates loom as decisively as in industries where the pace is determined by workers rather than machines, as is the so-called soft-goods sector, wage rates are nonetheless a consequential factor, as our International Union and its affiliates can vouchsafe from years of collective bargaining experience. Every cent-per-hour increase is accompanied in negotiations by loud and anguished cries from distillers and the other producers in the industry. And these cries become all the more pronounced as a consequence of the increasing preemption of the American market by foreign products. This process of getting an increasing share of the American market is facilitated in large measure by the abysmally low wage structure by American standards, at least—existing abroad.

We cannot ignore the fact that the increase in imports has disrupted the domestic market and has resulted in adverse impact upon the American alcoholic beverage industry. Nor can we ignore the fact that broadened trade opportunities for countries shipping wines and liquors to the U.S. have not been reflected in a significant degree in improved wages and working conditions for the workers in such countries.

It is this factor which has prompted our International Union as well as our parent body, the AFL–CIO, to set forth the concept that the International tariff and trade negotiations, efforts must be made to raise wages and improve labor standards in exporting countries. This would help, in our estimation, to eliminate unfair labor standards in exporting countries as either a competitve cost advantage or as a basis for increased trade restrictions by the importing country.

It is our view that wages of workers in the alcoholic beverage industry in any country involved in GATT and other trade and tariff deliberations should be raised when unit labor costs of such industries are substantially below those of other competitors. Raising wages in this circumstance would not only lessen the threat of employment opportunities of, let us say, the California winery workers, but would also assure that the employer in the exporting country would not reap the sole gains from expanded markets.

With regard to procedure, we renew a recommendation, suggested by our Union almost seven years ago before the Trade Information Committee, that our tariff negotiators should make clear that there can be no concession made on products processed by workers receiving wages which are sub-standard in the receiving country—and that, indeed, quotas on imports will be imposed if there is no improvement in such standards. And if there were disagreement as to the actual situation with respect to wage and labor standards, the office of the ILO could be called upon to make an objective review.

Coterminous with this review there should be formalized in our estimate, complaint machinery both in GATT and in multi-lateral tariff negotiations generally on the issue of whether disparate labor standards contribute to an unfair competitive posture. If an affirmative finding on this score is made by the ILO or any other acceptable agency, provision could be made for such mechanism as voluntary quotas or an export tax, pending the long-range solution of an upward adjustment in wages and working conditions.

V. OTHER RECOMMENDATIONS

In addition to the adoption of the principle of fair international labor standards as a guideline in multi-nation discussions on trade and tariff, we urge Congress to call upon our tariff negotiators at GATT and other international organizations to seek the elimination or at the very least substantial modification of all non-tariff barriers, such as were instanced above. We also urge that any country using a quota system for the importation of American spirits and wines should provide a reasonable quota. In addition, some practical means should be worked out to limit imports into the U.S. of the low quality, low-priced wines and brandy preferably by voluntary agreement but if need be by a mandatory arrangement . . .

Beyond that, on an overall basis we support the position taken by the AFL-CIO in testimony earlier this month before the Committee.

IMPORTED DISTILLED SPIRITS AND WINES—2-YEAR COMPARISON (U.S. DUTY PAID IMPORTS—TOTALS IN TAX GALLONS)

Products	1969	1968	Percent gain or loss
Whisky:			
All countries	74,086,039	66,502,384	+11.0
Great Britain (Scotch)	44,003,788	41,023,053	+7.0
Bottled (70 percent)	30,928,339	30,205,936	+2.0
Bulk (30 percent) [1]	13,075,449	10,817,120	+21.0
Canada (Canadian)	29,925,912	25,280,834	+18.0
Bottled (69 percent)	20,731,341	18,106,917	+14.0
Bulk (31 percent)	9,194,571	7,173,917	+28.0
Ireland (Irish)	121,833	116,407	+5.0
Bottled (53 percent)	63,998	52,864	+21.0
Bulk (47 percent)	57,835	63,543	−9.0
Brandy (totals below include brandies entering customs at a valuation lower than $9 per gallon):			
All countries	2,313,019	2,154,673	+7.0
France	1,722,293	1,671,893	+3.0
Bottled (71 percent)	1,220,708	1,180,741	+3.0
Bulk (29 percent)	501,585	491,152	+2.0
Spain	210,134	181,696	+16.0
Bottled (46 percent)	97,710	91,972	+6.0
Bulk (54 percent)	112,424	89,724	+25.0
Portugal	111,540	114,410	−2.5
Bottled (13 percent)	14,316	7,215	+98.0
Bulk (87 percent)	97,224	107,195	−9.0
Italy	155,630	95,966	+62.0
Bottled (1 percent)	1,650	5,996	−72.0
Bulk (99 percent)	153,980	89,970	+71.0
Germany	41,902	41,127	+2.0
Bottled (92 percent)	38,439	35,598	+8.0
Bulk (8 percent)	3,463	5,529	−37.0
Greece [1]	899	1,311	−31.0

IMPORTED DISTILLED SPIRITS AND WINES—2-YEAR COMPARISON (U.S. DUTY PAID IMPORTS—TOTALS IN TAX GALLONS)—Continued

Products	1969	1968	Percent gain or loss
Brandy (brandies entering customs at a valuation over $9 per gallon):			
All countries	156,712	155,611	+.7
France	146,543	145,458	+.7
Spain	3,604	4,036	−11.0
Portugal	132	376	−65.0
Italy	12	671	−98.0
Germany	1,030	1,231	−16.0
Greece	148		
Gin:			
All countries	3,521,592	3,193,274	+10.0
United Kingdom	3,478,212	3,164,232	+10.0
Bottled (98.5 percent)	3,426,778	3,063,657	+12.0
Bulk (1.5 percent)	51,434	100,575	−49.0
Netherlands	6,835	12,866	−47.0
Canada	2,562	1,837	+39.0
Germany	6,472	5,363	+21.0
Rum:			
Puerto Rico [2]	3,524,230	4,302,642	−18.0
Virgin Islands [3]	1,108,497	1,269,053	−13.0
All countries	320,168	284,229	+13.0
Jamaica	235,013	195,448	+20.0
Guyana	56,452	37,328	+51.0
French West Indies	8,417	6,998	+20.0
Cordials and liqueurs:			
All countries	2,725,217	2,315,128	+18.0
France	557,310	465,964	+20.0
Bottled (94 percent)	521,233	430,300	+21.0
Bulk (6 percent)	36,077	35,664	+1.0
United Kingdom	775,297	697,370	+11.0
Bottled (89 percent)	688,201	502,439	+16.0
Bulk (11 percent)	87,096	104,931	−17.0
Denmark	110,197	105,127	+5.0
Bottled (98 percent)	107,653	105,127	+2.0
Bulk (2 percent)	2,544		
Italy	359,553	311,460	+15.0
Bottled (98 percent)	353,914	305,781	+16.0
Bulk (2 percent)	5,639	5,679	−.7
Mexico	232,966	167,629	+39.0
Bottled (1 percent)	2,002	2,870	−30.0
Bulk (99 percent)	230,964	164,759	+40.0
Jamaica	75,521	72,911	+4.0
Bottled (6 percent)	4,538	6,816	−33.0
Bulk (94 percent)	70,983	66,095	+7.0
Greece	126,488	104,937	+21.0
Bottled (98 percent)	123,871	103,941	+19.0
Bulk (2 percent)	2,617	996	+163.0
Other spirits (includes aquavit, tequila, vodka, etc.):			
All countries	927,847	799,963	+16.0
Denmark	22,840	22,688	+.7
Mexico	773,144	698,720	+11.0
Poland	24,456	16,072	+52.0
Champagne and sparkling wines:			
All countries	2,409,394	2,227,797	+8.0
France	882,966	869,305	+1.6
Italy	436,943	355,058	+23.0
Portugal	981,910	897,041	+9.0
Germany	60,930	54,406	+12.0
Still wines (table):			
All countries	15,102,451	12,837,641	+18.0
France	5,430,279	4,555,151	+19.0
Italy	2,981,977	2,887,384	+3.0
Germany	2,172,657	1,778,538	+22.0
Chile	70,617	62,171	+14.0
Portugal	1,869,114	1,459,391	+28.0
Spain	1,417,101	1,242,054	+14.0
Greece	231,623	183,646	+26.0
Still wines (fortified):			
All countries	1,391,947	1,349,808	+3.0
Italy	137,767	178,729	−23.0
France	45,255	55,132	−18.0
Portugal	147,211	122,487	+20.0
Spain	986,020	936,402	+5.0
Madeira	33,529	31,439	+7.0
Greece	20,904	16,415	+27.0
Vermouth:			
All countries	4,784,123	5,007,790	−4.5
Italy	3,726,018	3,912,449	−4.8
France	1,039,897	1,080,953	−3.8

IMPORTED DISTILLED SPIRITS AND WINES—2-YEAR COMPARISON (U.S. DUTY PAID IMPORTS—TOTALS IN TAX GALLONS)—Continued

Products	1969	1968	Percent gain or loss
Other fermented alcoholic beverages:			
All countries	738,605	583,906	+26.0
Denmark	443,323	403,456	+10.0
Netherlands	31,571	15,028	+110.0
Italy	22,344	8,740	+156.0
Beer, ale stout, etc.:			
All countries	24,647,210	24,007,213	+3.0
United Kingdom	745,222	772,356	−3.5
Ireland	469,190	614,059	−24.0
Netherlands	5,898,292	5,400,671	+9.0
Germany	9,053,342	9,025,659	+.3
Canada	4,137,732	3,672,368	+13.0

[1] All bulk quantities shown in 100° proof gallons.
[2] 9-month totals—Proof gallons.
[3] 10-month totals—Proof gallons.

Source: National Association of Alcoholic Beverage Importers, Inc., and the Distilled Spirits Institute.

Mr. BURKE. Are there any questions?

Do you mean to tell me that these French wines that they are serving at these expensive restaurants and charging exorbitant prices for have been produced in Algeria?

Mr. WEISS. I have a very dear friend who is an Italian journalist. He would not buy a French wine if it were given to him. I don't want to draw any conclusions, it would be really unfair to make a generalization, but based on my own limited observation and the comments of people who are expert in this area they look with a jaundiced eye on some of the bottles that are coming in.

Mr. SCHNEEBELI. It seems to be a matter of the immediate taste to determine whether you like the French wine or not. I should imagine the detection would be rather obvious.

Mr. BURKE. Do you think that we could attack the problem from a labeling point of view?

Mr. WEISS. Actually, we once tried to do that.

May I say this: Our international union is part of an international labor secretariat affiliated with the International Confederation of Free Trade Unions. What we are trying to do through this group is two things: One, to establish a union label or a principle of a union label so that there is proper identification, and second, and this relates to a point that is elaborated on in the brief and may have relevance not only to the alcoholic beverage industry but to all other industries, to establish the principle of fair international labor standards. That is, to make any modification of our tariff arrangements predicated on an upward adjustment in the wage structure of the competing countries.

I think this is a point which has been mentioned in previous testimony particularly by the AFL–CIO and I think that is certainly a point that is worth considering by this committee. But identification is important and I think that proper identification is important.

Mr. BURKE. Mr. Gibbons.

Mr. GIBBONS. We are glad to have you here, sir. I have a couple of small local breweries in my own district, Schlitz and Budweiser.

Mr. WEISS. That is outside of our jurisdiction.

Mr. GIBBONS. I notice that the American beer manufacturers apparently is holding his own.

Mr. WEISS. Mr. Gibbons, I am not an authority on the beer industry. Our own union is limited to, shall I say, the harder stuff.

Mr. GIBBONS. Apparently the beer industry is not being penetrated like the harder stuff is.

Mr. BURKE. We appreciate your appearance here again, Mr. Weiss.

Mr. WEISS. Thank you.

(The following statements were received for the record:)

STATEMENT BY VICE ADM. WILLIAM J. MARSHALL, USN (RETIRED)
PRESIDENT OF THE BOURBON INSTITUTE

The purpose of this statement is to invite your attention and, therefore, the attention of the Congress, to the very serious labor and business problems threatening the future, not only of The Bourbon Institute members but that of the United States whiskey industry.

Member companies of The Bourbon Institute produce about 70% of the Bourbon made in the United States, and Bourbon represents the major share of all whiskey produced in the U.S. today. Our member companies are owned by United States citizens, pay a very impressive tax total to the United States Government and provide extensive employment for our citizens. It is obviously not necessary to furnish a precise definition of Bourbon itself to members of the committee. Suffice to say that Bourbon has been honored through designation by the Congress, as "a distinctive product of the United States." It is our country's most popular beverage spirit and, by virtue of its predominance here, it also ranks as the top-selling whiskey of the world.

However, the sale and enjoyment of Bourbon have been severely inhibited, both in the United States and abroad, by various devices including artificial barriers to completely free and open competition. These devices have also restrained, in equal manner, the sale of other types of United States-produced distilled spirits.

We seek only equality of opportunity for American-made distilled spirits products. We ask this, first of all, naturally, in the United States market. We hope that later other nations will accord, for American-made Bourbon and other U.S. distilled spirits, this same equality of opportunity. Unfortunately, for some time, equal opportunity for U.S. distilled spirits versus foreign spirits has been a fiction. Even in the United States market, American-made distilled spirits products are not being given equality of opportunity.

LABOR AND THE DISTILLING INDUSTRY

The American distilling industry makes a truly enormous contribution to the nation's economy and tax revenues. In 1969, a total of $3,389,949,152 was paid in Federal excise taxes on distilled spirits. This was slightly larger than gasoline excise taxes and 58.5 percent more than the Federal revenue on tobacco taxes. Since Repeal, the distilling industry has paid Federal, State and local taxes, totaling close to 80 billion dollars.

The United States distilling industry directly employs some 34,000 men and women in the production, storage, bottling and sale of its products. But its impact on other industries and businesses is far greater than would be indicated by the number of its actual employees. For example, the industry purchases annually some $50,000,000 worth of new barrels from the cooperage industry. It purchases close to two billion bottles, of some ten different sizes, from the glass industry. It buys millions of dollars worth of grain from the nation's farmers, and it buys over one hundred million cardboard cartons in which to ship its merchandise. It spends well over $150,000,000 in advertising and promotion expenditures. Thus, the industry has a direct impact on employment in all the fields which provide it with materials and services.

There are about one thousand three hundred wholesale establishments, whose chief business is the distribution of distilled spirits and wine and there are over 200,000 retail liquor stores, taverns, restaurants, and clubs, whose primary source of income is the retail sales of distilled spirits. These businesses, at wholesale and retail, employ over a million persons.

Obviously, then, if the over-all industry—and very specifically the distilling industry—is not being given a fair and equal opportunity in the United States market, the effects on United States labor can be widespread. These effects cannot be measured solely in terms of distilled-spirits industry employment, or even employment in the alcoholic beverage industry as a whole. They affect the well-being of millions of United States citizens in other industries.

These huge totals, and very especially those having to do specifically with labor in its relation with the United States distilling industry, would, today, be considerably higher if, in the last 14 years, United States distilled spirits products had not had the marketing cards stacked artificially against them.

The year 1955 has been chosen as the base year for documentation because it was in that year that apparent consumption of distilled spirits in the United States began to move upward with the rest of the economy. Between 1947 and 1955, the sales situation was static, with the annual rate of sales moving only from 1947's 181.7 million gallons to 1954's 189.5 million. In 1955, volume jumped to 199.6 million gallons and it has since continued on an upward course to the 361.6 million of 1969.

A fundamental question, consequently, is whether United States whiskey producers have received what, by any definition, might be considered a reasonable share of the approximate 172-million gallon increment represented in comparison of the 1955 and 1969 totals.

In calendar year 1955, United States distilled spirits products accounted for 88.5 percent of the United States market for *all* distilled spirits, imported and domestic. In calendar 1969, the share of the total market, accounted for by United States-produced distilled spirits, had fallen to 76.7 percent.

While the Domestic Excise Tax, which is paid by domestic and imported spirits alike, has been increased from $1.10 a gallon at the time of Repeal to the current rate of $10.50 a gallon, the U.S. duty on Scotch whiskey was reduced from $5 a gallon down to 71¢ a gallon and the Duty on Canadian whisky was reduced from $5 down to 87¢.

Thus, in 1935, the import duty at $5 actually was two and one-half times the domestic excise rate of $2 a gallon. This could be called a "protective" tariff. In 1945, the Import Duty of $2.50 was a little over one-fourth of the Federal Excise Tax of $9, so that the "protective" feature of the duty had been greatly lessened. But in 1955, the Duty on Canadian whisky was reduced to $1.25, which was only one-eighth of the then prevailing U.S. excise rate of $10.50 a gallon, or less than one-tenth of the U.S. excise tax rate of $10.50. A table showing the progressive reduction in distilled spirits tariffs appears as Appendix I of this brief.

Imports benefited from these tariff reductions, with the amount of liquor imported into the U.S. going up from 7 million gallons in 1935, to 17 million in 1945, to 24 million in 1955, to 75 million in 1968 and, now, to 84.2 million in 1969.

If United States distilled spirits had maintained in 1969 their 1955 "share of the market," it can readily be seen that the benefits to the United States labor—within the industry and in the markets provided for other industries' products, equipment and services—would have been very substantial. Direct employment by the U.S. distilling industry might have increased by at least 5,000 jobs. Employment in the U.S. glass industry, employment by the makers of bottle caps, labels, and cartons also would have been higher.

CONDITIONS GOVERNING COMPETITION: 1955–69

Attention is invited to the accompanying charts which have been prepared by the staff of The Bourbon Institute.

The crux of conditions governing competition in the 1955–1969 period—and, therefore, the stake of United States labor—is contained in the three charts included in this brief, entitled:

"Whiskies Entering Trade Channels, 1955 versus 1969"

"The Balance-of-Payments Problem"

"Imports have Captured 32.2 percent of Total U.S. Whiskey Market."

Before examining the chart statistics, consider the total distilled spirits record.

In 1955, 23.4 million wine gallons of distilled spirits were imported into the

United States. The distilled spirits import total in 1969 was 84.2 million wine gallons. The 1955–1969 increase was one of 255.1 percent.

In 1955, 179.9 million wine gallons of United States-produced distilled spirits entered United States trade channels. In 1969, the comparable total was 287.9 million wine gallons. The gain for the 14-year period was one of only 60 percent. A number of underlying conditions are responsible for this sort of discrepancy.

In the chart entitled "Whiskies Entering Trade Channels, 1955 versus 1969," (Page 7a) the following facts are noted:

Approximately 140 million wine gallons of United States-produced whiskies entered United States trade channels in calendar 1955. The comparable total for 1969 was 165.5 million wine gallons. In 14 full years, there was a gain of only 25.5 million gallons or 18.2 percent. There was certainly not much improvement here for American labor, at a time when the nation's economy was booming in other respects.

Regarding the import picture, in calendar year 1955, 12.3 million wine gallons of Scotch whisky entered United States trade channels. In 1969, the annual total had grown to 46.9 million wine gallons. This was a gain of 281.3 percent. In calendar year 1955, 9.2 million wine gallons of Canadian whisky entered United States trade channels. In calendar year 1969, the total was 31.9 million wine gallons, for a fourteen-year gain of 246.8 percent.

Thus, in fourteen years, aggregate Scotch and Canadian whiskies gained a total of 57.3 gallons or 226.7 percent, compared with a volume increase of 25.5 million gallons for American-produced whiskies and a percentage rise of only 18.2 percent.

The full details of this situation, as it was affected by all imported distilled spirits from all foreign nations, are drawn into sharp focus by the table, entitled "U.S. Imports of Distilled Spirits, 1955 versus 1969, By Countries of Origin," which appears in the appendix of this Brief.

The reduction of the Duty on Canadian whisky to 87¢ has proven inimical to producers of Bourbon and other United States distilled spirits. In addition, the importer is able to by-pass the high labor costs which the United States producer must pay.

In the 1955–1969 period, such labor costs—which American distillers are quite willing to pay in a market governed by free and equal opportunity—have gone up steeply. A United States Bourbon marketer, therefore, in competing with Canadian whisky, finds himself "disadvantaged" to an appreciable extent.

When attention is turned to competitive conditions governing the American Bourbon marketer versus the importer of Scotch whisky, a truly serious problem—an obvious inequity that is very difficult to understand—becomes immediately apparent.

In 1935, shortly after Repeal, the duty on importation of Scotch whisky was $5 per proof gallon. In 1955, it was down to $1.50. Through a series of reductions subsequently, the duty was reduced to 71¢.

This means that, in the fourteen years from 1955 to 1969, the same period which saw Scotch whisky imports into the U.S. rise 281.3 percent, the duty on Scotch was reduced by 52.7 percent.

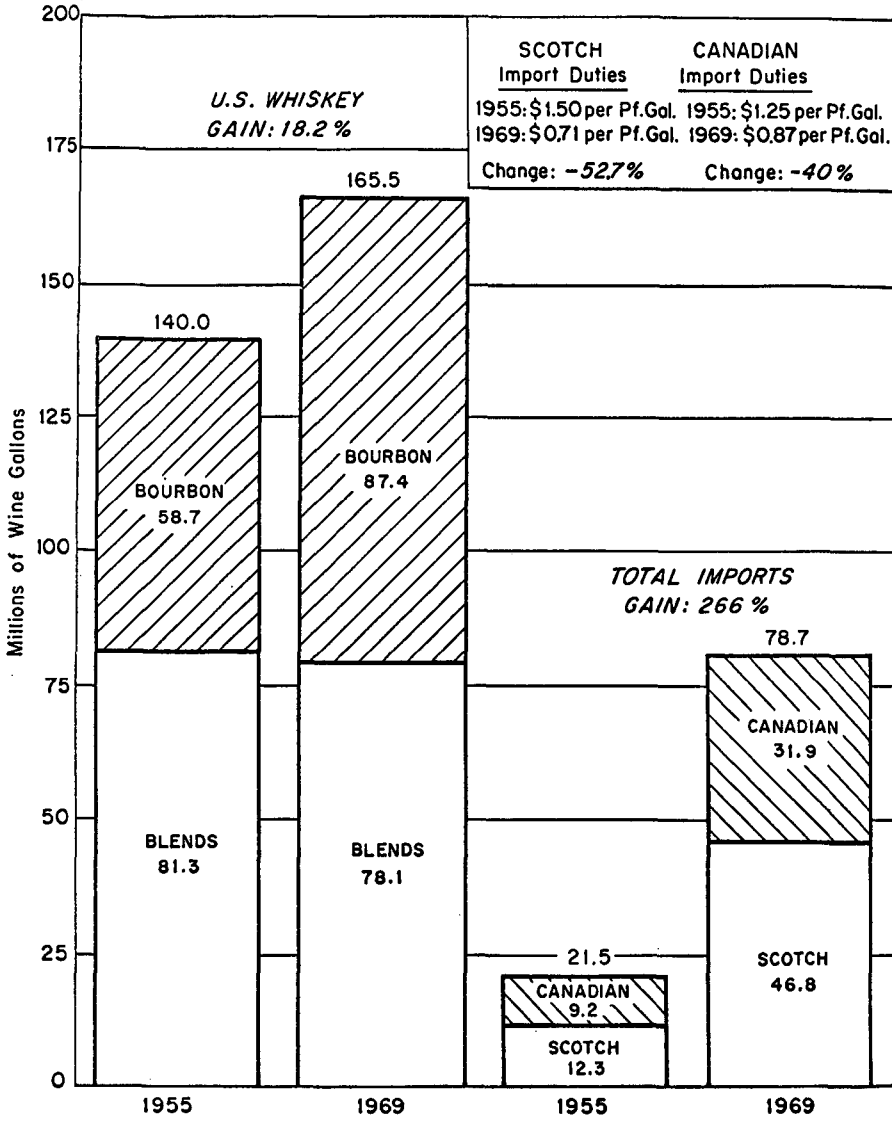
It should have followed that these tariff reductions had resulted in lower consumer prices. If this had been so, at least the consumer would have benefited. But this was not the case. The table entitled "Average Price of 10 leading Scotches versus duty, 1952–1963," which appears as Appendix III of this Brief, clearly establishes this unfortunate fact. The table shows, in a relatively short time, retail prices of Scotch whisky in the United States, far from being reduced, were actually *increased* in each of the *five* years when the Duty was *decreased*.

In no case did the United States consumer derive any benefit from duty decreases. In this connection, it should be borne in mind that the peculiarity of luxury product marketing is that price (within wide limits) is seldom a crucial factor as an item of consumer appeal.

But price is a *vital* factor, insofar as it returns unusually high profits, that may be employed in advertising and promotion to expand sales. Thus, to whatever degree, savings to marketers of foreign spirits, as a result of tariff reductions, are used for advertising and promotion, they further add to the injury done to U.S. workers and the United States industry.

We live in an enlightened era of international trade. The principle of reciprocity is now a part of our economic fabric. As a nation, we not only believe in giving other nations an even break in trade relations, but are even willing,

WHISKIES ENTERING TRADE CHANNELS
1955 vs. 1969



Source: The Liquor Handbook -1970

as has been demonstrated repeatedly since the end of World War II, to get several steps out in front of the "reciprocity" parade. But no responsible official or economist would say that it is our duty to stack the cards deliberately against American labor and American industry.

Yet, perhaps, unwittingly, that is exactly what we have done to the United States distilling industry and its employees in this instance.

It bears re-emphasis that the 1955 U.S. duty on Scotch imports was $1.50 per proof gallon. In 1957, it was reduced to $1.35. Yet the 1955–1957 gain in Scotch entering United States trade channels was one of 21.0 percent, while the amount of American whiskies entering trade channels in the same period declined 4.3 percent.

There was nothing in the competitive sales record of Scotch whisky and American whiskies in this period to justify a reduction in the Scotch duty. Scotch sales were going up and American whiskey sales were going down.

But, the same thing happened all over again. In 1957, with the Scotch duty at $1.35, Scotch imports and sales in the United States were booming. American distillers were assuming a greater and greater cost burden. American labor was being penalized. Yet, in 1958, the Scotch duty went down to $1.27 per proof gallon, in 1963 to $1.02 and in 1970 to 71¢ a gallon.

What was going on in the market place while the duty on Scotch kept going down? The 1957–1963 gain in the amount of Scotch entering United States trade channels was one of 72.5 percent or almost 10,000,000 gallons. Canadian whisky was up over 5,000,000 gallons during that period.

The American distilling industry wishes no favored treatment; only equity. But, on the basis of the statistical evidence, we have not received it.

Before leaving the discussion of the Scotch and Canadian duties, one further point seems particularly relevant:

Spirit blends are one of the highest-selling United States-produced spirit product types, outranked only by Bourbon. Most spirit blends have a Bourbon base, and most members of The Bourbon Institute market these products, as well as Bourbon.

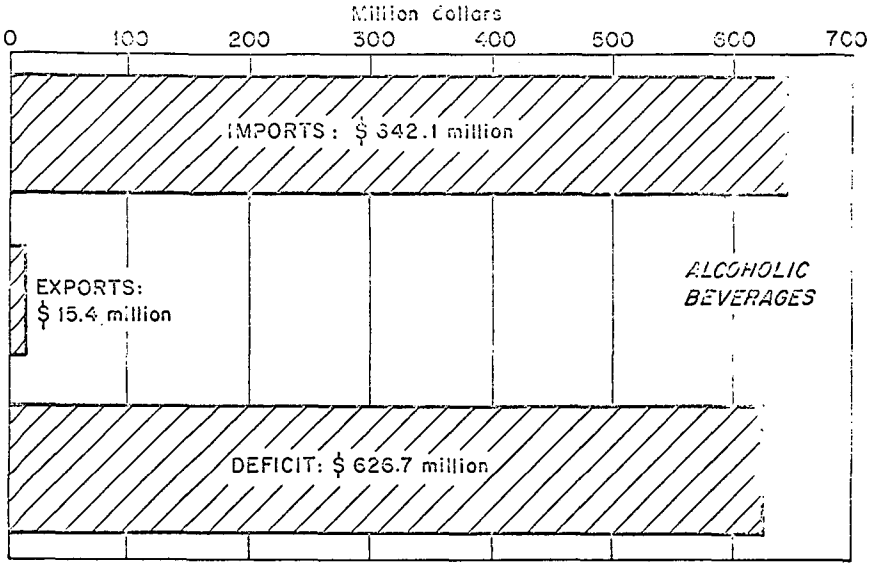
United States-produced spirit blends must pay a rectifying tax of 30¢ a proof gallon . . . when the whiskey base and neutral spirits are blended. Both Scotch and Canadian whiskies are also blends—a point of which many consumers are unaware—but no 30¢ rectifying tax is collected by the U.S. on these imports. So, one might say, realistically, that either the United States government is being deprived of considerable revenues—more than $15,000,000 annually—or else, we are giving the Canadian and Scotch importers a 30¢ discount off their very low duty.

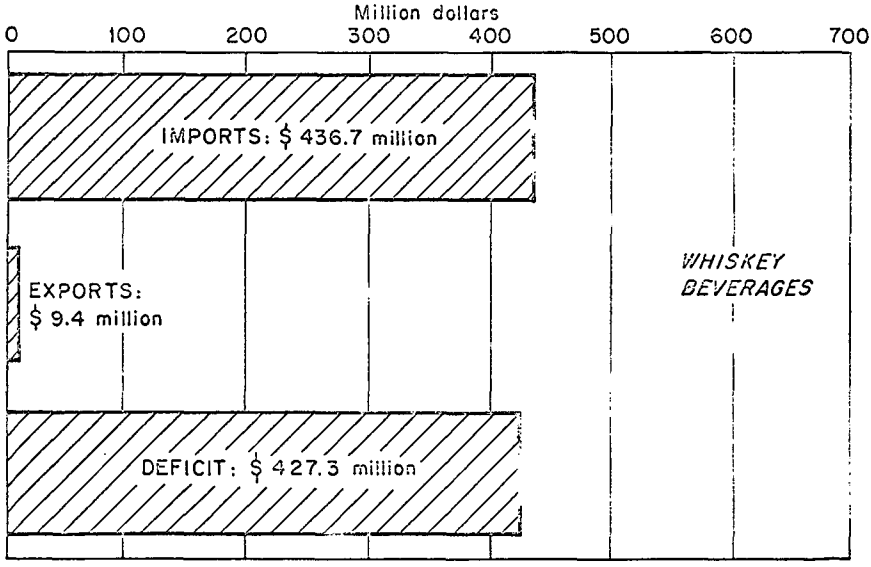
Although the matter of reciprocal trade relations with other nations is exceedingly complex, one fact seems relatively obvious. That is, that U.S. imports of foreign alcoholic beverages have more than *doubled* from 1955 to 1969, going from $171 million worth in 1955 to $647.4 million in 1969. Meanwhile, our exporting efforts were running into foreign resistance, as shown in the chart entitled "The Balance of Payments Problem," (Page 12a).

The chart contains stark facts. In calendar 1969, the United States imported *alcoholic beverages* having a value of $647.4 million. It exported alcoholic beverages having a value of $15.5 million. The deficit was one of $631.9 million. The grim pattern through the years is shown vividly in the table.

Present import duties on distilled spirits, especially those applying to whiskey, are more than *counter-balanced* by the higher costs borne by United States producers. Labor costs are higher, of course. Grain, bottles, packaging costs are higher. The American Bourbon marketer must pay $25 a barrel and upwards for his cooperage—at least half the value of the barrel and its original contents—while the foreign producer, operating under less stringent laws governing production, is able to age his whisky in used cooperage. The latter costs a fraction of what the American producer pays for new cooperage and even this reduced price may be amortized over usage extending to as much as fifty years.

1969: THE BALANCE OF PAYMENTS PROBLEM





Source: U.S. Department of Commerce

The awesome balance-of-payments deficit caused by the whiskey export-import imbalance cannot be justified on any basis. While the United States leans over backwards to encourage the sale of imported whisky in this country, to the detriment of our economy and our labor force, other nations follow just the opposite course.

Most of these other nations, including many whose economies this country helped to rebuild after World War II, are extremely protectionist in behalf of their generic distilled spirits products and against United States distilled products. As an example, although there is a lively and growing demand for Bourbon in France, that country will not even allow Bourbon to be advertised to its citizens. In contrast to that, French brandies, cognacs, liqueurs and wines are permitted to advertise freely in the United States.

Canadian Provinces charge a higher mark-up on Bourbon sold in Canada than they do on Canadian-produced liquor, whereas, in the United States, the same mark-ups are imposed on Canadian whiskies as are imposed on domestic whiskies.

There are many similar examples of discrimination. The welding together of market blocs, such as the European Economic Community, known as the "Common Market," and the European Free Trade Association, usually referred to as the "Outer Seven," has severely restricted sales of Bourbon and other American-distilled spirits in Europe.

Each of these market blocs has already eliminated or is well on its way toward completely eliminating tariffs on all products traded between them, while, of course, maintaining or increasing tariffs on Bourbon and other United States-produced goods. The Outer Seven and The Common Market are being converted into exclusive tariff-free preserves for Scotch and Cognac to the deliberate crippling disadvantage of Bourbon and other types of United States distilled spirits.

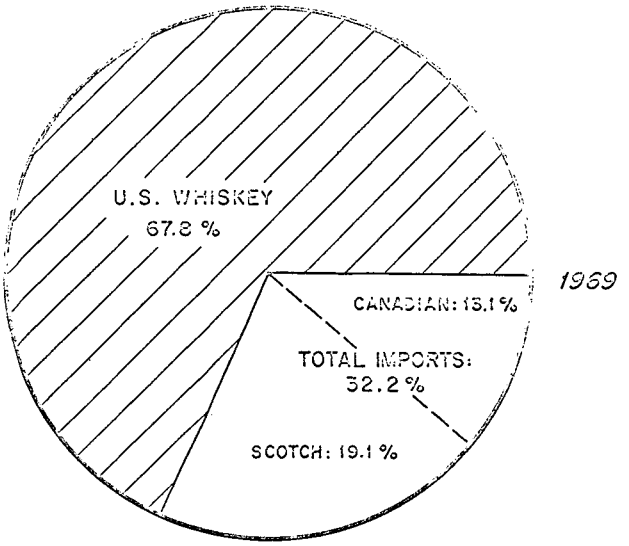
THE FUTURE

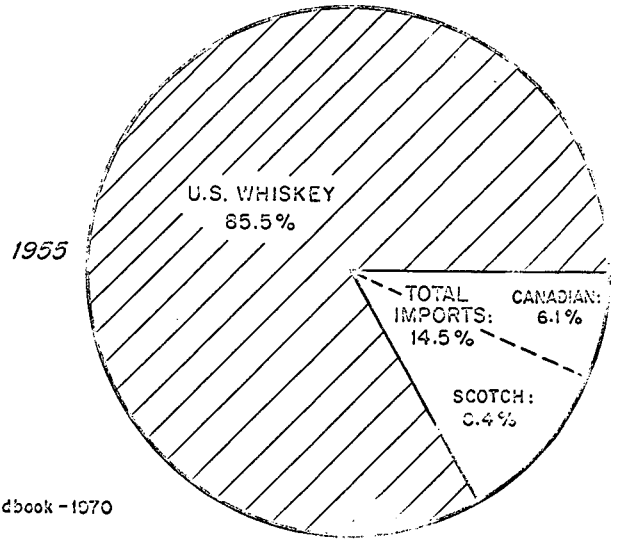
Let us examine what can happen to Bourbon and other United States-produced whiskies unless something is done to restore equity—domestic versus foreign—in the market place. In 1955, American whiskies had 85.5 percent of the United States market for total whiskies, imported and domestic. In 1969, American whiskies' "share of market" had dropped to 67.8 percent, as shown in the accompanying chart (Page 14a). By the mid 1970s, if this trend extends itself, the "share of market" controlled by Bourbon and other American whiskies, of the total United States whiskey market, will have dropped even further.

This continuing situation for United States-produced distilled spirits, and very especially for American whiskies, can have a catastrophic effect on the United States industry, its employees and the welfare of labor in scores of industries servicing the U.S. distilled spirits industry.

IMPORTS HAVE CAPTURED 32.2 % OF TOTAL U.S. MARKET

(Whiskies Entering U.S. Trade Channels)





Source: The Liquor Handbook - 1970

CONCLUSION

It is not possible to maintain a healthy economy and a prosperous nation, in future years, unless the legitimate interests of United States labor are nourished and protected. No one branch of labor or industry should be so penalized on a selective basis, as in the distilled spirits industry.

I think the time is ripe to make a thorough examination of the basic conditions affecting competition from foreign producers in the distilled spirits industry.

Respectfully submitted.

APPENDIX I—U.S. LIQUOR DUTIES 1935-69

[In dollars per proof gallon]

	Scotch	Canadian	Brandy	Gin
1935	5.00	5.00	5.00	5.00
1936	2.50	2.50	2.50	2.50
1948	1.50	1.50	1.25	1.25
1951	1.50	1.25	1.25	1.25
1956	1.42	1.25	1.25	1.25
1957	1.35	1.25	1.25	1.25
1958	1.27	1.25	1.25	1.25
1962	1.14	1.25	1.25	1.25
1963	1.02	1.25	1.25	1.25
1967	1.02	1.25	1.25	1.25
1969	.71	.87	.87	.70

APPENDIX II

U.S. IMPORTS OF DISTILLED SPIRITS 1955 VERSUS 1969 BY COUNTRIES OF ORIGIN

[U.S. tax gallons]

Country	1955	1969	Percent change
Total	24,082,103	133,827,198	455.7
United Kingdom	12,931,179	49,153,749	280.1
Canada	9,227,051	34,415,163	272.9
France	1,138,618	9,893,567	768.9
Italy	104,313	7,880,490	6,554.6
Mexico	37,707	1,827,344	3,846.1
Jamaica	108,699	315,662	190.3
Spain	95,917	2,824,737	1,944.9
Portugal	48,013	3,115,405	5,476.5
Denmark	72,613	1,718,564	1,366.7
Belgium	129	68,163	42,838.7
Ireland (Eire)	31,700	640,685	1,021.0
Greece	45,038	389,080	763.8
West Germany	24,780	11,372,667	35,910.6
Guyana	25,257	56,452	123.5
Poland	477	108,951	12,840.8
All other	190,522	10,046,519	4,273.1

Source: U.S. Department of Commerce.

APPENDIX III

AVERAGE PRICE OF 10 LEADING SCOTCHES VERSUS DUTY, 1952-63

Month and year	Average New York State prices for 10 leading scotches (fifths)	Duty
November 1955	$6.18	$1.50
December 1956	6.25	1.42
December 1957	6.47	1.35
December 1958	6.49	1.27
December 1959	6.51	1.27
December 1960	6.51	1.27
December 1961	6.53	1.27
November 1962	6.64	1.12
November 1963	[1] 6.98	1.04

[1] State tax increase equivalent to 23 cents per fifth.

APPENDIX IV—UNFAVORABLE BALANCE OF ALCOHOLIC BEVERAGE TRADE

GOLD RESERVES VERSUS WINES AND SPIRITS IMPORT/EXPORT BALANCE

[In thousands of dollars]

	U.S. gold reserves [1]	Dollar value of imports	Dollar value of exports	Balance of alcoholic beverage trade
1938	$14,512,000	$57,708	$192	−$57,516
1939	17,518,000	59,076	691	−58,385
1940	21,995,000	53,809	476	−53,333
1941-1944 (World War II).				
1945	20,083,000	67,923	4,814	−63,109
1946	20,529,000	95,150	8,093	−87,057
1947	22,712,000	67,305	8,259	−59,046
1948	24,244,000	86,434	2,907	−83,527
1949	24,427,000	89,594	6,747	−82,847
1950	22,879,000	116,485	5,699	−110,786
1951	22,483,000	125,405	5,577	−119,828
1952	23,276,000	127,552	8,690	−118,862
1953	22,028,000	152,422	9,133	−143,289
1954	21,711,000	155,995	9,469	−146,526
1955	21,689,000	171,462	4,643	−166,819
1956	21,942,000	197,804	4,408	−193,396
1957	22,769,000	213,172	6,094	−207,078
1958	20,563,000	227,398	5,409	−221,989
1959	19,482,000	256,734	4,714	−252,020
1960	17,954,000	280,586	4,651	−275,935
1961	16,929,000	293,000	5,902	−288,098
1962	15,978,000	318,000	5,716	−312,284
1963	15,562,000	337,000	[1] 8,000	−329,000
1964	15,388,000	382,000	8,776	−373,224
1965	13,799,000	422,000	9,375	−412,624
1966	13,158,000	467,000	9,488	−457,512
1967	11,982,000	490,000	11,000	−479,000
1968	10,367,000	706,000	14,000	−692,000
1969	10,367,000	642,100	15,400	−626,700

[1] Estimated relatively close to actual figure.

Source: Federal Reserve Bank and U.S. Department of Commerce.

STATEMENT OF HORACE R. KORNEGAY, PRESIDENT, THE TOBACCO INSTITUTE, INC.

The Tobacco Institute, Inc., appreciates the opportunity to submit this statement to the Ways and Means Committee in connection with the Committee's public hearings on tariff and trade proposals. The Institute submits this statement as spokesman for companies engaged in the manufacture of cigarettes and tobacco blends.

SUMMARY

The tobacco industry has a strong interest in the subject of drawback of U.S. import duties. In this connection, there are three points which The Tobacco Institute would like to call to the attention of the Committee. First, the tobacco industry has for many years been concerned about the inordinate delay and expense involved in processing drawback claims, and thus welcomes the current effort of the Bureau of Customs to take a first step towards streamlining drawback procedures. Second, in order to make the drawback an even more effective means of stimulating exports, the drawback provisions should be substantially liberalized. In this regard, The Tobacco Institute would like to express its general support for H.R. 13713, which would broaden the concept of drawback substitution of domestic material for imported material. Finally, The Institute would like to bring to the attention of the Committee the particular problem faced by the tobacco industry with respect to drawback on cigarettes sold as "sea stores" for sale aboard ship outside the three-mile limit. Under present procedures, the cost incurred in processing drawback claims on these items is so prohibitive that the tobacco companies have been forced to forgo claiming the drawback payments to which they are otherwise entitled under the Tariff Act.

INTRODUCTION

The tobacco industry's interest in the drawback arises from the fact that the industry has for many years made significant use of the present drawback provi-

sions and anticipates even greater use of drawback in the future. Under 19 U.S.C. 1313, exportation of cigarettes and tobacco blends qualifies the cigarette manufacturers for drawback of duties paid on imports of tobacco leaf, cigarette paper, scrap tobacco and menthol.

The primary imported product upon which drawback is received is tobacco leaf of the so-called Turkish or Oriental variety. This tobacco, imported chiefly from Turkey and Greece, differs from U.S. tobacco in its aromatic properties, and efforts to grow it in the United States have been unsuccessful. The Oriental tobacco is mixed with U.S. tobacco to produce the tobacco blend peculiar to American cigarettes. The percentage of the imported tobacco used in the blend varies from company to company, ranging anywhere from 5% to 15%. The tobacco blend is used to produce cigarettes for both domestic and export sale, and is also exported directly to foreign affiliates and licensees for overseas manufacture of cigarettes.

The Tariff Commission is currently engaged in a comprehensive review of the drawback provisions of present law. In May 1969, the Commission issued its "Report on Use of Temporary Entry Procedures and Tentative Proposals." (T.C. Publication 286). The Report contained two alternative tentative proposals, one of which recommended complete repeal of present drawback provisions and the other recommended liberalization of the present provisions to make them more effective in encouraging exports.

Public hearings on the tentative proposals were held in the summer of 1969. The industries and groups testifying before the Tariff Commission were virtually unanimous in urging continuation of the right to drawback and liberalization of the drawback provisions. This was essentially the position of The Tobacco Institute in a written statement submitted to the Tariff Commission on August 8, 1969. The Tariff Commission has not yet issued its final report.

I. The Need for Streamlining Drawback Procedures.—For many years the tobacco industry has been concerned about the unnecessary delay and expense encountered by U.S. industries in filing drawback claims and obtaining payments under the present procedures. The industry has urged that these procedures be substantially revised and simplified. In its statement submitted to the Tariff Commission, referred to above, The Tobacco Institute pointed out that "[m]eaningful simplification of the procedures and elimination of duplicative and time-consuming paperwork would encourage U.S. manufacturers to make greater use of the drawback and would reduce the expense and delay presently involved in filing drawback claims." The Institute recommended a joint study by the Tariff Commission and the Bureau of Customs to determine means of improving drawback procedures.

The Institute is gratified that the Customs Bureau has recently taken a significant first step in this direction. On April 22, 1970, the Bureau announced proposed amendments to the Customs Regulations designed to expedite the procedure for claiming drawback payments. 35 Fed. Reg. 6505. Essentially, the new procedure would simplify proof of exportation of the goods upon which drawback is claimed by eliminating duplicative paperwork.

In response to an invitation for public comment upon the proposed amendments, The Tobacco Institute submitted a statement to the Bureau of Customs on May 21, 1970, expressing support for the proposals. While not eliminating all the unnecessary delay and expense involved in present procedures, the Bureau's action is a promising and constructive first step toward the goal of streamlining drawback procedures. The Tobacco Institute commends the subject of simplification of drawback procedures to the Committee for consideration in its role of providing legislative oversight of the administration of the trade laws.

II. Liberalized Substitution and H.R. 13713.—The tobacco industry has long urged that the drawback provisions of the Tariff Act be liberalized in order to make the drawback a more effective instrument in promoting U.S. exports of all kinds. In particular, the industry believes that the present substitution provision of 19 U.S.C. § 1313(b) is unnecessarily rigid and inelastic, and should be replaced with a broadened concept of substitution of domestic materials for imported material. In its statement to the Tariff Commission of August 8, 1969, The Tobacco Institute urged the Commission to recommend a liberalized substitution provision.

In this regard, the Tobacco Institute would like to express its general support for H.R. 13713, a bill introduced by Chairman Mills on September 10, 1969, and now pending before the Committee. The Chairman's bill would amend 19 U.S.C. § 1313(b) to permit drawback substitution when the domestic material is "of a

kind and quality similar to" the imported material. At present, this section limits substitution to cases where the domestic and imported goods are "of the same kind and quality." The proposed amendment would make the drawback more readily available to U.S. industry and would thereby encourage U.S. exports.

The Institute does have two reservations concerning H.R. 13713, as presently drafted. In addition to the proposed liberalization of drawback substitution, the bill would for the first time establish a right to drawback of direct and indirect local, state and Federal taxes borne by the exported article. This goes beyond the traditional concept of drawback of import duties, which traces its origins back to the first tariff act in 1789. Besides its novelty, the proposed drawback of taxes raises certain questions regarding U.S. obligations under the General Agreement on Tariffs and Trade (GATT). For this reason, the proposal may prove to be a complex and controversial subject.

The Tobacco Institute considers the drawback of taxes to be a promising new approach to export promotion. Without at this time expressing in detail its views on this proposal, however, The Tobacco Institute would recommend that it would be more appropriate as the subject of a separate bill. Embodiment of the tax drawback proposal in a separate bill would permit careful consideration of this new instrument for encouraging U.S. exports, without the prospect of delaying necessary changes in the traditional drawback of import duties.

In the event that drawback of taxes is not made the subject of a separate bill, The Tobacco Institute has one suggestion for revision of H.R. 13713 as it now stands. The bill anticipates the possibility that drawback of direct taxes may violate the GATT obligations of the United States, and provides that the Secretary of the Treasury shall allow drawbacks only to the extent that they are consistent with the international obligations of the U.S. As drafted, however, the Secretary's power to review drawbacks extends not only to drawback of taxes but also to drawback of import duties. It was presumably not intended to make the basic drawback of import duties, for the first time, subject to review by the Secretary of the Treasury. Accordingly, The Institute suggests that the reference to "subsection (a)" in subsection (b) of H.R. 13713 be revised to read "subsection (a)(3)," thereby subjecting only drawback of taxes to the Secretary's review.

In sum, The Tobacco Institute strongly endorses the liberalization of drawback substitution which would be provided by H.R. 13713. Accordingly, The Institute recommends that this portion of the bill be separated from the provisions regarding drawback of taxes and enacted into law. If this separation is not deemed appropriate by the Committee, The Institute urges passage of H.R. 13713 in the revised form recommended above.

III. Drawback on Cigarettes Sold as "Sea Stores."—The first two points discussed above are matters of general concern to all U.S. industries that use the drawback provisions. The third point, involving drawback on sea stores cigarettes, is unique to the tobacco industry.

A sizable quantity of cigarettes each year are sold for use as "sea stores", to be re-sold aboard U.S. Navy and merchant ships at sea outside the three-mile limit. Since these cigarettes are considered to be exported for Tariff Act purposes, the tobacco companies are entitled to drawback of the import duties paid on foreign tobacco used in manufacturing the cigarettes. Because of the structure of the distribution system for sea stores cigarettes, however, the cost of processing drawback claims on such cigarettes is so prohibitive that tobacco companies are effectively foreclosed from drawback payments.

To illustrate, cigarettes intended to be sold as sea stores are sold in large quantities to ship chandlers, who place them in bonded export warehouses. The cigarettes are then sold to individual ships for resale as sea stores. Each shipment to an individual ship, however, will normally be of a relatively small size and will consist of cigarettes produced by several different tobacco companies. As a result, the number of cigarettes of a particular tobacco company contained in a shipment will usually amount to only several cases. The expense of processing a drawback claim for such a limited quantity is wholly disproportionate to the drawback payment itself, and, accordingly, the drawback usually goes unclaimed.

The Institute recommends a revision of the drawback procedures in order to facilitate tobacco companies claiming the drawback payments on sea stores cigarettes to which they are entitled under the Tariff Act. As a possible means of accomplishing this goal. The Institute makes the following suggestion. The Internal Revenue Service Regulations set forth a procedure for exporting cigarettes

without payment of the manufacturer's excise tax or with a drawback of such tax. Under this procedure, cigarettes sold to a ship chandler for resale as sea stores are delivered to the chandler's bonded export warehose. For purposes of the manufacturer's excise tax, the tobacco company's tax liability basically ceases upon proof of such delivery. 26 C.F.R. §§ 290.65, 290.66. The Tobacco Institute suggests that this procedure, as set forth in detail in 26 C.F.R. § 290, *et seq.*, can serve as a model for the procedure for drawback of import duty on sea stores cigarettes, *i.e.*, proof of delivery to a ship chandler's bonded export warehouse would serve as proof of exportation for drawback purposes.

Accordingly, The Institute urges for the consideration of this Committee the possibility of legislation which would resolve the sea stores problem along the lines discussed above. The Institute is currently studying this problem and would be available to assist the Committee in the consideration of this matter and in the formulation of legislation.

CONCLUSION

The Tobacco Institute urges the Ways and Means Committee to consider and report out legislation which would liberalize the drawback provisions as discussed herein, and thereby enable these provisions to continue and expand their important role in encouraging U.S. exports.

STATEMENT OF JOHN D. PALMER, PRESIDENT, TOBACCO ASSOCIATES, INC.

Tobacco Associates represents more than 200,000 growers of flue-cured tobacco in Virginia, the Carolinas, Georgia, and Florida. Its primary function is to preserve and to develop foreign markets. Flue-cured is the principal component of cigarettes in this country and accounts for more than 80% of our exports of tobacco in unmanufactured form. During the past two years, shipments overseas have exceeded more than 50% of production. In dollar value in 1969 that came to $445 million and together with exports of other types, as well as manufactured products, totals $695 million.

It follows, therefore, that tobacco growers have a profund concern with this committee's deliberations on the broad subject of tariffs and trade. Their concern should be shared by the Congress as well, for more than 95% of our combined exports are for hard cash, and contribute substantially to our balance of payments position. Under two headings, FOREIGN COMPETITION, and the EUROPEAN COMMON MARKET, I shall discuss some of the causes for their concern.

FOREIGN COMPETITION

Production of flue-cured overseas has increased more than five-fold since World War II—from an average of less than 500 million pounds annually in 1935/39 to 2.7 billion in 1969. In the 1935/39 period, we exported an annual average of 360 million as aginst 549 million last year. Thus while foreign growth has increased by more than two billion pounds a year, our share of the overseas market has grown by less than 200 million. A major point in this connection is that our imports of tobacco have risen sharply during the past decade. Historically, an American-made cigarette contained 10% of the imported leaf; today it is about 15%, each pound of which obviously displaces a pound of American grown tobacco. While our growers have, for the most part, accepted this as a normal market evolution, and, indeed, raised no serious objection to a reduction in our import duty rates in the Kentucky Round, they now look with mounting alarm at ever larger imports, (practically all of which come from Greece and Turkey who are associate members of the EEC) and an ever decreasing share of their traditional markets abroad.

EUROPEAN COMMON MARKET

The six countries comprising the Community represent our largest market overseas. Under the Treaty of Rome, proposals concerning tobacco were made in 1964 by European authorities which, if made operative, would seriously endanger our tobacco trade in that area. Through the coordinated efforts of the Department of Agriculture, other agencies of Government, and ourselves implementation was forestalled until last February, when the Council of Ministers took definitive action. In brief, this action moderated the 1964 proposals only slightly, and preserved substantially the most objectionable features. It provides

that Community production (90% of which is in France and Italy) shall be unlimited; that it shall be supported at price levels far above actual value; that imports may be suspended as and when surpluses occur; and that such surpluses may be disposed of in world markets by subsidization.

This committee is certainly aware of the shocking failure of the Community to control production in other agricultural commodities, and in the case of tobacco, every facet of the proposal is clearly conducive to overproduction, and hence the piling up of a surplus.

Following the action of the Ministers in February, a further step of ominous portent was taken in March: to make permanent the duty-free importation of tobacco from the Associated Overseas Territories (AOT) which was temporarily provided for in July of 1968. Beyond any question, this would lead to *a*) increased AOT production, *b*) a decrease in AOT tobacco prices, and *c*) an increase in Community output requiring price support. It appears that although this is a violation of the GATT, it is condoned by our own government in tacit agreement with those of the Community, on the grounds of aid to developing countries. To our farmers it is torturous and illogical rationalizing in the face of successive reductions in their own production quotas.

Purposely, I have not burdened this statement with the underlying mass of details relating to tobacco growing in the Community, nor to those concerning AOT tobacco, but I do most respectfully urge this Committee to request full reports thereon from the Departments of State and Agriculture. When Great Britain joins the Community, we may assume that further quantities of territorial tobacco would be added to that of the twenty-odd African nations now in the AOT status. I find it appropriate at this juncture to quote from the statement of Mr. Eugene L. Stewart at the Conference of U.S. International Business Problems and Prospects held in the Department of Commerce on May 13th:

The EEC declined to negotiate on agricultural commodities in the Dillon Round but gave assurances that the position of U.S. exports would be detrimentally changed by the implementation of the common agricultural policy of the Common Market. *These assurances have not been carried out.*

American tobacco is a beleaguered commodity. Here in Washington we have the paradox of our government gladly taking, on the one hand, over $2 billion annually in tobacco taxes, and on the other, pouring out millions to Federal and other agencies whose avowed purpose is to destroy tobacco.

It is beleaguered by developments I have alluded to in the general area of foreign competition, and more specifically in the European Community with respect to local production and that in the AOT. Going back a few years in history, we come across the sorry spectacle of our government's tobacco negotiations with Australia in 1947; and not long thereafter to the even more dismal performance with the Philippines in the Laurel Langley Agreement. In the latter case—and the record is replete with proof thereof (Congressman Bonner's statement in Congressional Record Appendix, 5/20/54, attached)—our negotiators took Ambassador Romulo's personal word that U.S. tobacco interests would be preserved. It was utterly worthless. Almost overnight a 25 million pound market vanished. Unto this day, merely a fraction of it has been regained, and that only because of the granting of the most favorable facilities that are available under PL480.

Tobacco growers are very much alive to the issues, political and economic, which this Committee must take into account when dealing with issues so vast as international trade questions. Growers ask no special consideration, but only that legislation flowing from bills H.R. 14780, H.R. 16920, and this hearing gives full weight and recognition to the rights of the first crop exported from this country 350 years ago, and which throughout the centuries has continuously been in the forefront of importance in American agriculture. Tobacco farmers ask that these rights be spelled out and guaranteed, and not left to the verbal assurances of a Romulo or a Community spokesman.

EXTENSION OF REMARKS OF HON. HERBERT C. BONNER IN HOUSE OF REPRESENTATIVES AUGUST 20, 1954 AS PER CONGRESSIONAL RECORD APPENDIX SEPTEMBER 1, 1954

Mr. Speaker, the first of last July this Congress passed H.R. 9315 amending the Philippine Trade Act of 1946 by delaying the imposition of graduated tariffs on imports from the Philippines into the United States, which would have begun July 4.

When this matter was first brought up in this Chamber on June 22, I objected to its consideration by unanimous consent.

These objections were based on the fact that the Philippines, by Act 698, had materially limited the importation of American leaf tobacco and leaf tobacco products into the Philippines, in violation of the spirit and intent of its trade agreement with the United States, under the Philippine Trade Agreement of 1946.

Subsequently, Gen. Carols P. Romulo, special representative of President Magsaysay of the Philippines, with the rank of Ambassador, communicated and assured me, for the President and himself, that this situation would be eliminated at a special session of the Philippine Congress to be held shortly thereafter.

In view of these assurances from such high sources, I withdrew my objections and the bill passed the House, by unanimous consent, on June 23. Within the past 2 weeks the Philippine Congress has passed a bill, which not only fails to eliminate the discrimination against American leaf tobacco, but actually adds further restrictions to its importation into the Philippines. This new law provides that for 1956 and succeeding years, no American tobacco can be imported into the Philippines, except in quantities sufficient to maintain the manufacture of tobacco products in the Philippines at the level of the preceding year, after all locally produced tobacco has been bought and used. It further provides excessive and arbitrary support prices for local tobacco production, far in excess of world prices.

Mr. Speaker, the Philippines have failed to live up to their agreements, both in violating their trade agreement with the United States and failing to live up to the promises given me personally.

Any restriction on the volume of importation of tobacco from the United States into the Philippines is a violation of their agreement with us.

Increasing allowable imports for 1954 from 25 to 40 percent of 1950 imports is a mere gesture and is continuing a material violation.

But, in 1955 they go back—now by law and not by regulation—to the situation existing when I objected to considering H.R. 9315 and then in 1956 they go to a formula far more restrictive than those I called attention to on June 22.

Mr. Speaker, presumably there will be conferences between the Philippines and the United States, on an executive level, in the next few months. But, ultimately, this Congress must act to effect any change in the existing trade relations as requested by the Philippines.

I serve notice now that at that time I will remember commitments made, adhered to, and violated, and be influenced by the failure of the Philippines to live up to their commitments.

LEAF TOBACCO EXPORTERS ASSOCIATION, INC.,
Raleigh, N.C., June 11, 1970.

Re H.R. 14870—Proposed "Trade Act of 1969."

COMMITTEE ON WAYS AND MEANS,
U.S. House of Representatives,
Washington, D.C.

GENTLEMEN: Leaf Tobacco Exporters Association, an association of American leaf tobacco export companies, wishes to endorse the proposed Trade Act of 1969, and particularly the proposals submitted by Honorable David M. Kennedy, Secretary of the Treasury, on Tuesday, May 12, 1970, and Acting Secretary Nolan, explaining the Domestic International Sales Corporation approach with respect to exports.

We feel that the adoption of this proposal will (1) help increase exports, and (2) probably deter companies from building additional plants overseas for their operations.

The Association, composed of sixty-two tobacco companies, desires that this letter be made a part of the records of your hearings in this matter.

Most sincerely,

MALCOLM B. SEAWELL,
Executive Secretary.

Mr. WEISS. Thank you.

Mr. BURKE. This concludes the hearing for today.

The committee stands adjourned now to meet on Monday at 10 a.m.

(Whereupon, at 12:45 p.m. the committee was adjourned, to reconvene at 10 a.m. Monday, June 8, 1970.)

TARIFF AND TRADE PROPOSALS

MONDAY, JUNE 8, 1970

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D.C.

The committee met at 10 a.m., pursuant to notice, in the committee room, Longworth House Office Building, Hon. John C. Watts presiding.

Mr. WATTS. The committee will come to order.

The first witness is Mr. George D. Butler.

Come around, Mr. Butler. Give your name to the reporter and the capacity in which you are appearing, and you may proceed as you desire.

STATEMENT OF GEORGE D. BUTLER, PRESIDENT, ELECTRONIC INDUSTRIES ASSOCIATION; ACCOMPANIED BY JAY PRICE, DIRECTOR OF PUBLIC AFFAIRS; AND ALFRED R. McCAULEY, SPECIAL COUNSEL

Mr. BUTLER. Mr. Chairman and members of the committee, I am George D. Butler, president of the Electronic Industries Association. Our association includes approximately 300 member companies who are U.S. manufacturers of electronic products and whose sales account for approximately 80 percent of the sales of domestically produced electronic articles. With me this morning are Mr. Jay Price, our association's director of public affairs, and Mr. Alfred R. McCauley, our association's special counsel.

We appear here today in opposition to the enactment of H.R. 14188, a bill which would repeal item 807.00 of the tariff schedules of the United States. Item 807.00 provides that articles assembled abroad, which include U.S.-made components which can be readily identified, are dutiable on importation only on the value of foreign costs and charges incurred in the foreign assembly operations. The returned U.S.-made components are exempt from duty.

Our opposition to the enactment of H.R. 14188 is based on two principal considerations:

1. On August 18, 1969, President Nixon requested the Tariff Commission to make a detailed investigation of the operations of item 807.00 and a companion provision—item 806.30—and to report to him by August 31 of this year the basic economic factors involved in the use of these tariff provisions. The Tariff Commission has been conducting an extensive investigation into this matter since September 1969, having just completed almost 3 weeks of public hearings.

In view of the time and effort which have been devoted to this matter in order to develop facts on which proper judgments may be made, we respectfully submit that the Congress should defer consideration of bills such as H.R. 14188 pending completion of the Tariff Commission study and an opportunity for the President to analyze the Commission's report and to make whatever recommendations he deems appropriate.

2. Our association is unanimous in the conclusion that item 807.00 provides a benefit to U.S. labor and U.S. industry in meeting competition from foreign producers. We are equally convinced that the repeal of item 807.00 would have an adverse effect on U.S. employment, U.S. balance of payments, balance of trade and the ability of U.S. industry and labor to compete in the United States and abroad. The basis for our association's views are detailed in a position paper which we submitted to the Tariff Commission, a copy of which is appended to this statement.

Mr. Chairman, I would like to have this paper appear in the record following my statement.

Mr. WATTS. Without objection, it will so appear.

Mr. BUTLER. I will turn now to a discussion of the characteristics of the electronics industries which are relevant to this committee's over-all deliberations as well as its specific consideration of H.R. 14188.

During the course of these hearings, you have had the benefit of the views of many American industries, companies, labor organizations, and individuals. These views have often differed, reflecting the variety of methods which U.S. industries must employ in order to complete in world markets. One must conclude that no single remedy is apparent which will be acceptable to and solve the trade problems of each of these interests. On the contrary, what may be an effective legislative remedy for one may very well work severe hardship on others.

In a sense, the electronic industries of the United States reflect the problems which all U.S. industries face in the world marketplace.

The U.S. electronic industries are significant in their role in the U.S. economy. Sales of electronic products approaches $25 billion last year and employment presently exceeds 1.1 million people. Electronic products accounted for about 9 percent of total U.S. exports and about 5 percent of total U.S. imports in 1969.

The electronic industries are not a monolithic industry such as the steel industry. Products of the electronics industries range from components to equipment, from fairly stable technology products, which are subject to fierce foreign competition, to products of high technology in which the United States has a clear but dwindling lead. While our common denominator is electronics, segments of our industry—indeed individual companies and even divisions of these companies—differ in product, in technology, in growth, and in the scope of their markets.

It should not be surprising, therefore, that although our industries are unanimous in identifying their foreign trade environment and unanimous in opposing H.R. 14188, these industries will offer a variety of views and reactions to the many legislative proposals being considered by this committee. This is a natural result of the response

of complex industries to complex trade environments. Each company has had to exercise various options and to make those decisions which are essential to its survival in today's highly competitive domestic and foreign markets.

The products of our industries can be generally classified into two categories—components and equipment. In general, components are the parts which are sold to, or built by, the equipment manufacturers for assembly into finished articles which in turn are sold to ultimate users. In both the components and equipment sectors of our industries, there are products which can be classified as having an underlying stable technology and products which can be classified as having an underlying dynamic technology.

Stable technology products are those whose designs change relatively slowly, whose technology is widely known, and in the component sector, articles which are highly standardized, interchangeable, and sold on a commodity basis. For example, the technology of home radios and phonographs is quite stable as is the technology of fixed carbon composition resistors and loudspeakers. In the stable technology sector, the markets for U.S.-produced products are generally confined to the United States and the purchaser can make direct comparisons based on the factors of price, delivery and quality.

Products in the dynamic technology sector of our industry are characterized by rapid design changes, frequent introduction of new and improved products, frequent introduction of products for new uses where no product existed before, and where technology and innovation are highly guarded proprietary assets of the competing companies. For example, the technology of space vehicle equipment and data transmission and retrieval systems is highly dynamic as is the technology of large-scale integrated circuits and special semiconductor devices. While price, delivery and quality are important to the purchaser of this class of product, the available choices to the purchaser may not be directly comparable and the factors of performance and/or function sometimes become more important than simple price and delivery factors.

The production of electronic products is a labor intensive process, while at the same time these products have a high dollar value per pound of weight. It is natural, therefore, that these products tend to be made in countries with a large supply of low-cost labor and that such products can be shipped to distant markets because there is little freight disadvantage. This explains in part the severe competition U.S. electronic products are facing in the United States and world markets, particularly from Japanese and Far East producers. In addition to the low-cost labor advantages, these Asiastic producers have also competent management and they receive maximum cooperation in their operation from their governments.

We have brought some charts today which portray the environment in the electronic industries in world trade. Each of these two charts has a black line down the middle.

To the right of the black line, we represent the activities in the electronic industry which take place within the U.S. borders; on the left of the black line, we show those activities which take place offshore.

We represent by the color red, operations which are owned and con-

trolled by foreign interests, and in green, those operations which are owned and controlled by the United States.

This first chart represents the world as it exists today in the dynamic technology sector of our industry.

By a narrow margin, the United States still maintains a technological lead in the dynamic technology field of electronics, though the gap is closing rapidly since foreign producers are becoming more potent competitors.

It is more than interesting to note that a principal reason this gap is narrowing is that many of the products of this dynamic sector are used to spread, rather than to protect new developments. The products of this sector are used to facilitate and expedite the processing of information, its storage, and its rapid retrieval. The almost instantaneous communication of such information is also accomplished by the use of products this sector of our industries produces. This rapid and wide dissemination of technology of U.S. creation forces U.S. producers in this sector to drive down their costs and lower prices to hold their own against foreign competitors.

U.S. producers of dynamic technology products find their products readily acceptable in markets of other countries, though because of quotas, tariffs, and other barriers, their U.S.-made products are barred from many free world markets. In recent years, many of these producers had to establish off-shore facilities principally to serve foreign markets. These facilities not only permit U.S. producers to serve markets which are otherwise closed to them, but also enable a large volume production at lower costs which neutralizes the advantages of foreign producers and makes it possible for these U.S. companies to meet foreign producers in their home markets and in third-country markets.

A part of the output of these foreign facilities is also returned to the United States to assist the dynamic technology producer in expanding the use of his U.S. markets. But these returned products serve also to help stave off foreign competition in the U.S. market which looms as an ever-increasing threat to this segment of the U.S. electronic industries, and to assist in further exports of these products to other world markets.

Now let us take a look at the situation in the stable technology sector of our industries.

Producers of stable technology products, on the other hand, have no significant foreign markets for their products and find the U.S. market close to saturation with foreign-made products.

We have represented on this chart a square indicating a parts producer, and a circle representing an equipment producer.

Now, this import penetration has been of such magnitude in products of the stable technology sector of our industry that it has forced U.S. producers to go offshore to defend their U.S. market position. For example, in 1969 about 75 percent of the U.S. radio market was served by foreign-made radios. Foreign-produced television receivers, both color and black and white, accounted for 30.4 percent of U.S. sales, with monochrome sales close to 45 percent. These percentages are all based upon units, not value.

Imports accounted for 32.7 percent of the phonograph market and 90.3 percent of the home tape market. These products also contain components of foreign origin similar to U.S.-produced components.

Such is the real world of the U.S. producer of electronic articles. The producer in the dynamic technology sector faces severe competition in his foreign markets, foreclosure from other markets, and the imminent threat of increasing competition from foreign producers in the U.S. market. The producer in the stable technology sector has no export markets and finds his home market almost completely overrun by imports.

What role does item 807.00 play in this picture?

As I said previously, a U.S. producer in the dynamic technology sector establishes an offshore facility primarily to serve local and third-country markets. He finds it efficient and otherwise in the interest of economy to supply this foreign facility with certain required parts of U.S. origin. The U.S. articles are incorporated in components or assemblies which are used principally in serving local or third-country markets. However, some of the articles assembled in the foreign facility are returned to the United States. The duty allowance on these articles contributes to the overall economies of this company's operations and the resulting lower costs assist the U.S. producer in his competitive position in the U.S. market, and also assists him in serving other export markets.

Now, let us turn to a U.S. producer in the stable technology sector of our industry. As the data I gave previously show, a U.S. producer of consumer electronic articles such as radios, television sets, tape recorders, or components used in these products finds himself almost driven out of business by foreign products finds himself almost driven out of business by foreign products which are imported into the United States with full duty paid thereon. As an alternative to closing the plant and going out of business, some U.S producers have built their own facilities offshore so as to be able to produce part of their requirements for sale in the U.S. market.

On our charts, we have represented a U.S. producer in yellow, his offshore facility in yellow, and the parts suppliers to him from the United States in yellow, and the parts suppliers to him from other offshore sources in red.

U.S. producers supply such offshore facilities with some of the critical parts from their own plants and with parts purchased from other U.S. parts producers. These U.S.-made articles, together with parts purchased from foreign producers, are assembled in the U.S. producer's offshore facility and are returned to the United States. The provisions of item 807.00 permit these producers to use the duty allowance on the United States content to keep costs low and to improve their chances of competing with foreign producers.

It is interesting to note that item 807 operations comprise a relatively small portion of total electronic imports. In 1969, for example, electronic imports totaled $1.8 billion. Of this, only $332 million, or 18 percent, represented electronic products returned under item 807.

Item 807.00 is not in any way the reason why these foreign operations are on stream today. World competition is the basic cause. Competing foreign countries have large pools of highly productive labor at wage rates much lower than in this country. Coupled with the large pool of low-cost labor are capable management, capable technicians, abundant capital, and sympathetic governments, particularly in Japan, where government, industry, the financial institutions and labor are united

in a program to capture for their country an ever-increasing share of the world market. To survive in this setting, U.S. producers have had to react in the manner they have or lose their ability to compete both at home and abroad.

We turn now to assessing the effects of repeal of item 807.00 and to examine what effect repeal would have on the flow of products, employment, balance of trade and balance of payments.

First, let's look at the situation in the dynamic technology sector of our industries. The immediate effect would be a cost increase as a result of imposing the full duty on articles returned to the United States. Since the tariff on electronic articles ranges from 5 to 12 percent, and using a figure of something between 25–50 percent of the finished articles consisting of U.S.-made parts, the total cost increase of the article returned from offshore would be somewhere in the neighborhood of 2½ to 5 percent. Such a cost increase would, of course, give competitors an improved position.

Let us assume an article coming back into the United States is valued at $1, and that article contains approximately 25 cents to 50 cents worth of U.S.-produced parts. For duty purposes, the value would be reduced to 75 cents or 50 cents and the duty imposed, striking an average duty of 10 percent, would average from 7½ cents down to 5 cents. In sum, the total cost landed in the United States would range from $1.07½ to $1.05. These are approximations, of course.

If item 807 were repealed, the duty would be applied on the total $1 value. That full duty, again using an average duty of 10 percent, would be 10 cents and the cost landed in the United States would be $1.10, or a cost increase of somewhere between 2½ and 5 percent of the value of the article, depending upon the U.S. value content.

Such a cost increase would, of course, give the foreign competitors an improved position.

What would the U.S. producer do if he faced this cost increase? Would he accept it? I think not, particularly if another alternative offered an opportunity to avoid such a result.

Would the U.S. producer return his offshore production to the United States? Again, I think not, because, as I showed before, he did not go abroad because of item 807.00 but because of competitive reasons. The repeal of item 807.00 would not change this fact.

Would he automate his U.S. production? I do not believe this is a viable alternative. In the dynamic technology sector of our industry, rapid product innovation often results in such rapid obsolescence that heavy investment in automated facilities is not warranted.

What the U.S. producer would do, however, would be to reevaluate his source of supply for parts since the U.S. producer and his U.S. employees no longer would receive credit for duty purposes for their U.S.-produced parts when returned in the finished article. The choice might well be that the U.S. producer would move his parts facility offshore to join his offshore assembly facility, or he may decide that it is more economic to purchase his parts from another offshore producer. Whichever of these choices was made, the repeal of item 807.00 would have had an adverse effect of U.S. employment, U.S. balance of trade and balance of payments, and the U.S. companies, themselves. The shift to foreign sourcing would serve only to bolster the productive capacity of foreign producers and weaken the position of U.S. producers.

Now, let's examine the effect of repeal of item 807.00 on the flow of articles and employment in the stable technology sector of our industry. Again, the first effect would be the imposition of full duty on the finished article brought back to the United States with a resulting cost increase to the U.S. producer of some 2½ to 5 percent, approximately. In the fierce competition and heavy penetration of imports in this sector of our industry, the resultant cost increase to the U.S. producer would be competitively intolerable and absorbing the increase would not be a real alternative.

Returning his existing offshore plant to the United States is no choice at all; he went offshore to meet competition here and repeal of item 807.00 would not change that basic fact.

Although his product, being of more stable technology, may have a longer life cycle than dynamic technology products, the high capital investment, the high cost of money, and the very real chance of not attaining the degree of cost reduction necessary would probably cause the U.S. producer to discard the automation route.

His remaining alternatives are similar to those of the producer in the dynamic technology sector. He would reevaluate his costs for parts, since he no longer gets a duty allowance for U.S.-produced parts, and may decide to make or purchase all of his parts overseas. If he buys from a U.S. parts supplier, that supplier, faced with a loss of considerable business, may decide to remain competitive with offshore parts producers by moving his parts-producing facility offshore adjacent to his customer's offshore plant.

Still another alternative is available to the U.S. producer as a result of no longer receiving duty credit for U.S. parts. He might procure from a foreign source, on a subcontract basis, the entire article for merchandising in the United States under his U.S. brand name. We would have a situation where the entire article would now be imported into the United States under the U.S. producer's brand name.

In our stable technology sector, the results of repeal of item 807.00 would be the same as in the dynamic technology sector. The only real alternatives open to these producers would have an adverse effect on U.S. employment, U.S. balance of payments and U.S. balance of trade.

In summary, then, companies in the dynamic technology sector of our industry are forced by competition to go overseas for a part of their production in order to reach foreign markets and in order to protect their narrow competitive lead in the U.S. markets. Producers in the stable technology sector of our industry are forced by competition to go overseas in order to say competitively alive. In this environment, which is the real world of our industry, item 807.00 gives a small advantage to U.S. labor and U.S. industry.

Now, thus far this has been a qualitative presentation.

The quantitative aspects of this situation are carefully detailed in our position paper filed with the Tariff Commission. Briefly, we have found that with item 807 operations in being the U.S. electronic industries have provided in 1969: 1,100,000 jobs; $25 billion worth of products; and $1 billion favorable net balance of trade.

These numbers have increased almost every year for the 50 years of the electronic industry existence.

Without item 807.00, we conclude that our industries may lose 7,000

jobs directly; plants employing 220,000 workers may be adversely affected; and $100 million of our favorable trade balance may be lost.

We sincerely feel that these quantitative estimates are the heart of the matter and we invite your study of the position paper we filed with the Tariff Commission.

Mr. Chairman, repeal of item 807.00 would, in effect, put an additional tax on U.S. industry and on U.S. labor, which in the tough competitive world in which we live, would tend to shift still more production overseas.

Thank you for allowing us to appear here today and to give you our views and conclusions.

(The position paper previously referred to follows:)

BEFORE THE UNITED STATES TARIFF COMMISSION

In The Matter Of Investigation No. 332–61 Under Section 332 Of The Tariff Act Of 1930 Into The Economic Factors Affecting The Use Of Item 806.30 And Item 807.00 Tariff Schedules Of The United States

POSITION PAPER OF ELECTRONIC INDUSTRIES ASSOCIATION, MAY 14, 1970

INTRODUCTION

This paper is submitted on behalf of the Electronic Industries Association ("EIA"),[1] a trade association whose member companies account for a majority of the electronic products produced and sold in the United States.

The President's letter of August 18, 1969, which initiated this investigation, requested the Tariff Commission to review in depth the following specific economic areas as well as other relevant factors:

(1) The competitive relationship in U.S. consumption of articles admitted under Items 806.30 and 807.00 of the Tariff Schedules of the United States and other like or directly competitive articles.

(2) The operations of U.S. industries, or firms, utilizing Items 806.30 and 807.00, including data with respect to their production, imports, exports, foreign investments in production facilities, and the effect of the operation of these provisions upon their competitive position in the U.S. and in foreign markets.

(3) The effect of operations under Items 806.30 and 807.00 upon the U.S. balance of payments.

(4) The relationship of Items 806.30 and 807.00 and imports thereunder to employment opportunities and wage levels in the United States particularly in the industries utilizing these provisions.

(5) The probable effects of repeal of either Item 806.30 or 807.00, or both.

Item 806.30 of the Tariff Schedules of the United States provides that—

> Any article of metal (except precious metal) manufactured in the United States or subjected to a process of manufacture in the United States, if exported for further processing, and if the exported article as processed outside the United States, or the article which results from the processing outside of the United States, is returned to the United States for further processing

is dutiable only upon the value of the processing done outside the United States.

Item 807.00 of the Tariff Schedules of the United States provides that—

> Articles assembled abroad in whole or in part of fabricated components, the product of the United States, which (a) were exported in condition ready for assembly without further fabrication, (b) have not lost their physical identity in such articles by change in form, shape, or otherwise, and (c) have not been advanced in value or improved in condition abroad except by being assembled and except by operations incidental to the assembly process such as cleaning, lubricating, and painting

[1] Exhibit I sets forth a description of EIA, its policies and objectives and a list of the member companies.

are dutiable upon the full value of the imported article, less the cost or value of the United States components.

I. Statement of Conclusions

EIA concludes that operations of the U.S. electronic industries under Items 806.30 and 807.00 are in the best interests of American companies and American labor and also serve other equally important national interests.

Specifically—

(1) Articles entered under Items 806.30 and 807.00 are more competitive than similar goods manufactured in the U.S. and therefore encourage competition in the U.S. market place.

(2) U.S. firms which utilize Items 806.30 and 807.00 have improved or maintained their competitive positions in world electronics markets.

(3) Items 806.30 and 807.00 have the effect of making U.S.-made parts and components more competitive in world markets and, therefore, have a long range positive effect on the U.S. balance of payments.

(4) Most manufacturers engaged in Item 806.30 and 807.00 operations have increased their U.S. employment requirements and their employees have experienced a general upgrading of job and wage levels.

Accordingly, EIA concludes that the most significant effect of repeal of Items 806.30 and 807.00 would be to decrease the world-wide competitiveness of U.S.-made electronic products, with consequent adverse effects on U.S. electronic companies, U.S. employment, and the U.S. balance of payments.

II. Required Perspective

Before proceeding to an analysis of the economic factors affecting the use of these tariff provisions by the U.S. electronic industries, it is necessary to define the nature and scope of these industries to give the analysis a perspective.

A. THE U.S. ELECTRONIC INDUSTRIES AS A WHOLE

The U.S. electronic industries and the products they make and sell have a significant impact upon the lives of millions of people in this country, an impact reflected in the economic data relating to these industries and in the variety of products they produce and sell.

U.S. sales of electronic articles approached $25 billion in 1969—more than double the sales level of 1961.[2] U.S. exports of electronic articles exceeded $2.8 billion in 1969, almost 9 percent of total U.S. exports, while imports exceeded $1.8 billion, about 6 percent of total U.S. imports.[3] Major segments of these industries are ranked in the forefront of growth industries in the U.S.[4]

U.S. employment and wage levels have also increased to record levels each year, with over 1.1 million persons being employed last year.[5] Additional thousands of persons are employed in servicing and maintaining products after they are placed in service.

An estimated 30,000 types of electronic products are manufactured in this country. They are extremely varied in end use, function, value, size and form. They range from microscopic components less than one-thousandth of an inch in diameter to giant computing and control systems. It is expected that the number of electronic products and the uses and applications of electronics will increase. Important new electronics utilization is seen in the areas of communications, medicine, and education.[6]

B. THE DIVERSITY OF THE U.S. ELECTRONIC INDUSTRIES

While the U.S. electronic industries have a common factor—"electronics"—which distinguishes them as a group from other industries, these industries are not monolithic.

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[2] Appendix, Table 1.
[3] Appendix, Table 2.
[4] *U.S. Industrial Outlook 1970*, U.S. Department of Commerce, pp. 478–480.
[5] Appendix, Table 3 and Table 4.
[6] *U.S. Industrial Otulook 1970*, U.S. Department of Commerce, Chapter 23; "Employment Outlook for Electronic Manufacturing Operations," 1968–1969 Occupational Outlook Report Series, Bulletin No. 1550–104, U.S. Department of Labor, Bureau of Labor Statistics.

At the outset, there are fundamental differences in the state of the technology which underlies the products of certain segments of these industries as contrasted with others. For example, solid state electronic components are produced by a segment of the electronic industries characterized by an exceptionally high degree of technological innovation. This dynamic technology leads to development of new products and basic changes in old products. On the other hand, the technology of other electronic components such as capacitors and resistors is more stable, or basic. Changes in products of this type are normally evolutionary in nature.

The same dichotomy exists in the end-product segments of the electronic industries. Producers of articles such as radar and other directional and navigational equipment are continuously developing new products as a result of modified and innovative technology. On the other hand, producers of home-type radio receivers are making a product whose technology is relatively stable.

The basic differences in the technological horizons of different segments of the electronic industries give rise to differences in each segment's participation in the overall growth of the electronic industries. The dynamic, high technology segments tend to enjoy expanding markets, increased sales, and increased employment. The stable technology segments usually experience slower growth (in some cases declines) in markets, sales, and employment. The stable technology segments also face more intense import competition than do the dynamic technology sectors.

III. Analyses

A number of companies in the U.S. electronic industries have established foreign facilities for competitive reasons. While Items 806.30 and 807.00 were not the major considerations in the establishment of such facilities, these items are nevertheless important to all segments of the U.S. electronic industries as they enhance their competitive status.

The dynamic technology segments of the electronic industries use these provisions in connection with off-shore operations to complement U.S. operations, to expand U.S. consumption of electronic products, to assist in the orderly transition from one stage of technology to another, and to assist in meeting competition at home and abroad. The stable technology segments of these industries find these provisions very important in supporting their off-shore operations which are needed primarily to meet foreign competition in the U.S. market.

The importance of these tariff provisions can best be assessed by focusing on the production and marketing imperatives of each of these segments and the requisite plant locations such factors dictate.

A. DYNAMIC TECHNOLOGY SEGMENTS

1. *Production And Marketing Imperatives.*—A useful way to view how the production and marketing system works in the high technology segments of the electronic industries is in terms of the typical marketing cycle for a given product. As a new product passes from the invention stage to the wide-market acceptance stage, it goes through a number of phases which call for different roles for management, skilled labor (including scientific and engineering "know-how"), unskilled labor, and capital outlay.

During the introductory phase of the product, frequent changes are required in the technology relating to the product. Accordingly, a producer typically keeps his investment in fixed assets low and uses a high proportion of technical and skilled manpower. For this reason, initial commercial output of a product typically takes place in a country where skilled manpower is readily available.

Finally, because of the major problems in communicating with customers and potential customers of the new product, it is important that such new product development take place in a country with a large market.

The dominance of the dynamic technology sectors of the U.S. electronic industries on the world scene can thus be understood. The U.S. has the required large supply of scientists, engineers, and skilled operating labor, and a large market. It is only natural, therefore, that the U.S. is the country in which most new electronic products are introduced.

During this early stage, the innovating producer typically exports the product to the rest of the world. This, of course, explains the substantial trade surplus in electronics which the U.S. has, a surplus primarily attributable to the newer, more sophisticated electronic products developed in the U.S.

Shortly after the introductory stage, the producer strives to increase his sales. To do this, he must reduce his costs so that he can lower prices. At this stage, mass production techniques are introduced. Employment is increased, production runs are multiplied, special-purpose equipment is installed, and the ratio of capital to labor is increased.

But he must also reduce his costs and prices because the market place becomes much more competitive as the technology quickly spreads and is emulated by others. This rapid diffusion of technology takes place not only on the local scene, but in foreign lands as well. U.S. exports continue to be large at this stage of a product's life, but foreign producers soon become major competitive threats. For example, a country such as Japan, which has good management, technical personnel, and labor at a lower cost than is available in the United States, becomes a formidable competitor.

2. *Location Of Production Facilities.*—Eventually, the innovating producer loses his initial advantage as the technology becomes widely disseminated. At this time, production typically takes place on a world-wide basis and each competing producer is forced to reduce costs if he is to hold or expand his markets.

At this stage of the marketing cycle unskilled labor becomes critically important and the cost of such labor is the determining factor in the ability of a producer to compete. Since the U.S. producer faces competition in his U.S. and foreign markets from producers all over the world, he must have access to the required unskilled labor at cost levels comparable to those available to his competitors.

Since supplies of low-cost, unskilled labor are found in many less developed countries, it is to these countries which U.S. and other producers in developed countries look to satisfy this competitive imperative. The failure of a U.S. producer to utilize such sources of unskilled labor would, in most instances, cause him to lose his markets, both foreign and domestic, to other producers who establish such operations. In many cases such losses would be translated into gains for foreign producers.

In this natural pattern which has been taking place in the dynamic segment of the electronic industries, the U.S. company and its workers face a continuous adjustment process. The need (which has been satisfied) is to shift continuously to the manufacture of new and technologically advanced products in which the U.S. has a natural advantage. Such a process typically yields good profits for the company and higher-than-average wages for its workers. Indeed, as we indicated at the outset, in the early and mid-stages of a product's life cycle, exports are substantial. And it is a recognized fact that the average wage embodied in U.S. exports is higher than that embodied in U.S. produced goods competing in the U.S. market with imports.[7]

3. *Role Of Items 806.30 And 807.00.*—The exemption from duty on U.S. articles afforded by these tariff provisions is important to the high technology producer who brings back to the United States part of what is made in his foreign facility. The duty allowance encourages this producer to use American components in his foreign operations. Since he uses American components in his U.S. operations, he is thus able to inter-relate his domestic and foreign operations and realize the economies which flow from this meshing of his production operations.

The result, of course, is to improve the efficiency of his operations and to enhance his competitive standing at home and abroad.

B. STABLE TECHNOLOGY SEGMENTS

1. *Production And Marketing Imperatives.*—Unlike producers in the dynamic sector of the electronic industries, those in the stable technology sector have rather mature product lines. When there is an innovation in such a product, it is generally not of a fundamental nature and also is usually available to all producers. As a result, no one producer enjoys any substantial technological edge over another.

The fundamental imperatives of producers in this sector of the electronic industries are those which are common to all competing producers—price, quality, and delivery. Meeting these market requisites is accomplished by emphasis on cost control, quality and performance perfection, and marketing techniques.

Competition in this sector—both from U.S. producers and foreign producers—

[7] See Exhibit II, p. 8, footnote 5.

is intense. The world-wide diffusion of the underlying stable technology which marks the products of this sector exposes U.S. producers to competition in the U.S. particularly from foreign producers with lower costs.

2. *Location Of Production Facilities.*—Many producers in the stable technology sector find that it is impossible to survive against foreign competition if they attempt to make their whole line of products in the United States. History has taught them that the competitive edge of foreign producers is too wide to overcome in head-to-head competition in the U.S. market.

To meet this foreign competition, some U.S. producers of stable technology products have established foreign operations. In most instances, these foreign facilities produce only part of the line of products the producer needs to serve his U.S. market. These operations complement the producer's U.S. operations and permit him to meet foreign competition in the U.S. market while remaining essentially a U.S. producer.

3. *Role of Items 806.30 And 807.00.*—Some producers in the stable technology sector use American-made components in their foreign facilities. These components are used since Items 806.30 and 807.00 make their use economic. And as in the case with high technology producers, other important economies are realized by the stable technology producer who can, economically, use American-made components in his foreign assembly operations.

The resulting total economies materially assist the stable technology producer to meet foreign competition in the U.S. market by contributing to his need to keep his costs down and his prices low.

IV. Responses to the President's Questions

The previous analysis affords a framework within which to respond to the President's questions as to the relationship of the use of Items 806.30 and 807.00 by the U.S. electronic industries to market competition, employment, the U.S. balance of payments account, and to other factors. The Commission is aware that in the U.S. electronic industries, as in most industries, there are a multitude of factors involved which interplay to produce a visible result. Attempting to attribute to any one such factor a specific part of the total result is quite difficult.

EIA's economic consultant has made a study of the operations of the U.S. electronic industries under Item 807.00 and has prepared a report [8] thereon which is Exhibit II to this paper. The study and the report were restricted to operations under Item 807.00 since such operations accounted for over 90 percent of the combined Item 806.30–Item 807.00 operations of the U.S. electronic industries in recent years. This is not to say that operations under Item 806.30 in the electronic industries are unimportant. Restricting the study to Item 807.00 operations facilitates discussion while not detracting from the importance of Item 806.30 operations.

RELATIONSHIP TO COMPETITION IN THE U.S. MARKET

The total value of electronic article imports under Item 807.00 in 1968 amounted to $216 million. In 1969, such imports totalled $332 million.[9] Of the $216 million, $86 million represented the value of U.S. components included in the assembled imports; of the $332 million, $119 million represented the value of U.S. components.[10] In terms of the total U.S. electronic market, these amounts are relatively small, representing in each year only about a fraction of one percent of total sales. Nevertheless, these imports are quite important to the companies which accounted for them and to their ability to compete in the U.S. market.

As we discussed previously, the competitive situation in the U.S. market is different in the dynamic technology segments of the U.S. electronic industries from that in the stable technology segments. Hence, we will discuss the competitive situation of these segments separately.

1. *Dynamic Technology Segments.*—Competition in the U.S. in products made by these segments of the U.S. electronics industry is at the outset primarily from other U.S. producers. Foreign competitors are not then a significant factor in the American market in, for example, sophisticated electronic products such as aircraft communication systems, data storage and retrieval systems, and semiconductors. It is, of course, in these products which the U.S. has a technological lead over other countries, which manifests itself in our sizeable ex-

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[8] Robert B. Stobaugh: *The Economic Effects Of The United States Electronic Industries' Use Of Item 807.00 Tariff Schedules Of The United States* (May 1970).

[9] Exhibit II, p. 2.

[10] *Id.* The U.S. component values shown are those allowed under Item 807.00; these are believed to account for the bulk of the U.S. components in these imports.

ports of such products. However, technology now is becoming more rapidly diffused and the threat of early foreign competition is more likely than it has been previously.

Items 806.30 and 807.00 are important to a number of companies in this segment of the electronic industries where costs and prices are crucial factors. The ability to import articles under these provisions contributes to keeping costs low and prices down.

Producers in this segment of the electronic industries must be able to market their products in high volumes in order to support their heavy R. & D. expenses. They accomplish this required sales volume by reducing costs. Important cost reductions result from the use of foreign production facilities which are meshed with domestic facilities in a sequential production process. Domestic parts are produced here, sent abroad for assembly, and returned to the U.S. for finishing. The freedom from duty on the U.S. manufactured portion of the returned assembled articles helps to make this efficient process more economic by assisting in keeping costs down.

These companies face intense competition in the U.S. from each other, competition in foreign markets from foreign producers, and problable early competition in the U.S. market from foreign producers. Their competitive status is enhanced by the lower costs to which Items 806.30 and 807.000 contribute.

2. *Stable Technology Segments.*—Competition in these segments of the U.S. electronic industries in the U.S. market is intense, particularly from foreign producers.

For example, whereas in 1960, U.S. radio producers made in the U.S. almost 60 percent of all of the number of radios sold in the U.S. market, in 1969 U.S. production was less than 15 percent. In 1960, monochrome television receiver sales in the U.S. were about 100 percent U.S.-made. In 1969, more than 40 percent of such sales were of foreign-made receivers. Much the same situation applies in phonographs and tape recorders.

Stable technology component producers have seen similar developments. Imports of components such as capacitors, resistors, coils, and loudspeakers have risen over the years while U.S. production has leveled off in some instances and declined in others.

If it were not for Items 806.30 and 807.00, a number of U.S. firms in this segment of the electronic industries could not meet foreign competition. By using off-shore facilities, these producers are able to utilize some of the advantages their foreign competitors enjoy and thus compete with them in the U.S. market.

B. RELATIONSHIP TO U.S. COMPETITION ABROAD

The U.S. electronic industries have a large stake in foreign markets. This position is reflected in the overall exports of the electronic industries—some $2.8 billion in 1969—as well as in the number of U.S.-owned operations throughout the Free World.

Plants engaged in Item 807.00 activities are making rapid strides in strengthening their participation in export business. Exports from plants in the U.S. engaged in Item 807.00 operations amounted to $109 million in 1968 and to $212 million in 1969. Of these total exports, products valued at some $23 million in 1968 and $93 million in 1969 were exported from these plants and did not return to the United States.[11] Thus, these plants are supplying U.S.-made components which are being consumed in the receiving country or sold to third countries. These U.S. products which are finding an increasing acceptance in foreign markets are enhancing the competitive posture of the U.S. companies.

C. RELATIONSHIP TO U.S. EMPLOYMENT AND EMPLOYMENT OPPORTUNITIES AND WAGE LEVELS

We have already noted that employment in the U.S. electronic industries as a whole has been increasing steadily and that in 1969 a new high of 1,136,000 persons were employed by these industries. We have already noted that this growth is not consistent throughout all segments of the industries, but is particularly centered in the dynamic technology sectors. Wage levels in the electronic industries were at an all-time high last year.[12]

In 1968, a total of 189,000 American workers were employed in U.S. plants engaged in exporting Item 807.00 articles and in using Item 807.00 imports

[11] Exhibit II, p. 2.
[12] Appendix, Table 4.

as raw materials in production. In 1969, the number of such U.S. employees increased to 225,000. Thus, in 1968, total U.S. employment in plants engaged in Item 807.00 operations amounted to 17 percent of total U.S. electronic industries' employment; in 1969, such percentage rose to 20 percent.[13]

U.S. workers directly engaged in producing Item 807.00 exports totalled 8,000 in 1968 and rose to 14,000 in 1969, a percentage increase of 75 percent. American workers directly employed in U.S. plants in work on Item 807.00 imports as raw materials totalled 13,000 in 1968. In 1969, some 23,000 U.S. workers were so employed, an increase of over 75 percent.[14]

These data show that Item 807.00 operations seemed to have had a beneficial effect on employment levels in the U.S. electronic industries. Indeed, employment in the U.S. plants engaged in Item 807.00 operations increased in 1969 over 1968.

Besides this absolute increase in employment, it is important to note that most companies operating under Item 807.00 divide the required unskilled and skilled (and semi-skilled) jobs between their foreign and domestic operations. The former jobs, such as routine assemblers, are the job performed in foreign subsidiary plants. These are jobs which require little skill and which are easily mastered. The latter jobs, such as precision assemblers, machining and fabricating workers, testers and inspectors, are the jobs performed in the United States. These are jobs which require varying degrees of skills and, of course, are higher paying jobs.

D. RELATIONSHIP TO U.S. BALANCE OF PAYMENTS

It is difficult to assess precisely the impact of operations under Items 806.30 and 807.00 on the U.S. balance of payments.

As indicated previously, the U.S. electronic industries has a favorable balance of trade. As illustrated in this paper, Item 806.30 and 807.00 operations are important to these industries, and they do contribute to this favorable entry in the U.S. payments account.

Companies engaged in Items 806.30 and 807.00 operations abroad, particularly those in the high technology sector of these industries, are recipients of royalty payments and licensing fees from foreign producers which are also plus entries in the U.S. account. These receipts are directly attributable to the U.S. products which result from extensive and costly research and development. Higher volume sales are necessary to support this research and development and operations under Items 806.30 and 807.00 contribute significantly to such needed sales levels. Accordingly, these operations have a bearing on the level of royalty payment and fees received by U.S. electronic companies.

As Items 806.30 and 807.00 operations develop, it can be expected that foreign earnings will be repatriated.

On balance, Items 806.30 and 807.00 operations make a positive contribution to the U.S. international payments account.

E. OTHER RELEVANT FACTORS

Besides specifying the above areas of inquiry, the President also asked the Commission to evaluate other factors which are relevant to this investigation.

1. *Items 806.30 and 807.00 Operation And Other Exports.*—Earnings on Item 806.30 and Item 807.00 operations in the foreign countries involved furnish such countries with valuable foreign exchange with which to purchase goods and services from other countries. It is estimated that plants in some 15 foreign countries are engaged in operations relating to Item 807.00. The United States has significant exports to these countries. We can assume, therefore, that a part of the foreign exchange these countries earn from these operations is used to purchase U.S. goods.

For example, new-car sales in Mexico (a country with Item 807.00 operations) have been growing and—

> Sales of Chevrolet Impalas and Ford Galaxies are growing by about 10% a year (*Business Week*, July 12, 1969, p. 126).

This same article reports that in the Mexican auto market General Motors and Ford combined account for 45 percent of new car sales. These sales support American jobs.

2. *Economic Benefits To Foreign Countries.*—Operations under Item 807.00 are of material benefit to the economies and workers of the foreign countries

[13] Exhibit II, p. 3.
[14] Exhibit II, p. A–2.

in which such operations are conducted. In several such countries these operations have been hailed as making significant contributions to the economies:

> Spokesmen for border industrialization offer some powerful arguments. They note that a big chunk of the $13 million paid in annual wages to Mexican workers in the program winds up right back in the U.S.—in stores and supermarkets that carry the higher-quality goods that Mexican housewives want and trek across the river in droves to buy. Servando Trevino, 37, a U.S.-educated Mexican executive, says that 1,500 jobs have been created in Matamoros alone, most of them for women. He adds: "These girls, I don't know what they would have done without these jobs. I guess they would have stayed home or become maids or prostitutes." [15]

Taiwan, another country in which Item 807.00 operations are conducted, finds its economy booming due in part to such operations. The boom in the Taiwan economy has given impetus to an across-the-board development drive. An important part of this total drive is improving education:

> Until last year, Taiwan children were required to complete only six years of school, and competition to go further was rough. Now, any child may take an additional three years of schooling if he wishes, and government planners hope this extra training, too, will become compulsory.[16]

These are not the only benefits. Local investors are able to buy into foreign establishments. Thus, *The New York Times* (July 5, 1968, p. 36) reported that Mexican officials were quite satisfied at the public sale to Mexican nationals of 10 percent of the stock of the Mexican subsidiary of the General Electric Company. This gave Mexican nationals an opportunity to own part of the facility with the resulting benefits ownership participation affords.

Studies have been made of particular U.S. companies' operations abroad and of the contributions such companies have made to the people and the economies of the host countries. In Exhibit III to this paper we have excerpted material from three of these details studies.

As will be noted from Exhibit III, in each case the U.S. operation had a number of beneficial effects. American companies brought with them managerial skills which other businesses in the foreign country found invaluable when applied in other local business activities. While these studies found that in certain instances American subsidiaries paid wages no higher than those prevailing, and in other instances paid higher wages, the increased demand for labor invariably raised general wage levels.

This kind of performance of U.S. companies abroad is, of course, in their own self-interest. For the key to success abroad is to act responsibly and to do otherwise spells failure:

> Yet President Kircher [Singer Co.] rejects any deliberate policy of hiding its U.S. parenthood. "One receives a welcome abroad," he declares, "according to how one conducts one's business, not according to nationality. We try to make certain that the total of our operations contributes to a country's economy. When it does, we are usually welcomed. When we fail (theoretically, of course), the reaction is adverse." [17]

3. *U.S. Consumers.*—As we stated before, it is difficult to isolate Item 806.30 and Item 807.00 operations and to quantify their role in the overall electronic industries' performance and in the markets these industries serve. But we have demonstrated the importance of these items as they relate to costs and to prices of electronic articles. We have shown how prices have been reduced to lower levels by the overall operations of these industries and obviously a change in the tariff status of articles entered under Items 806.30 or 807.00 would adversely affect such price performance.

Naturally, the U.S. consumer benefits from the lower prices which mark the products of these industries. And any increases in costs which result in increased prices will take away from the consumer part of these important benefits. It needs not extended discussion to show that such a result is undesirable at any time. It would be particularly unwelcome at the present time.

V. Probable Effects of Repeal of Items 806.30 and 807.00

The repeal of Items 806.30 and 807.00 would result in the levy of a tax on the products of American labor. Whereas at the present time tariffs are levied upon

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[15] *Newsweek*, June 23, 1969, p. 84.
[16] *The Wall Street Journal*, March 27, 1969, p. 37.
[17] *Dun's Review*, September 1967, p. 106.

the products of foreign workers, thus giving American labor a preferential status vis-a-vis their foreign competitors, the repeal of these provisions would eliminate this preference and result in treating American labor as if it were foreign labor. Repeal would not only contradict one of the stated purposes of U.S. tariff laws to protect American labor, it would result in seriously adversely affecting American labor, American industry, and other equally important American interests, as will be demonstrated.

Exhibit II analyzes the options which U.S. electronic companies have if these items are repealed.[18] The conclusion is that the most likely alternative a majority of U.S. electronic companies would adopt would be to increase the use of foreign-made components and correspondingly to reduce the use of American-made components.[19] Others would continue to use American-made components. We now will discuss the impact of these courses of action on the competitive status of electronic companies, employment in the electronic industries, the U.S. balance of payments, and on other relevant factors.

A. IMPACT ON COMPETITION

The repeal of these tariff provisions will have various competitive effects in the U.S. market for electronic articles and on the companies which sell in this market. Generally, the effects on U.S. companies which serve this market will be adverse while the effects on non-U.S. suppliers in this market will be favorable.

Initially, some U.S. companies will continue to operate as they do now and will increase prices to cover the additional duty costs. More of such companies will not be able to increase prices; they will have to absorb the increased costs, thereby either reducing profits or increasing losses. Whatever the case, companies who do initially choose to follow this course will find their competitive position in the U.S. weakened and in many instances they will be forced to take steps to buttress their competitive standing. Most likely these steps will be to source requirements abroad.

Other companies will initially attempt to maintain their competitive position by sourcing their requirements in foreign countries. Assuming that this measure does succeed in keeping the companies competitive on a cost, price and profit basis, their competitive posture will nevertheless be demonstrably weakened.

Foreign sourcing of product requirements will materially assist foreign producers of electronic products by increasing their sales and profits. Since many of these foreign producers also sell in the U.S. market, their competitive position in the U.S. market will be enhanced as their financial base is strengthened. Moreover, this process would support technological development in these companies to the detriment of U.S. companies.

In sum, the repeal of Items 806.30 and 807.00 will cause the competitive position of U.S. producers to deteriorate and the competitive position of foreign producers to improve.

B. IMPACT ON EMPLOYMENT

As the foregoing discussion demonstrates, the repeal of Items 806.30 and 807.00 cannot increase employment opportunities in the U.S. electronic industries. The majority of U.S. companies will be compelled for competitive reasons to source in foreign countries products they now make or purchase in the United States. It is clear that a shift to foreign sources for those present American-made products will not increase job opportunities for American workers. Moreover, in cases where foreign sourcing does not occur, the resulting competitive disadvantages to the U.S. companies will inhibit their growth and the usual expansion in employment opportunities which normally accompany growth.

But more important here is the fact that the real of these tariff provisions will result in the loss of American jobs which exist because of these provisions. In Exhibit II, EIA's economic consultant estimates that some 14,000 American workers were employed in 1969 in producing electronic articles exported to Item 807.00 assembly plants. A substantial number of these jobs—perhaps as many as 7,000—will be lost if the electronic companies concerned elect to source abroad the products these workers now produce in America.[20]

In addition to eliminating these jobs, the repeal of Item 807.00 could also adversely affect the jobs of additional thousands of American workers in the U.S. electronic industries. It is estimated that about 225,000 workers in these in-

[18] Exhibit II, pp. 9–13.
[19] Exhibit II, p. 13, *et seq.*
[20] Exhibit II.

dustries were employed in facilities which were engaged in Item 807.00 related operations last year. While difficult to quantify, it can be safely stated that some of these 225,000 jobs will be jeopardized by repeal of Item 807.00. It is not difficult to conclude that whatever the number of such jobs which will be adversely affected, repeal of Item 807.00 would serve neither the interests of the persons now holding such jobs nor American labor as a whole.

It is to be noted that the above data are related to Item 807.00 operations as they existed in 1969 and do not include data pertaining to Item 806.30 operations. The dramatic changes in the competitive situation in the U.S. market in the future as the result of repeal of these provisions could very well result in many additional thousands of U.S. jobs being placed in jeopardy.

C. IMPACT ON U.S. BALANCE OF PAYMENTS

Repeal of Items 806.30 and 807.00 will have a negative effect on the U.S. balance of payments for several reasons. Initially, the present U.S. favorable balance of trade in electronic articles—last year almost $1 billion—will decrease as U.S. companies import more foreign goods and export fewer American products.

Also, as discussed above, the present American technological lead in electronics will be adversely affected. As this occurs, present royalty and licensing flows would be reduced.

Finally, as operations are expanded abroad to serve the new competitive situation which would face American companies, the necessary capital to finance this expansion could come from the U.S. This would be the case where a U.S. company has not utilized its allowable amount of foreign investment of U.S. dollars. Moreover, some of such expansion might result in the use of foreign earnings which otherwise would have been repatriated to the U.S.

D. OTHER FACTORS

Item 806.30 and Item 807.00 operations in many instances were established abroad at the urging of the U.S. government and the encouragement of the host countries. This is particularly the case where such operations have been set up in less developed countries. These operations have given these countries and their people an opportunity to participate in a small way in the U.S. economy. To take actions which might force some of these operations to close down would seriously tarnish the image of the U.S. and alienate the peoples of these countries. We should avoid taking actions which could have this result in all cases where it is possible. It is particularly unwise to take such actions where none of our national interests is served or where, as here, such interests would be adversely affected.

The repeal of Items 806.30 and 807.00 could bring about increased mechanization in the electronic industries in order to keep costs and prices down. Such a move toward automation would tend to reduce competition as companies not able to afford the heavy capital investment dropped from the scene.

Finally, as discussed previously, one result of the repeal of these provisions might be to force producers to raise prices. This is most likely to occur in those segments of the industry serving non-consumer markets. A price change in such basic products probably would affect a wide spectrum of the economy and be counter to efforts to control inflation.

VI. CONCLUSION

For the reasons stated herein, the Electronic Industries Association concludes that operations of U.S. electronic companies under Items 806.30 and 807.00 are in the best interests of American companies, American labor, and other equally important national interests. The repeal of either or both of these tariff provisions would be inimical to these interests.

Respectfully submitted,

ELECTRONIC INDUSTRIES ASSOCIATION,
Washington, D.C.

ALFRED R. MCCAULEY,
Special Counsel.

MAY 14, 1970.

TABLE 1.—U.S. SALES OF ELECTRONIC ARTICLES, BY PRINCIPAL CLASSES, 1960-69

[In millions of dollars]

Year	Consumer products	Industrial products	Government products	Replacement components	Total
1960	2,018	1,980	6,124	555	10,677
1961	2,020	2,585	7,190	580	12,375
1962	2,435	3,025	8,080	620	14,160
1963	2,604	3,610	8,841	590	15,645
1964	2,940	4,268	8,775	620	16,603
1965	3,641	5,222	8,969	630	18,462
1966	4,528	5,842	10,330	640	21,340
1967	4,378	6,373	11,720	650	23,121
1968	4,619	6,693	12,504	675	24,491
1969	4,800	7,260	12,100	690	[1] 24,850

[1] Preliminary estimate provided by Marketing Services Department, Electronic Industries Association.

Source: Electronic Industries Year Book, 1969, prepared by Marketing Services Department, Electronic Industries Association.

TABLE 2.—U.S. IMPORT-EXPORT TRADE IN SELECTED ELECTRONIC PRODUCTS, 1966-69

[In thousands]

Commodity type	1966	1967	1968	1969
Consumer:				
Imports	$435,420	$454,144	$710,871	$994,509
Exports	64,562	64,494	85,229	106,621
Government, industrial, commercial:				
Imports	276,922	303,113	346,902	444,728
Exports	1,004,255	1,297,918	1,455,674	1,833,110
Components:				
Solid state devices:				
Imports	42,247	43,435	71,543	104,310
Exports	130,312	151,979	204,380	345,811
Tubes:				
Imports	53,430	52,621	56,162	43,582
Exports	75,524	80,798	78,628	91,995
Other components:				
Imports	108,488	137,395	176,966	244,213
Exports	251,105	289,791	337,230	423,898
Total:				
Imports	916,517	990,708	1,362,444	1,831,342
Exports	1,525,758	1,884,980	2,151,141	2,801,435

Sources: Electronic Industries Year Book, 1969, and Electronic Trends International, vol. 4, No. 2 (February 1970), prepared by Marketing Services Department, Electronic Industries Association.

TABLE 3.—ESTIMATED ELECTRONICS EMPLOYMENT BY SELECTED YEARS, 1961-69

[Employees in thousands]

Category	1961	1964	1966	1967	1968	1969
End equipment:						
Government and space	283	250	327	340	350	(1)
Industrial and commercial	126	165	169	172	175	(1)
Consumer	89	100	144	138	145	(1)
Total end equipment	498	515	640	650	670	
Components	280	305	440	434	440	(1)
Total manufacturing	778	820	1,080	1,084	1,110	[2] 1,136

[1] Not available.
[2] Estimated from data obtained from U.S. Department of Labor and industry sources.

Source: "Electronic Industries Year Book 1969." prepared by marketing services department, Electronic Industries Association.

TABLE 4.—EMPLOYMENT AND EARNINGS BY SELECTED ELECTRONIC INDUSTRY GROUPS, 1966–69

[Annual averages]

	1966	1967	1968	1969
Radio and TV receivers (SIC 365):				
All employees (in thousands)	161.7	156.3	153.4	154.6
Women employees (in thousands)	91.8	90.1	88.6	87.3
Production workers (in thousands)	128.6	120.0	116.4	115.3
Production-worker average weekly earnings (in dollars)	94.33	93.65	97.39	103.30
Production-worker average hourly earnings (in dollars)	2.37	2.42	2.51	2.69
Production-worker average weekly hours	39.8	38.7	38.8	38.4
Production-worker average weekly overtime hours	2.8	1.7	1.6	1.5
Accessions per 100 employees	7.0	5.2	5.9	5.2
New hires per 100 employees	5.7	3.3	3.6	3.2
Separations per 100 employees	5.5	6.9	6.6	6.3
Quits per 100 employees	3.1	2.9	3.1	2.7
Layoffs per 100 employees	.7	2.5	1.6	1.8
Communication equipment (SIC 366):				
All employees (in thousands)	467.7	510.9	522.9	525.1
Women employees (in thousands)	162.2	176.3	179.9	184.4
Production workers (in thousands)	235.2	252.5	257.8	257.1
Production-worker average weekly earnings (in dollars)	121.35	126.18	131.38	142.83
Production-worker average hourly earnings (in dollars)	2.91	3.07	3.22	3.45
Production-worker average weekly hours	41.7	41.1	40.8	41.4
Production-worker average weekly overtime hours	3.3	2.8	2.7	3.3
Accessions per 100 employees	3.5	3.0	2.5	2.8
New hires per 100 employees	2.8	2.3	1.8	2.2
Separations per 100 employees	2.7	2.7	2.8	2.8
Quits per 100 employees	1.6	1.5	1.5	1.5
Layoffs per 100 employees	4	.4	.6	.6
Radio and TV communications equipment (SIC 3662):				
All employees (in thousands)	339.6	380.9	392.3	384.0
Women employees (in thousands)	106.4	119.2	123.7	120.8
Production workers (in thousands)	148.2	165.2	171.3	163.3
Production-worker average weekly earnings (in dollars)	120.67	125.66	131.84	140.22
Production-worker average hourly earnings (in dollars)	2.88	3.05	3.20	3.42
Production-worker average weekly hours	41.9	41.2	41.2	41.0
Accessions per 100 employees	4.0	3.3	2.5	2.6
New hires per 100 employees	3.1	2.5	1.8	1.8
Separations per 100 employees	2.9	3.0	3.0	3.0
Quits per 100 employees	1.7	1.6	1.5	1.5
Layoffs per 100 employees	.4	.6	.8	.7
Electronic components and accessories (SIC 367):				
All employees (in thousands)	388.6	384.9	388.0	410.1
Women employees (in thousands)	233.6	222.9	219.1	230.3
Production workers (in thousands)	297.9	280.1	274.5	286.1
Production-worker average weekly earnings (in dollars)	92.11	94.08	100.73	105.59
Production-worker average hourly earnings (in dollars)	2.28	2.40	2.55	2.68
Production-worker average weekly hours	40.4	39.2	39.5	39.4
Production-worker average weekly overtime hours	3.0	2.0	2.2	2.2
Accessions per 100 employees	5.7	4.2	4.5	4.9
New hires per 100 employees	4.7	2.7	3.1	3.7
Separations per 100 employees	4.7	5.1	4.5	4.7
Quits per 100 employees	3.0	2.4	2.4	2.7
Layoffs per 100 employees	.6	1.6	1.0	.8
Electron tubes (SIC 3671–3):				
All employees (in thousands)	76.9	76.7	74.7	70.4
Women employees (in thousands)	39.4	39.2	36.5	33.5
Production workers (in thousands)	55.1	54.3	52.2	48.2
Production-worker average weekly earnings (in dollars)	110.08	106.66	108.86	115.24
Production-worker average hourly earnings (in dollars)	2.56	2.64	2.77	2.91
Production-worker average weekly hours	43.0	40.4	39.3	39.6
Accessions per 100 employees	4.7	3.4	3.4	3.3
New hires per 100 employees	3.9	1.8	1.7	2.0
Separations per 100 employees	3.3	4.8	4.1	4.1
Quits per 100 employees	2.0	2.0	2.0	2.1
Layoffs per 100 employees	.2	1.8	.9	.9
Electronic components N.E.C. (SIC 3674–9):				
All employees (in thousands)	311.7	308.2	313.2	339.7
Women employees (in thousands)	194.2	183.7	182.6	196.8
Production workers (in thousands)	242.8	225.8	222.3	237.8
Production-worker average weekly earnings (in dollars)	87.96	91.03	98.75	103.62
Production-worker average hourly earnings (in dollars)	2.21	2.34	2.50	2.63
Production-worker average weekly hours	39.8	38.9	39.5	39.4
Accessions per 100 employees	5.9	4.5	4.7	5.2
New hires per 100 employees	4.9	2.9	3.4	4.1
Separations per 100 employees	5.1	5.2	4.6	4.8
Quits per 100 employees	3.2	2.5	2.6	2.9
Layoffs per 100 employees	.6	1.6	.10	.8

Source: U.S. Department of Labor, Bureau of Labor Statistics. For years 1966–68 annual averages obtained from unpublished data from 1312 series (Employment and Earnings, United States) and 1969 annual averages from Employment and Earnings, vol. 16, No. 9 (March 1970).

EXHIBIT I

Statement of Objectives of the Electronic Industries Association

The Electronic Industries Association is the national industrial organization of electronic manufacturers in the United States.

It supports and strives to advance the defense of our country, the growth of our economy, the progress of technology, and all interests of the electronics industry compatible with the public welfare. It operates at all times within the framework of law, ethics, and the national interest.

Under policy direction of its Board of Directors and operating through its various product groups, service departments, committees, and staff, the Association—

Stimulates public awareness of the vital role of the electronics industry in national defense, space exploration, communication, education and entertainment, the evolution of industrial technologies, the improvement of living standards, and the rise in the Gross National Product.

Provides effective liaison between the industry and government to the advantage of both.

Provides a forum within the framework of our national laws and policies for industry representatives to discuss matters affecting the industry's interest and to implement the policies of the Association.

Assists the Department of Defense and the Armed Services in obtaining the most advanced and reliable products and scientific developments from industry through an interchange of information and ideas.

Advances the growth and technological progress of the industry by providing facilities and staff assistance in the development and dissemination of technical standards and other information, the registration of certain new products, and participation in national international standardization.

Collects and tabulates a growing variety of marketing data and production and sales of electronic products and conducts surveys of the industry as the need arises.

Provides a medium for collection and dissemination of information of special interest to the industry in such areas as international trade, industrial relations, credit, traffic rates, and the actions of government agencies.

Coordinates and conveys the views of Association members to appropriate bodies on legislation, governmental regulations, and allied industry organizations.

Cooperates with other associations of industry in areas of common interest to eliminate duplication of effort.

Advises educational agencies on the effective utilization of electronic teaching aids and the development of new devices for improved instruction.

Conducts a continual public relations program by providing pertinent information on the industry to the press, to public and private organizations, and to other interested parties.

Promotes and stimulates our free enterprise system and vigorously supports our national policies for maintaining and preserving this system.

Performs special functions and carries on temporary activities from time to time as requested by particular EIA groups within policies established by the Board of Governors.

EIA MEMBER COMPANIES

Admiral Corporation
Aerotron, Inc.
Aerovox Corporation
Airco Speer Electronic Components
Airtron (See Litton Industries)
Aladdin Electronics
Allen-Bradley Company
The Alliance Manufacturing Co., Inc.
Allstate Insurance Company
Alpha Metals, Inc.
The Alton Company, Inc.
Amelco Semiconductor
American Totalisator Co. (See General Instrument)
AMP Incorporated
Amperex Electronic Corporation
Ampex Corporation
Amphenol Divisions (See Bunker-Ramo Corp.)
Andrew Corporation
Andrews Tower, Inc.
The Antenna Specialists Company
A.R.F. Products, Inc.
ARINC Research Corporation
The Arnold Engineering Company
Arvin Industries, Inc.
Audio Devices, Inc.
Audio Magnetics Corporation
Auberbach, Pollak & Richardson
Auriema International Group, Inc.

Automatic Electric Co. (See GT&E)
Ball Brothers Research Corp.
The Bank of New York
Barnes Corporation
Bartlett Manufacturing Co. (See General Instrument Corp.)
BASF Systems Inc.
Basler Electric Company
A. G. Becker & Co. Inc.
Belden Corporation
Bell & Howell Company
Bell P/A Products Corporation
Bendix Corporation
The Bissett-Berman Corporation
Bliley Electric Company
Blonder-Tongue Laboratories Inc.
The Boeing Company
Bogen (See Lear Siegler)
Bourns, Incorporated
Bud Radio, Inc.
Bunker-Ramo Corporation
Burndy Corporation
Burnham and Company
Cable Consultants Corporation
Cambridge Research Institute
Canoga Electronics Corporation
Capital Research & Management Co.
The Carborundum Company
Carter Precision Electric Co.
Centralab Electronics Div. of Globe Union, Inc.
The Chase Manhattan Bank
Chicago Condenser Corporation
Chomerics, Inc.
Cinch (See TRW Inc.)
C. P. Clare & Co. (See General Instrument)
Clifton Precision Products (See Litton Industries)
Clinton Electronics Corporation
Coleman & Company
Thomas Collier & Associates
Collins Radio Company
Columbia Broadcasting System, Inc.
Communications Satellite Corporation
Computer Sciences Corp.
Connector Corporation
Conrac Corporation
Consolidated Wire & Associated Corporations
Continental Illinois National Bank & Trust Co. of Chicago
Cornell-Dubilier Electronics
Corning Glass Works
Cortron Industries, Inc.
The CRC Group, Inc.
Crystalonics
CTS Corporation
Dale Electronics, Inc.
Data Memory Inc.
J. W. Davis & Company
Dearborn Electronics, Inc. (See Sprague Electric)
Decibel Products, Inc.
Decitron Communication Systems Inc.
Walter B. Delafield & Co., Inc.
Delco Radio Division, General Motors Corporation
Diamond Power Specialty Corporation
A. B. Dick Company
Dickson Electronics Corporation
Eastman Dillon, Union Securities & Co.
Divelpro, Inc.
Dow Corning Corporation
Doyle, O'Connor & Company, Inc.
Drake Manufacturing Company
Dumont Electron Tubes
E. I. du Pont de Nemours & Co., Inc.
Dynair Electronics, Inc.
Dynascan Corp., B&K Communications Div.
Elco Corporation
Electra/Midland Corporation
Electro Materials (See Illinois Tool Works)
The Electro Motive Mfg. Co., Inc.
Erie Technological Products, Inc.
ETC Incorporated (See IT&T)
Fairchild Semiconductor
Ferranti Electric, Inc.
The Finney Company
The First National Bank of Chicago
First National City Corporation
B. Freudenberg, Inc.
Frost & Sullivan, Inc.
Funds, Inc.
Fusite Corporation
Galaxy Electronics, Inc.
Gardiner Solder Co.
Gavitt Wire & Cable Co.
GC Electronics Company
General Dynamics Corporation
General Electric Company
General Electronic Laboratories, Inc.
General Instrument Corporation
General Magnetic Corporation (See The Muter Co.)
General Products Corporation
General Radio Company
General Semiconductor Industries
General Telephone & Electronics Corp.
Goldman, Sachs & Co.
Goodman & Mautner, Inc.
Graham Magnetics Inc.
Graydon Associates, Inc.
Grayhill, Inc.
Greenebaum & Associates
Grumman Corporation
G. S. Grumman & Associates, Inc.
Harmon-Kardon, Inc.
Harris, Upham & Co., Inc.
Hawley Products Company
Hayden Book Company, Inc.
Hazeltine Corporation
Heath Company
Heppner Manufacturing Co.
Hercules Inc., Imperial Color & Chemical Dept.
Hermetic Seal Corporation
The Hickok Electrical Instrument Co.
Hoffman Electronics Corporation
Hogan Faximile Corporation
Honeywell, Inc., Comms. & Data Prdts. Div.
Hugh H. Eby Company
Hughes Aircraft Company

Hycon Company
Hy-Gain Electronics Corporation
Hysol Div., Dexter Corp.
IIT Research Institute
Illinois Tool Works Inc.
IMA Incorporated
Information Handling Services, Inc.
Integrated Circuit Engineering Corp.
International Business Machines Corp.
International Electro-Magnetics, Inc.
International Electronic Research Corp.
International Electronics Corp.
International Rectifier
International Telephone and Telegraph Corp.
International Video Corporation
IRC (See TRW)
Isomet Corporation
J-B-T Instruments, Inc.
Jensen Division (See Muter Co.)
Jerrold Electronics Corporation (See General Instrument Corp.)
JFD Electronics Co.
E. F. Johnson Company
Kalb, Voorhis & Co.
Kearney & Trecker Corporation
Kester Solder (See Litton Industries)
Keystone Carbon Company
King Laboratories, Inc.
Kings Electronics Co., Inc.
KLH Research & Development Corp.
Kulka Electric Corp.
Lancaster Glass Corporation
Lansing Research Corporation
Laser Diode Laboratories, Inc.
Lear Jet Stereo, Inc.
Lear Siegler, Inc.
Ledex, Inc.
Lehman Brothers
Lenkurt Electric Co. (See GT&E)
Lenz Electric Manufacturing Co.
Letter Management Corporation
Arthur Lipper Corporation
Littelfuse, Incorporated
Arthur D. Little, Inc.
Litton Industries, Inc.
Lockheed Aircraft Corporation
Loral Distributor Products
Machlet Laboratories (See Raytheon Co.)
The Magnavox Company
P. R. Mallory & Co., Inc.
Management Sciences Associates
Marketing World, Ltd.
Martin Marietta Corp.
McDonnell Douglas Corporation
McGregor Electronics Industries, Inc.
McMartin Industries, Inc.
Megadyne Industries, Inc.
Memcor Div., LTV Electrosystems, Inc.
Memorex Corporation
Mentor International
Mepco, Inc.
Merrill Lynch, Pierce, Fenner & Smith, Inc.
Michigan Magnetics
Micro Tech Mfg., Inc. (See Sprague Electric Co.)
Microwave Associates, Inc., Comms. Equip. Div.
James Millen Manufacturing Co., Inc.
J. W. Miller Company
Minnesota Mining & Mfg. Co.
Mitchum, Jones & Templeton, Inc.
Morhan Exporting Corporation
Motorola, Inc.
Muirhead, Inc.
The Muter Company
National Radio Institute
National Semiconductor Corporation
Newell Industries, Inc.
Noller Control Systems, Inc.
North American Philips Corporation
North American Rockwell Corp.
Northern Engineering Laboratories
Norton Company, Metals Div.
Nortronics Company, Inc.
The Ohio Carbon Company
Ohmite Manufacturing Company
Olympic (See Lear Siegler)
Oppenheimer & Company
Owens-Illinois, Inc.
Oxford Speaker Company
Page Communications Engineers, Inc.
Paktron (See Illinois Tool Works)
Pfizer Minerals
Philco-Ford Corporation
Planning Research Corporation
Plastronics Corporation
Poly-Scientific Corp. (See Litton Industries)
Pomona Electronics Co., Inc.
The Potter Company
T. Rowe Price and Associates, Inc.
Quam-Nichols Company
Quantum Science Corporation
Radiation Systems, Inc.
Radio Materials Company (See P. R. Mallory)
Radio Specialty Manufacturing Co.
Radiotronix Communications Labs., Inc.
Rapid Die and Molding Co.
Raytheon Company
RCA Corporation
Regency Electronics Inc.
Reynolds & Co.
Rocke International Corporation
Rola Div. (See The Muter Co.)
L. F. Rothschild & Co.
S & A Electronics, Inc.
Howard W. Sams & Co., Inc. (See IT&T)
San Fernando Electric Mfg. Co.
Sangamo Electric Company
Savoy Electronics, Inc.
Sawyer Research Products, Inc.
Sealtron Corporation
Secode Electronics
Shurite Meters (See J-B-T Instruments)
Signalite, Inc. (See General Instrument)
Signetics Corporation (See Corning Glass Works)
Siliconix Incorporated
Simpson Electric Company
Solid State Devices, Inc.

Solitron Devices, Inc.
Sprague Electric Company
Stackpole Carbon Company
Steel Industries
Walter V. Sterling, Inc.
Stone City Products Co.
Stromberg-Carlson (See General Dynamics Corp.)
Stromberg Datagraphix (See General Dynamics)
Supervised Investors Services, Inc.
Switchcraft, Inc.
Sylvania Electric Products Inc. (See GT&E)
Symphonic Electronic Corp.
Syncro Capacitor Corporation
System Development Corporation
Talk-A-Phone Co.
Tansitor Electronics, Inc.
Technology Consultants, Inc.
Telefunken Sales Corporation
TelePro Industries, Inc.
C. Tennant, Sons & Co., of N.Y.
Texas Instruments Incorporated
Thomson Electric Company, Inc.
Triad Transformer (See Litton Industries)
Triplett Corporation
The Turner Co. (See Conrac Corp.)
TRW Inc.
Union Carbide Corporation
Union City Filament Corp.
United Condenser Corporation
United Electronics Company
United Technical Publications, Inc.
United Transformer (See TRW Inc.)
Unitrode Corporation
UNIVAC, Div. of Sperry Rand Corp.
Universal Instruments Corp.
University Computing Company
USECO (See Litton Industries)
Utrad Corp. (See Litton Industries)
Visual Information Institute
Vitramon, Inc.
WABCO Hermetics
Waddell & Reed, Inc.
Wagner Electric Corporation
Warwick Electronics Inc.
Waters Conley Company, Inc.
Wells-Gardner Electronics Corporation
Western Electric Company, Inc.
The Western Union Telegraph Co.
Westinghouse Electric Corporation
Wheeler Laboratories, Inc. (See Hazeltine Corp.)
Winchester Electronics (See Litton Industries)
Winston Electronics
Dean Witter & Co.
William D. Witter, Inc.
Wyco Metal Products
Xerox Corporation

EXHIBIT II

The Economic Effects of the United States Electronic Industries' Use of Item 807.00 Tariff Schedules of the United States

(By Robert B. Stobaugh, Harvard University Graduate School of Business Administration, May 1970)

Introductory Statement

President Nixon's letter of August 18, 1969, requested the United States Tariff Commission to investigate the economic effects of the use of Tariff Item 806.30, under which metal processed in the United States can be further processed abroad and returned to the United States upon payment of duty only upon the value added abroad, and Tariff Item 807.00, under which components made in the United States can be assembled abroad and returned to the United States upon payment of duty only upon the value added abroad, provided the physical identities of the components remain unchanged.

This report is a result of a request by the Electronic Industries Association for me to do an objective study of the economic factors involved in the use of Item 807.00 by the electronics industries and the probable economic effects of repealing this Item. The report is limited to a study of those operations that are covered by Item 807.00 since such operations are believed to account for over 90% of the combined Item 806.30—Item 807.00 operations of the U.S. electronic industries. To assist the United States Tariff Commission to the maximum extent, I was requested in this study to focus on those items mentioned in the President's letter, that is, competition, production, balance of payments, and employment.

Although the Electronic Industries Association cooperated with me by providing summaries of data given by individual member companies to the Tariff Commission, this report represents my views and not necessarily those of the Association.

I. SUMMARY

The Item 807.00 operations of the electronic industries are relatively small compared with the total operations of these industries, accounting for about 12% of the industries' total foreign trade and less than 3% of their total

production. However, these Item 807.00 operations play an important role in enabling U.S. companies to adjust to increased competition from foreign manufacturers, especially at critical times in the life cycles of certain products.

Repeal of Item 807.00 would result in a decline in U.S. employment opportunities, less U.S. production, and a smaller U.S. net trade balance with a resulting negative effect on the U.S. balance of payments.

II. SIZE OF 807.00 OPERATIONS COMPARED WITH TOTAL U.S. ELECTRONIC INDUSTRIES' OPERATIONS

Imports of electronic articles under Item 807.00 amounted to $332 million in 1969. Of this total, some $119 million consisted of tariff-exempt U.S. goods assembled in the imported articles while the balance—$213 million—consisted of U.S. goods not tariff-exempt because their physical identities has been changed and foreign value added including materials, components, labor costs, overhead, and profit. While only $119 million of American goods were returned tariff-exempt under Item 807.00, an additional $93 million—or a total of $212 million—of components identical to those returned to the U.S. were exported from the U.S. plants involved in the Item 807.00 operations. The total electronics exports and imports under Item 807.00 represented 12% of the U.S. total foreign trade in electronics and about 2.2% of total U.S. production in electronics.

With reference to the employment picture, about 37,000 employees worked in the U.S. making Item 807.00 exports or using Item 807.00 imports. This represented 3.3% of total employment in the U.S. electronics industries and 5.2% of the total production workers. However, total U.S. employment in the electronic establishments either exporting or importing Item 807.00 products amounted to 225,000 workers in 1969. Since a significant part of Item 807.00 exports was purchased by users of Item 807.00 from other U.S. suppliers, the workers in the plants of these other suppliers are included in these figures. This 225,000 represented 20% of all U.S. employment in the electronics industries, and perhaps what is a more relevant comparison, 32% of all U.S. production workers.

Because of the large amounts of hand labor used abroad to assemble components, some 88,000 workers were employed in the foreign plants using Item 807.00 components, and about 46,000 of these assembled components which were exported to the United States under Item 807.00; the remaining 42,000 made products for markets other than the U.S. The difference in production processes used in the U.S. and abroad is revealed by a comparison of the amount of net fixed assets used per employee—$2700 abroad versus $7100 per production workers in the U.S. (Appendix A contains data on Item 807.00 operations.)

III. PROBABLE EFFECTS OF REPEAL OF ITEM 807.00

In order to discuss the probable effects of repeal of Item 807.00, I first describe an analytical framework and then discuss the alternative courses of action open to companies now utilizing foreign facilities under this tariff provision. Briefly, these alternatives are:

1. Close the foreign plants and perform the operations in the U.S. with the existing labor intensive processes used abroad.
2. Close the foreign plants and perform the operations in the U.S. with automated equipment.
3. Keep the foreign plants operating as now and pay the increased duty on articles shipped from the U.S., assembled abroad, and returned.
4. Keep the foreign plants operating but supply them with articles made abroad, either making such articles in new company-owned facilities abroad or buying them from foreign manufacturers.
5. Close both foreign and domestic plants and buy complete product abroad.
6. Cease offering the product for sale.

Each of these alternatives is examined in detail so that an estimate can be made as to the alternative or combination of alternatives the companies concerned are likely to take. Because of the special interest in employment in the U.S., a sensitivity analysis is presented to show whether it is probable that another alternative would result in increased U.S. employment opportunities compared with the alternatives indicated by me as those most likely to be selected by the various companies concerned.

Finally, I present an estimate of the effect, compared with the present system,

that adoption of the alternatives would have on the major variables covered by the President's letter: product competition; operations in the U.S. and abroad of these industries; balance of payments; and U.S. employment, employment opportunities and wage levels.

The estimates at which I arrive are based upon a combination of U.S. Tariff Commission unpublished data, material supplied by EIA member companies in responses to the Tariff Commission's questionnaires, and published statistics on the electronic industries. As requested by the Electronic Industries Association, I based all estimates on 1969 operations. While I present my "best estimates" of the relevant variables, these estimates should be interpreted as being reasonable approximations of "true" values of such variables and I believe certainly close enough so that the conclusions are valid.

A. ANALYTICAL FRAMEWORK

A number of studies have shown that the concept of a product life cycle provides a useful way to view the growth of the world electronics industry.[1] I will describe this concept in some detail because of the insights that it provides into the reasons why companies use Tariff Item 807.00.

As a product passes from invention to maturity, its growth in consumption often starts slowly, then increases rapidly for a time, and then slows down as the product becomes "mature." These phases of growth are accompanied by changes in the relative importance of various factors of production; namely, management, skilled labor (including scientific and engineering know-how), unskilled labor, and capital. These changes have major implications for international trade and the location of production facilities in the electronics industry.

During the introductory phase of the product life cycle, frequent changes are introduced in the technology. As a result large amounts of scientific and engineering manpower are used; investments in fixed assets are relatively low. Additionally, because of the need for frequent communications with the customers of new products, it is important that new product development be done in countries with a large market. As the U.S. has available a large supply of scientists and engineers plus a large market, it is only natural that the U.S. electronics industry is recognized as the world's leader in the development of new technology and products.[2]

During this early stage in a product's life cycle, the innovating country typically exports the product to the rest of the world; hence, it is reasonable to expect the U.S. to have a substantial trade surplus in relatively new electronic products, and indeed this is the case. Further evidence to support these points is the fact that the five U.S. industries that account for the United States trade surplus use relatively more scientists and engineers in research and development, production, and sales than do the other fourteen major U.S. industries. Furthermore, these five "export industries" are less capital intensive on the average than are the fourteen other industries. The electronics industry, of course, is one of these five "export industries."[3]

If a product survives the introductory stage, then it enters the rapid growth stage during which mass production techniques are introduced. Production runs are increased and more special-purpose equipment is installed. The ratio of capital to labor is increased and management ability is of critical importance. On the average the skill level of the labor is less than during the early stage as fewer scientists and engineers are used. The market place becomes much more competitive, and, of course, the lower prices cause the consumption of the product to increase. On the international scene technology becomes available as firms in other nations either purchase U.S. technology or develop their own. U.S.

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[1] For example, see Raymond Vernon, "International Investment and International Trade in the Product Cycle," *Quarterly Journal of Economics*, LXXX (May 1966), 190–207; Seev Hirsch, "The United States Electronics Industry in International Trade," *National Institute Economic Review*, XXXIV (November 1965), 92–97; and Dennis C. Mueller and John E. Tilton, "Research and Development Costs as a Barrier to Entry," *The Canadian Journal of Economics*, II (November 1969), 570–579.

[2] See Organization for Economic Cooperation and Development (OECD), *Gaps In Technology Between Member Countries: General Report* (Paris, 1968), p. 17; OECD, *Gaps in Technology: Electronic Components* (Paris, 1968), Chapter 4; and C. Freeman, "Research and Development in Electronic Capital Goods," *National Institute Economic Review*, XXXIII (November 1964), p. 64.

[3] William Gruber, Dileep Mehta, and Raymond Vernon, "The R&D Factor in International Trade and International Investment of U.S. Industries," *Journal of Political Economy*, LXXV (February 1967), pp. 20–37.

exports are still substantial during this stage of a product's life cycle, but foreign producers become major competitive threats especially near the end of this phase of the life cycle. A country such as Japan becomes very competitive at this time because it has good management, a good supply of technical manpower capable of absorbing advanced technology, and a labor supply at a lower cost than that of the U.S. Thus, the profits of U.S. firms begin to be squeezed by the Japanese.

Finally the product enters the mature stage. By now production specifications are quite standardized and technology is fairly stable. Technical manpower and skilled labor are of less importance, while unskilled labor becomes much more important. When the product is well into this phase then technology is so readily available and unskilled labor so important that production of these types of electronic products is started in countries with a large supply of relatively low-cost, unskilled labor; i.e., the less developed countries. As many of the mature electronic products are relatively labor intensive and as freight typically is a relatively small portion of the value of such articles, then electronic products represent prime candidates for manufacture in and export from a less developed country; of course, the fact that such countries feel that they must export manufactured goods to foster their economic development is well-known. The net result is that in very mature products, the Japanese manufacturers have experienced intense competition from countries with lower wages. As an illustration, one study shows that Japan exports "low-wage" goods to the U.S. and exports so-called "technological-gap" goods to the less developed countries.[4] In turn Japan imports low-wage goods from the less developed countries.

In brief, we see that as a product matures, the advantage in manufacture tends to shift from the U.S. to other advanced countries such as Japan and finally to less developed countries such as Taiwan. In this natural pattern that has been taking place in electronics, the U.S. firm and U.S. labor face a continuous adjustment process; the need is to shift continuously to the manufacture of those new and technologically advanced products in which the U.S. has a natural advantage. Of course, such activities typically yield good profits and higher-than-average wages; for example, the average wage embodied in U.S. exports is higher than that embodied in U.S. goods competing with U.S. imports.[5]

What alternatives are open to the U.S. firms that must compete in this kind of an environment? Management has a strong desire to manufacture in the home country of the firm and there are documented cases of companies not being willing to consider production abroad until competition forced them into it; and in these cases the executive chose products in which they were experiencing either losses or low profits rather than selecting the products on which the most money could be saved by manufacturing abroad.[6] However, unless substantial tariff or quota protection is given for mature products, the U.S. executive must consider purchasing or manufacturing the articles abroad; and, of course, both routes have been taken by a number of U.S. firms. The provisions of Item 807.00 have enabled some U.S. firms to maintain some of their high-skill operations in the U.S. while moving only the most labor-intensive, low-skilled jobs abroad. Thus the 807.00 provision helps serve as a defense against foreign competition and has been used as such; therefore, it tends to slow the movement of some jobs abroad.

B. ALTERNATIVES OPEN TO THE COMPANIES

1. *Close Foreign Plant and Assemble Products in the U.S. With Same Methods Used Abroad.*—Electronic firms selecting this alternative would have to sell the foreign plants and equipment although, of course, some of the equipment might be moved back to the U.S. Equipment would have to be installed in the U.S. to enable the assembly operations to take place. New employees would have to be hired and trained in the U.S. to do the assembly operations.

The net results if all firms adopted this proposal would be the sale and/or removal of $126 million of net fixed assets in foreign plants; the retention of annual lease payments for foreign plants of about $1 million; the laying off of

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[4] Yoshihiro Tsurumi, "R&D Factors and Exports of Manufactured Goods of Japan," to be published in a book being edited by Louis T. Wells, Jr., forthcoming from Harvard Business School Division of Research; and Terutomo Ozawa, "Imitation, Innovation, and Japanese Exports," in Kenen and Lawrence (Eds.), *Open Economy* (New York: Columbia University Press, 1968).

[5] Helen Waehrer, "Wage Rates, Labor Skills, and United States Foreign Investment," in Kenen and Lawrence, *op. cit.*; and Irving Kravis, "Wages and Foreign Trade," *Review of Economics and Statistics*, XXXIV (February 1956), pp. 14–30.

[6] Harvard Business School Case Clearinghouse, *Systek (A)*, ICR 460, 1969.

46,000 foreign workers and possibly 88,000 if the firms' non-807.00 operations could not survive without the presence of the 807.00 operations; the installation of $182 million worth of equipment in the U.S. (some equipment would be new and would cost more than the net fixed value of the existing equipment overseas); and the hiring and training of 46,000 U.S. workers, assuming approximately equal efficiency in assembly-line operations between U.S. and foreign workers and this is a reasonable assumption for these types of operations. Assuming a 50% recovery of the foreign net fixed assets, the firms would face the following cost picture:

Recovery from foreign net fixed assets	($63,000,000)
Installation of new equipment	182,000,000
Resulting increase in capital expenditures	119,000,000
Approximate annual charge for this capital in depreciation and profit	40,000,000
Annual increase in wages (assume salary differential of $4000 annually between U.S. and foreign workers)	184,000,000
Duty and freight saving	30,000,000
Net annual costs increase	194,000,000
As a percent of current value of goods	58

As previously discussed under the Analysis, the products being manufactured overseas are those in a competitive stage of their product life cycle; this being the case, I do not think it feasible that a firm could absorb a cost increase equivalent to 58% of the value of such products and still stay in business. The net profit before taxes in the electronics industries approximated 8% of sales in 1968, and it is probable that profit in the more mature lines averaged less than this. Furthermore, as indicated below there is a lower-cost alternative open to the firm.

2. *Close Foreign Plants and Assemble Products in the U.S. with Automated Equipment.*—The effects abroad of all firms' selecting this alternative are similar to those for the prior one; for example, laying off 46,000 foreign workers and disposing of much of the $126 million worth of equipment used to produce 807.00 items overseas. A major equipment development program would be required to develop automated equipment for use in the U.S. It is difficult to estimate accurately the development and capital costs involved in this alternative; however, available data indicate an approximate cost of $10,000 per worker displaced in order to install an automated assembly line.[7] On this basis it would require $460,000,000 to build assembly lines to replace 46,000 workers. Such a sum would require an annual capital charge for profit and depreciation of $150 million or more. About $50 million would be saved in wages now paid overseas, so the net additional cost would be about $100 million. As in the prior alternative, this is too large a sum for the companies to absorb in these products; thus I conclude that this is not a viable alternative. Even if it were selected, it would not provide any substantial number of new jobs in the U.S.

3. *Keep Operations as at Present and Pay Increased U.S. Duty.*—Under this alternative I estimate that the increased costs would be about $11 million yearly for the firms (based on the assumption of an average 9% duty on the U.S. tariff-exempt portion [$119 million] of the 807.00 imports). This $11 million represents aout 3.3% of the total value of the imported items or about 40% of the industry's profit on these items, assuming an average profit margin. Because of the competition existing in these products I doubt that prices could be raised sufficiently to recoup any substantial portion of this sum. On the other hand the firms could not afford a 40% drop in profits and still maintain the profit margins required to attract new capital and finance research and development. Thus, although this alternative is more attractive than prior alternatives discussed, I believe that even lower cost alternatives would be sought.

4. *Expand Foreign Activities to Manufacture or Purchase Products Now Made in U.S.*—If all firms selected this alternative then they would lay off or transfer to other work the 14,000 U.S. workers making components for export under 807.00 operations. About $150 million in new fixed assets would be required abroad. Perhaps 50% of the equipment could be moved from the U.S. in which case $75 million in new foreign investment in plant and equipment would be required. Offsetting this would be an annual saving in wage costs of some $56

[7] Harvard Business School Case Clearinghouse, *Systek (A)*, ICR 460, 1969.

million. Hence this appears to be a good investment. The U.S. mandatory restraint program would not prevent this from happening as the firms would have no trouble raising this money abroad.

Instead of a U.S. firm's making the components abroad it is possible that a foreign firm would make them and supply them to the U.S. firm. In either case the net impact on U.S. trade flows in the products and on U.S. employment would be the same.

I conclude that this alternative or some basic variation of it would be the dominant response if Item 807.00 were repealed. However, in order to present a more complete picture other alternatives are considered.

5. *Close Both Domestic and Foreign Plants and Purchase Complete Product Abroad.*—In certain product lines the firm might not wish to manufacture abroad but might find it difficult to purchase foreign-made components which are adequate substitutes for those now being made in the U.S. and shipped abroad. In this case some firms would decide to stop all manufacturing activities and concentrate their energies on marketing. The effect on U.S. employment, production, and trade flows would be as in the prior alternative.

6. *Drop the Product Line.*—The result of this would be abandonment of the product line to foreign companies, especially the Japanese. While some companies might select this route I believe that most would not because of the importance of maintaining a full product line for the convenience of their customers.

C. CONCLUSIONS AS TO WHICH ALTERNATIVES THE COMPANIES WOULD SELECT

It appears that the dominant reaction would be the manufacture (or purchase) abroad of the components now made in the U.S. However, before examining the effects of such an action I will determine the share of jobs that would have to be returned to the U.S. by closing foreign plants and assembling products in the U.S. with same methods used abroad in order to equal exactly the employment effects of moving the remaining operations abroad. As there are 46,000 foreign workers making 807.00 items abroad for export to the U.S. compared with 14,000 U.S. workers making 807.00 items for export, approximately one-quarter of the total work would have to be moved back to the U.S. for the employment effects to be equal ($\frac{1}{4} \times 46{,}000 = 11{,}000 = (1 - \frac{1}{4}) \times 14{,}000$).

Because of the extremely large costs involved in this alternative—approximately $50 million still would be added to the over-all cost of operations for the companies even if only one-quarter of the jobs were moved back to the U.S.—there is a low probability that as many as one-quarter of the foreign jobs would be moved to the U.S. Yet even if they were, it would result in a substitution of 11,000 low-skilled jobs for 11,000 relatively high-skilled jobs which would be transferred abroad. Hence this solution is not attractive either for labor or management.

From the above analysis it appears that the most likely alternative selected by the companies would be to manufacture or purchase abroad the components now being made in the United States. Of course, this would not take place in 100% of the cases nor would it happen instantaneously; instead some of the firms would keep operations as is and pay United States duties on imports.

I use two methods to obtain an estimate of the amount of United States exports that would be lost by the actions taken in response to a repeal of Item 807.00. In the first method I assume that the increase in U.S. duties would have the same effect as a price or tariff increase on the U.S. exported components. Detailed studies have been made showing the effect of price and tariff changes on aggregated groups of products; in fact, these studies provide the only analytical model of which I am aware that enables the required estimates to be made. For this reason I will use them here and I used them in previous studies—in my statement before the Committee on Ways and Means, House of Representatives, on the effect that adopting the Geneva Supplementary Agreement would have on U.S. exports and imports and in my study for the Cabinet Task Force on Oil Import Control on the effects of cost changes on trade in petrochemicals.[8]

A review of these studies reveals that a price or tariff increase equal to an average amount of 1% on a large group of industrial products results in a decrease in trade flows of several per cent within one year and as high as 10%

[8] For more details see my statement in *Foreign Trade and Tariff Proposals*, Hearings before the Committee on Ways and Means, House of Representatives, Ninetieth Congress, Second Session on Tariff and Trade Proposals (Washington, D.C.: U.S. Government Printing Office, 1968), p. 4683; and "The U.S. Oil Import Program and the Petrochemical Industry," (mimeographed, 1969), p. 57–72.

over a 10-year period. (These numbers are referred to as price or tariff "elasticities.") Because firms in the electronics industries can react more quickly than the aveage industrial firm—electronic assembly lines have been built in a few months compared with the several years it takes to build a petrochemical plant, for example—I estimate that a tariff elastricity of 5% would apply within a year or so for these electronic products. Thus, if the U.S. duties on electronic products average 9%, then the total effect on Item 807.00 trade would be 5 x 9 or 45%. Hence there would be a 45% decrease in U.S. exports of Item 807.00 components; these exports would be replaced by foreign production.

The second method which I used to estimate the effect of Item 807.00 repeal was to question a group of knowledgeable industry executives. Their average estimate of the amount of U.S.-made components now exported under Item 807.00 operations which would be made abroad was 70%.

Considering the fact that these Item 807.00 components are in a competitive stage of their product life cycle whereas the econometric studies referred to above are for all products regardless of their competitive situation, it is quite possible that the executives' estimates might be more correct than the econometric studies of trade in broad categories of products. Hence I use an estimate of 50%, that is to say, I estimate that if Item 807.00 were repealed, 50% of the articles now made in the U.S. and exported under Item 807.00 operations would be made overseas instead of in the United States.

D. EFFECTS OF ADOPTION OF LIKELY ALTERNATIVES

1. *Product Competition.*—Under my estimates some 50% of the goods—those with components still made in the U.S.—would be less competitive by about 3.3.% on sales, or prices would be increased by this amount. The competitive effect on the other goods—those with all components manufactured abroad—would be mixed. Some would be less competitive because one can argue that if it were more economical for a firm to manufacture components abroad than to use U.S. components and Item 807.00 operations then they would be doing it now; however, given management's preference for manufacture in the U.S., there are undoubtedly some cases in which Item 807.00 components now being made in the U.S. could be made abroad less costly. In these cases products would have lower over-all costs than at present. Considering all of these factors, I believe that the net competitive effect would be to increase costs, but not by as much at 3.3%.

2. *Operations.*—The net decrease in U.S. production would be $106 million. Exports would decline by this amount; imports would not change; and U.S. firms' net fixed assets abroad would increase by about $75 million.

3. *Balance of Payments.*—The net decrease in exports would be $106 million; there would be a one-time increase of $75 million in net fixed assets abroad, but it is difficult to say what portion of this would represent new capital outflow from the United States. The reason for this difficulty is that some firms would be at their maximum allowable under the mandatory foreign investment restraint program and therefore would borrow the additional capital abroad. On the other hand, some of the firms would not be at their limit and hence their investments would represent new outflows. For estimating purposes, I assumed that the investment account would be neutral and that the trade account would represent the net balance of payments effects. I believe that this is a realistic approach when one considers the known difficulties in estimating accurately the balance of payments effects.[9]

4. *Employment.*—Approximately 7,000 U.S. workers would lose their present work assignments and either would be transferred to other jobs within the companies or would lose their jobs. Since employment in the electronics industries increased by 10,000 production workers and 26,000 total workers from 1968 to 1969 and since part of this increase was due to Item 807.00 operations, it is doubtful that these 7,000 workers could be absorbed in the industry. The effect on wage levels is difficult to quantify but it is doubtful that on the average workers would find higher paying jobs than they now have, otherwise one could argue that they would move to them now.

E. CONCLUSION

The primary effects of repealing Item 807.00 would be undesirable. There would be declines in U.S. employment opportunities, U.S. production, and the U.S. net trade balance, while prices would increase slightly.

[9] Raymond Vernon. *U.S. Controls on Foreign Direct Investments—A Reevaluation* (New York: Financial Executives Research Foundation, Inc., 1969).

APPENDIX A—COMPARISON OF ELECTRONIC INDUSTRIES' OPERATIONS UNDER ITEM 807.00 WITH TOTAL OPERATIONS, 1968 AND 1969

I. BASIC DATA

	1968		1969	
	Absolute	Percent	Absolute	Percent
A. Sales and trade data (millions)				
1. Total sales	$24,491		$24,850	
2. Total imports	1,362		1,831	
(a) Item 807.00 imports:				
Total	216		322	
As a percent of total sales		0 9		1.3
As a percent of total imports		16.0		18.0
(b) U.S. tariff-exempt components in item 807.00 imports:				
Total	86		119	
As a percent of total sales		.4		.5
As a percent of total imports		6.3		6.5
3. Total exports	2,151		2,801	
(a) Item 807.00 exports:				
Total	109		212	
As a percent of total sales		.5		.9
As a percent of total exports		5.1		7.6
4. Total trade (exports plus imports)	3,513		4,632	
(a) Item 807.00 trade:				
Total	325		544	
As a percent of total sales		1.3		2.2
As a percent of total trade		9.3		12.0
B. Employment data (thousands of persons, annual averages):				
1. Employment in U.S. electronic industries				
Total	1,110		1,136	
Production workers	695		705	
(a) Employment in U.S. plants exporting or importing item 807.00 articles:				
Total	189		225	
As a percent of U.S. employment		17		20
As a percent of U.S. production workers		27		32
(i) U.S. workers making item 807.00 exports:				
Total	8		14	
As a percent of U.S. employment		.7		1.2
As a percent of U.S. production workers		1.2		2.0
(ii) U.S. workers using item 807.00 imports as raw materials:				
Total	13		23	
As a percent of U.S. employment		1.2		2.0
As a percent of U.S. production workers		1.9		3.3
(iii) Total U.S. workers making item 807.00 exports and using item 807.00 imports as raw materials:				
Total	21		37	
As a percent of U.S. employment		1.9		3.3
As a percent of U.S. production workers		3.0		5.2
2. Employment in foreign plants in which item 807.00 articles are assembled:				
Total	66		88	
Total for exports to United States under item 807.00	49		46	
C. Investment data related to employment:				
1. Net fixed assets employed in United States:				
Total (millions)	(1)		5,000	
Per employee (dollars)	(1)		4,400	
Per production worker (dollars)	(1)		7,100	
2. Net fixed assets in foreign plants in which item 807.00 articles are assembled:				
Total (millions)	(1)		240	
Per employee (dollars)	(1)		2,700	

[1] Not available.

II. GROWTH FROM 1968 TO 1969

	Change 1968 to 1969	
	Absolute (millions)	Percent
A. Sales and trade:		
1. Total sales	+$359	+1.5
2. Total imports	+469	+28.0
(a) Item 807.00 imports	+116	+54.0
(b) U.S. tariff-exempt components in item 807.00 imports	+33	+38.0
3. Total exports	+650	+30.0
(a) Total item 807.00 exports	+103	+95.0

	Change 1968 to 1969	
	Absolute (thousands of persons)	Percent
B. Employment:		
1. Total employment	+26	+2.3
2. Production workers	+10	+1.4
3. In U.S. factories exporting or importing item 807.00 artciles	+36	+19.0
4. U.S. workers making item 807.00 exports or using item 807.00 imports as raw materials	+16	+76.0
5. In foreign plants in which item 807.00 articles are assembled:		
Total	+22	+33.0
Total for export to United States	−3	−6.0

Sources of Data (Including Line Number)

A1, A2, A3—Electronic Industries Association Statistics (most EIA statistics are from *Electronic Industries Year Book 1969*, prepared by Marketing Services Department, EIA).

A2a, A2b—Estimated from unpublished data received from U.S. Tariff Commission.

A3a, C2—Estimates of total 807.00 operations were made by dividing the EIA sample data by 0.70, which is the share of total 807.00 operations represented by the EIA sample. The EIA sample was obtained by summarizing data from copies of Tariff Commission questionnaires submitted by companies to the EIA.

B1—EIA Statistics were used for 1968; estimates for 1969 were obtained by projecting EIA data by same growth rate as SIC 365, 366, 367, and 3611 for 1968 to 1969. The SIC data were obtained from Bureau of Labor Statistics, U.S. Department of Labor, unpublished data from 1312 series (Employment and Earnings, United States) for SIC 365, 366, and 367 and from the U.S. Department of Commerce, *U.S. Industrial Outlook 1970*, page 325, for SIC 3611.

B1a—Calculated by dividing total employment reported in EIA Sample by .70 to obtain an estimate of total employment in companies exporting goods made by them to their overseas plants under 807.00 operations. This estimate was then multiplied by ratio of "goods purchased and exported" to "goods supplied by company and exported" (which in 1969 was 1.111) to get an estimate of employment in supplying industries. It was also estimated that 50% of the factories in the supplying industries also supply goods directly for export to their own foreign 807.00 operations; hence, the estimate of total employment in supplying industry was multiplied by 0.50 to get net employment which was then added to the estimate of employment in companies using their own goods in order to obtain the estimate of total employment.

B1ai—Estimated by using industry averages of shipments per employee; basic data from U.S. Department of Commerce, *U.S. Industrial Outlook 1970*, Chapter 23.

B1aii—As B1ai.

B2—"Total" from same data source as A3a. "Totals for exports to U.S. under Item 807.00" obtained by allocating "total" employment on basis of destination of output of foreign plants. From data in the EIA Example, it was estimated that 75% of the foreign plant output represented exports to U.S. under Item 807.00 in 1968 and 52% in 1969.

C1—Estimated from data in U.S. Department of Commerce, *loc. cit.* and Wickham Skinner and David C. D. Rogers, *Manufactuing Policy in the Electronics Industry* (Homewood, Illinois: Richard D. Irwin, 1968), pp. 84–86.

All other lines—Calculated from data in this Table.

EXHIBIT III

Case Studies of the Operations of Particular United States Companies Abroad

Several case studies have been made of the operations of particular U.S. companies abroad and the contributions such companies have made to the people and the economies of the host countries.

Excerpts from three of these studies are set forth below.

THE CASE STUDY OF THE GENERAL ELECTRIC COMPANY IN BRAZIL[1]

General Elecric Sociedade. Anônima is a Brazilian company not only in name but also in the people who compose it. At all levels, the Company is staffed overwhelmingly by Brazilians. In no other respect has GE's success in adapting its policies to Brazil's needs and expectations paid greater dividends in good will among Brazilians generally.

While today many other foreign-owned companies follow a similar policy, GE was among the first in Brazil to initiate a program of deliberately encouraging and training Bazilians to qualify for all positions within its organization. At present, GE's managerial, supervisory, and technical personnel total about 500. Of these, nearly 90 percent are Brazilians; about 7 percent are U.S. citizens; and the remainder are of other Latin American and European nationalities. Of the 51 highest managerial positions in the Company, 35 are held by Brazilian nationals, 15 by U.S. citizens, and the remaining position by an Argentine citizen.

Among the engineering and other specialized professional personnel, the proportion of Brazilians is equally striking. Of 19 engineers in the Consumer Goods Department, only one is a U.S. citizen; in the Producer Goods and the Lamp and Illumination Departments, all the engineers are Brazilians. In the Corporate Finance Operation, which handles such functions as negotiating for bank credits and auditing the accounts of the operating departments, half of the responsible supervisory and technical positions are held by Brazilians. The Employee Relations Division has only one non-Brazilian in its total of 36 managerial and technical employees. All of the supervisory positions in the Legal Operation are held by Brazilians.

* * * * * * *

One consequence of the effectiveness of GE's Brazilianization policy has been that qualified Brazilian managerial and technical personnel, who received their initial training and experience in a GE factory or sales office, have been in great demand throughout Brazil. While most of GE's Brazilian personnel have made their careers with the Company, many of those who have left now fill important positions in other industrial and commercial enterprises. But whether they leave the Company for other posts or stay on, the prominence of GE-trained Brazilians at top management levels and in technical and specialized positions testifies to the Company's forward-looking policies and to the intelligence and capacity for personal development of the people of Brazil. GE's extensive Brazilianization constitutes one of the most important reasons for the Company's wide popular acceptance in the country. From the point of view of Brazil's economic and social development, GE's training of people for managerial and technical positions has been as important as almost any of the Company's other contributions.

EMPLOYEE TRAINING AND EDUCATION

A major precondition for the Brazilianization of GE's staff has been the extensive employee training and educational programs which the Company conducts. As already noted, General Electric in the United States has for many years placed major emphasis on employee training, for which it has devised many special courses to meet the differing needs of various kinds of workers, technicians, and managers. However, in following a similar policy, GE in Brazil has not only been conforming to general Company policy but it has also been overcoming the deficiencies in training and education which are inevitable characteristics of lesser developed countries. By so doing, GE has made an important contribution to Brazilian progress as well as provided itself with employees possessing needed skills and technical qualifications.

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[1] National Planning Association, Case Studies On U.S. Business Performance Abroad (1961).

GE's training and educational programs in Brazil are of several kinds, each designed to fit the needs of a particular group of employees.

* * * * * * *

At anygiven time, approvimately 10 percentof GE's factory and office workers are attending one or another of the voluntary courses. Some are taught by senior supervisory personnel, but most are the responsibility of five full-time teachers who constitute GE's permanent educational staff.

Educational opportunities are provided for engineers and technicians at an early stage of their development. In contrast to many lesser developed countries, Brazil today has good educational institutions and facilities for training many types of engineers. Originally, Brazilian engineering schools produced only civil engineers. After World War I, when GE began to manufacture in Brazil, the Company took the initiative in providing the leading engineering schools in Rio and São Paulo with substantial assistance in developing the training of electrical engineers. Though the training of mechanical and chemical engineers still lags somewhat, Brazil's engineering schools now offer high-quality instruction in virtually all civil, electrical, and electronic engineering fields.

* * * * * * *

GE is justifiably proud of its extensive training and educational programs. They provide opportunities for economic and cultural advancement for every category of the Company's employees, from the lowest-paid unskilled laborers to the general managers of its departments and even to the president of the corporation himself. The Company is more than satisfied that the comparatively modest costs of these programs are far outweighed by their benefits in improving productivity, both directly through the increase of skills and indirectly by stimulating higher employee morale.

For their part, GE's employees are equally enthusiastic about the Company's training and educational facilities. In surveying the attitudes of Brazilian employees, there were no queries which evoked more positive and strongly felt responses than those pertaining to the worth of GE's educational activities. The eagerness of Brazilians to avail themselves of the educational opportunities which GE provides and the conscientiousness with which they apply themselves to their studies are important assets in Brazil's efforts to accelerate its economic and social progress.

THE CASE STUDY OF IBM IN FRANCE[2]

In more concrete terms, IBM-France's labor and personnel policies can be in this field. At the same time, it seks to avoid getting too far ahead in summed up this way:

> Wages and salaries are among the highest in the country in the mechanical and electrical industry. The Company tries to keep up with the leaders in this field. At the same time, it seeks to avoid getting too far ahead in every wage category.
>
> When it comes to fringe benefits—medical and social services, employee housing, retirement and separation benefits, insurance, working conditions, and methods—IBM-France generally offers more to its employees than comparable French or foreign firms.

* * * * * * *

Wage practices at IBM-France are clearly revealed by a recent private comparative study of wage levels of IBM-France and 10 of the most progressive engineering firms of the Paris region. Wages paid by IBM-France were higher than those of any of the other firms in 21 out of the 40 wage categories included in the study. Furthermore the firms in the survey paid wages which exceeded, in all but one category, the "average" wages paid in the mechanical and electrical industry in the Paris region.

* * * * * * *

In the broad area of fringe benefits, where the diversity of French practice makes strict comparison between one company and another more difficult, IBM-France feels more free to grant its employees specially favorable treatment. This is in line, too, with the humanistic philosophy of IBM-France and its U.S. parent

[2] National Planning Association, Case Studies On U.S. Business Performance Abroad (1961).

which shows special concern for the extra-occupational problems of employees. Despite the difficulties in making comparisons in this complex area, it is fair to say that on most counts IBM-France is significantly more generous than most French firms, and in a number of cases it has played the role of pioneer. One basic principle which animates the Company's approach to fringe benefits still is quite revolutionary in France. This is the principle of equal treatment for all employees—significantly including those in overseas areas. To the extent practicable under local laws and customs IBM-France provides all of its employees—men and women, overseas and metropolitan, workers and management-level employees—with equal treatment when it comes to fringe benefits. The reasoning underlying this policy is that these are benefits which express the recognition of the basic human needs and claims of employees and should not be linked to professional, sex, and social or other status.

* * * * * * *

Employee training and development is a major preoccupation of IBM-France at all levels. The intensive training given to commercial representatives and customer engineers, described above, is paralleled on IBM's assembly lines.

On-the-job training at the Essonnes plant begins as soon as a man goes on the payroll. Supervisors and foremen are held responsible for the training of the men under them. Most supervisory personnel spend hours every week instructing new workers in the fine points of their jobs or training workers in new techniques of machines. Workers desiring to improve take extra practical training after hours. Management personnel are expected to share their knowledge gratis.

This illustrates one of the basic principles underlying IBM's educational system, a principle which is drummed into every employee from the time he is added to the payroll. All IBM employees are expected to pass on what they are taught to their fellow workers and particularly to those working under them. Supervisors are held morally responsible for improving the level of competence, understanding and general education of their subordinates. This explains why over half of the courses given at Essonnes are taught by IBM people who have become expert in a special field. It also explains the importance attached to the arts of expression and communication.

* * * * * * *

A veteran official of IBM-France, asked to describe IBM's contribution to France, leaned across the restaurant table, picked up the salad oil cruet and dribbeld a drop of oil upon the tablecloth. The drop soaked outwards in all directions to form a stain many times its size. He said:

> That's the way it works. IBM-France is a small factor in the French economy as a whole, smaller than the drop of oil compared to the tablecloth. It isn't like an oil company or a mining company in an economically underdeveloped country which sometimes by comparison appears to dominate the economy. In our case, the influence is small and spreads slowly. But it is like *li tache d'huil*—the drop of oil. When we and other progressive firms do something new, its effect spreads outwards along the nerve channels of the business world and changes the character of an area of the economy. Little by little, our example spreads over a wide area.

Thus, the Company's policies and practices, by power of example, in themselves are making an important if imponderable contribution to France. Every year their influence permeates the French economy more widely. It is carried by the hundreds of visitors to Essonnes from the other French firms, the hundreds of IMB salesmen and customer engineers making their rounds, the hundreds of top managers of client firms attending the Company's management seminars, the thousands of IBM-trained operators of data processing machines dotted throughout French business and government.

AMERICAN INVESTMENT IN AUSTRALIAN INDUSTRY [3]

One of the most obvious effects is the impact American investment has had on labour incomes. Though it has been seen in chapter V that most American-affiliated firms pay wages no higher than they are compelled to by local regulation or competitive conditions, the increased demand for workers to staff the new and expanded factories which have been the result of American investment must have had an important influence on the general wage and salary level. In particular cases the advent of an American-owned company has created a

[3] Brash, Donald T.. Harvard University Press (1966).

demand for a new type of skilled labour, and the pioneering company finds itself having to train Australian labour for the purpose. The frequency with which American-affiliated firms send employees to the U.S. parent company for a period of training or familiarization has already been mentioned. The following example helps to emphasize the importance of traning in Australia. When construction of the Altona petrochemical complex commenced late in 1959, the shortage of welders qualified in the particular skills needed for the project necessitated the introduction of a special training programme. Under it, 102,000 man-hours were spent in training the men and approximately two hundred men were qualified (Australian Chemical Industry Council 1964: II, 75). For the later operation of only one of the plants in the complex, that of the Altona Petrochemical Company Pty Ltd, fifty-six skilled operators were required: twenty-two of these had previously been unskilled, twenty-eight had been semi-skilled, and only six had been skilled. 'The weekly earnings of these men as qualified shift operators averaged, in one period of 12 months, £27 a week compared with the general average for the group of £18 to £19 a week before joining the company. This increase of about 50% in weekly wages represents the addition of a further £25,000 a year to their purchasing power.' (Ibid.: I, 26–7.)

Mr. WATTS. We are delighted to have you, Mr. Butler. You have made a very dynamic presentation of the real problems that would confront you with the repeal of section 807. I appreciate your calling that to the committee's attention.

Are there any questions? Mr. Vanik.

Mr. VANIK. I would like to raise this question.

When you talk about the use of an American brand name for something that is completely produced offshore, would it be helpful if we were to put some restraints on the use of brand names that are just generally assumed to be American products? This is a very serious thing.

I buy more and more things that carry what I think is a domestic production label. Later I find that the article has been produced almost totally offshore.

Would it be helpful if we were to put some restraints, perhaps through some other laws, on the use of labels that would not indicate they are produced here when, in fact, they are produced totally offshore? We have other approaches to that problem.

Would you direct yourself to that possibility?

Mr. BUTLER. The Federal Trade Commission has addressed itself to this problem in recent years. I am sure their findings are available to the public.

My understanding is that at the current time the requirements of our U.S. customs marking laws are being met by foreign-made electronic products which do carry a U.S. brand name.

As you stated, the U.S. brand name with the foreign origin does carry the country of origin on it. The cartons in which these products are sold also carries the country of origin.

There probably would be considerable confusion resulting from placing U.S. brand names and foreign manufacturer and foreign country designations in juxtaposition. However, I think that the subject has been fairly well studied by the Federal Trade Commission and that agency's determinations should be taken into account.

Mr. VANIK. I have another question.

So far as your industry is concerned, to what countries principally does the offshore business go, generally?

Mr. BUTLER. Primarily areas such as Taiwan, Hong Kong, some in Mexico, some in Korea. There are a few European operations also.

Mr. VANIK. For the greater part, these offshore productions take

place in countries or places that are defended substantially with an outpouring of American tax dollars. This is one of the issues that I have tried to raise in this discussion. It seems to me that if we were able to shift the cost of defense to these places that it might take off the shoulders of the American producer and the American worker a tremendous part of the tax obligation he assumes in order to provide for the national security and the defense of these places that are pretty much taking over our production.

Now, it would seem to me that in addition to what you suggest, how would you feel about trying to shift some of the defense costs where they rightfully belong and thereby letting those countries add on to the cost of their product the cost of their own security?

Mr. BUTLER. Well, as a citizen, as an individual citizen, I would be certainly encouraged by shifting any of the costs for preserving world security to those nations who are enjoying protection. To the extent that they could pick up such costs I would certainly, as a citizen, be very favorably inclined. I don't know to what extent, however, at the present time, these countries could pick up their share.

Mr. VANIK. If they are enjoying this tremendous profitable foreign trade, it would seem to me at this particular time they certainly ought to be able to pick up a greater share of their security and defense expense.

You will admit that it certainly would make competition an easier thing, a fairer thing, if the producer and if the worker in the United States did not have this tremendous burden tacked on the cost of production of the product in this country.

Mr. BUTLER. It is possible although we have not studied that particular situation and our association is not prepared to comment directly on it.

Mr. VANIK. I would like someone to come in with a chart to show that. This would be very helpful because we have to deal with some of the deep economic problems that relate to the trade problem.

I certainly appreciate the very great expertise with which this was demonstrated today. I certainly appreciate your testimony.

Thank you.

Mr. BUTLER. Thank you, Mr. Vanik.

Mr. WATTS. Mr. Conable.

Mr. CONABLE. I would like to thank Mr. Butler for his testimony.

I suspect that the electronic industry must be in a rather more complicated condition than most other industries that we are dealing with in the course of these hearings.

I think, however, your testimony has showed very graphically that we had better abhor the simplistic in any solutions we try to find to our trade problems because you have demonstrated quite clearly that if we look for a panacea here we are likely to find ourselves doing almost as much damage as any good we can do in the process.

Would you say, sir, that your industry is in a rather more complicated condition than most other industries because of the subassembly and parts problems that you have and because of the practice that has sprung up in the electronics field of sending American-made products abroad?

Mr. BUTLER. Yes. We are a much more complex industry than some of the monolithic industries like the steel industry. We are really a collection of industries. We range from the production of parts and

components to the production of space vehicle electronic systems and we range from simple commodity type products to products of very rapidly changing advanced technology.

Each of these sectors in turn ranges from parts to equipment, from stable type product to advanced technology product; each has its own problem in this environment. You are quite correct; while you will probably find unanimous opinion from those who will follow me today on the nature of the environment, the suggested corrective action differs and the remedy that might be recommended differs; their positions on legislation will differ according to their status in particular segments of the industries.

The dynamic producers that make the real exotic new things, their products are welcomed throughout the world. They have no problem in selling throughout the world, except where they are blocked by monetary restrictions or trade barrier problems of some sort. They go off-shore to serve those closed markets. They do have a technological lead; however, it is dwindling. The people in the stable technology area employ a technology which is well known abroad and they are faced with a large import problem.

Mr. CONABLE. I notice that your testimony was quite sharply limited to the problems that would be raised by the repeal of section 807.

Mr. BUTLER. Yes.

Mr. CONABLE. From that, I assume that the electronic industry is going to be all over the map the rest of the day; is that right?

Mr. BUTLER. Different segments will be. But you may be surprised that on some areas of proposed legislation they are not all over the map. In other areas, you will find differences of opinion.

Mr. CONABLE. Thank you.

Mr. WATTS. Mr. Gibbons.

Mr. GIBBONS. Let us use the old oil company argument if we can for a while.

Last week, they were impressing us with what bad shape we would be in if we got into another war. They base their whole argument on national security. Suppose that over a long period of time this continues to go as you have outlined it here and we find ourselves faced with no people, no trained people, who can do this kind of assembly work: Would you say that the operation that we are carrying on under 807 tends to weaken our ability to defend ourselves in case of a crisis?

Mr. BUTLER. Well, there are two parts to the answer to that question.

First, the kinds of products that we need to protect our national security are generally those where we now have, and always have had, a technological lead. I am talking about the dynamic technology sector products. The expertise to make these products rests almost completely here in the United States.

In other areas where there is production of electronic articles used to protect our security, the operations that are carried on in off-shore facilities—the operations that are carried on by off-shore producers who are now importing into the United States—essentially involve jobs that are of low-skill content.

They are overseas because the foreign workers can be trained rapidly. Diligence and dexterity are the keys. The jobs essentially are low skills.

Another factor is that in the foreign trade environment we are living in, which is not new and others later today will confirm this, we have been regularly increasing our U.S. employment while increasing our sales volume. High technology products are becoming more and more important in our marketplace. Markets for these products are expanding and I see no reason why, even in this present environment, we will not overall in our industry continue to increase our employment and our sales.

Mr. GIBBONS. You are going to have to have some plants to assemble radios in and things like that on this side of the water in case we get into a national emergency. Judging from this chart, it appears that all of our plants will be in some offshore position as well as most of the skilled labor. I realize that it does not take you long to train somebody to do this kind of work, but we won't have some facilities either, will we, to do the assembly work?

Mr. BUTLER. I can not comment on that quantitatively.

One thing to consider, of course, is that while some of our U.S. companies have put plants offshore, most of these companies are engaged in a wide range of electronic activities and have regularly and continuously been increasing their U.S. facilities for the kinds of operations they do in the United States. They are not going out of the electronic business. Certain of their operations are being carried on overseas but their domestic facilities have showed a continued rate of expansion.

Now, there are special segments of our industries that have had particularly adverse developments and the general observations I just made do not apply to these segments.

One thing I do want to emphasize is that, whatever the other variables are in this environment, there is one constant item 807 continuously puts the influence on keeping some of the work on the U.S. shore because of the duty credit for the returned items.

Mr. GIBBONS. Thank you.

Mr. WATTS. Are there any further questions?

Mr. MORTON. Mr. Chairman.

Mr. WATTS. Mr. Morton.

Mr. MORTON. What trend has there been in the cost of finished assemblies? Is the trend toward closing the cost gap between foreign assemblies and American assemblies or is it toward widening the gap?

Mr. BUTLER. We have some information on that.

Mr. McCauley is going to get it here for you.

It is in two areas.

Let me give you some prices, unit prices, in the semiconductor industry for integrated circuits.

In 1964, which was the first year that integrated circuits really were marketed widely in the United States, the average unit selling price was $17.35 for digital circuits, and in 1968 it was $2.17.

For linear integrated circuits, in 1964 the price was $30 each; in 1968 it was $3.35 each.

Transistors were developed in the early 1950's. Germanium transistors, in 1954, had an average unit selling price of $3.56; in 1968 the price was 41 cents.

Silicon transistors in 1954 sold for $23.95 each; in 1968, for 44 cents each.

As Mr. McCauley points out, although we don't have the calculated

data, we have enough information to know that in 1969 still lower prices prevailed than the 1968 prices which I quoted.

Another facet of the price situation is that last year the consumer price index for television sets was 80; for radios, 75. These indexes are to be compared with the overall U.S. consumer price index of 127.5 for 1969.

So, in the last decade, the consumer price index on televisions and radios has decreased while almost all other items that the consumer buys have increased.

Mr. MORTON. I understand that, but have we moved toward an equalization between a foreign-assembled system and a domestic-assembled system, or is the gap widening between foreign assemblies and domestic assemblies?

Mr. BUTLER. Well, in price they are very, very close because we are selling in the United States domestically produced products competitive with offshore-produced products. The prices are extremely close. Our industries are working very hard on it every day.

Mr. MORTON. With reference to the more sophisticated nations that you mentioned earlier, such as Japan, are their costs approaching ours or is the cost gap widening? If we constantly are coming closer in cost, we have one economic philosophy, to look at. If we are getting further and further away from foreign cost levels, we have another philosophy to look at. That, I think, is an important factor in considering any legislation to deal with the problem.

Mr. BUTLER. Costs, to the best of our knowledge, in the sophisticated nations such as Japan, are increasing. They are increasing rapidly. Costs in the United States are also increasing, as we are well aware.

We believe, although I don't have quantitative data, that overall costs in Japan are increasing more rapidly than costs in the United States are increasing.

Mr. MORTON. Thank you very much.

Mr. WATTS. Mr. Ullman.

Mr. ULLMAN. Out in Oregon, we have had quite an extensive oscilloscope manufacturing operation.

What is happening to that now as a result of imports?

Mr. BUTLER. I cannot speak for the particular company you are mentioning. I am well aware of the heavy concentration of instrument companies in your area. But I would classify most of their products as being generally in the dynamic technology sector of our industry, where generally, in their higher priced products, they are technologically ahead. But their lead is dwindling.

In their lower priced products, they may be classified more in the stable technology sector where they are facing severe imports from other countries.

Mr. ULLMAN. I understand that the margin we have had in that area is disappearing.

Now, what does that mean? Does that mean that our industry will be forced out of business because of the imports?

Mr. BUTLER. We have indicated that the technological gap between U.S. and foreign producers is fairly rapidly being closed. But this is not a new process. The technological gap is being closed and has been in the process of being closed for a number of years.

While there have been local shifts in product lines, overall, the electronic industries continue to grow and be healthy. There will be

individual shifts, I am sure, in operations from one product line to another as our industries grow. Those segments of our industries who are involved in high technology products are doing their best to maintain their technological lead and in fact where they are succeeding in maintaining their technological lead they are continuing to grow.

As I pointed out here, item 807 is a small piece of the iceberg that helps them maintain some portion of their technological lead and some portion of their cost advantage and influences the retention of operations in the United States.

Mr. ULLMAN. Thank you very much.

Mr. WATTS. Mr. Schneebeli.

Mr. SCHNEEBELI. Following up Mr. Morton's question, you said costs in Japan are increasing at a greater rate than they are in the United States.

Does this lead to the conclusion, then, that the differential that exists is narrowing between the two costs?

Japan's costs are less than ours but if their costs are increasing at a greater rate then the differential will be less; is that correct?

Mr. BUTLER. Yes; the gap is narrowing but it is narrowing at a very slow rate.

Mr. SCHNEEBELI. That was my next question.

Then the cost rate increase in Japan is not too much greater than it is in this country because you say the differential is narrowing very slowly.

Mr. BUTLER. You see, they started from a very low base, too.

Mr. SCHNEEBELI. At the present rate, how long do you think it will be before we will be equalized in cost factors?

Mr. BUTLER. I don't know.

Mr. SCHNEEBELI. Is it a matter of 5 years or less, roughly?

Mr. BUTLER. I really don't have enough quantitative information. That information I think could be generated. We may have enough sources of this information to generate it.

Mr. SCHNEEBELI. Since you represent the industry, I am interested in knowing what these factors are and what is the immediate future prospect that the differential will not be narrowed to the point of equalization.

Mr. BUTLER. Rather than make a guess here, I would rather respond to your question shortly in the near future and let us try to develop some specific information.

Mr. SCHNEEBELI. You may put it in the record.

Mr. BUTLER. Yes, sir.

Mr. SCHNEEBELI. Thank you.

That is all.

(The information requested follows:)

ELECTRONICS INDUSTRIES ASSOCIATION,
Washington, D.C., June 30, 1970.

JOHN M. MARTIN, Jr.,
Chief Counsel, Committee on Way and Means, U.S. House of Representatives, Washington, D.C.

DEAR MR. MARTIN: During my appearance before the Committee on Ways and Means in the hearings on foreign tariff and trade policy, I indicated, in a colloquy with the Honorable Herman T. Schneebeli, that I would attempt to obtain some information to support what I stated is my belief that the overall production cost gap between the U.S. and Japan was closing. I indicated that while in my opinion the cost gap was closing, this process was taking place quite slowly.

The U.S. Department of Labor, Bureau of Labor Statistics in a publication titled *Labor Developments Abroad*, dated October 1969, contains unit labor cost indexes for manufacturing in nine countries which includes the United States and Japan. Table 1 in this publication, which appears on page 15, shows that labor costs in Japan (using '57 as an index of 100) stood at 120.0 in '68. The United States index, based on the Federal Reserve Board index of manufacturing production, reached 111.1 in '68.

These data bear out my basic belief insofar as unit labor costs as a part of the overall costs are concerned. However, I note that whereas U.S. unit labor costs were relatively static in the period '61–'65, they began to rise quite significantly in '66 and by '68 were 11 percent higher than they were in '65. On the other hand, while Japanese unit labor costs rose better than 20 percent from '61 through '66, they have leveled off in the last 2 years while, as I have indicated, U.S. costs are rising.

In responding to your question I based my belief on information and data which did not take into account the rapid increase in labor costs in the United States which we have seen in the past 2 years. While, indeed, over a long period of time Japanese unit labor costs have closed the initial gap, it would appear, based upon the last 2 years, that Japan's labor costs have stabilized while U.S. labor costs have begun a rather sharp climb. I assume that the latter is a phenomenon to be expected due to the high inflation which marked the last few years in the U.S. economy.

We have not been able to obtain any data on other production costs, but I would assume that the same trends pertaining to unit labor costs prevail.

Accordingly, I would like to clarify my answer to Mr. Schneebeli's question. While, in my opinion, the overall cost gap between Japan and the United States was indeed closing up until a few years ago, this process seems to have been arrested due principally to the inflation which we have seen in our economy during the last few years.

Sincerely yours,

GEORGE D. BUTLER, *President*.

Mr. WATTS. Mr. Pettis.

Mr. PETTIS. Thank you, Mr. Chairman.

There was a feature story over the weekend out of South Korea. There were two points made which you have not touched on this morning.

The story indicated and this may or may not be true that you could train workers in the electronics industry in South Korea faster than you could train workers in this country to do the same task, particularly the tedious work in electronics, and also the on-going costs or the on-going manpower utilization was less for a unit produced.

Is there any truth to this?

Mr. BUTLER. I don't really know. I can comment that workers in countries like South Korea have a very high motivation to succeed in their jobs because the change for them is from absolute poverty to what in their home country is a certain level of affluence. So, there is a high motivation.

I speak again, not from knowledge and not from the benefit of advice and counsel from members of our industry, but I do not believe that fundamentally the people of South Korea are any more skilled, any more dexterious, any more diligent than the people of the United States or any other country.

Mr. MORTON. Will the gentleman yield?

Mr. PETTIS. I yield.

Mr. MORTON. Do you have any figures on productivity per hour, in this industry, comparing one area of the world with another?

Mr. BUTLER. No; we do not. We have made some attempts to develop them and if we can we will be very happy to share them with this committee.

Mr. MORTON. Thank you.

Mr. PETTIS. Thank you, Mr. Chairman.

Mr. WATTS. Any further questions?

Mr. BURKE. Mr. Chairman.

Mr. WATTS. Mr. Burke.

Mr. BURKE. What percentage of the work done by the electronic industry is represented by Government contract?

Mr. BUTLER. Sales to all Government agencies, which include the sales of standard products such as television sets, as well as our defense items accounted for about 47 percent of the total sales in calendar year 1969.

Mr. BURKE. In other words, 47 percent is paid by the taxpayers?

Mr. BUTLER. Yes, sir.

Mr. BURKE. Now, of that 47 percent, how much of that work is sent overseas, component parts?

Mr. BUTLER. I have no information on that. I believe it would be extremely low.

Mr. BURKE. What would you call extremely low? What is an estimate?

Mr. BUTLER. In 1969, for our total industry, item 807 imports from these foreign assembly plants accounted for 1.3 percent of the total sales of the electronics industry.

Mr. BURKE. Represented how much?

Mr. BUTLER. 1.3 percent of the total sales of the electronics industry. As I said earlier, 18 percent of total electronic products imports were represented by these 807 operations.

Mr. BURKE. Will you give me that again? What was that percentage again?

Mr. BUTLER. The imports of electronic articles in the United States from item 807 operations in 1969 represented 1.3 percent of the total electronic sales in the United States or 1.3 percent of our total sales of $25 billion.

Also, I do not think you could assume that 1.3 percent of our Government sales consisted of item 807 articles because many Government-purchase contracts have "Buy American" clauses which would forbid purchase of these types of products.

Mr. BURKE. Actually, you are talking about a very low percentage of assembled parts.

Mr. BUTLER. Yes, we are; 18 percent of the total imports or 1.3 percent of the total industry sales is imported under provisions of item 807.

Mr. BURKE. Why are you so alarmed about the repeal of this section if that is all it represents?

Mr. BUTLER. In the competitive world, the whole competitive world in which our industries live, a fraction of a percent in cost of a small percentage of our market is extremely important.

Mr. BURKE. The labor organizations that have been in touch with me and a few of the electronic firms in our district feel that the imports will cost them jobs.

Now, what about the cost of the taxpayer who is giving you 47 percent of your business and then the taxpayer is further called upon to give these people unemployment compensation? Then after unemploy-

ment compensation runs out, the State and local communities are called upon to pay for their welfare.

Mr. BUTLER. I suspect that very, very few imported articles are purchased by the taxpayer because of the "Buy American" clauses in purchase contracts and purchasing regulations which our Government buyers operate under.

Mr. BURKE. Do you believe that the labor organizations are telling the truth when they say these imports are the cause of their loss of jobs?

Mr. BUTLER. I think the facts which the Tariff Commission developed in their study indicate that in our industry employment has been increasing every single year and is still increasing in item 807 plant operation. We do not see item 807 imports as causing unemployment.

Now as operations, for competitive reasons, may be shifted offshore there may be a temporary shift or transfer of workers to new operations in new products and in more highly skilled jobs. But overall employment, as is clearly shown in the Tariff Commission's figures which are in our quantitative report appended to my statement, in every segment of our industry—consumer, industrial, Government products and components—in every segment of our industry, employment has increased continuously under 807 operations.

Mr. BURKE. What do you think the cause is during the past 4 months that many people have been unemployed in the electronic industries, some of them in highly technical positions coming here to Washington looking for positions with the Government? They seem to feel that the future is not too bright in that area in the private sector of the electronic industry and they are looking for jobs in the Government at much lower pay. Why would this be taking place?

Mr. BUTLER. The electronic industries, like all industries in the country, are having cyclical economic problems, just in this particular quarter. We, like everyone else, are looking to every sign we can find pointing to the future recovery from the minor recession we appear to be in.

In addition to that, in the electronics industry allocations of funds for defense equipment have been decreased, and since 47 percent of our business comes from Government sources, there has been a significant decrease in orders being placed by the Government for electronics equipment. This is particularly so on the west coast, where our industry is heavily concentrated in supplying specialty items for the Government. You will find there some displacement of technical people.

This has nothing to do with imports or item 807.

Mr. BURKE. I was wondering if you would care to make an observation on the results of President Nixon's administrative decision to close the NASA project up in Cambridge, Mass. What effect is that going to have on the electronic industry in New England?

Mr. BUTLER. I don't know, Mr. Burke.

Mr. BURKE. Have you heard anything?

Mr. BUTLER. No, sir. I am not familiar with it.

Mr. BURKE. It does not brighten the outlook for that area, does it?

Mr. BUTLER. Well, no; of course not.

Mr. BURKE. That is all, Mr. Chairman.

Mr. WATTS. Thank you very much.

Mr. GIBBONS. Mr. Chairman, I have one short brief question.

Mr. WATTS. Mr. Gibbons.

Mr. GIBBONS. When you were giving Mr. Burke those statistics a while ago, can you tell me what page you were reading from?

Mr. BUTLER. Yes. Appendix A, page A–1, of our position paper which is appended to my presentation. The source of this data is official public Government data.

Mr. GIBBONS. I don't have page 81.

Mr. BUTLER. It is page A–1, appendix A that follows page 18. It is almost in the back. It is within 10 pages of the end of the paper.

Mr. GIBBONS. Thank you, sir.

Mr. WATTS. Thank you again, Mr. Butler, for a very skillful and informative presentation.

Mr. BUTLER. Thank you, Mr. Chairman.

Mr. WATTS. The next witness is Mr. Charles N. Hoffman.

Mr. Hoffman, come around, sir.

Mr. Hoffman, you may give the reporter your name and the capacity in which you appear and who accompanies you, and then you may proceed with your statement.

STATEMENT OF CHARLES N. HOFFMAN, CHAIRMAN, CONSUMER PRODUCTS DIVISION, ELECTRONIC INDUSTRIES ASSOCIATION; ACCOMPANIED BY JACK WAYMAN, STAFF VICE PRESIDENT; AND ALFRED McCAULEY, SPECIAL COUNSEL

Mr. HOFFMAN. Yes, sir.

Mr. Chairman and members of the committee, I am Charles N. Hoffman, chairman of the Consumer Products Division of the Electronic Industries Association. With me are Jack Wayman, staff vice president of our division, and Alfred R. McCauley, special counsel to our division.

The consumer products division numbers among its member-companies a majority of the U.S. manufacturers of consumer electronic products—a class of articles which includes color and black and white television receivers, radios, radio-phonographs, phonographs, tape recorders and players, and other home entertainment articles. The bulk of the products made and sold by the companies in our division and most of the components used in production are wholly of U.S. origin. However, some of the finished products we sell and some of the components we use in making products here in the United States are imported from abroad. Consumer electronic products and components are also imported by firms and individuals who are not U.S. manufacturers of these types of products.

As the committee has already heard, the U.S. electronic industries as a whole sold some $25 billion in products last year, employed a record of over 1.1 million persons, and had a favorable balance of trade of almost $1 billion.

The consumer products segment of the electronic industries also had record sales in 1969. Employment was down some from prior years, due largely to the soft second-half of 1969 in our economy. Imports were up sharply—totaling almost $1 billion.

I would like to insert at this point in the record the following table which contains data on consumer electronic products sales, imports, and exports for the past 4 years.

CONSUMER ELECTRONIC PRODUCTS SALES, IMPORTS AND EXPORTS, 1966-69

[Dollars in thousands]

	1966	1967	1968	1969
Sales	$4,493,000	$4,324,000	$4,619,000	$4,624,000
Exports	46,256	46,609	85,000	106,621
Imports	385,004	449,927	710,871	994,509
Balance of trade	−338,748	−403,318	−625,871	−887,888
Exports as percent sales	1.0	1.0	1.8	2.3
Imports as percent sales	8.5	10.3	15.1	21.5

Source: This table is based upon data prepared by the marketing services department of the Electronic Industries Association.

As these data show, imports of consumer electronic products are increasing at a rapid rate, accounting for over 21 percent of the U.S. market in 1969. This upward trend continues today and in the first quarter of this year imports represented 24 percent of U.S. sales of consumer electronic products.

These levels of imports are a matter of concern to most interested people, including a majority of the member companies of our organization. A number of individuals and groups are urging the Congress to roll back present consumer product import levels and to provide that in the future such imports continue to be controlled in relation to domestic consumption of these products at lower levels than prevail today.

This same course of action was urged in the course of the 1968 hearings on trade conducted by this committee. At these hearings, we appeared in opposition to quotas on consumer electronic products and maintained that imports of such products were not a threat to our industry.

Today, there is concern among our member companies about the rising level of imports of consumer electronic products. Some of our member companies see such imports as a serious threat to their operations; others, while concerned about these imports, do not view them as presently posing such serious threat.

However, a large majority of the member companies of our organization, regardless of their varied assessments of the present and potential impact of imports, is still opposed to the enactment of legislative quotas on consumer electronic products. We do not see how legislative quotas will alleviate our concern about these imports or solve the problems some of us and others see as caused by these imports. Indeed, a number of our member companies are convinced that as of the present time legislative quotas would compound and complicate the existing situation.

In sum, our organization is opposed to the enactment at this time of any legislation which would impose quantitative limitations on imports of consumer electronic products. We view quota proposals as premature.

But, we wish it to be clearly understood that while we oppose legislative quotas at this time, we are neither complacent nor indecisive on the question of international competition. We think there are problems created by imports and we believe an earnest effort must be made by all concerned—industry and government alike—to seek solutions to these problems.

But before realistic, equitable solutions can be found a fundamental question must be answered: What is the nature of the foreign competition our industry faces? Is it fair competition or is it unfair competition? If it is fair competition, if foreign manufacturers are beating us on cost efficiencies, productivity and superior technology, then import relief approaches would have to be considered as one course of action.

If, however, the foreign competition we face is unfair competition, then different measures are appropriate. If foreign penetration of the U.S. market is achieved, in whole or in part, by export practices and/or home market nontariff barriers that are contrary to U.S. ground rules of competition, then these practices and barriers must be moved against promptly and vigorously, by the industry itself, and by the U.S. Government. Only until any such unfair competition is effectively disciplined can we measure our true competitive strength with foreign manufacturers and let the evenhanded dynamics of the marketplace determine the future.

Competition in the U.S. market in consumer electronic products is severe among U.S. companies and foreign brand merchandise. For example, it is estimated that some 50 brands of television receivers are available on the U.S. market, each competing for the consumer's favor. This fierce competition results in rockbottom prices and slim profit returns. The price levels in the U.S. market for consumer products are, of course, beneficial to consumers, particularly in times such as the present, when increasing emphasis of Government is on giving the consumer some relief from ever-rising prices. Last year, the television set index averaged about 80 on the Consumer Price Index (1957–59 being 100) while radios approached 75. These price indices are to be compared with the average 1969 price index for all consumer goods of 127.7.

However, the very nature of this competitive situation creates an urgent need for extraordinary vigilance on the part of those whose task is to see that competition in the U.S. marketplace is fair. In a competitive market such as exists in consumer electronic products, even a modest price advantage can result in a shift in sales to the seller with such advantage.

For this reason, it is crucial in this highly competitive market that every price advantage result from honest economies and not from contrived or otherwise distorted pricing policies.

We believe that there is unfair foreign competition in the U.S. consumer electronics market. But we do not know the extent of it or all of its many faces. We believe that neither the Congress nor trade and tariff officials in the departments and agencies know, either.

We know or suspect certain facts of unfair international competition and we submit that existing U.S. law and administrative practice is sometimes ambiguous, and may even be inadequate to deal with this competition. But we must know more; the U.S. Government must know more. Only then can realistic, effective trade legislation be written to establish competitive equality in world trade.

It is in this context of possible inadequacy of existing law, and deficiencies in administrative practices, and the need to know more about unfair foreign competition, that H.R. 14870, and related pending legislation, should be evaluated.

There are three categories of unfair or restrictive trade practices which are of concern to us:

1. Unfair commercial practices by foreign exporters, the most notable of which is selling in the United States at less than fair value.

2. Foreign government export aids and incentives, which include tolerance or encouragement of cartel activities, as well as tax, acccounting, credit, and banking practices that give foreign manufacturers an export advantage.

3. Home country restrictions which (*a*) inhibit either imports of U.S. products or U.S. private foreign investment, or both; and (*b*) inhibit exports to non-U.S. markets.

H.R. 14870, and other bills now before this committee, do not deal with category No. 1, unfair commercial practices. We would only note at this time, therefore, that we believe it is up to the industry, or individual industry members, to take primary responsibility for invoking the statutory remedies provided by the Antidumping Act of 1921. We believe, however, that it is the Government's responsibilty to ensure that these laws do in fact provide realistic, workable remedies.

H.R. 14870 does address itself to category No. 2, export aids and incentives, by amending section 252(b) of the Trade Expansion Act of 1962 to discipline a foreign country's "subsidies or other such incentives on its exports . . . to other foreign markets."

We endorse such amendment but are constrained to note that it probably constitutes more a general statement of U.S. trade policy than a specific trade weapon which would be regularly invoked.

Presumably the proposed amendment to section 252(b) is intended to extend the countervailing duty proscription of section 303 of the Tariff Act of 1930 to subsidized exports to third-country markets. If so, we suggest that the real need here is for review of the administration of section 303 itself.

Section 303 proscribes export grants or bounties of any kind and however camouflaged or obscured. We believe, however, that there is today a whole array of subtle foreign devices for subsidizing exports that section 303 is not reaching, but which it is intended to reach. These devices are rooted in the tax, banking, credit, insurance, and research and development relationships between foreign governments and their industries. We think that to the extent these relationships violate U.S. ground rules of fair and open competition they are actionable under section 303 and steps should be taken to see that section 303 meets these unfair acts.

It is our further recommendation, in connection with advantageous relationships between foreign governments and their exporting industries, that this committee take a new look at section 252(b)(2) of the Trade Expansion Act. The legislative history of the 1962 act does not indicate what the 87th Congress meant by the section 252(b)(2) phrase: "engages in discriminatory or other acts (including tolerance of international cartels) * * *."

We believe that there probably are international cartels operating against the interests of the U.S. consumer electronics industry, whether intracountry cartels or multicountry cartels. This area, like export subsidies, is one which needs more analysis and factfinding. What is meant by "tolerance" of cartels? What is an international cartel? How do U.S. trade officials determine that an actionable cartel exists? On whom is the burden of proof?

As to category No. 3, there is no reason as we enter the 1970's for many foreign countries to maintain restrictions on the free flow of goods into their markets from the United States and other sources. Many of these restrictions were established years ago to permit war-torn economies to be reestablished. In most cases, the reasons for these artificial restrictions on trade, foreign exchange, and investment have long since disappeared. The continuation of these restrictions is unjustified and we should strenuously seek their removal. If these foreign markets are opened to U.S. products and to the products of other nations, as well, we should benefit from an increase in our exports and a relieving of some of the import pressure we now see in our U.S. markets.

As my foregoing remarks indicate, there are a multitude of questions which must be answered concerning trade in consumer electronic products before constructive action can be taken in the field of legislation. We firmly believe that there is a need for an indepth study of this matter in order to develop the facts needed for informed judgments.

Accordingly, the Consumer Products Division of EIA respectfully urges this committee to direct the Tariff Commission to make a study of U.S. trade in consumer electronic products and to analyze the forces which are influencing such trade. We will not attempt now to delineate the specifics which we believe the Commission should look to in such study. However, we are ready to cooperate with the committee's staff in the preparation of a directive to the Commission for the committee's consideration. We feel such a study, if properly directed, can go a long way toward resolving some of the major problems facing this committee and others such as our organization.

Thank you, Mr. Chairman, for this opportunity to appear here today.

Mr. ULLMAN (presiding). Does this conclude your testimony, Mr. Hoffman.

Mr. HOFFMAN. Yes; it does.

Mr. ULLMAN. Mr. Hoffman, it would appear to me that your industry has one foot planted firmly on each side of this issue. Normally, up here on Capitol Hill when that is the situation we call for a study and that is obviously the conclusion you arrived at, also.

Can you tell me what percentage of the companies that you represent have foreign operations where they produce electronics equipment abroad?

Mr. HOFFMAN. I would say that a substantial number of our members have foreign relationships, either their own or a contract basis with a corporation in a foreign land.

Mr. ULLMAN. In other words, most of them do?

Mr. HOFFMAN. Yes.

Mr. ULLMAN. This is why in a sense they are on both sides of the issue, is it not?

Mr. HOFFMAN. That is correct, sir.

Mr. ULLMAN. It is very difficult for us here to approach this problem when this is taking place. In a sense when you move your operation abroad you are operating under the cover of some of these very impediments you are talking about, are you not?

Mr. HOFFMAN. To some extent.

Let me say it in this way: Some of us have moved to foreign countries with facilities; however, most of the companies are still doing a major part of their business in U.S. facilities. Now, some companies have 5 or 10 percent of their production abroad, some have 50 percent and a few have higher percentages. Those with the highest percentages of their operations abroad happen to be the smaller companies of the 23 companies that we represent.

Mr. ULLMAN. I am just wondering if the present trends continue how far down the road it will be before the only kind of electronic equipment we will be able to buy will be foreign-made goods.

What is your view on this?

Let me carry it on further.

Your colleague, Mr. Butler, from the same organization, testified as to components. There are not any easy answers to that one, either. If we remove the tax exemptions from returned U.S. components, to what extent will our American producers just shift their basic operations overseas? Is it your contention that that is what will happen?

Mr. HOFFMAN. Yes; it is. We believe that would happen.

Mr. ULLMAN. It is already happening now.

Mr. HOFFMAN. Yes; it is happening in part.

Mr. ULLMAN. Even with the cover of this provision in the law, it is happening right before us. Electronics are increasingly important to the operation of almost every segment of our society, not just entertainment. The basic problems here is whether it is in the national interest that the present trend of shifting our production overseas should continue or how far it can continue.

Looking at the present trend, and I think you are much more knowledgeable about them than I am, what do you see 5 years from now?

I am sure as of right now there are many lines of electronic goods that are almost exclusively produced abroad. Is that not right?

Mr. HOFFMAN. In certain categories, that is correct. For instance, all tape recorders are substantially produced in foreign countries, two or three countries. Radios again are substantially produced in foreign countries.

Mr. ULLMAN. And radios are certainly volume items?

Mr. HOFFMAN. Yes, in units. Now, they are not the high dollar product of our industry. Radios are No. 1 in units.

Mr. ULLMAN. The thing that bothers me about the use of statistics, you can show where dollarwise we still produce most of the electronic goods consumed in this country; is that not right? But if we work that out into units, I think certainly the reverse would be true.

What we are doing is protecting our dollars with some high-cost items. This has been true, as I mentioned before, with the oscilloscopes out our way that we are able to produce here because of our technological advantage and they are high-cost items. But when you get into the lowercost items, we are just losing these to the foreign markets every day, are we not? Is that what is happening?

Mr. HOFFMAN. Mr. Ullman, we do have a chart and we will make it a part of the record.

Our total imports in 1966 in our category of the industry, the consumer portion, amounted to $385 million; in 1967, $449 million; in 1968, $710 million; in 1969, $999.4. These are imports of consumer electronic products in total. They are products brought into this country

under foreign labels and sold as such in this country, and those imported and sold in this country under a domestic label. We do have a breakout between "foreign label" and "domestic label" sales. For instance, in 1969, foreign label imports amounted to $548 million and domestic label imports amounted to $445 million.

(The table to be furnished follows:)

CONSUMER ELECTRONICS IMPORTS BY FOREIGN AND DOMESTIC LABEL, 1966–69 [1]

	1966		1967		1968		1969	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Foreign label [2]	$196,790	51.1	$260,363	57.9	$376,152	52.9	$548,513	55.2
Domestic label [2]	188,214	48.9	189,564	42.1	334,719	47.1	445,996	44.8
Total imports	385,004		449,927		710,871		994,509	
Estimated dollars and percent of domestic label imports made in U.S. manufacturers' facilities abroad	4,816	2.6	10,067	5.3	15,614	4.7	59,003	13.2

[1] All estimated except "total imports."
[2] "Domestic label" includes products sold under U.S. manufacturers' brand names and some sold under U.S. trade names. "Foreign label" includes products sold under foreign manufacturers' brand names and some foreign products sold under a U.S. trade name.

Mr. ULLMAN. Look at stereo sets, for instance. You know almost for a certainty that if you get a series of stereo components that you can buy for a couple hundred dollars or less it is a foreign import but we maintain U.S.-production on the higher priced products. Isn't that true?

Mr. HOFFMAN. Yes; that is true.

Mr. ULLMAN. But the mass market is disappearing abroad.

Mr. HOFFMAN. In the stereo component area, there are still substantial producers in the United States. Some of them do import chassis as part of the total product in the new audio components field.

Mr. ULLMAN. I wish I had some answers.

Mr. MCCAULEY. Mr. Ullman, I would like to comment, sir, on your opening remarks that we are really appearing to be on both sides of the fence.

To sum up what we have just said in a succinct manner, what we are saying is this: We suspect that a good deal of the import penetration that we are seeing is resulting from employment by foreign suppliers of practices which tend to corrupt trade. We are saying that when we can get a handle on these unfair practices and when we can know whether our suspicions are correct or not, we would then be in a better position to assess whether or not the import penetration is of a type that would warrant consideration of import relief measures.

The subtleties, the practices, of foreign governments today leave a lot of people cold. We don't know a lot of what we need to know about these things. So, actually our asking for a study is not a delaying tactic at all. Some of us are convinced that until we know the nature of the trade in consumer electronic products, we are not going to know what kind of remedy to apply to that trade.

Mr. ULLMAN. I am sure that you have a difficult situation there but the more basic problem is that your people, the people you represent, are moving their production overseas. If we remove the foreign trade barriers do you think this would stop some of the overseas movement?

Mr. McCauley. Some of the unfair trade practices?

Mr. Ullman. Yes.

Mr. McCauley. I think it might very well.

Mr. Ullman. Because our people are going over operating under the cover of some of these unfair practices.

Mr. McCauley. We do not intend to imply that our people go over there to join the "club," as it were, and participate in these practices. We are not saying this.

Mr. Ullman. No; I can see why.

Mr. McCauley. We are saying, in effect, that the competition that we are experiencing we suspect in many instances it not fair competition. So, to the extent that that can be dealt with, I think we can look at the animal that we are left with and decide what makes it tick. When we know what import competition is—whether it is fair or unfair—we will know what needs to be done about it.

Mr. Ullman. Let me ask one further question of you.

We have already said that most of your companies do have overseas operations where they produce electronic goods. To what extent is this true in Japan?

Mr. McCauley. To what extent do these companies have operations in Japan?

Mr. Ullman. Yes.

Are our companies able to invest in Japanese companies?

Mr. Hoffman. We only have a modest number of our members who have investments over there. It is more a buying relationship with a company in Japan, one of the principal manufacturers in Japan.

Mr. Ullman. You establish a buying relationship in Japan?

Mr. Hoffman. Yes, sir.

Mr. Ullman. As far as our actual overseas investments, it would be more in Hong Kong, Taiwan?

Mr. Hoffman. Or Mexico, Korea.

Mr. Ullman. Some other low-cost labor area?

Mr. Hoffman. Yes.

Mr. Ullman. Thank you.

Mr. Collier.

Mr. Collier. On page 4 of your testimony you said:

> If foreign penetration of the U.S. market is achieved, in whole or in part, by export practices and/or home market nontariff barriers that are contrary to U.S. ground rules of competition, then these practices and barriers must be moved against promptly and vigorously.

Et cetera.

However, in the previous paragraph in discussing fair and unfair competition you neglect to mention, except in terms of what I construe are what we refer to as nontariff barriers, the competitive situation, or noncompetitive, as the case may be, that develops in terms of the labor cost involved.

For example, if you and I were in a competitive business, all other things being equal, and I were required by contract, union contract, to pay my employees such-and-such a figure per hour, you on the other hand as my foreign competitor were required to pay perhaps 40 percent of that figure, I don't know how I would have a fair competitive situation. I do not have a choice in the hourly rate that I am obliged to pay.

So, do you have a solution to the competitive situation merely by the elimination of nontariff barriers or do we reach a point where we have a free and open competition at such time as the foreign nations may reasonably pay the same hourly rates in the electronic industry as is required of manufacturers in the United States?

Mr. HOFFMAN. In the case of the labor content of our finished products, for instance in television, it is not the substantial portion. Now, there is an area where the foreign corporations, the Japanese and the Koreans and the Taiwanese and Hong Kong, have an advantage over our labor in that small portion of the total product cost, but it is at the bottom of the page.

Mr. COLLIER. Did I understand you to say that the labor cost involved is a small portion of the cost that the consumer pays at the retail level? Or did I misunderstand you?

Mr. HOFFMAN. Yes; it is.

Mr. COLLIER. Then this flies in the face of reams of testimony that we have had, not only by the previous witness today but indeed by representatives of many other industries who insist that the major problem in the so-called foreign and domestic competitive situation is, in fact, in the labor cost.

Mr. HOFFMAN. Mr. Collier, in the case of a product selling in the area of $150 to $200, labor and overhead is in the area of $25 or $27, or even $23. That is not the total problem that we are confronted with in the competitive marketplace.

Mr. COLLIER. You point out, too, that price levels in the U.S. market for consumer products are beneficial to the consumer and you go on to point out that the television set index averaged about 80 in the consumer price index; radios, 75.

Is that always in the best interest of the consumer when one realizes that the vast working force in this country that are consumers are indeed laborers and are members of labor organizations, and I have some friends back in my home area who are members of the electrical workers union who have reached the point where they will not buy a product with a foreign name on it. I don't blame them. This is their bread and butter.

I do not think that if in the process of providing consumer relief we reduce the available spending dollars in the market that this is necessarily beneficial to the "consumer."

I think, very frankly, going back to some 15 or 18 years ago when I came to Congress, we had some figures at that time as to what percentage of the domestic radio market was serviced by American-produced radios and then the figure you gave today, there has just been a frightening export of this industry.

Didn't at one time the United States serve 80 percent of the world in the production of radio sets?

Mr. HOFFMAN. Yes; a substantial portion.

Mr. COLLIER. Now we are down to the point where American manufacturers serve what percent of the U.S. market?

Mr. HOFFMAN. In radios—I have a chart that covers that.

Mr. COLLIER. Give me the last year.

Mr. HOFFMAN. Yes; and I will refer to 1969.

In the case of radios, including home and auto, imports accounted for 70 percent in units and 50 percent in dollars.

In tape equipment, imports accounted for 90 percent of the units and 70 percent of the total dollars.

Monochrome and color television, total imports were 30 percent of the units and 20 percent of the dollars.

Mr. COLLIER. So that what we have experienced is this Nation moving from the point where it produced 80 percent of the radios for the world to a point where it is now producing about 30 percent of the radios for the people in this country.

I would say that this trend demands very careful and a very close look lest we find ourselves in a position where we are killing the goose that laid the golden egg. I realize the position that you gentlemen in the Consumer Division have. I realize that there are certainly demands made on your segment of the industry that you have to be realistic about. So, I am not suggesting that you have the answers to this problem. But I think it becomes very evident that we do have a problem, as you point out, and that there are no simple solutions.

While I am just as anxious to do what must be done to remove and use whatever pressures are necessary to remove nontariff barriers, I do think that there are other aspects of establishing a trade policy that we had better take a good hard look at if we are to project in this and other industries what we may be facing, based on what the experiences we have had.

Thank you, Mr. Chairman.

Mr. ULLMAN. Are there further questions?

Mr. Morton.

Mr. MORTON. I am looking at your table, Mr. Hoffman, on page 2 of your statement. It looks as though the sales have grown at an annual rate of about 2½ percent a year, domestic sales.

Does that 2½ percent increase in sales actually mean you have sold more products in the domestic market, or is that primarily a price increase?

I am taking the imports, plus domestic, plus the total sales, of which all but 2⅓ percent where domestic during those 4 years shown on the table.

Mr. HOFFMAN. In looking at the sales, I would say, and I am not sure, that this would be mostly represented by price increases.

Mr. MORTON. Does this mean that we have a static market for these products in the United States in terms of numbers of items?

Mr. HOFFMAN. I think we have to go back a few years in time just prior to 1966. You will find in our industry that we had a substantial jump from the days of the introduction of black-and-white television and then followed by color television.

Our group does maintain very sophisticated statistics. We would be most happy to cover the entire historical background as to years and dollars that are available.

Mr. MORTON. What I am trying to find out is what the opportunities are today to improve the $887 million negative balance of payments which roughly doubled exports during this period of time?

You have had a relatively static market domestically. Now, what share of the world market do you have today which is a sort of follow-up to Mr. Collier's point?

Mr. HOFFMAN. A very modest one.

Mr. MORTON. Is the world market static today?

Mr. HOFFMAN. No; it is not.

Mr. MORTON. Is price the reason that our export level is at 2.3 percent in 1969?

Mr. HOFFMAN. Price is one of the areas.

In some of the countries, it is standards. In television, for instance, Europe has different standards from the United States; so we must produce them there. There are some of our American manufacturers who produce for the European market but it is a modest number. It is a modest quantity.

Mr. MORTON. Of this sales figure of 4,000,624 what percent is television?

Mr. HOFFMAN. Over half.

Mr. MORTON. In other words, we do not have any substantial share of the world market on these products; is that correct?

Mr. HOFFMAN. That is correct.

Mr. MORTON. Yet, we have let enough imports into the country so that the net balance of payments is a negative $887 million; is that right?

Mr. HOFFMAN. That is right.

Mr. MORTON. The real question is: Can the industry live in this static market and be content with 2.3 percent of the sales abroad?

I don't see how the industry, over a period of time, can withstand this kind of economics, because you are looking down the pike at a bigger negative balance of payments than can be offset by our exports of metallurgical coal in terms of positive balance of trade payments.

Do you anticipate that the trend from 1 percent in 1966 to 2.3 percent in 1969 will continue up sharply, or do you feel that will level off?

Mr. HOFFMAN. At this present time, I see only a modest increase.

Mr. MORTON. If this is true and if this trend exists as far as imports are concerned, and you project that over the next 5 years you are going to have considerably over 50 percent, the entire sales in this country domestically will be from foreign sources; is that correct?

Mr. HOFFMAN. If the trend continues, yes, sir; and this is our concern.

Mr. MORTON. You have no figures on the world market and what you anticipate the world market will do?

Mr. HOFFMAN. No; we do not.

Mr. ULLMAN. I will say to the gentleman that the next witness does have some of this information you are asking about.

Mr. MORTON. One final question so as to get it better in my mind.

What are the principal consumer electronic products we are dealing with here? I know you have mentioned television; you have mentioned radio. Are there any other products in that category?

Mr. HOFFMAN. Radio phonographs, more commonly called console stereos, phonographs, and tape recorders.

Again the nomenclature changes are in the newer segment of our business, the audio components field.

Mr. MORTON. In studying the balance sheets of companies that publish statements to which you have access, what has been the trend of return on capital employed for these same years by the companies that have made up this $4.624 billion worth of sales?

Mr. HOFFMAN. It has been sinking recently.

Mr. MORTON. At a proportionate rate to that of the imports' increase?

Mr. HOFFMAN. Some of our member companies have been badly hurt by this import flow.

Mr. MORTON. Thank you, Mr. Chairman.

Mr. GIBBONS. I have one question, Mr. Chairman.

Mr. WATTS. Mr. Gibbons.

Mr. GIBBONS. Sir, you mentioned the countervailing duty section. What is the present role of the Antidumping Act in the United States trade in the consumer electronics products and how does it relate to U.S. offshore production?

Mr. HOFFMAN. In the case of the Antidumping Act, portions of our industry have asked the Customs Bureau to look at imports of certain categories, including finished goods, television, black and white, and color. These cases have been pending with the Customs Bureau for more than a year and a half. We are still awaiting a decision. A complaint was filed by parts producers but we are as anxiously awaiting the outcome as they are.

Mr. GIBBONS. What is the excuse? Why have they not gotten this thing straightened out?

Mr. HOFFMAN. I will defer to Mr. McCauley, but I am only going to make one comment.

In the early stages of the filing, it was the substantial number of cases that were filed with the Customs Bureau and the fact they were operating with a very small staff. It is my understanding that more recently, in the sense of the last 6 months or so, the staff has been added to and they are making progress.

I have read in the trade papers that customs is contemplating some kind of decision shortly, possibly this month, on black and white and color television.

Now, in the case of countervailing duties, would you comment to Mr. Gibbons?

Mr. MCCAULEY. I don't believe there has been any formal investigation under the countervailing duty provisions specifically related to electronics, consumer electronics.

Mr. GIBBONS. Thank you.

Mr. WATTS. Are there any further questions?

If not, thank you very much for your appearance.

Mr. HOFFMAN. Thank you, Mr. Chairman.

Mr. WATTS. The next witness is Mr. Herbert Rowe.

Give the reporter your name and capacity in which you appear. Do you have anybody with you?

STATEMENT OF HERBERT ROWE, CHAIRMAN, WORLD TRADE COMMITTEE, PARTS DIVISION AND DISTRIBUTOR PRODUCTS DIVISION, ELECTRONIC INDUSTRIES ASSOCIATION, AND ON BEHALF OF THE AMERICAN LOUDSPEAKER MANUFACTURERS ASSOCIATION; ACCOMPANIED BY EUGENE L. STEWART, SPECIAL COUNSEL

Mr. ROWE. Yes, sir, Mr. Stewart.

Mr. Chairman, in the interest of saving time, I will condense my remarks somewhat from that which has been printed, but I ask that the record show that my testimony was given in its entirety.

Mr. WATTS. That will be done, without objection.

Mr. ROWE. I also would like to call to the chairman's attention the fact that the testimony which I will give today will be somewhat different from the testimony which has been given earlier.

Mr. WATTS. Proceed, sir.

Mr. ROWE. Mr. Chairman and members of the committee:

I am Herbert Rowe, president of the Muter Co., Chicago, Ill. I also am chairman of the World Trade Committee, Parts Division, Electronic Industries Association. I appear here today on behalf of the Parts Division and the Distributor Products Division of the Electronic Industries Association, and the American Loudspeaker Manufacturers Association.

The members of the Parts Division, Electronic Industries Association, are domestic producers of electronic parts and components, particularly those types used in the manufacture of consumer electronic products such as radios, televisions, record players, and tape recorders. The American Loudspeaker Manufacturers Association represents domestic manufacturers of loudspeakers, and the Distributor Products Division, Electronic Industries Association, represents manufacturers of electronic components which are sold to consumers other than manufacturers.

During your committee's hearings on foreign trade legislation in 1968, testimony and a rather exhaustive brief of data were presented on behalf of the above-mentioned organizations. Our position today is consistent with that presented in 1968, only the circumstances of the industry are more grave, and the need for relief from excessive amounts and increases in imports more urgent.

ELECTRONIC COMPONENTS

I. Electronic Component Manufacturers Are Being Severely Affected by Large and Rapidly Rising Imports of Consumer Electronic Products and by the Transfer of U.S. Assembly Plants for Such Products to Foreign Countries

The domestic producers of electronic components are in a difficult position. Our customers are the domestic manufacturers of radios, televisions, record players, tape recorders, and other consumer electronic products. We supply them with the loudspeakers, tuners, record changers, resistors, capacitors, transformer, connectors, phosphors for television picture tubes, and other parts, components, and subassemblies which they use in assemblying the complete consumer electronic products.

We are affected by the loss of a large and growing since of the U.S. market to radios, televisions, and other consumer electronic products from foreign manufacturers, principally Japanese. When the market share of U.S. assembled sets is reduced, demand for our parts and components is correspondingly reduced.

We have also been hurt by the response by U.S. consumer product firms to their loss of U.S. market share to foreign manufactured sets. American brand name set assemblers have reacted by transferring the assembly of U.S. brand name radios, televisions, and other consumer electronic products to low-wage foreign countries.

In some cases, this transfer was accomplished by contractual arrangements in which existing foreign manufacturers, usually Japa-

nese, supply radios, televisions, and the like to the U.S. brand name firm for importation and sale in the United States under the American brand name. In other cases, the U.S. brand name set assembler simply established one or more assembly plants in low-wage foreign countries, where it assemblies radios, televisions, or other consumer electronic products with the cost advantage of extremely low wages for export to the United States, and sale here under the American firm's brand name. While the American firm is able to retain all or part of its share of the U.S. market by this expedient, the sets sold are made abroad, and represent a loss of our market for sale of electronic parts and components in the United States.

II. Electronic component manufacturers are also adversely affected by rising imports of electronic components themselves

In short, import pressures on the radio, television, and other consumer electronic products market have driven, and are driving a very large and growing part of our market for the sale of parts and components overseas, where we cannot compete. Some of our members have reacted to these events by establishing offshore assembly plants to produce the parts and components required in the offshore assembly of radios and televisions by their customers.

For those of us who are left behind, the shrinking production of consumer electronic products in this country is steadily being invaded by imported parts and components. The plants in this country that continue with the assembly of consumer electronic products react to import pressures by doing everything they can to lower their costs. Our import duties are so low, and the selling price of articles produced in Asia so far below American costs and prices, that increasingly they have been substituting foreign parts and components for American. Our shrinking market is contracting even more rapidly because of this development.

III. The deep market penetration and rapid rise in imports of electronic products have caused a major loss of employment in the electronic products industries

The industries producing radio and television sets, and the types of parts and components used in the assembly of such sets, employed 536,100 workers in March 1970—more than twice the employment in the footwear industry, whose import problems are the specific object of H.R. 16920. Under the impact of electronic product imports, employment in these electronic product industries is falling sharply. From its peak employment in November 1966 of 179,000 workers, the consumer electronic products industry lost 47,000 jobs by March 1970, nearly as great as the total job loss in the total textile industry, and several times greater than the job loss in footwear. From its peak in October 1969 of 420,000 jobs, the electronic components industry lost 16,000 jobs by March 1970.

The crisis in employment in the electronic product industries is caused by imports. Allow me briefly to sketch the dimensions of the import problem. I begin with imports of consumer electronic products.

IV. Imports have captured from 30 percent to 90 percent of the domestic market for consumer electronic products

When we were here in 1968, we presented data for the years 1964 through 1967. They showed that imports of TV's were increasing at

an average annual rate of 42 percent, radios 25 percent, phonographs 25 percent, and tape recorders 8 percent. Now we have data for the years 1968 and 1969. Compared with 1967, imports of TV's have increased at an average annual rate of 75 percent, radios 25 percent, phonographs 22 percent, and tape recorders 33 percent.

The value of imports of these products in the aggregate increased at an average annual rate of 39 percent during the period 1964 through 1967, which is a pretty stiff rate of increase; between 1967 and 1969, the rate of increase rose to 44 percent. Market disruption has been immediate and far-reaching. The closing of plants, laying off of workers, and a reduction in hours worked and take-home pay for the lucky workers who survived, has been the result. Data concerning the import rise are contained in the following table:

U.S. IMPORTS OF CONSUMER ELECTRONIC PRODUCTS

	TV's	Radios	Phonographs	Tape recorders	Total (in millions)
1964	715,000	13,739,000	2,363,000	3,075,000	$212.6
1966	1,524,000	24,950,000	4,223,000	2,807,000	$390.2
1967	1,614,000	24,201,000	4,134,000	3,780,000	$458.8
Percent change, 1964-67	+125.7	+76.1	+74.9	+22.9	+115.8
Average annual percent change, 1964-67	+41.9	+25.4	+25.0	+7.6	+38.6
1968	2,711,000	30,161,000	5,429,000	4,914,000	$630.7
1969	4,034,000	36,468,000	5,918,000	6,253,000	$858.2
Percent change, 1967-69	+149.9	+50.7	+43.2	+65.4	+87.1
Average annual percent change, 1967-69	+75.0	+25.4	+21.6	+32.7	+43.6

Source: Marketing services department, EIA; U.S. Department of Commerce; Bureau of the Census.

Imports of foreign brand name radios and televisions have triggered imports of so-called U.S. brand name sets. In 1958, 10.8 million home-type radio sets were sold in the United States, of which 76 percent were made in the United States. Of the 24 percent imported, only nine-tenths of 1 percent were U.S. brand name imports.

By 1963, the import share of the market had risen to 58 percent, but the U.S.-radio manufacturers were still emphasizing the production of their brand name sets in this country. Only 4.5 percent of the imported sets were sold under U.S. brand names. Up until that year, the American radio set manufacturers tried to stem the tide of rising imports by opposing tariff cuts on radios.

Meanwhile one of the industry leaders contracted for the supply of its U.S. brand name sets with a Japanese manufacturer. This changed its market position in the United States; it then had the advantage of Japanese costs and greatly increased leverage on the domestic price of a U.S. brand name radio. Its American competitors were forced to make corresponding moves. Some chose to establish offshore assembly plants.

The effect on the import share of the domestic market was immediate. By 1969, total imports of radios supplied 88 percent of the American market, with U.S. brand name imports accounting for 16 percent. For our purposes, the U.S. market for the sale of loudspeakers, resistors, capacitors, and other electronic parts and components for radios has all but disappeared—wiped out by imports in a single decade.

Now we are witnessing the same distressing spectacle in the largest and strongest part of the domestic consumer electronic products

industry, television sets. Imports did not become a factor in the United States market until about 1963. In that year, domestically produced TV sets accounted for 92 percent of the American market. Of the 8 percent supplied by imports, U.S. brand name imports accounted for nearly half.

U.S. set makers have moved more quickly than in radios to protect their market position by providing for imports bearing their brand name. By 1969, imports of TV sets accounted for 30 percent of the U.S. market, and U.S. brand name sets accounted for 41 percent of total imports.

Domestically produced TV set sales in 1969 were lower than the volume of the preceding 2 years. The absolute decline in domestic sales of U.S.-assembled sets offers an ominous contrast to the upward surge of imports.

These facts are established by the date in the following table:

TABLE 2.—U.S. IMPORTS AND SALES OF DOMESTIC RADIOS [1] AND TELEVISIONS, 1958-69

[Data in thousands of units]

	1958	1963	1967	1968	1969	Percent change 1958-63	Percent change 1963-66
I. RADIOS							
Sales, domestic sets	8,024	9,631	7,812	5,788	4,737	+17.4	−50.
Imports, total	2,593	13,783	23,579	28,346	34,677	+431.5	+151.
U.S. brand name	23	620	4,463	5,684	5,663	+2,595.7	+813.
Foreign brand name	2,570	13,163	19,116	22,662	29,014	+412.2	+120.
Total sales, U.S. market	10,797	23,602	31,683	34,322	39,414	+118.6	+67.
U.S. brand name	8,227	10,251	12,275	11,472	10,400	+24.6	+1.
Foreign brand name	2,570	13,163	19,116	22,662	29,014	+412.2	+120.
Ratio, total imports to total sales, U.S. market (percent)	24.0	58.4	74.4	82.6	88.0		
II. TELEVISION							
Sales, domestic sets	5,131	7,326	9,723	10,271	9,274	+42.8	+26.6
Imports, total		391	1,641	2,710	4,034		+931.7
U.S. brand name		174	903	1,249	1,661		+854.6
Foreign brand name		217	711	1,461	2,373		+993.5
Total sales, U.S. market	5,131	7,982	11,565	13,211	13,308	+55.6	+66.7
U.S. brand name	5,131	7,500	10,626	11,520	10,935	+46.2	+45.8
Foreign brand name		217	711	1,461	2,373		993.5
Ratio, total imports to total sales, U.S. market (percent)		4.9	14.0	20.5	30.3		

[1] Not including auto radios.

Source: Marketing Services Department, Electronic Industries Association.

There are some figures in table 2 which answer the question which Mr. Burke raised earlier. I call your attention to sales of domestic radio sets in 1968 of 5,788,000 and in 1969, 4,737,000, and the import total in 1968 of 28,346,000 and 1969, imports of 34,677,000, a change from 1963 to 1969 of 152 percent; and the same type of information is given under television sets where imports between 1963 and 1969 have increased by 932 percent.

Mr. Chairman, there is no more dramatic story of the destruction of domestic manufacture and jobs for American working men and women than that set forth in the preceding table concerning radios and televisions. The import penetration is deeper than in the basic manufacturing industries on which the Government's attention has thus far

been concentrated—steel, textiles, and footwear. Deep and rapid invasion of the American market has occurred in all sectors of consumer electronic products. This is shown in the following table:

TABLE 3.—THE IMPORT SHARE OF THE U.S. MARKET FOR CONSUMER ELECTRONIC PRODUCTS

[In percent]

	1964	1966	1967	1968	1969
Tape recorders	86.4	76.4	82.5	88.2	90.2
Radios	58.4	71.7	74.4	82.6	88.0
Phonographs	31.4	40.1	43.3	49.8	53.9
Televisions	7.3	12.0	14.0	20.5	30.3

Source: Derived from data compiled by Marketing Services Department, Electronic Industries Association.

Notwithstanding the acute peril of the domestic producers of consumer electronic products, the U.S. trade negotiators agreed in the Kennedy round to a 50-percent cut in duty on virtually all electronic products. Our foreign competitors, however, emerged from the Kennedy round with higher duties on consumer electronic products than ours. This is shown in the following table:

TABLE 4.—IMPORT DUTY RATES OF THE UNITED STATES, JAPAN, AND EUROPEAN PRODUCERS FOR CONSUMER ELECTRONIC PRODUCTS, POST-KENNEDY ROUND

[In percent]

	United States	Japan	EEC	United Kingdom
Televisions	5.0	[1] 15.0 [2] 10.0	14.0	15
Radios	6.0 [3] 10.4	9.0 [3] 17.5	14.0	15
Radio-phonographs	6.5	17.5	14.0	15
Phonographs, sound recorders	5.5	15.0	9.5	10

[1] Up to 10-inch screen.
[2] Other.
[3] Solid state.

Source: Office of the Special Representative for Trade Negotiations, Report on United States Negotiations, General Agreement on Tariffs and Trade 1964–67 Trade Conference, Geneva, Switzerland; GATT, Legal Instruments Embodying the Results of the 1964–67 Trade Conference.

Mr. Chairman, 91 percent of the televisions, 72 percent of the phonographs and sound recording instruments, and 68 percent of the radios imported into the United States originated in Japan, whose duties on U.S. exports of the same articles are two to three times those which we impose on her exports.

Consumer electronic products are based on relatively mature technology, available freely throughout the world. Labor costs in the manufacture of parts and components, and in the assembly of these into the complete set, are the decisive factor influencing price competition. Japan's capital equipment, technology, and assembly procedures are as good as ours. Her wage rates and working conditions, inferior by our standards, give her producers the cost advantage, and account for her virtually complete domination of the American market for consumer electronic products.

These are well-known facts, well known to everyone but U.S. trade negotiators, who have in successive trade agreement negotiations cut

the heart out of our tariff protection, leaving the American market open to domination by the Japanese without significant restraint.

Some insight into Japan's cost and price advantage in the marketing of radios and televisions can be gained by comparing our exports to the world with hers. This is done in the following table.

TABLE 5.—COMPARATIVE COMPETITIVE STRENGTH OF JAPANESE AND UNITED STATES RADIOS AND TELEVISIONS AS SHOWN BY UNITED STATES AND JAPANESE EXPORTS

[Data in thousands of units and thousands of dollars]

	Radios			TV's		
	Units	Value	Unit value	Units	Value	Unit value
I. U.S. exports of radio and TV receiving sets:						
1958	208	$6,430	$30.91	148	$20,234	$136.72
1963	176	4,668	26.52	143	17,672	123.58
1967	272	6,898	25.36	139	23,577	169.62
1968	404	7,967	19.72	144	27,772	192.86
1969	357	8,557	23.97	157	32,287	212.02
II. Japanese exports of radio and TV receiving sets:						
1958	2,507	17,904	7.14	1	30	30.00
1963	12,175	87,753	7.21	452	24,865	55.01
1967	13,835	141,887	10.26	1,572	119,019	75.71
1968	16,412	208,180	12.68	2,505	199,096	79.47
1969	[1] 15,251	[1] 245,886	16.12	[1] 2,656	[1] 219,776	82.75
III. Ratio, U.S. exports to Japanese exports (percent):						
1958	8.3	35.9	432.9			
1963	1.4	5.3	367.8	31.6	71.1	224.7
1967	2.0	4.9	247.2	8.8	19.8	224.0
1968	2.5	3.8	155.5	5.7	13.9	242.7
1969	2.3	3.5	148.7	5.9	14.7	256.2

[1] Values estimated based on January-June 1969 data.

Source: U.S. Department of Commerce, "Notice to Trade," December 1969; Electronic Industries Association, yearbook 1965; Electronic Trends International, January 1970.

In table 5 in the third section there is some information which I believe answers the question which I believe Mr. Morton asked earlier. The 1958 ratio of U.S. exports to Japanese exports was 8.3 percent in units, 35.9 percent in value. By 1969 this had changed to 2.3 percent and 3.5 percent. In television sets the similar figures were 31.6 percent in 1963 down to 5.9 percent in 1969 and in value 71 percent down to 15 percent.

Even in televisions, where U.S. technology and manufacturing techniques were preeminent and well established prior to Japanese entry into the market, our exports are but a tiny fraction of those of the Japanese. In radios, our manufacturers have made a determined effort to boost exports, steadily dropping their prices in relation to the Japanese export prices. But the competitive advantage of Japan's low wages is too much. Our average unit prices have dropped from over four times those of the Japanese to about one and a half times the Japanese, but our exports persist at a level less than 3 percent of Japan's.

V. Imports have captured 31 percent of the domestic market for television picture tubes

These developments have affected every sector of parts and component manufacture in the United States. Plant capacity for the manufacture of television receiving tubes is more than 50 percent idle, both black and white and color.

The capital investment made to increase color tube capacity to amounts ranging from 10 to 12 million tubes per year has been significantly wasted, as the industry's peak sales were 5.9 million tubes in 1967, dropping to 5.3 million tubes in 1969. Of a combined capacity for black and white and color tubes of 20 million tubes, the domestic producers sold only 9.5 million in 1969. Since then some of the Nation's largest picture tube plants have closed.

Directly affected by the color picture tube debacle are the domestic production of the glass tube envelope and of the phosphors which, as coating for the inside of the tube, supply the color. Domestic producers of both the glass tube and the phosphors have closed down production facilities and laid off workers. We estimate that the direct and indirect losses of jobs triggered by the soaring imports of television sets total some 5,000 jobs. The pertinent data are presented in the following table:

TABLE 6.—DIRECT AND INDIRECT EMPLOYMENT IN THE PRODUCTION OF TELEVISION PICTURE TUBES, U.S. SHIPMENTS OF DOMESTICALLY PRODUCED TELEVISION PICTURE TUBES, AND U.S. DIRECT AND INDIRECT IMPORTS OF TELEVISION PICTURE TUBES

[In thousands of employees, and in units]

	1963	1967	1968	1969
Employment (in thousands):				
TV picture tubes	10.9	27.7	[1] 25.6	[1] 24.0
Glass tube bulbs	[1] 3.6	[1] 4.9	[1] 4.7	[1] 3.7
Phosphors	.1	.5	.4	.3
Total	14.6	33.1	30.7	28.0
Shipments, domestic (units):				
Black and white	7,315	3,841	4,792	4,188
Color	747	5,900	5,393	5,285
Total	8,062	9,741	10,185	9,473
Imports (units):				
Black and white:				
Direct (as tubes)	(2)	189	61	62
Indirect (as sets)	(2)	1,296	2,045	3,121
Total, black and white	(2)	1,485	2,106	3,183
Color:				
Direct (as tubes)	(2)	193	313	148
Indirect (as sets)	(2)	318	666	913
Total, color	(2)	511	979	1,061
Grand total:				
Direct (as tubes)	[3] 52	382	374	210
Indirect (as sets)	391	1,614	2,711	4,034
Total	443	1,996	3,085	4,244
Total consumption of tubes (units):				
Black and white	(2)	5,326	6,898	7,371
Color	(2)	6,411	6,372	6,346
Total	8,505	11,737	13,270	13,717
Ratio, imports to consumption (percent):				
Black and white	(2)	27.9	30.5	43.2
Color	(2)	8.0	15.4	16.7
Total	5.2	17.0	23.2	30.9

[1] Data partially estimated at the output per worker ratios derived from the 1967 Census of Manufactures data, and from trade sources.
[2] Not available.
[3] Estimated based on September–December 1963 data.

Source: Marketing Services Department, Electronic Industries Association; U.S. Department of Commerce, Bureau of the Census, 1963 and 1967 Census of Manufactures.

VI. Imports have captured 47 percent of the domestic market for electron receiving tubes

The severe impact of imports on the television picture tube industry, and its supporting industries of glass bulb and phosphor manufacturing, is particularly unfortunate. Picture tubes represented an opportunity for the electron tube manufacturers to escape from the double damage of technical obsolescence from transistors, and import injury from electron receiving tubes manufactured in Japan.

The combined impact of rising imports of consumer electronic products and technological displacement by solid-state devices such as transistors has affected both the domestic and foreign manufaeturers of electron receiving tubes. The domestic producers have had the worst of it. The following table presents the pertinent facts:

TABLE 7.—EMPLOYMENT IN THE PRODUCTION OF ELECTRON RECEIVING TUBES—DOMESTIC SHIPMENTS, AND DIRECT AND INDIRECT IMPORTS OF ELECTRON RECEIVING TUBES

[In thousands of employees, and thousands of units]

	1963	1967	1968	1969
Employment	25.8	21.2	[1] 19.3	[1] 16.9
Shipments, domestic	233,668	179,763	163,717	143,227
Imports:				
Direct (as tubes)	64,793	52,730	47,386	48,714
Indirect (as sets)	7,807	32,278	54,064	80,478
Total	72,600	85,008	101,450	129,192
Total consumption of receiving tubes	306,268	264,771	265,167	272,419
Ratio, imports to consumption, percent	23.7	32.1	38.3	47.4

[1] Partially estimated at 1967 output per worker ratio. Indirect import volume estimated, based on analysis of tube content of sets imported in 1967, projected against changes in subsequent years.

Source: Marketing Services Department, Electronic Industries Association; U.S. Department of Commerce, Bureau of the Census, 1967 Census of Manufactures.

The data in the above table present a stark picture: sales of domestically produced electron receiving tubes declined by 39 percent, imports increased by 78 percent, the import share of the domestic market doubled, and U.S. employment in receiving tube production dropped by 34 percent between 1963 and 1969. Despite the clear signs of disaster, the U.S. trade negotiators in the Kennedy round agreed to a 50-percent reduction in the U.S. import duty on receiving tubes, bringing the rate to 6 percent, compared with Japan's post-Kennedy round duty of 10 percent, the EEC's rate of 8 percent, and the United Kingdom's rate of 20 percent.

VII. Imports have captured 67 percent of the domestic market for loudspeakers

The destruction of domestic production and employment doesn't end with sets and tubes. I doubt if any sector of electronic parts manufacture is more vulnerable or has been more severely injured than loudspeakers. The facts are shown in the following table:

TABLE 8.—EMPLOYMENT IN THE PRODUCTION OF LOUDSPEAKERS; DOMESTIC SHIPMENTS, AND DIRECT AND INDIRECT IMPORTS OF LOUDSPEAKERS

[In thousands of units, except employment in units]

	1963	1967	1968	1969
Employment [1]	4,133	5,617	3,414	3,134
Shipments, domestic [2]	53,271	72,392	44,000	40,900
Imports:				
Direct (as speakers)	3,045	15,586	23,061	30,787
Indirect (as sets)	18,462	33,107	44,554	52,673
Total	21,507	48,693	67,615	83,460
Total consumption of loudspeakers	74,778	121,085	111,615	124,360
Ratio, imports to consumption (percent)	28.8	40.2	60.6	67.1

[1] Partially estimated at 1963 output per worker ratio.
[2] Partially estimated at the 1963 average unit value of shipments from reported data; indirect import volume based on units of imported consumer electronic products containing speakers.

Source: Marketing services department, Electronic Industries Association; U.S. Department of Commerce, Bureau of the Census, 1967 and 1963 Census of Manufactures.

We are a recent victim. Television production, especially color set production, in recent years sustained our employment and output. After 1967, however, the rising tide of television, phonograph, tape recorder, and radio imports erased the economic strength from loudspeaker production. Between 1967 and 1969, domestic shipments declined 44 percent, imports increased 71 percent, the import share of the market more than doubled, so that two out of every three loudspeakers acquired by consumers in 1969 were of foreign origin, and employment dropped by 44 percent. The loudspeaker industry is about at the point of extinction as a substantial factor in the American market due to imports of both loudspeakers and finished consumer electronic products. Japan is the major culprit.

VIII. Imports have captured from 43 percent to 88 percent of the domestic market for passive electronic components

The principal passive components—capacitors, resistors, and transformers—are not quite as vulnerable to imports as loudspeakers and picture tubes, because they are also used in the manufacture of industrial, space, and defense electronic products.

Nevertheless, the major part of domestic sales of passive components goes into consumer electronic products, so that imports have had a serious impact on these segments of the electronic parts and components industry. The facts are shown in the following table:

TABLE 9.—EMPLOYMENT IN THE DIRECTION OF CAPACITORS, RESISTORS, AND TRANSFORMERS, AND DIRECT AND INDIRECT IMPORTS OF THESE PASSIVE COMPONENTS

[Employment in thousands; shipments and imports in millions of units]

	1963	1967	1968	1969
Employment: [1]				
Capacitors	26.8	22.8	22.8	21.1
Resistors	25.0	23.0	22.5	24.8
Transformers	10.5	12.7	12.4	13.9
Total	62.3	58.5	57.7	59.8
Shipments: [2]				
Capacitors	2,172.0	2,579.3	2,898.0	2,823.7
Resistors	3,130.2	4,392.1	5,052.9	5,310.9
Transformers	33.8	95.6	94.7	110.0
Total	5,336.0	7,067.0	8,045.6	8,244.6
Imports:				
Direct:				
Capacitors [3]	507.0	1,147.8	1,063.7	960.7
Resistors	[4] 213.9	913.0	954.9	966.8
Transformers	[4] 6.4	49.0	49.4	55.4
Subtotal	727.3	2,109.8	1,968.0	1,982.9
Indirect:				
Capacitors	461.5	1,324.3	2,227.7	2,949.7
Resistors	481.9	1,372.0	2,276.7	2,955.0
Transformers	145.8	459.0	619.3	732.1
Subtotal	1,098.2	3,145.3	5,123.7	6,636.8
Total, imports:				
Capacitors	968.5	2,472.1	3,291.4	3,910.4
Resistors	695.8	2,275.0	3,131.6	3,921.8
Transformers	152.2	508.0	668.7	787.5
Grand total, imports	1,816.5	5,255.1	7,091.7	8,619.7
Total consumption:				
Capacitors	3,140.5	5,051.4	6,189.4	6,734.1
Resistors	3,826.0	6,667.1	8,184.5	9,232.7
Transformers	186.0	603.6	763.4	897.5
Total	7,152.5	12,322.1	15,137.3	16,864.3
Ratio, imports to consumption (percent):				
Capacitors	30.8	48.9	53.2	58.1
Resistors	18.2	34.1	38.3	42.5
Transformers	81.8	84.2	87.6	87.7
Total	25.4	42.6	46.8	51.1

[1] Employment estimated at the ratio of the particular component shipments to total shipments in industry SIC 3679.
[2] Shipments for 1969 based on 1st 3 quarters.
[3] Estimated quantities by factoring reported values at derived unit values based on average ratio of import/domestic unit values for resistors.
[4] Estimated from September–December 1963 reported data; indirect import volume based on units of imported consumer electronic products containing passive components.

Source: Marketing Service Department, Electronic Industries Association; U.S. Department of Commerce, Bureau of the Census, 1963 and 1967 Census of Manufactures; BDSA, Current Industrial Reports, Selected Electronic and Associated Products; U.S. Department of Labor, Bureau of Labor Statistics, Employment and Earnings, March 1969 and 1970.

Increased productivity in the passive components industries brought about an average 54.5-percent increase in shipments between 1963 and 1969, while employment dropped by 4 percent. Total imports increased by 375 percent, however, and the share of the market supplied by imports doubled, with the major part of the market in 1969 supplied by imports.

With the perspective afforded by the 1969 ratio of imports to consumption of steel of 13 percent, textiles 11 percent, and footwear 28 percent, imports of tape recorders at 90 percent, radios at 88 percent,

phonographs at 54 percent, televisions at 30 percent, electron receiving tubes at 47 precent, television picture tubes at 31 percent, loudspeakers at 67 percent, and passive components at 51 percent represent for the electronic products industries an extremely serious problem.

These foreign trade developments in electronic products have had a major adverse effect on our Nation's balance of trade. In 1963, we had a deficit of $122 million in these products. By 1969, this deficit had grown to $741 million.

IX. Excessive import penetration of the domestic market for electronic products threatens to erode the Nation's technological supremacy in electronic manufacture

Thus far I have discussed the impact of electronic product imports on employment in the United States and on our Nation's balance of trade and payments. There is an additional impact of great importance to the national welfare. This has to do with the impact on the future technical leadership of the United States as we give up our markets to foreign producers.

It is a fact, and I believe a well-recognized one, that the United States has considerable leadership in electronic technology. This leadership was fostered and made possible by our large domestic market for consumer as well as industrial and military electronic products. It is the profits from the "mundane" products such as passive components, speakers, radios, and television which, in part, have paid for the research and development conducted over many years by the U.S. electronic companies.

Therefore, as the market for these products goes to the foreign producers and the profits of the U.S. companies are diminished, we will, over a period of years, witness the gradual erosion of our technical supremacy. I think it is axiomatic that this will happen and, from the long-range point of view, this is every bit as important as the erosion in jobs and profits. It is also one which the United States will not be able to do much about, once the pendulum has swung too far.

X. The electronic components industry has exhausted the available administrative and judicial remedies for correction of the electronic product import problem

Before describing what we ask in legislation, let me briefly acquaint you with the efforts we have made to secure relief under existing remedies.

First, the antidumping remedy. Backed by a thorough market research study of the electronic products markets in Japan, and Japanese electronic product exports to the United States, our group, and in some cases, other interested parties, filed antidumping complaints covering the importation from Japan of television sets, electron receiving tubes, resistors, capacitors, loudspeakers, tuners, transformers, and ferrite cores. These complaints were filed in late 1967 and early 1968.

Thus far, final action has been taken by the Treasury Department in the cases involving electron receiving tubes, resistors, and transformers. In each case, the Bureau of Customs found that the articles in question were being dumped by one or more of the Japanese manufacturers who exported them to the United States. Instead of processing the cases for imposition of dumping duties, the Treasury Department accepted written assurances from the offending Japanese manufac-

turers that they would not dump in the future. On the basis of such assurances, the Treasury Department terminated the investigations with findings of no dumping. This served to exculpate the Japanese from liability for the long-continued dumping, and obligated them in a rather unspecific way to avoid dumping from and after the date of the assurances, which generally were given near the end of the investigation.

In the case of loudspeakers, the Treasury Department has announced a tentative determination of no dumping, which is also based on the acceptance of written assurances by one of three Japanese manufacturers not to dump in the future. Liability for past dumping is waived by this procedure.

In the case of tuners, the Treasury Department has announced the withholding of appraisement of import entries, and afforded the Japanese manufacturers a hearing to show cause why the Department should not find them guilty of dumping. It is possible that Treasury will in this case ultimately make a finding of dumping. Its withholding of appraisement, however, dates from its recent notice, rather than extending back to a date 4 months prior to the date the question of dumping was raised by or presented to the Treasury Department (November 1967), the practice under the Antidumping Act prior to the Kennedy round antidumping agreement. Thus, even if dumping duties should ultimately be imposed, the dumping that took place during the long period commencing November 1967 down to the recent notice of withholding will be exonerated.

In effect, the Treasury Department's procedure, whether it terminates a case on the basis of written assurances from the offending foreign manufacturer that it will not dump in the future, or on the basis of a notice of withholding of appraisement and finding of dumping, is tantamount to a license to dump without fear of any consequences for such action from its commencement up to the moment when Treasury blows the whistle.

Belatedly, in the face of our strong criticism of this practice, the Treasury Department on May 27 published a revision of its procedures which contemplates that in the future dumping investigations will be terminated on the basis of written assurances from the foreign manufacturers only when the margin of dumping is considered minimal in relation to the total volume of sales involved. In its announcement publishing this revision, the Assistant Secretary of the Treasury stated that the practice of terminating dumping investigations on the basis of written assurances "allowed foreign exporters to undercut the prices of their U.S. competition in American markets without undue concern for the possible consequences under the Antidumping Act."

The significance of this action, welcome as it is, is greatly diluted by the fact that the Treasury Department, in response to the Kennedy round antidumping code, has changed the date from which appraisement of import entries is withheld in a dumping investigation. Under current practice, the withholding of appraisement applies to import entries on and after the date the notice is published, which at best occurs many months after the dumping investigation is initiated. Previously, under the Antidumping Act, 1921, and the customs regulations issued thereunder, the withholding of appraisement

applied to import entries commencing on a date 4 months prior to the date on which the dumping complaint was filed. The difference in time period involved in this change in practice probably averages more than 1 year.

Thus, under the current customs practice, foreign manufacturers are assured that they will be subject to no liability for dumping duties for any entries brought into the United States prior to or during the course of the dumping investigation until a date near the end of the investigation when they are apprised that the Bureau of Customs has found a margin of dumping on their importations. They are given this notice informally prior to the publication of the notice of withholding so that they have a complete opportunity promptly to change their prices concurrent with the publication of the notice of withholding.

This means that a foreign manufacturer can never be subject to the penalty of dumping duties for all of the imports brought into the country pursuant to a merchandising policy based upon the use of dumping prices. When, after considerable delay, the foreign manufacturer is caught in the act of dumping, the Treasury Department's procedure in effect exonerates him from the penalties for all dumping up to the date of their determination and affords the manufacturer an opportunity to change his prices so that the operation of our antidumping law could not result in the actual imposition of dumping duties.

In other words, the antidumping remedy will remain a protection for foreign manufacturers who engage in the unfair practice of dumping in order to penetrate the U.S. market.

The dumping investigations involving capacitors, ferrite cores, and television sets are still pending after more than 2 years.

In each of these investigations we believe that the domestic industry has been denied the type of administration of the Antidumping Act which Congress intended. We have submitted to each member of this committee a detailed written description of the defects which we believe exist in the Treasury Department's interpretation of the Antidumping Act, of its own regulations, and in the conduct of its investigations of dumping as we encountered them in the receiving tube, resistors, and transformer cases. We believe strong legislative oversight by this committee of the Treasury Department's discharge of its duties under the Antidumping Act is sorely needed if that act is to amount to an effective remedy against unfair trade practices in the U.S. import trade.

Members of our group have also proceeded by way of American manufacturer's protest in an effort to correct a serious reduction in duty which has resulted from the Customs' interpretation of the tariff schedules as applied to ceramic capacitors.

Under the Tariff Act of 1930, under a uniform customs practice, ceramic capacitors were classified as vitrified ware, n.s.p.f., under paragraph 212 at the pretariff schedule rate of duty of 45 percent ad valorem, as shown by Customs Ruling T.D. 54717(17) of October 13, 1958. The Bureau, with the court concurring, ruled that ceramic capacitors were placed by the Tariff Commission in item 685.80 of the Tariff Schedules of the United States, dutiable on the effective date of the new schedules at 12.5 percent ad valorem. This 75 percent reduc-

tion in duty on ceramic capacitors was obviously not intended by the Tariff Commission, for it would have been directly contrary to the mandate of the Congress in the Customs Simplification Act of 1954 to carry out the revision of the tariff schedules without changing rates of duty other than those incidental rate changes which the Commission deemed necessary in order to accomplish the objective sought.

The Commission thought its provision for electrical capacitors under item 685.80 at 12.5 percent involved no rate changes, as its explanatory notes state as to that item that "item 685.80 covering electrical capacitors involves no rate change."

Nevertheless, its explanatory notes for item 535.14, applicable to "other" ceramic electrical ware, under which ceramic capacitors would logically be classified, and whose rate was derived from paragraph 212 of the 1930 act, indicated to the court that any article intended to be connected into an electrical circuit (as is the case for capacitors) was not intended to be covered by item 535.14. Hence, through inadvertence, the Commission appears to have made a grave error affecting ceramic capacitors.

Having exhausted our remedies administratively and judicially, we now ask this committee to include in the legislation which it reports subsequent to this hearing a provision which:

(*a*) Amends headnote 1 of schedule 6, part 5, of the Tariff Schedules of the United States to read as follows: "This part does not cover— * * * (iii) ceramic electrical capacitors or other ceramic electrical ware (part 2D of schedule 5);" and

(*b*) Amends item 535.14 of the Tariff Schedules of the United States to read, "Other, including ceramic electrical capacitors."

A member of our group has prosecuted an American manufacturer's appeal for reappraisement involving fixed composition resistors imported from Japan, which we believe to be seriously undervalued. The issue in the case is whether resistors, preponderantly used in television set manufacture, are subject to appraisement on the basis of foreign value as an article on the final list published by the Secretary of the Treasury under the provisions of the Customs Simplification Act of 1956.

The final list includes "television apparatus, and parts thereof." Since resistors are used preponderantly as parts in television apparatus, it seems a clear enough case, but the Bureau of Customs has resisted this interpretation. The result is about a 66 percent reduction in the duties applicable to imports of fixed carbon composition resistors from Japan.

Domestic industries and workers regard the tariff adjustment provisions of the Trade Expansion Act of 1962 as being a useless remedy. In our case, the major source of injury is the rapidly rising imports of radios, televisions, phonographs, tape recorders, and other consumer electronic products.

We are suppliers to the industry that produces those articles. Under the Tariff Commission's procedure, we do not have the standing to petition for the commencement of an escape clause case on these finished products.

A remedy was available to us, however, which we attempted to use. Under article XXVIII of GATT, the assured life of tariff concessions is 3 years, automatically renewed at the expiration of each 3-year period, but subject to an important right of each contracting party.

During the 6 months preceding the anniversary date of the concessions, in this instance, December 31, 1969, each nation, including the United States, has the right to give notice under the so-called open season provisions of article XXVIII that it does not intend to renew or extend the life of particular tariff concessions.

This is an absolute right and does not require justification on economic grounds or otherwise. Many nations have availed themselves of this right in the past.

In timely fashion our group petitioned the special representative for trade negotiations and, through him, the President, to exercise the rights of the United States under this "open season" procedure to modify the rate of duty applicable to electronic products. We asked that the duty be restored to the level of 25 percent, in contrast to the full statutory rate of 35 percent and the then-existing trade agreement rate of approximately 10 percent.

The petition was summarily rejected. The United States did exercise its rights under article XXVIII, however, to make an adjustment in import duties on stainless steel flatware, canned fish, and canned whale meat not fit for human consumption, and light aircraft less than 10,000 pounds empty weight.

It is incomprehensible to us that with an opportunity to proceed in accordance with the provisions of GATT to exercise an unquestioned right to adjust import duties, our Government chose to ignore the serious import problems of the electronic product industries and the very serious balance-of-trade deficit which exists in the products of those industries.

XI. Recommendations for specific legislative action required to achieve a solution to the electronic product import problem fair to both domestic and import interests

Having invoked every administrative remedy available to us without success, we now come to this committee and ask on an urgent basis that it include in the bill which it reports as a result of these hearings provisions to impose a system of flexible quotas on imports of consumer electronic products and the types of components used in the manufacture of those products.

A number of bills would accomplish such regulation. H.R. 993, 9274, 17625, and 17786 are limited to electronic products. H.R. 2348, 7340, 11574, 13170, 13623, 13693, 13715, 13766, 13780, 13941, 14072, and 16287, include steel, manmade fiber textiles footwear, and glass in addition to consumer electronic products and components. H.R. 16287 is representative of this group.

The system of import regulation specified in H.R. 16287 is quite similar to that provided for in H.R. 16920. There are these differences: H.R. 16920 is limited to textile articles and footwear, while H.R. 16287 embraces manmade fiber textile articles and footwear plus the other products which I have mentioned. Steel, electronic products, and glass are major industries which have suffered from an even greater degree of import penetration of the U.S. market than textile articles.

In addition to the broader scope of the named articles, H.R. 16287 uses as the base period, average annual imports during the 3 calendar years 1966 through 1968, in comparison with the 2

calendar years specified in H.R. 16920, 1967 and 1968. We think the 3-year base period would provide more assistance to the industries concerned than the 2-year period. The enactment of a bill providing for either period, however, would be welcomed by us.

H.R. 16287 has a "safety valve" provision not found in H.R. 16920 under which the Secretary of Commerce at the request of an interested party would investigate to determine if there would be an insufficient supply of an article subject to import control to meet the probable normal requirements for domestic consumption. If the Secretary finds a deficiency will probably exist, he may "open up" the import quotas to provide for a larger volume of foreign-produced goods. This "safety valve" provision is insurance against any possibility that price increases might be triggered by a "tight" supply from domestic and foreign sources.

H.R. 16287 is similar to your bill, H.R. 16920, in providing authority to the President to enter into trade agreement negotiations with the affected foreign countries for an agreed limitation and rate of growth of imports. H.R. 16287 has a provision not found in your bill providing for advice to the President from the manufacturing industries whose products would be involved in such trade agreement negotiations.

This provision requires that the President accredit representatives selected by such industries as advisers to the U.S. delegation for such trade agreement negotiations and accord them a full opportunity to advise and consult with the negotiators during the course of the negotiations.

American industry believes that as a result of the exclusion of its representatives from meaningful contact with our trade negotiators during the course of negotiations, serious though well-intended errors of judgment result simply because our negotiators do not have immediately available to them the expertise of industry representatives to focus on questions which arise during the negotiations.

Perhaps the most important difference between H.R. 16287 and H.R. 16920 is a provision in H.R. 16287 which establishes a procedure under which any import-sensitive industry whose market is heavily impacted by imports may petition the Tariff Commission for a determination that increased imports are causing or threatening to cause disruption of the domestic market, unemployment or underemploymen of workers, economic waste of capital investment in domestic production facilities, injury to essential community resources in which domestic plants are located or in which a substantial portion of the workers in the affected plant reside, or a substantially adverse effect upon the U.S. balance of payments.

Guidelines are specified for the Tariff Commission in making such findings. An affirmative finding by the Commission would be published in the Federal Register, and the effect of that publication would be to cause imports of the articles in question to then become subject to import quotas under the other provisions of the bill. In other words, imports would be limited to the base period quantity plus an annual growth adjustment, with the right in the President to enter into trade agreement negotiations with the affected countries to resolve by agreement the matter of limiting imports of such articles to the United States in a manner consisent with the objectives of the bill.

The importance of this provision of H.R. 16287 is that it provides

any industry, on its own behalf and that of its workers and the communities in which its plants are located and workers reside, fair access to the same types and caliber of import regulation as has been found by a majority of the Members of this House to be appropriate for the textile and footwear industries.

The congressional efforts on behalf of the textile footwear industries are commendable. We are also not unmindful of the congressional leadership in bringing about a negotiated solution to the steel import problem. Our belief is that other industries have an equal right to the consideration of the Congress for relief from their damaging import problems. H.R. 16287 accomplishes this in a manner quite compatible with the principles of H.R. 16920, and in many respects, we sincerely believe, in a manner that would strengthen that bill.

Three perfecting amendments are required in H.R. 16287, assuming that the committee responds favorably to our request to incorporate its substance in the bill which it reports:

First, we request that the definition of the term "electronic components" in section 2(c)(iv) be amended by inserting after the item number 687.61 at page 4, line 4, a comma and the following language:

"and phosphors (suitable for use in the manufacture of television picture tubes) provided for under item 423.96."

Second, in the same definition, at page 4, line 4 of the bill, insert after item No. 687.60 the following: "(excluding semiconductors)."

Third, we request that the definition of the term "consumer electronic products and accessories" be amended so as to include within its scope electronically actuated garage door opening and closing devices. This amendment can be accomplished by revising the definition, which appears at section 2(c)(iii) of the bill, to read as follows—the language to be inserted in the definition is italicized—

"(iii) the term 'consumer electronic products and accessories' means the articles—other than parts—specified in items 685.20 through 685.55, the articles—other than parts—specified in items 684.70 and 684.71, *and electronic garage door openers and their component parts whether classified under items 678.50 or item 685.60*, of the Tariff Schedules of the United States, as amended;

And by amending the definition of the term "electronic components" at section 2(c)(iv) of the bill, as follows: change the language "and 685.50" on line 2, page 4, to read "685.50, and 685.60".

We understand that other witnesses have or will describe in their testimony the inadequacies of the administration's trade bill from the point of view of import-impacted domestic industries. We shall not pursue that subject in detail. Briefly, we would like to point out that in our opinion the test of the administration bill for industry relief, proof that increased imports are the primary cause of serious injury, will be as difficult to meet as the present largely unworkable test of the tariff adjustment provision of the Trade Expansion Act of 1962. Beyond that, we are convinced from our experience in our article XXVIII petition that it will rarely be possible for a domestic industry to secure an adjustment of tariffs based on a finding of injury by the Tariff Commission because of the opposition of those who man the foreign trade apparatus of the executive branch.

We believe that the Tariff Commission findings of injury and recommendations for tariff changes of import quotas necessary to

correct injury, now provided for under existing law, must be made self-executing without intervention by the Executive, similar to the way in which the Commission's findings of injury in antidumping cases, automatically trigger the imposition of antidumping duties.

Thank you for this opportunity to present the electronic products import case and to describe the particular remedies which we believe must be legislated if this industry is to survive.

Mr. WATTS. Thank you very much, Mr. Rowe. That is a fine statement.

We now have a quorum call going on. Are there any questions?

Mr. ULLMAN. Mr. Chairman, I would like to commend the witness for a very thorough statement. Now you have come to the conclusion that the only way to resolve this problem is the route of quotas and you would use a 3-year period?

Mr. ROWE. Yes, sir.

Mr. ULLMAN. What would this do to the price of electronic goods in this country and their availability?

Mr. ROWE. It would have no effect on the availability of electronic goods because it would use a recent period of time to set the amount that could come into this country and the balance would be made in this country. As to the effect it would have on pricing, it is probable that it would have a negligible, if any, effect upon pricing because there is a provision in the bill that if the items were in short supply the amount which could be imported could be increased so that there would not be pressure upon pricing because of shortage in the marketplace.

Mr. ULLMAN. What is the reason that the production of electronics has moved abroad so rapidly? This is the outstanding example where foreign production seems to have superseded ours. What is the real reason for it?

Mr. ROWE. Well, different portions of the industry have had different reasons for going overseas. Primarily I would say that the reason that any manufacturer goes overseas is to manufacture the product at a lower cost, so that he can compete in this country against the imports that are being brought in by companies who are owned and operated overseas.

Mr. ULLMAN. There is a great deal of meticulous work involved. Do you feel that the American labor force can do that meticulous work as efficiently and effectively as the foreign labor market?

Mr. ROWE. Yes. This is similar to a question that was asked earlier this morning also. Mr. Stewart has some information here which answers this question. This is from U.S. Government statistics.

Mr. STEWART. Just quickly, Mr. Ullman, according to the census of manufacturers, 32 percent of the value of shipments of electronic components consist of wage and salary payments. In the committee print of a document that this committee very helpfully printed during this past week, publishing materials submitted by administration witnesses including the materials they were asked to incorporate in the record, there is at page 162 an analysis of the relative unit labor costs, unit labor cost as well as hourly labor cost, for the U.S. iron and steel industries compared with Japan and three other counrties. The situation with respect to Japan as shown by these data, is that the unit labor cost as well as hourly labor cost, for the U.S. iron and

Taking the United States as a hundred, Japan's minimum unit labor cost declined from 1964 from 34 percent of ours to 30 percent of ours in 1968, while their hourly labor cost, the wage rates, increased from 17 percent of ours to 23 percent of ours. This is because Japan's productivity increased very rapidly relative to the United States during that period.

Secondly, the U.S. import duties on electronic products from the full rate, 35 percent, were more deeply cut than most other industries. They are now down at the level of 7 percent and will come to rest on January 1, 1972 at 5 percent or in some cases, 6 percent with few exceptions.

So that a labor intensive industry facing competition primarily from low wage nations of Asia had its tariffs deeply cut and the demand for the products produced by that industry was so strong that they came tumbling into the United States at an excessive rate.

In addition, the Japanese Government passed a law in 1957 which it extended in 1964 for the promotion of the Japanese electronic industry. They provided three types of subsidies. Up to 50 percent of the cost of research and development, low interest, long term loans for the increase of production facilities with special depreciation allowances, and increasing the productivity. So that while the United States was deeply cutting the duties of this labor intensive industry, the Japanese Government was heavily subsidizing their industry to expand capacity to go into the U.S. market.

Added to that was the extraordinary accommodation by our Treasury Department of dumping as a technique of merchandising by the Japanese industry.

These events in combination have simply overwhelmed the American industry and destroyed the jobs in this country.

Mr. ULLMAN. Thank you. You have been very helpful.

Mr. BETTS. Mr. Rowe, the number of questions I can ask are apparently limited. I will ask one question for now. You mentioned that up until now the adjustment provisions of the 1962 trade expansion law had been useless. In your opinion, does the administration's revision of adjustment assistance render a more useful remedy?

Mr. ROWE. No, sir.

Mr. BETTS. Why do you say that?

Mr. ROWE. As I understand, the new bill would require that the manufacturer would have to show that imports were the primary cause of serious injury. It is just as difficult, if not more difficult, to prove that than were the requirements under the 1962 law.

Mr. BETTS. So that in your opinion, adjustment assistance, whatever it is, simply does not match the quota system as a remedy, is that correct? That is the position you are taking?

Mr. ROWE. Yes, sir; that is correct.

Mr. STEWART. In addition to Mr. Rowe's answer, which is correct, Mr. Betts, when you are considering a major industry in the United States which is heavily impacted by imports, such as electronics, you manifestly should not use taxpayer revenues to retrain all of the workers in that industry and to move them into some other industry. This is the situation that confronts us in textiles, steel, electronics, footwear, glass, and other basic industries.

These are the industries that provide the principal part of the employment for factory workers in the United States. Where are they to be moved to? What are they to be retrained for?

The assumption underlying adjustment assistance was for a short temporary period some help would be needed to make a minor adjustment. Manifestly, you cannot adjust entire basic manufacturing industries.

Mr. BETTS. On a previous appearance here, I think you stated that the unemployment rate in the textile industry in Japan, Taiwan, and other foreign countries, is practically nil as compared with ours. What is the situation so far as the electronics industry in Japan is concerned, compared to ours?

Mr. STEWART. There has been no job losses in the electronics industry in Japan. They have had a strong increase in employment as a result of the three kinds of subsidies that the Japanese Government has offered that industry.

Mr. WATTS. The committee will stand adjourned until 2 o'clock this afternoon. I assume there will be some more questions of you gentlemen. I hope you can all be back as well as the other witnesses.

Mr. ROWE. We will be happy to be back. Thank you, Mr. Chairman.

(Whereupon, at 12:30 p.m., the committee recessed, to reconvene at 2 p.m. the same day.)

AFTER RECESS

(The committee reconvened at 2 p.m., Representative Al Ullman presiding.)

Mr. ULLMAN. The committee will be in order. Mr. Schneebeli?

STATEMENT OF HERBERT ROWE, CHAIRMAN, WORLD TRADE COMMITTEE, PARTS DIVISION AND DISTRIBUTOR PRODUCTS DIVISION, ELECTRONIC INDUSTRIES ASSOCIATION, AND ON BEHALF OF THE AMERICAN LOUDSPEAKER MANUFACTURERS ASSOCIATION; ACCOMPANIED BY EUGENE L. STEWART, SPECIAL COUNSEL (Resumed)

Mr. SCHNEEBELI. Mr. Stewart, I was not here for your earlier statement. We had some statements made this morning about the relative cost, increased cost of component parts for the electronic industry, stating that Japan's costs were rising faster than those in this country and there was probably a closing of the gap and the difference between the total cost. Is this in line with some of the information that you have?

Mr. STEWART. No, Mr. Schneebeli, it is not. Frist, on the basis of the general information we have, but more particularly I referred this morning to a publication put out by this committee within the past week, a committee print of the written statements and other materials submitted by administration witnesses.

At page 159 and following of the committee print the office of the special representative for trade negotiations inserted a memorandum with data on comparative international labor cost and productivity. On page 162 for the iron and steel industries in Japan, compared with the United States, the United Kingdom, West Germany and France, a comparison is made for the period 1964 and 1968 of the change in unit labor cost.

These data show that Japan's minimum unit labor costs as a per-

centage of the United States decreased from 34 percent in 1964 to 30 percent in 1968, meaning that in relation to the United States, unit costs became smaller in Japan rather than larger.

Instead of closing the competitive gap, that gap is being widened. The hourly labor cost in terms of wage rates has increased slowly so that whereas in 1964 Japan's costs as shown under the minimum column were 17 percent of the United States, by 1968 they were 23 percent, showing that slowly Japan's wages were rising relatively more rapidly than those in the United States, but are still only about one-fifth of those in the United States.

But Japan's productivity has increased so rapidly during that period as shown by output per man-hour, moving from 40 percent of U.S. productivity to 61 percent, that her unit labor costs in relation to the United States have gone down. This has occurred especially in electronics, and is a function in part of the policy of the Japanese Government, carried out through a statute called the electronic industry development law, under which three types of subsidies are extended by the Japanese Government to the electronic industry in order that it can increase its dominance in the world market.

At the time that the Japanese Government was subsidizing the Japanese electronic industry, both in research and development and in plants and production equipment, the United States was busy reducing the duties on electronic products so that, instead of helping the American industry remain competitive, our Government was conferring a windfall and additional competitive edge by a 50-percent cut in the Kennedy round.

Mr. SCHNEEBELI. I notice this refers specifically to the iron and steel industry. I presume the same import of the figures——

Mr. STEWART. Yes. Look at page 161, the last paragraph. The last paragraph says that "broad conclusions about comparative cost levels in all manufacturing industry cannot be drawn from the experience of a single industry such as iron and steel. For some industries," it goes on to point out, "the U.S. differential productivity rates appear to be so favorable that no significant import competition has developed," but then the key sentence, "In other cases, it is clear that import penetration has been rising, which is often regarded as an indication of substantially lower costs abroad."

The data that Mr. Rowe presented in his testimony shows that the import penetration by Japanese electronic products into the U.S. market has risen very rapidly during the past 5 years.

Mr. SCHNEEBELI. That would be very applicable to the electronic industry?

Mr. STEWART. Yes.

Mr. SCHNEEBELI. Thank you very much.

Mr. ULLMAN. Are there further questions?

Mr. COLLIER. No, in the light of the fact that we just have a rollcall vote. This morning I was prepared to ask questions before the bell rang, and it appears I am running into the same situation. I do feel very deeply as I am sure you must have gathered by my colloquy with the previous witness, that we have a very serious problem here, coupled, of course, with the fact that I believe I was the first member of this committee to introduce the so-called flexible quota concept embracing the electronic industry as well as some of the others.

I think that your presentation—I am sure my colleagues on the committee will agree with me—is a beautiful presentation. It certainly raises, particularly the figures, the questions that I think this committee has a responsibility of answering in writing any kind of trade bill.

I, for one, feel that to do anything less than make an indepth evaluation of the testimony you presented would be a mistake, not only in terms of the present situation but more important, in looking ahead to the direction in which we are going to be traveling as a nation in dealing with this very serious problem.

Thank you, Mr. Chairman.

Mr. ULLMAN. Thank you very much, Mr. Rowe. We appreciate your very fine testimony.

Our next witness is Mr. William Bywater. We welcome you before the committee. If you will please identify yourself and your colleague, you may proceed.

STATEMENT OF WILLIAM BYWATER, VICE PRESIDENT, INTERNATIONAL UNION OF ELECTRICAL, RADIO & MACHINE WORKERS; ACCOMPANIED BY GEORGE COLLINS, ASSISTANT TO THE PRESIDENT; ALSO ON BEHALF OF THE INTERNATIONAL ASSOCIATION OF MACHINISTS & AEROSPACE WORKERS AND THE INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS

Mr. BYWATER. I am William Bywater, vice president of the IUE, AFL–CIO. My colleague is George Collins, who is the assistant to the president of the IUE, Paul Jennings.

Mr. ULLMAN. We welcome you before the committee also, Mr. Collins.

Mr. BYWATER. You have in your possession two documents, one is "The Developing Crisis in Electronics and Companion Industries." That refers to a conference the unions held, all the unions that are concerned with this problem, on March 19, 1970, in Washington.

You also have the testimony given before the Tariff Commission dated May 5, 1970.

Mr. ULLMAN. I might ask you, Does this contain separate material that should be included in the record?

Mr. BYWATER. Yes.

Mr. ULLMAN. Without objection the document will appear in full in the record.

Mr. BYWATER. Thank you.

Our testimony is offered in behalf of the employees of the electrical and electronic products manufacturing industries as a matter of joint concern by the International Union of Electrical, Radio and Machine Workers AFL–CIO, the International Brotherhood of Electrical Workers AFL–CIO and the International Association of Machinists and Aerospace Workers AFL–CIO. Our three international unions have a combined membership of close to 2,250,000 workers.

The developments that have been taking place at the workshop level in our electrical-electronic manufacturing plants in all sections

of the U.S. lead inescapably to the conclusion of an industry in crisis.

Our local unions and local lodges have been reeling from the impact of layoffs and plant closings, as employer after employer in the consumer electronics industry of the United States (and Canada) has cut back or suspended production in their North American plants.

U.S.-owned multinational corporations have established hundreds of plants outside the United States and Canadian borders, shutting down American Canadian factories, dismissing their workers, and transferring production and jobs to foreign plants. Wages paid to workers in these facilities range from 10 cents to 35 cents an hour. Moreover, U.S. multinational firms enjoy other "comparative advantages" in host countries such as local tax exemptions, low rents and other concessions.

Components and parts made in the United States plants are shipped to offshore American owned plants (or subcontracted to low-wage foreign manufacturers) for assembly and return to this country. Customs duty is levied only on the "value added" by the extremely low-wage foreign labor.

This practice, which has thrown thousands upon thousands of American workers out of their jobs, is in a large part both directly and indirectly traceable to the abuse and exploitation of item 807:00 of the Tariff Schedules of the United States.

In recent years, U.S. imports of TV sets, radios, radio-phonographs, tape recorders, electronic desk calculators, typewriters, and many other products and parts, have mushroomed. Imports currently supply over 90 percent of radios and tape recorders sold in the U.S. market; between 40 and 50 percent of the black and white, and nearly 20 percent of the color TV sets and most of the household sewing machines, electronic desk calculators, portable typewriters, and a wide variety of electrical, electronic and related products.

Moreover, recent American patented inventions, covering such high growth items as video tape recorders, will be produced in Japan and elsewhere, but marketed in this country. Air conditioning systems, home laundry, kitchen and other household appliances will soon disappear from our assembly lines as imports of these foreign produced items reach 1973 projections.

Our technical know-how is literally peddled abroad to foreign firms through licensing agreements and joint-venture partnerships of United States and foreign "competitors."

Developed in large measure with Government research and development grants, our technology is sold as a commodity to foreign producers and is counted as a profitable source of income by U.S. electronic companies. The workers of the industry, particularly those already unemployed, are deprived of any share in this benefit.

Foreign competitors, freed of the high cost of basic research and development, have been quick to concentrate on elaborating and improving their product lines and to market high quality end products in the top-dollar sales market of the United States.

In any case, whether stemming from the production lines of Japanese or other foreign suppliers or from the offshore subsidiaries of American-owned multinational companies, the exploitation of the labor-cost differential is the greatest cause of job loss by American electrical workers.

High U.S. labor costs are blamed as the reason or justification for the flight to low-wage areas. Wages in the consumer electronics industry—not high by American standards—cannot be expected to compete with foreign wages of 10 cents to 35 cents an hour.

I might stop at this point. I would like to state to the chairman that this compares with what you would pay prison labor and in effect this is what is happening in these foreign countries. The pay that is given to these people is low enough to supply prison labor in most other countries. Also, they are working under what we consider to be prison conditions. That is, they certainly don't have any right to strike in a place like Taiwan, Korea, or some of the other places.

Therefore, the workers have no choice as to what the wage should be. They are told what it is and it is settled in that fashion.

Nor with the $1 an hour wage-fringe-social benefit costs in Japan. Even if wages were reduced to the $1.60 legal minimum, they would, with fringe costs added, be more than double the total current Japanese wage-fringe costs. They would be from 8 to 12 times as much as the prevailing labor costs in Singapore, Hong Kong, and Taiwan and five times as high as prevailing labor costs in Mexico.

Thus, these countries enjoy a "comparative advantage" over the United States by virtue of pitifully substandard wages with which American wages cannot compete. Nor should they be expected to.

The employees of the electronics industry are the victims of a combination of factors that has caused their jobs to disappear overseas and their skills to become redundant and unmarketable.

The loss of employment has struck impartially at male and female, blue collar and white collar, technicians and degree holding engineers alike. Black Americans and Latin Americans only recently recruited out of the ghettos and barrios for training into the entry jobs of the electronics industry are cruelly thrown back into unemployment.

Here again I would like to point out that in New Jersey—I represent the State of New Jersey and in New Jersey in district 3 of the IUE, one of our recent unfortunate experiences is the closing down of the Emerson Radio and TV plant in Jersey City. It has been sold to Admiral and they are going to produce the television sets now in Taiwan. We had in that plant over 200 hard-core unemployed who were training, who were doing an outstanding job, the company was quite satisfied with them.

Now, unfortunately, they will probably go back on the relief rolls or unemployment rolls for some period of time.

It is counterproductive to go into the ghettos and barrios with programs to train minority group members for an opportunity to enter the industrial mainstream and then to export these jobs across our borders and overseas. It would seem we are more concerned with solving the labor surplus problems of all countries but our own.

Yet, the types of jobs exported are precisely the unskilled and semiskilled jobs needed here if we are to win the way against poverty and provide dignified and gainful employment for our disadvantaged poor.

In material attached to our statement we trace the loss of over 50,000 factory worker jobs in the radio and TV receiving equipment industry and the electronic components and accessories sector during the period from late 1966 to the first quarter of this year.

The play of the same factors that have already caused the loss of

50,000 jobs can be cited to predict the total disappearance of the remaining jobs in these industries unless Congress takes speedy and realistic action.

We ask the committee to keep in mind that the interests of the workers in this industry are more properly representative of the aims of the American people and the well-being of this country than are the profit-centered compulsions of the American and foreign-based multinational companies who are responsible for our plight.

We urge the committee to consider the following:

(1) Enactment of truth in import labeling law to identify the manufacturer and country of origin of all imported products.

(2) Elimination of special "value added" tariff loopholes through repeal of items 806:30 and 807:00 of the tariff schedules of the United States.

(3) Legislation which will limit the unrestrained flood of imports of electronic and electrical products and which will provide a formula for orderly marketing through equitable sharing of an expanding market by all producers of these products.

At this time I would like to refer to bill H.R. 17625 introduced jointly by Mr. Boland and Mr. Conte of Massachusetts. This bill would provide a formula for equitable sharing by all producers, both foreign and domestic, in an expanding market of electronic products. The main feature of H.R. 17625 in legislation reported out of this committee would be in service and relief to the workers of this industry and the communities that depend on their earnings for their economic well-being.

We would also consider supporting H.R. 16287 subject to some modification. That was a bill that was referred to by the previous speaker.

(4) Adjustment assistance for workers displaced by imports, which would be accessible and readily available through a simplified qualifying process.

(5) Measures which would supervise and curb the outflow of American technical know-how and investment capital and measures which would regulate the mushrooming overseas growth of American based multinational corporations.

(6) We also call for congressional support for a realistic international program to raise substandard wage levels to narrow the gap with our domestic minimum wage requirements.

(7) Finally, we propose that Congress establish a cabinet level Department of Foreign Trade to combine all the responsibilities and functions now dispersed among many departments and agencies. Frequently these agencies are found to be at cross purposes with one another, and in the unhappy circumstance of the workers of the electrical-electronic industry, unsympathetic and downright hostile to our simple needs.

Now, in addition to the statement I just presented, I would like to give my own personal views——

Mr. ULLMAN. Would the witness let me interrupt?

Mr. BYWATER. Certainly.

Mr. ULLMAN. We have a vote. If you have much additional to say, I think what we had better do is recess now and hear the rest of your statement when we return.

So the committee will stand in recess.

Mr. BYWATER. Thank you.

(A short recess was taken.)

Mr. ULLMAN. The committee will be in order. Will you proceed with your statement, Mr. Bywater?

Mr. BYWATER. I said that in addition to the statement I made, there are a few points that I would like to make. For example, the runaway companies that I have personally been involved with have shown absolutely no concern for the American worker who invested his adult life in the building of that company.

I have seen people who have been laid off from plants who had 30 years seniority and no hope of getting a job elsewhere at anything near the rate of pay that they were enjoying in the plant they helped to build. Nor were these companies concerned with the devastating effect the unemployment of thousands has on the economy of our country. Their only concern is their profit margin and their responsibility to their stockholders.

Their deliberate acts of emasculating the electronic industry in the United States will result in ever larger unemployment and relief rolls beyond the present 5 percent unemployment. When this happens, who then will be able to buy the products they manufacture overseas?

I wonder whether we have to reach that stage before anything is done about the problem. We need the help of Congress to save the electronics industry in the United States.

The electronics industry, as you know, is vital to the defense of our country. Fortunately, Congress' responsibility is to our country and not to a group of stockholders. Congress can save the jobs of American workers and the economy of this country. We in the labor movement can also do certain things to protect the jobs of our members.

For example, we can select a few of the worst offending American companies, that is those who have taken the work away from us and placed their work overseas, and we can boycott their products. That certainly will be one step that I will recommend in my area and in my union. And, if possible, drive them out of business.

This may lead to a boycott of all products not made in the United States. I would hate to see that happen, but unfortunately the workers in our industry feel that there is no other hope for us unless we do something as dramatic as that.

I have talked to a great many workers who have lost their jobs in the electronics industry, personally talked to them, and actually it is heartbreaking to hear the stories that they have and the questions they ask as to what they will do now, now that they are unemployed. Here in this country where we are supposed to be concerned about the unemployed and the hard core unemployed in particular, we have a growth industry, the electronics industry and the only place that it is growing is overseas, it is not growing here as it should be.

Actually, I am not really upset about the Japanese because I consider the Japanese are looking out for their country and they are putting up all kinds of quotas and barriers in order to protect their country. I congratulate them for doing that. But I think we ought to protect our own country.

I am very much concerned about an American company, for example, moving to Taiwan and then not being able to sell even one of their

products to the people in that country. The law is deliberately designed that the work that has been produced in that country must be sold outside that country.

We also in our union intend to fight for the election of Congressmen who support our viewpoint, regardless of party label, because we are interested in holding on to our jobs. We are interested in the economy of this country far more than those who are interested in profit.

While there are many things we are doing in labor, we think the most important thing that can be done can be done by Congress, by the enactment of laws to protect our jobs and that is why we are here today.

Thank you.

Mr. ULLMAN. Thank you very much, Mr. Bywater. With respect to the various materials that were presented, without objection the appropriate parts will be put in the record.

(The material referred to follows:)

THE DEVELOPING CRISIS IN ELECTRONICS AND COMPANION INDUSTRIES—PRESENTED BY INTERNATIONAL ASSOCIATION OF MACHINISTS AND AEROSPACE WORKERS AFL–CIO, FLOYD E. SMITH, INTERNATIONAL PRESIDENT; INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS AFL–CIO, CHARLES H. PILLARD, INTERNATIONAL PRESIDENT; INTERNATIONAL UNION OF ELECTRICAL, RADIO AND MACHINE WORKERS AFL–CIO, PAUL JENNINGS, PRESIDENT.

TECHNICAL COMMITTEE—ANTHONY BELLISSIMO, ASSISTANT TO THE PRESIDENT, IBEW, AFL–CIO; GEORGE COLLINS, ASSISTANT TO THE PRESIDENT, IUE, AFL–CIO; VERNON JIRIKOWIC, RESEARCH DIRECTOR, IAM, AFL–CIO

Data for the Developing Crisis in the Electronic Industry Prepared by Abe Morganstern, Research Director, IUE, AFL–CIO

THE DEVELOPING CRISIS IN ELECTRONICS AND COMPANION INDUSTRIES

I. Current reasons for concern

While the Electronics industries are considered to be among the Nation's leading growth industries, current developments in consumer electronics, components, busines sand computing machines, and companion product lines, should give every American—not merely those whose jobs are directly threatened—genuine cause for concern. For, what is happening is this:

Key growth segments of electronics and companion industries (their know-how, production and jobs) have been, and are being, exported abroad. Moreover, the exodus is rapidly escalating.

The dangerously rising volume of imports—increasingly, in foreign-made American brands and in imports by domestic parent firms from foreign-based plants—tends to accelerate the process of terminating U.S. operations and transferring domestic production and product lines to facilities outside U.S. borders.

The production and jobs transferred abroad are, to a large extent, of the types urgently needed here. They are needed if we are to find work for members of minority groups as well as others among the unemployed poor whom we are now trying to reach through antipoverty, manpower training, and similar programs, at a vast expense of taxpayer dollars.

While the electronics industries, and major electronics-electrical firms, are and have been heavily subsidized by the Federal government, they may possibly grow even more dependent on government, especially the Defense Department, for support. Currently, annual sales to DOD and, in far smaller amounts, to other government agencies, aggregate $13 billion. This represents more than half the industries' $25 billion in annual sales.

II. Historical summary and short statistical rundown

Electronics grew from a $1 billion to a $25 billion industry in 20 years. Over these 20 years the Federal government has not only been the industry's largest customer, taking annually a major slice of its dollar output; it has also been the underwriter and sponsor of its remarkable technological progress.

Giant corporations dependent on Defense contracts for a substantial portion

of sales include General Electric, Westinghouse, R.C.A., I.T.T., Sperry-Rand, Litton Industries, and dozens of others. In fiscal 1969, G.E.'s Defense contracts totaled more than $1.6 billion. Raytheon's amounted to $547 million; Sperry-Rand's, to $468 million; Westinghouse's, to $430 million; Litton Industries', to $377 million; and R.C.A.'s, to $300 million. Without profitable Defense contracts, Sperry-Rand could hardly have weathered large, sustained computer and business machines losses. Sperry's most profitable product line today is computers, but it was its Defense business that kept it solvent.

The technological lead of American electronics firms was nurtured and underwritten by billions of dollars in government R&D money. As the OECD Directorate for Scientific Affairs points out, "semiconductors, numerical control, electronic computers . . . as well as a host of other less significant innovations, owe their development to Federal support." Huge Federal outlays for research, development, test and evaluation, made possible revolutionary developments in miniaturization, microwave, solid state, integrated circuitry, laser technology, etc.; thereby helping to give domestic firms a commanding technological edge over foreign competitors. Many of the profitable patents these firms hold—and on which they are paid royalties by foreign and domestic firms—resulted from government sponsored R&D programs. As indicated earlier, production and product lines financed by government R&D funds have been transferred to U.S.-owned overseas plants.

How much taxpayer money was poured into R&D? According to National Science Foundation figures, from 1957 to 1965, leading firms in the electronics (and communications) industries spent $23 billion for research and development—22–24 percent of total domestic R&D expenditures. Of this amount, two-thirds was directly provided by the Federal government.

Overseas capital investment by the American electrical-electronics industry continues undiminished, despite the imposition of direct investment controls. Expenditures for equipment and plants outside U.S. borders by electrical-electronics concerns were estimated at $625 million for the years 1967–68. About $2.5 billion was directly invested in new equipment and plants abroad during the 1958–68 decade. This sum does not include profits earned, accumulated and reinvested abroad. According to available but incomplete statistics, at least two dozen new American-owned plants were established on the Mexican border within the past year. The trade press and official records show similar escalating shifts of production, products, and jobs to Taiwan, Hong Kong, South Korea, Singapore and other areas in the Far East.

The process feeds on itself. The transfer of production, product lines, and jobs abroad by one or two American firms is a signal for others to follow. That is one reason why new expanded U.S.-owned plants are springing up on the Mexican border and in the Far East, as well as in Europe. The exodus is encouraged and abetted by the U.S. Department of Commerce, which frequently acts as promoter and agent for U.S. firms. Commerce Department employees stationed abroad assist U.S. companies in finding suitablet plant locations. Occasionally, they may also arrange financing, and provide other advertised services. As inducements host countries (Taiwan, Mexico, South Korea, Singapore, Hong Kong, etc.) offer tax and rent concessions plus other attractive advantages—in addition, of course, to wage costs that range from less than 15 cents to 30 or 35 cents an hour.

The General Instument Company is a case in point. It is now the largest employer in Taiwan, with 12,000 workers in its semiconductor, TV tuner, recorder and IFT plant—up from last year's 7,200, and from 500 in 1962, the year the plant opened. Hourly wages, including fringes, average 15–20 cents. In the past two years G.I. closed three of its components plants in New England—one in Rhode Island and two in Massachusetts. All told, close to 2,000 workers were permanently displaced. Production of affected product lines was transferred to the company's expanded Taiwan facility. Other product lines and jobs may soon follow.

A second case in point is Ford-Philco, whose work force in Philadelphia was recently reduced by 1300, with additional layoffs foreseen. Philco-Taiwan, with current employment of over a thousand, now makes radios, phonographs and components for hi-fi and Color TV assemblies previously manufactured in the U.S. Philco has also been importing sets from Japan under its own brand name, further reducing domestic employment.

Electronics is rapidly developing into one of Taiwan's major industries and especially into its major export industry. In 1968, for example, it exported $60 million worth of electronic products, up from $36 million in 1966. But by 1972,

Taiwan's exports of TV sets alone—almost entirely to this country—should reach $250 million. Total 1972 electronic exports are estimated at $500 million. Currently, exports to the U.S. in major electronic categories are up 40–80 percent from year ago levels. About 650,000 B & W TV sets were exported to the U.S. in 1969—80 percent more than the year before.

Restrictions imposed on foreign firms make it impossible for them to sell radios, TV sets or other products on the domestic Taiwanese market. American firms, however, are not seriously interested in producing for the Taiwanese market. They came to Taiwan primarily for one reason: to manufacture products at Taiwanese wage costs for exporting to the U.S.. Some of the American firms with factories in Taiwan are: I.B.M., G.E., T·R.W., R.C.A., Admiral, Philco (two plants), Cornell Dublier, Raytheon, Motorola, Singer, General Instrument, Ampex, C.T.S., etc.

The Mexican border program, devised to attract U.S. firms south of the border through substantial wage differentials plus other advantages, similarly imposes restrictions that make it impossible for such firms to sell Mexican-made products on the Mexican market. Directly below our border, we have a classic illustration of what such programs are about. Parts and components—machinery, too—are imported into Mexico duty free, machined and assembled in Mexican plants, and then shipped back to the U.S. for final, finish-up assembly in completed units. This is known as the Twin Plants concept.

The U.S. plants, however, are quite small and, quite frequently, only for show. Units are fully assembled into finished products in Mexican factories by Mexican workers earning 30–35 cents an hour. (Nearly 208,000 B & W TV sets were exported to the U.S. in 1969, up 420 percent from 1968). But the tariff on goods shipped back to the U.S. is only on the "value added" by low wage Mexican workers. Thus, a TV set assembled in Mexico from U.S.- made component parts pays only a fraction of the tariff levied on TV sets wholly made abroad from parts and components supplied by foreign manufacturers.

The "value added" tariff, applied as it is now, in conjunction with wage differentials merely encourages "runaway" companies to relocate. The same "value added" tariff is applied, incidentally, to imports from U.S.-owned plants in Taiwan, Hong Kong, South Korea and elsewhere, whenever almost wholly assembled products are made from parts shipped to the foreign facility from a U.S. plant. The applicable section of the law—Section 807—needs to be drastically changed.

Sales of foreign manufacturing affiliates of U.S. firms were $4 billion in 1965, compared with $1.9 billion in 1959. Though reliable current sales data is unavailable through government or private sources, we have reason to believe sales have increased at a much higher ratio than in previous years. In 1968, for example, G.E.'s foreign affiliates had net sales of $800 million, while I.T.T. an Singer's foreign affiliates had estimated sales aggregating more than $1 billion between them. What *should be remembered is that sales of such foreign manufacturing affiliates are, to an increasing intent, imports into the U.S.*

Finally, while there are no accurate statistics on the number of electronic, electrical, household, office and business machine facilities owned and operated abroad by multinational American corporations (a large percentage of whom are conglomerates), the number may be figured in thousands. As previously indicated, the number rises each year. All major corporations, as well as a large and growing number of medium-sized and smaller companies, now own and operate plants abroad, using government-subsidized technology and production know-how to manufacture products, formerly made here, for import into the U.S. (or to manufacture products for sale to third countries—frequently depriving one of the company's U.S. affiliates of it markets).

III. Rising imports, transfers of production and domestic plant closings

In 1967, the value of TV sets imported by the U.S. amounted to $125.5 million. TV imports in 1969 are estimated at about $300 million, up 46 percent from 1968 and 140 percent from 1967. According to preliminary figures, Japan alone exported to the U.S. 880,000 Color and over 2,200,000 B & W TV sets, supplying more than 15 percent of the U.S. Color and more than 40 percent of the U.S. B & W TV market.

In 1967, the value of radio receiving sets, radio-phonograph combinations and parts, and radio apparatus imported into the U.S, totaled $243 million. Imports for the first 11 months of 1969 are $374.5 million, and the full year estimate ranges between $410–$420 million. An estimated 85–90 percent of all radios sold in the U.S. are imports. From January to October, 1969, the U.S.

imported 17 million transistor radios from Japan; 13 million from Hong Kong; close to 4 million from Taiwan; and close to 900,000 from South Korea.

In 1967, the value of phonographs, tape recorders and other sound recorders and reproducers imported into the U.S., was $153.4 million. In the first 11 months of 1969, the figure was $303.8 million. For the full year, it could reach $335 million, up 45 percent from 1968. Less than 10 percent of the tape recorders, cassettes, or similar equipment sold in the U.S. market are made in U.S. plants.

Thus, within two years, from 1967 to 1969, the dollar value of imports of TV sets, radios, phonographs, radio-phonographs, tape recorders and related consumer products has doubled. This doubling follows a previous quadrupling of the value of imports in the years 1962–67. Our 1969 balance of trade deficit on these consumer electronic products should approach one billion dollars.

Last year, Westinghouse closed its TV manufacturing plants in Edison, New Jersey, laying off 3,000 workers. Like several other firms, Westinghouse now imports and sells—under its own brand—Color and B & W TV sets made for it by Japanese firms. Formerly a manufacturer, it is now a distributor.* Several other U.S. manufacturers import and sell under their own brand Color and B & W TV sets, radios and other consumer equipment. TMA in Illinois cut back its production lines over 50 percent when it began importing radios and stereos from Japan.

As previously indicated, a sizable number of manufacturers have transferred production to foreign-based plants. Sylvania, for example, now makes TV sets in Hong Kong; Warwick Electronics, which supplies Sears, has drastically reduced production, and laid off hundreds of workers in its Arkansas plant, transferring TV output to a Mexican facility. Admiral and Motorola have established consumer electronics plants in Taiwan. In one of its recent ads, G.E. announced it was the only remaining domestic manufacturer of radios. Implicit in the ad was a warning it might discontinue all production of radios in the U.S.

The domestic household sewing machine industry is now confined to part of one plant (Singer) in Elizabethport, New Jersey, which employs some 2,000 workers (previous employment high was over 10,000). It is the only remaining household sewing machine plant in the U.S. Yet for every three Singer machines sold here, two were made in the company's foreign plants.

During the past decade, the acquisition-conscious Singer Company acquired a number of major firms in the electronics and office machines industries, among them Friden, a manufacturer of office calculators now know as the Friden Division. Two years ago, Friden signed an agreement with Hitachi, whereby Hitachi would manufacture—under the Friden label and to Friden's specifications—its electronic calculators. Friden now distributes in the U.S. and abroad Friden calculators made by Hitachi in Japan.

Burroughs and others have similar agreements. Formerly manufacturers, they have become distributors of the products they once made. The domestic electronic desk calculator business is now dominated by Japanese firms. Currently, 60 percent of this growing market is controlled by Japanese firms. Within the next two or three years, Japanese manufacturers are expected to supply almost the entire market—directly, as well as through Friden, Burroughs and other domestic labels.

Several months ago, the press reported that Litton Industries—a major conglomerate whose various enterprises, such as shipbuilding and electronics, are heavily subsidized by DOD contracts—was shutting down domestic Royal typewriter plants. We learned earlier the Justice Department was investigating the company's acquisition of two German typewriter firms, Triomph and Adlerwerke, for possible Antitrust Act violations. Litton moved into the typewriter business in 1965 when it acquired Royal-McBee. A year or two later, it bought up the British company, Imperial Typewriters, Ltd. The Royal Deluxe 660, one of the more popular and attractive Royal models, became the Imperial 660. Now Litton has announced Royal Typewriter models will be made in Japan to Royal specifications.

Sperry-Rand, kept alive through Defense contracts and R&D money, decided to close out domestic production of typewriter models a number of years ago. Sperry shifted operations to its European plants. These plants were subsequently closed. Now, Remington typewriters are made for Sperry under the Remington label by the Japanese firm, Brothers.

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*Emerson Radio Division of National Union Electric, another New Jersey TV manufacturer, has announced it is closing out production of TV and other consumer electronic equipment.

There is a campaign, promoted and supported by American industry, to urge the Japanese government to remove restrictions imposed on freedom of foreign investment, and on ownership and control of manufacturing facilities and enterprises in that country. It should be noted that some firms already have substantial, though not controlling, investments in Japanese concerns.* A major example is G.E., which owns 10 percent of the outstanding stock of Tokyo Shibaura Electric (G.E. also owns 12 percent of the outstanding stock of the German electrical giant, A.E.G.).

We do not believe any agreements reached between the U.S. and Japan permitting American ownership and control of manufacturing facilities in Japan in the electrical and electronic industries would be in the best interests either of American workers or the American people at this time. We feel it would further encourage export of production and jobs from the U.S.

IV. Employment, comparative wage costs and man-hour productivity

By and large, employment in the Electrical Equipment and Supplies industry (SIC 36) has held up fairly well. Expanded Defense efforts and national economic growth were important contributing factors in the growth of this diverse industry group. Unemployment in the industry, however, may soon be on the rise, threatening to occur at a time when the labor force is rapidly increasing (it will grow 16 percent, to a total of 94 million by 1975) and at a time when the Administration is engaged in a massive drive to find hundreds of thousands of jobs for Negroes, Mexican-Americans and others among the poor for whom gainful employment is urgently needed. The government's various job creating and manpower training programs require several billions of dollars annually in federal expenditures. *Yet the types of jobs exported are precisely the unskilled and semi skilled jobs needed here if we are to win the war against poverty and provide gainful employment for our disadvantaged poor.*

Moreover, at a time when total national and manufacturing employment was expanding, comparative figures for the months of October, 1966 and October, 1969, show a decline of 24,500 factory production workers (17 percent) in the *Radio* and *TV Receiving Equipment industry*. In *Electronic Components* and *Accessories*, there was a decline of 20,100 factory workers. The combined production worker decline in the two related industries comes to 44,600. Since these are basically growth industries, there should normally have been an increase in the number of production workers employed.

In another major growth industry, *Office* and *Computing Machines*, there was a total employment increase of 30,000, yet factory employment was up only a mere 400 jobs. The annual growth in computer shipments has averaged 15 percent, and this rate of growth should continue at least until 1975. However, firms in this industry have been exporting component parts to overseas plants for assembly into completed machines, effectively cutting into our exports of such machines. These foreign plants may soon be producing their own parts.

The effect cutbacks in Defense and other government programs will have on factory employment in other electrical-electronic industries is difficult to predict, but it could be quite severe.

A careful analysis of our employment problems indicates the need to retain and to increase the number of jobs of the types now being exported. Such jobs are required for those among our citizens most in need of productive work.

Since high labor costs are invariably given as a major reason for rising imports as well as for the shift of domestic production to U.S.-owned overseas plants, let us analyze this argument for a moment. When we do analyze it, we find that multinational conglomerate corporations have achieved almost unlimited exportability of capital, technology, production lines and production techniques. They can move capital, production and jobs freely wherever they wish, taking easy and quick advantage of substandard wages, low rents, favorable interest rates, tax loopholes, and tariff concessions. And, it is obvious the American taxpayer and the American worker has subsidized this mobility.

High U.S. labor costs are used increasingly to dismiss the problem as well as to assess blame. There is no merit in such contentions. For, wages in these industries—not high in themselves—cannot be expected to compete with foreign wages of 15 cents to 35 cents an hour—nor with the $1 an hour wage-fringe-social benefit costs in Japan. Even if wages were reduced to the $1.60 legal mini-

*American firms also have licensing agreements with Japanese and European counterparts, the latter paying royalties for the use of American patents.

mum, they would, with fringe costs added, be more than double the total current Japanese wage-fringe cost. They would be from 8 to 12 times as much as the prevailing labor costs in Singapore, Hong Kong, South Korea and Taiwan, and 5 times as high as prevailing labor costs in Mexico. Thus, these countries enjoy a "comparative advantage" vis a vis the U.S. by virtue of pitifully substandard wages, with which American wages cannot compete. Nor can they be expected to.

It should also be added that during the Sixties, man-hour productivity in the electrical-electronics industry, averaging about 4 percent a year, exceeded total wage and fringe benefit gains (2.8 percent a year at General Electric and 2.6 percent at Westinghouse). Since annual productivity gains were more than one percent higher than wage-fringe benefit gains, *increases in domestic labor costs can hardly have been a decisive factor in stimulating domestic plant closings* and in the relocation of U.S. plants overseas.

V. Trade Balance Considerations

The American trade balance was at a breakeven point in 1968, dropping from the "historic" annual U.S. trade surplus of $5 billion. Concern for our declining trade balance has been expressed by the Assistant Secretary of Commerce and by the Department's Bureau of International Commerce. In its study, *U.S. Foreign Trade: A Five Year Outlook*, BIC points out that, omitting government-financed exports, there was a trade deficit in 1967, amounting to $1.6 billion.

The study also reveals that since 1962 the rate of rise of U.S. imports has outstripped the increase in U.S. exports by a ratio of almost 1½ to 1. During 1962–68, there was a decline in both our total (including government financed) and "commercial" trade surpluses. At least half our trade surplus during these years resulted from government-financed exports. If one were to exclude government-financed exports for 1966–68, the resulting trade balance figures would show a substantial deficit. Each year between 1962 and 1967, there was a sizable annual payments deficit.

The ratio of imports of consumer goods (other than food) and finished manufactures rose rapidly since 1962, and in 1968 accounted for 51 percent of all imports into the U.S. The import value of nonfood consumer goods, exclusive of automobiles, rose from $2.3 billion in 1962 to $5.3 billion in 1968. Imports of TV sets, radios, radio-phonographs, etc., which quadrupled between 1962 and 1967, has again doubled. It is essential, according to BIC, to take vigorous action, including, among other things, aggressive and ingenious promotional campaigns, if we are to expand our exports. The U.S. share of world markets, which has been declining, will decline further. A declining U.S. share of growing world markets appears inevitable, and the decline will be evident in practically all geographic areas. The trade deficit for consumer goods (other than food and autos) may nearly double during the 1969–73 period.

The Electrical machinery industry as a whole has always been a "trade surplus" industry, providing the economy with a much needed currency surplus. The extent to which figures are inflated by government-financed exports is unclear but it may amount to several hundred million dollars. In 1966, total industry exports were $1.9 billion, compared with imports of $1.02 billion. Since 1966, exports have climbed 37 percent to an estimated 1969 total of $2.6 billion. But imports have increased far more dramatically, rising 83.7 percent to an estimated $1.86 billion.

In 1960, the ratio of exports to imports was 3.8 to 1. This ratio fell to 1.9 to 1 in 1966, and to 1.4 to 1 in 1969. No reversal in the declining trend is expected over the next few years. In consumer electronics (TV sets, radios, radio-phonos, tape recorders, etc.), the most seriously affected industry group, the estimated 1969 trade deficit is more than three times the $285 million deficit of 1966.

VI. Conclusions and remedies

In today's world of multinational corporations; in a world, that is, in which technology, products, production techniques, and jobs are readily exportable, and in which licensing agreements and joint ventures are common, traditional theories of international trade (laws of comparative advantage), are no longer applicable. And while there is urgent need to expand world trade on a rational basis, so that the world's people may benefit thereby, the growth must be orderly, equitable, and must contribute to real growth in living standards. The benefits to be derived from increased production and broader world distribution are self-evident. If the electrical-electronics industry's products and instruments, from electric lamps to medical computers, were to be produced in sufficient

quantities to meet the earth's population basic minimum needs, there would be enough full time employment in all producing countries for the entire foreseeable future. This is an objective devoutly to be pursued. In its pursuit, however, we cannot permit living standards already achieved—as in this country—to be threatened or undermined. Nor can we permit growth industries and the employment they generate to be exported at a time of substantial increases in the labor force, or at a time when we are trying to find jobs for the unemployed and underemployed poor.

Among the remedies we propose are the following:

A truth-in-import labeling act to identify the manufacturer and nation of origin of all imported products.

A tariff on the full value of the unit or product imported, not merely on the so-called "value added."

A clearly defined international program to raise substandard wage levels.

Measures to limit the export of capital, including a tax thereon.

Public ownership of patents developed on public programs and/or with public funds.

Quotas, either voluntary or involuntary, limiting the imports, and import growth, of products and components whose rate of import growth since 1966 has exceeded a stated percentage—with provisions for extension to other products and components whenever the rate of import increase during two successive years seems excessive.

Adjustment assistance for all workers displaced by a rise in imports, where the import rise can be shown to be a major or a significantly contributing cause of such displacement.

THE ECONOMIC EFFECTS RESULTING FROM USE OF ITEMS 806.30 AND 807.00 OF THE TARIFF SCHEDULES OF THE UNITED STATES (TSUS)

SUMMARY OF STATEMENT SUBMITTED TO: U.S. TARIFF COMMISSION IN CONNECTION WITH INVESTIGATION AND HEARINGS "ON ALL RELEVANT ECONOMIC FACTORS AFFECTING THE USE OF ITEMS 806.30 AND 807.00 OF THE TARIFF SCHEDULES OF THE UNITED STATES."

SUBMITTED BY AND ON BEHALF OF: INTERNATIONAL UNION OF ELECTRICAL, RADIO AND MACHINE WORKERS, AFL–CIO; INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS, AFL-CIO; INTERNATIONAL ASSOCIATION OF MACHINISTS AND AEROSPACE WORKERS, AFL–CIO

The statement submitted in connection with the Section 806.30 and 807.00 (TSUS) investigation and hearings by our three AFL–CIO unions emphasizes the following valid substantive facts:

1. Sections 806.30 and 807.00 of the Tariff Schedules of the United States encourages and accelerates the removal of production, product lines and jobs from the United States to off-shore plants of U.S.-owned corporations. The membership of the unions we represent are not alone in this view. Many industry representatives, and the trade press as well, have time and again voiced the same conclusions.

The process is roughly as follows: initially, only components may be imported, but soon the entire product is imported. Which is more or less what has happened in radios and tape recorders as well as a number of other products. Currently, we are witnessing a mass exodus of Color TV set production, electronic desk calculators, typewriters, and musical instruments, to name but a few important items. American manufacturers will not even begin to produce video tape recorders in this country; they have concluded joint venture and licensing agreements with Japanese firms. The latter will manufacture the product for export and the American firms will market the video tape recorders in this country. Some may produce VTR's in the Far East or in other low-wage areas. Let me quote an Arvin Industries executive, as reported in the *Electronic News* (March 2, 1970) . . . "(L)ocating in Taiwan is not merely a matter of labor costs. Material costs are a major factor . . . within 3 to 5 years, all material needs will be available from local sources." Which clearly means that instead of saving U.S. jobs in the components industry, such jobs are irrevocably lost to us, too.

Here, for purposes of illustration, is a small, abbreviated list of firms that have either shut down completely, or severely curtailed operations and employment during the past year, transferring production and jobs outside U.S. borders.

Many of the products so transfered benefit from the provisions of Section 807.00, paying a duty only on "value added" by pitifully low wages of Asian and Mexican workers:

Plants shut down	Product	Production exported to—
Westinghouse: Edison, N.J.	Color TV sets	Japan, Canada.
Emerson, division of National Union Radio: Jersey City, N.J.	do	To Admiral, now producing in Taiwan.
Warwick Electronics: Zion City, Ill., Forrest City, Ark.	TV sets	Mexico.
Motorola: Franklin Park, Ill.	Picture tubes, radios, tape recorders, TC sets, semiconductors.	To GTE, Hong Kong, Taiwan, Mexico, Belgium.
Zenith: Chicago area	Color TV sets	Taiwan.
Admiral: Chicago area	TV sets	Do.
Ford-Philco: Philadelphia, Pa.	do	Do.
RCA	do	Do.
Transitron Electronic Corp.	Semiconductors	Mexico.
Fairchild Camera & Instrument	Semiconductors, integrated circuits, etc.	Mexico, Okinawa, Hong Kong.
General Instrument: Chicopee, Ludlow, Mass.; Woonsocket, R.I.	TV tuners, semiconductors, etc.	Taiwan, Portugal.
Cornell Dubilier, division of Federal Pacific.	Semiconductors	Taiwan.
Erie Technological Products	Semiconductors	Mexico.
General Electric	Radios, TV receiving tubes, appliance motors.	Singapore (1 plant; 2 additional plants under construction).
Griffiths Electronics	Picture tubes	Mexico.
Clinton Electronics	do	Taiwan.
Bell & Howell	Car stereo cassette players	Made for B. & H. by Matsushita & Sanyo, Japan and Philips Netherlands.
Advance Ross Electronics	TV tuners, etc.	Mexico.
Sperry Rand	Computer assemblies	Germany, Japan.

2. The reasons given by certain American firms and some of their spokesmen for shutting U.S. plants down and exporting production, product lines and jobs to foreign countries prove, on investigation, to be spurious, seriously deficient and invalid because:

a. American multinational corporations "licensed" great deal, and perhaps most, of the important technology that has enabled their Japanese competitors to outcompete them in the U.S. market. The technology licensed to the Japanese ranges from semiconductors and integrated circuitry to Color TV picture tubes to giant steam turbine generators. Licensing agreements with Japanese firms in our industry run into many thousands. Moreover, the American technology licensed to Japanese firms was underwritten, made possible, and financed by U.S. government research and development funds—i.e., billions of taxpayer dollars.

b. Though the need to meet Japanese competition is industry's major stated reason for exporting production to offshore facilities, U.S. firms, supported by huge Defense contracts, have for many years sought low-wage foreign areas to relocate a growing portion of their domestic manufacturing facilities devoted to producing for consumer and commercial markets. The government market absorbs over 50 percent of industry volume in electronics, and, with the export of major growth products, such as Color TV and business and computing machines, the dependence on government support may become even greater. It is not only established growth product lines that are exported; new product lines, such as stereo cassettes and video tape recorders, never even get into production in the U.S.

c. Moreover, huge Defense contracts, particularly in recent years, have concealed the gravity of the problems raised by industry actions—i.e., the wholesale export of major product lines. Employment increases resulting from increased Defense procurement, lent superficial credence to employer claims that plant shutdowns did not seriously affect overall employment in the industry. Now, the problems are becoming more visible, since escalating plant shutdowns caused by export of production abroad are occurring simultaneously with Defense cutbacks. It is not only employment statistics we are concerned with. We are confronted with inventory furloughs not reflected in employment statistics, and with a reduction in the workweek. The employment, or rather unemployment and underemployment situation, is far worse than would appear from a superficial reading of the statistics.

3. As we understand it, the main thrust of E.I.A.'s position is that, while Section 807.00 may stimulate the establishment of U.S.-owned and operated factories abroad, offshore production, encouraged under 807.00, helps to in-

crease employment in the U.S. E.I.A. and others argue that the assembly of parts and components abroad by low-wage foreign workers (and returned to the U.S. at a "value added" duty) makes it economically feasible to assemble the final finished product in the U.S. By doing this, they say, it becomes possible for them to employ a greater number of American workers because they can then sell their products at prices that are competitive. This enables them to retain a greater share of domestic markets.

Such industry logic is certainly not in accord with the facts. To cite the *Electronic News* (March 2, 1970) again: components are first made abroad; and before long, the entire product is made abroad. Companies that illustrate the full component to product and production export process include: Emerson, Westinghouse, Friden, Burroughs, Sperry-Rand, C. G. Conn., Ltd., C.B.S. Musical Instruments, etc. Such firms become importers and distributors (under their brand name) of products they had once manufactured.

4. How much does the consumer benefit from low-wage foreign production? Let me once again quote an industry source, Vincent Barreca, president, Admiral International. According to *Electronic News* (March 2, 1970), Mr. Barreca said, "Although assembly of complete color sets in Taiwan won't affect prices stateside, it should improve the company's profit structure. Otherwise, we wouldn't be making the move."

The basic idea, then, appears to be company profits, rather than a reduction in prices to the consumer. A study of price lists of former manufacturers of Color TV sets and other consumer electronic products, who are now importers and distributors of the products they once made, reveals that suggested retail prices are often three to four times as much as the cost of the product landed in the U.S.

5. The American multinational corporation with offshore plants enjoys, in addition to 10 cents-40 cents an hour labor, a number of additional modern "comparative advantages," such as cheap rent, tax concessions, and, in some cases, immunity from local laws and regulations. With such concessions and advantages granted by host governments, the "value added" tariff duties are merely one more concession—this one given by the U.S. This is certainly an additional stimulus to the multinational firm to establish and expand offshore runaway plants.

On the other hand, the only "comparative advantage" available to American workers whose jobs are jeopardized by such offshore relocations is unemployment insurance and public welfare. The American worker's wage level and standard of living is distorted into a "comparative disadvantage" of increasing importance by this offshore plant relocation process.

6. Finally, we do not believe repeal of Sections 806.30 and 807.00 to be a fully adequate answer to the problems now confronting us. At best, it is a partial answer, yet its importance is not to be underestimated either. The value of imports coming in under Section 807.00 keeps rising by very significant amounts. The repeal of Sections 806.30 and 807.00 has to be the first step in a thorough review, and necessary revision, of our tariff and trade posture. We need, and the world needs, an orderly expansion of international trade. But such expansion will be threatened and made far more difficult if the job security and high wage levels of American workers are undermined by dime an hour, or quarter an hour, wages paid by American multinational firms to their foreign workers. Such firms should not be further rewarded with tariff duty exemptions—which is pretty much what Sections 806.30 and 807.00 have become.

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STATEMENT SUBMITTED TO: U.S. TARIFF COMMISSION IN CONNECTION WITH INVESTIGATION AND HEARINGS "ON ALL RELEVANT ECONOMIC FACTORS AFFECTING THE USE OF ITEMS 806.30 AND 807.00 OF THE TARIFF SCHEDULES OF THE UNITED STATES"

SUBMITTED BY AND ON BEHALF OF: INTERNATIONAL UNION OF ELECTRICAL, RADIO AND MACHINE WORKERS, AFL–CIO; INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS, AFL–CIO; INTERNATIONAL ASSOCIATION OF MACHINISTS AND AEROSPACE WORKERS, AFL–CIO

My name is Paul Jennings, and I am President of the International Union of Electrical, Radio and Machine Workers, AFL–CIO. I appear before the Tariff

Commission today on behalf of three unions—my own, the International Brotherhood of Electrical Workers and the International Association of Machinists and Aerospace Workers—with a combined membership of close to 2,250,000 workers. I have been chosen spokesman for the IBEW and IAM, as well as the IUE, because the issues to be examined and weighed in this investigation, conducted at President Nixon's request, are of critical significance to our membership and to the very survival of U.S. production in some of the industries in which they are, for the time being, still employed.

Our unions are confronted almost daily with plant shutdowns, threatened shutdowns, transfer of work to offshore U.S.-owned plants, and the subcontracting out of work to low-wage foreign manufacturers for assembly and return to the U.S.—practices which throw thousands upon thousands of American workers out of their jobs and violently disrupt their communities' economic life. In large part, this exodus of U.S. production and U.S. plants to offshore countries, is both directly and indirectly related, in the language defining Item 807.00, to "articles assembled abroad in whole or in part of fabricated components, the product of the United States . . ." products on which the import duty is often only on the value added by the pitifully low-wage foreign workers.

In all cases, it is American production, American jobs, that is being exported outside our borders. The export of production and jobs has begun to assume alarming proportions. Let me cite just a few ads that recently appeared in the *Electronic News*. On March 9, the following ad, headlined TRINIDAD, appeared: "Over 30 seasoned assemblers (wage 40¢ hr.) now available to receive, assemb. and return your components . . ."

On March 30, *Tytronics International* placed this ad: . . . "Why not consider the advantages of having us manufacture and/or assemble your product in our plant which is already established and operating in Taiwan? We are U.S. owned and managed . . ."

Another company, Kolron Ltd., advertised on March 30: "Subcontracting Agreements Wanted . . . Korean Core Memory Mfr. would like U.S. subcontracting agreements . . ."

On February 4, the *Electronic News* carried this item, which it headlined, "Bond With The Orient—After wetting its feet with some entertainment semiconductor manufacture in Hong Kong, Sylvania is thinking of following Fairchild and Signetics into South Korea. It would be an assembly operation, probably for integrated circuits, taking advantage of the inexpensive labor for bonding operations. Sylvania may wait for the outcome of the value-added controversy in Washington before making any moves."

Since the number of plant shutdowns, and the number of American jobs exported abroad, keeps spiraling rather than diminishing, or even stabilizing, we urge immediate repeal of Items 806.30 and 807.00 as one step to keep the harm done to American workers and to American economic life from growing dramatically worse—indeed, beyond remedy.

Before I address my comments to Items 806.30 and 807.00, however, I should like to observe in all frankness that we do not regard repeal of these Items to be anything like a complete remedy for the problems we face in the electronic-electrical and the machinery industries. It is only a partial remedy, though long overdue and absolutely necessary (as the *Electronic News* article in Sylvania's "Bond With The Orient" abundantly indicates).

With the Commission's indulgence, I should like to review briefly what is actually now happening in the electronics, electrical and companion industries. The time span of this development is long, but it is accelerating at present. Essentially, it is this:

> Key growth segments of electronics and companion industries have been exported abroad. Moreover, the exodus is rapidly escalating.
>
> The transfer of production, product lines and jobs abroad by a few American firms has been, and is, a signal for others to follow. In recent years, hundreds of plants have been established by multinational U.S.-owned corporations on the Mexican border, in the Far East, in Europe and elsewhere, to manufacture parts and components, as well as finished products, previously made here. Many of these items are imported into the United States, paying only the "value added" duty. The first step in the chain of the transfer of production has been the use of an incentive like 807.
>
> We are experiencing a technological, investment and business revolution that makes obsolete all traditional theories of international trade, together with accepted laws of comparative advantage. Technology, capital, the most advanced production methods and worker training programs, are readily

and easily, exportable. Moreover, technology developed and perfected in this country with huge government subsidies, is "licensed" by American corporations to low-wage foreign competitors, enabling the latter to produce the same products at far lower costs than the licensing firms. The licensed foreign firms sell products made possible through licensing agreements in the American market, outcompeting American firms. This is the origin, as well as the core and guts, of our problem. While management or investors may receive a return in the short run, markets are being disrupted here and job dislocations occur. And in the long run, the loss is permanent to the U.S. Wages and markets abroad have not grown to keep pace.

The technological lead of American electronic firms was underwritten by many billions of dollars of government R. & D. money—taxpayers' money. Indeed, it was made possible only through government support. As the OECD Directorate for Scientific Affairs points out, "Semiconductors, numerical control, electronic computers . . . as well as a host of other less significant innovations owe their development to Federal support." As I have already stated, all of these, plus other, government-subsidized privately patented inventions have been licensed to foreign competitors, who pay royalties to the U.S. corporations holding the patents.

General Electric, for example, in November, 1969, licensed the Japanese company, Matsushita, for use of its Patent 3122610, which involves the production of FM type radio receivers. In 1967, G.E.'s license to Matsushita covered "a parallel phase detector circuit for TV receiving sets." A few months earlier, the same license was granted to Toshiba and Nippon Columbia. G.E. has licensed Japanese firms to produce optical gunsights, radar systems, transistors and semiconductor elements, capacitors, lamps including mercury and infrared lamps, television receiver converter circuitry, color photographic camera systems, steam-turbine electric generators, etc. A full list of G.E. licensing agreements with Japanese firms since 1960 is attached.

RCA has licensed Japanese firms in the following components, products and processes, among others: magnetic memory cores, electron microscopes, electrostatic cameras, AM/FM transistor radios, color picture tubes, photoconductors and photoconductive elements, X-ray analyzers, radio, tape recorder and TV sets, loudspeaker devices "monolithic integrated circuits," etc. A full list of RCA licensing agreements from 1960 through 1968 is attached.

Western Electric has licensed Japanese firms in components, products, systems and processes which include: thin-film devices for semi-conductor systems, semiconductors, solid electrolytic capacitors, transistors, central telephone exchange equipment including data processing and subscriber telephone handling systems. A list of Western Electric licensing agreements is also attached.

Other American companies that have licensed Japanese firms include: Westinghouse, IBM, Sperry-Rand, CBS, Bendix, Zenith Radio, Fairchild Camera & Instrument, Allis Chalmers, Singer Company, Texas Instruments, etc. The licensing agreements cover color picture tubes, video tape recorders, computer data processing devices, navigational instruments, planar semiconductors including integrated circuitry, ceramic capacitors and microelectronic equipment parts, pump turbines, etc., etc. (See lists attached)

Ironically, many of these American licensing firms and their Japanese licensees have now formed the Pacific Industrial Property Association designed, in the words of the *Electronic News*, "to foster greater industrial progress through inventions, patents, licenses, trademarks and know-how." We doubt whether the Pacific Industrial Property Association will work overtime to keep American jobs at home.

In any case, offshore plants of U.S. firms, established in Mexico, Taiwan, Korea, Hong Kong, Singapore, Europe and elsewhere to compete with Japanese and other non-U.S. competitors, are rationalized as necessary by American employers to meet the competition they have, in large measure, aided, encouraged and abetted. To compete with their foreign competitors an alarming, steadily growing number of American firms have taken to shipping parts to their overseas plants for further processing and assembly, these items being then returned to the U.S. and paying only the "value added" duty. According to the Department of Commerce's BDSA 1970 *Industrial Outlook*, especially the chapters on data processing and computing machines, the completed products as well as parts and components may

soon be manufactured abroad. This would tend to refute employer arguments that Item 807.00 enables them to keep a considerable amount of production in this country, such production and jobs being otherwise lost in the face of foreign competition.

As previously indicated, a growing number of American firms subcontract work out for processing and assembly in factories of foreign concerns, which, upon return to the U.S., pay only the duty on "value added." This, of course, stimulates further exodus, with further domestic plant and department shutdowns, and with additional losses of thousands of jobs. The process feeds on itself—and on a spiraling scale. This Commission must be aware that, rather than exaggerating, we may be understating the case.

Since key growth segments of electronics and companion industries have been, and are being, exported abroad, such industries—especially electronics—grow more heavily dependent on government for support. The dependence keeps increasing, even in growth areas like electronic data processing. Currently, annual sales of the electronics industries to DOD and other government agencies aggregate $13 billion, or more than half the $25 billion annual sales volume in electronics. This ratio can go higher.

As indicated earlier, the technological lead of American firms has been licensed and joint-ventured to foreign competitors. It has also, as earlier indicated, been exported to offshore manufacturing facilities of U.S.-owned firms in Asia, Mexico and elsewhere, where wage rates are a fraction of those prevailing in this country. The most advanced machinery, production methods and subsidized worker training programs are likewise exported. The taxpayer pays for manpower programs. The companies can experiment in training programs here; and when successful, after the U.S. taxpayer has paid for them, the companies can use the U.S. experience abroad.

Under such circumstances, even if American workers were all paid a wage of $1.60 an hour, our legal minimum, they could not possibly compete with Mexican wages of 30 cents, or with Taiwan, Korean, Hong Kong, Singapore wages of 10 cents to 20 cents an hour. American workers could not compete because, thanks to modern industrial engineering and worker training methods, Mexican, Asian and other foreign workers are now often as productive as Americans. The companies sometimes say that they are more productive. Depending on conditions abroad this may be true.

I must again emphasize that advanced technology, highly efficient capital equipment, and, to a large extent, workers' skills, can no longer be considered comparative advantages in our modern technological age. Resourceful giant and medium-sized multinational American firms, however, have been able to find other "comparative advantages" in nations like Mexico and Taiwan, and elsewhere. These advantages include low rents, favorable interest rates, tax loopholes, immunity from various regulations, and a number of other concessions not available here. American firms, in a word, are offered all the customary inducements to relocate that we find in more typical runaway plant situations.

Under such circumstances, there is nothing American workers can do to protect their jobs, their wages, or their standard of living. There is nothing the U.S. government can do to enforce the spirit of U.S. social and economic legislation. I said earlier, and I repeat, even at a wage of $1.60 an hour, American workers cannot compete with the 10 cents to 30 cents an hour paid to Far Eastern and Mexican workers. Nor can they compete with the somewhat higher Japanese wages. Nor can they become competitive by increasing their man-hour productivity.

For, in the industries we are here concerned with, annual increases in U.S. worker compensation were below annual increases in man-hour productivity. During the 60's, for example, annual increases in man-hour production in the electrical-electronics industries averaged not less than 4 percent. Wage and fringe benefit increases at General Electric from 1960 to 1969 averaged 2.8 percent a year, or 25.2 percent during the nine-year period. On the other hand, output per worker in 1968 per hour was more than 45 percent higher on a real, constant dollar basis than in 1960. Approximately the same figures apply to Westinghouse, where the average wage and fringe benefit increase was 2.6 percent a year.

Higher annual man-hour output growth, relative to increases in worker compensation, could not help reduce the exodus of American production to U.S.-owned offshore plants. Nor could it effectively stem the flow of im-

ports. On the contrary, the import flow has risen alarmingly and should give every American—not merely those whose jobs are directly threatened—genuine cause for concern.

From October 1966 to October 1969, factory worker employment in the Radio and TV Receiving Equipment industry declined 17 percent, a loss of 24,500 jobs. Included in these figures are the loss of 1300 jobs at Ford-Philco in Philadelphia. These figures do not include a more recent loss of approximately 1,000 jobs at Warwick Electronics in its Illinois and Arkansas plants (to Mexico); the closing down of Emerson Radio in Jersey City, with a loss of 1,250 jobs (absorbed by Admiral, with a plant in Taiwan); the layoff of 3,000 workers by Zenith Radio, with 4,000 additional jobs moving to Zenith's Taiwan plant in 1971. Nor does it include a job loss of 1,000 at General Electric.

In Electronic Components and Accessories, between October 1966 and October 1969, factory employment declined by more than 20,000 workers. In both industries, the job loss totaled 44,600, or, adding the more recent layoffs in Warwick, Emerson, Zenith, and G.E., over 53,000.

In still another major industry, Office and Computing Machines, total employment rose by 30,000, but factory employment increased by no more than 400. The average annual growth rate in computer shipments is 15 percent, but, but industry firms increasingly export component parts for assembly in overseas plants. In the case of electronic desk calculators, American firms like Friden and Burroughs, now have such machines made for them in Japan, under the Friden and Burroughs brand names and in accordance with their specifications. The loss of the entire desk calculator industry to this country is only a matter of time. Thousands of jobs will disappear in the process.

It should likewise be emphasized that these are the very types of jobs, unskilled or semiskilled this country can least afford to lose. They are jobs largely held by minority and other disadvantaged workers, for whom our Federal government is spending billions of dollars to create employment. And increasingly the incentive for firms to export skilled jobs is announced by the export of technology in combination with 807.

All this, finally, appears to be happening when our trade balance is being wiped out, when the ratio of exports to imports in the Electrical Machinery industry, including electronics, fell from 3.8 to 1 in 1960 to 1.9 to 1 in 1966, and to 1.4 to 1 in 1969. Indeed, our export figures may be somewhat inflated by the inclusion of millions of dollars of government-financed exports. In consumer electronics, the most seriously affected group, the estimated 1969 trade deficit has more than tripled since 1966, when our deficit amounted to $285 million.

We understand the Electronics Industries Association has temporarily put its divided house in order, streamlined its procedures, conducted seminars on how "to develop the Association's position in relation to the provision . . . which gives tariff concessions on imported products assembled from U.S.-made components," and has come here to speak with a single voice on retention of Item 807. Its enthusiasm for retention has let it go even further. In E.I.A.'s *Weekly Report* of October 17, 1969, for example, the Association urges what sounds to us like a concerted effort to bring pressure on the Tariff Commission.

Under the heading "EIA Organizes Plans On Tariff 807 Probe," E.I.A.'s *Weekly Report* states, "Meanwhile, the Association plans to continue contacting appropriate government agencies urging a meaningful and objective investigation by the Tariff Commission."

We assumed the investigation would be meaningful and objective without any urging by government agencies contacted by E.I.A. members. Perhaps, despite E.I.A.-conducted seminars on the preparation of testimony for these hearings and membership support of its position, there is still concern that its position is illogical, weak, inequitable and invalid.

We are equally disturbed by the fact that the E.I.A. has been consulted on even the framing of questionnaires on this issue when other parties at interest were not consulted. We are also deeply disturbed by E.I.A.'s role in this investigation; the continuing "assistance" it asserts it has given this Commission. Its counsel explains its function "as trying to help the Commission to do its job," and speaks of half a dozen meetings with the Commission's staff. (*Electronics News*, March 23, 1970) None of our unions were invited to any of these meetings, nor to any meetings with the Commission's staff.

Between 1965 and 1968, total imports from all countries under Item 807 in-

creased to $1.4 billion from $577.4 million, an increase of 142 percent. Though figures are not yet available, we expect 1969 to show a further rather substantial rise.

I should like here to point out, parenthetically, that while employers may argue at these hearings, that of the $1.4 billion imported in 1968, the value of U.S. materials or components exempted under 806.30/807.00 amounted to under $275 million, they regard the retention of 806.30 and 807.00 of critical importance to them not only for now, but more especially for the future. Let me cite once again the words of the *Electronic News* regarding Sylvania's "Bond With The Orient." "Sylvania may wait for the outcome of the value-added tariff controversy in Washington before making any moves."

We believe this Commission must be aware our runaway employers are vitally concerned lest they be compelled to pay duty on the full value of the imported products and components they had shipped abroad for assembly. To our unions and the workers we represent, retention of Items 806.30 and 807.00 means further loss of jobs, and the continuing threat to our job security. To our employers, retention of these items is an additional "comparative advantage" of crucial importance to them—but it is certainly not in the public or national interest.

Let me continue with more arithmetic. In 1965, Item 807 imports from Mexico amounted to $3.1 million; in 1968, they amounted to $73.3 million, an increase of over 2,300 percent. The comparable figures for Taiwan were $1.8 million and $49.9 million, respectively; for Japan, $27.1 million and $90.4 million. While we have not seen figures for 1969, the skyrocketing trend continues. Again, in view of this trend, it is not difficult to see why important segments of industry, particularly multinational corporations, are opposed to 807's repeal.

In 1966, 807 imports of tubes and semiconductors amounted to $31.3 million, rising to $67.6 million in 1968, or more than twice the 1966 level. TV apparatus imported under 807 went from $37.1 million in 1966 to $61.2 million in 1968; while 807 imports of calculating machines and parts doubled, from $14.6 million to $28.7 million. These are only three electronic categories that point up the trend.

Even though duty is paid on most of the imports, the source of the re-imported items actual production is virtually unknown. A U.S. product exported technically does not mean a U.S. manufacture. All that is needed to qualify is some processing in the U.S.

The Twin Plants, Mexican border industrialization program, with Pronaf, is perhaps the best known method, though by no means the only one, used by multinational and other American firms for establishing runaway foreign plants, taking advtantage of the cheap labor supply, special inducements and concessions, and, of course, the lower 807 tariff rates. And in speaking of "runaways" in this connection, we are referring realistically to outright evasions of U.S. labor and other laws.

On January 26 of this year, a Development Authority for Tucson's Expansion (DATE) advertisement appeared in the *Wall Street Journal*. It read: "Mr. President: Don't be embarrassed at your next board meeting when the queston-asker on the board asks:

"'What going on in Tucson, Arizona that caused—Motorola, Control Data, Kimberly-Clark, Lear Jet Stereo and Philco-Ford to establish plants there?'"

DATE's emphatic, straight-to-the-point answer appears a little to the right of its advertised question. "Twin plant in Nogales, Mexico," so read the answer, "only one hour away . . . 30¢ per hour labor . . . more profitable than Japan, Hong Kong or Taiwan."

Electronics firms, especially, are invited to Nogales. DATE's mission remains clear. The idea is to get American firms to move to Mexico and take advantage of the cheap labor supply and tariff concessions under 807. In a letter to the editor of the *Arizona Daily Star*, published on February 18, 1969 former Columnist Inez Robb quotes J. Karl Meyer, DATE's executive director, as publicly stating (though in connection with the apparel industry):

"We are not referring to the labor supply in Tucson or the wage rate here. That mailing was directed to some 700 apparel companies that we have reason to believe may be looking for a location outside the United States."

And the bait is Item 807, together with wages of up to $2.30 per day in a border town like Juarez.

At an "Executive Conference on World Trade" held in El Paso, Texas, on April 28, 1969, a speaker, identified as a member of the University of Texas faculty, warned that the "Twin Plant" concept would be in trouble if Labor were

successful in getting Item 807 repealed. Businessmen were urged to become politically active on behalf of 807's retention without change. Political activity is their right, of course. But what is emphatically and unmistakably clear is that 807 serves, in its main purpose, the cause of luring American industry outside U.S. borders. And this exodus has accelerated.

At this same April 28 "Executive Conference on World Trade," various speakers described the "Twin Plants" concept as one in which a U.S.-owned Mexican plant of several hundred to several thousand employees is balanced by a plant on the American side of the border employing a handful of American workers. In moving its operation to Juarez, for example, Advance Ross Electronics reduced its El Paso labor force from 250 down to 14. A larger company, Transition, has 1,500 workers in its Laredo, Mexico, plant and only management personnel in its Laredo, Texas, faciilty.

Mexico, however, is only the latest entry in the race to lure away American production and jobs. Taiwan, Singapore, Korea, Hong Kong, and even some industrialized West European nations, are competing with each other in offering a variety of inducements to attract American industry to their shores. American firms with Mexican border plants also have plants in Taiwan, Singapore, Hong Kong, Korea and elsewhere. Many also contract work out to other firms, native and foreign, located in these areas, always conscious, of course, of the benefits available through Item 807.

Apparently, a few multinational American firms may not be altogether happy about what they are doing, but they relocate abroad and shut down American plants, anyway. General Instrument Corporation is one such example. General Instrument has deplored conditions within the industry and the shortsightedness of the existing state of jungle warfare; it would prefer legislation to make foreign competition orderly, limited to a percentage of domestic market potential; it believes it could make more money and support the American economy better if the jobs of American workers were retained; but within the past year or two, it has closed down several of its New England plants, plus Canadian facilities, laying off over 3,000—perhaps as many as 4,000—American workers. Its Portugal plant absorbed 500 American jobs, while employment in its Taiwan plant grew to 12,000, from 7,200, absorbing the remaining U.S. jobs. When its Taiwan plant was established in 1962, it had only a few hundred workers. Wages in Taiwan are about 15 cents an hour on the average.

In a letter to Congressman Silvio O. Conte, dated December 2, Carl J. Gilbert, the President's Repersentative For Trade Negotiations, refers to an earlier communication of the Congressman. Ambassador Gilbert's reply reads in part: "Your earlier letter also raises the question of what has become known as the 'export of payrolls.' Much of this problem arises out of the existence of Items 806.30 and 807.00 in the Tariff Schedules of the United States."

Industry has mobility; workers have no mobility—at most, very little. Industry can move capital, machinery, technology, production know-how, to all parts of the globe. There are all kinds of incentives abroad. Workers stay put, and they and their communities suffer. General Instrument had 3,500 factory employees in its F. W. Sickle Company plants in Chicopee and Ludlow, Massachusetts, and 750 factory employees in its Woonsocket, Rhode Island plant. The Ludlow and Woonsocket plants have been closed. The Chicopee plant employs 800 workers, who assemble Defense products. The workers fear further layoffs in the event of a decline in Defense orders. As already mentioned, the export of growth product lines and the dependency on Defense contracts in the U.S. is a basic pattern in this industry.

According to officials of IBEW Local 1500, which represents the F. W. Sickle workers, the large majority of the workers laid off were doing unskilled assembly line work, and are untrained for other work. They have great difficulty finding other work, particularly the older workers with long seniority in the jobs they had held prior to termination. They do not have pension benefits. To a small community, the loss of 3,000 jobs is a serious blow to its economic life.

In 1966, Sprague Electric Company had 2,700 factory production workers in its plants in North Adams, Massachusetts. This number was reduced to under 2,000 early this year. Total dollar and unit volume at these plants, on the other hand, remains unchanged. Last year, Sprague opened a Mexican plant in Matamoros and transferred certain capacitor lines to this plant. More recently, it resisted efforts of the Oil, Chemical and Atomic Workers to organize its Puerto Rican workers by threatening to move from Ponce, P. R. to Matamoros. The NLRB

ordered a new election because of the plant manager's speech to captive workers. The speech has been published, and I quote a paragraph from it:

"The competition is so great that many electronic firms . . . have been forced to move their plants out of the U.S. to take advantage of the extremely low labor costs available in areas like Taiwan and Mexico. Just last week, Sprague Electric announced it was moving one of its established product lines from North Adams, Mass., to Matamoros, Mexico with the only purpose of taking advantage of this labor saving. I firmly believe that we, at Sprague Ponce, can still overcome this kind of competition—but only by working together."

What should be emphasized is that at the time Sprague moved a major capacitor line from North Adams to Matamoros, it had already achieved a reduction in labor unit costs of 25 percent, wages in North Adams, incidentally, average $2.60 an hour. Wage rates in Ponce average no more, and probably less, than $1.60 per hour.

Low Mexican wages are certainly attractive, but, as suggested by the economist from the University of Texas and implied by Ambassador Carl J. Gilbert, the advantage of Item 807.00 Tariff Schedules are an equally important consideration in relocating American plants beyond our borders. At the peril of appearing overly repetitious, I should like to quote from the January 2, 1970 edition of the *Tucson Daily Citizen.*

Headlined "Tucson Industrial Developers Concerned About Slated Probe," the article goes on to state, "Industrial developers here expressed concern today over reports that the Nixon Administration and Congress are expected to investigate the 'twin cities' tariff benefit enjoyed by industries along the Mexican border . . . Organized labor in the United States calls the situation a 'job steal.' An AFL–CIO spokesman said Mexican wages are $3 or $3.50 a day and the U.S. firms make substantial profits . . . *Chambers of commerce and industrial men along the border, however, say many of the industries would not locate in border cities were it not for the tariff provision.*" (Italics added)

I might say, additionally, that in terms of the national economy, Item 807 creates an inevitable relocation of production to the Southwest from other parts of the U.S. merely to get an extra advantage from low Mexican wages.

Let me, finally, address myself to Item 806.30. I cite two recent shipments of large turbine-generator components for machining abroad and return to the U.S., with tariff duties assessed under Item 806.30.

On March 9, 1970, the General Electric Company, Schenectady, New York, shipped 285 turbine buckets for machining in Japan, and for return to Schenectady after machining. The shipment bears Order Number SNS 907 180. On March 11, G.E. shipped 535 buckets from the same plant for machining to Machine Sabier Stork, Hengelo OR, Netherlands. This shipment bears Order Number SNS 907 178.

I should like to summarize by repeating the exodus of American electronic-electrical plants abroad is assuming the force of a flood. Major segments of our industries such as, radios, tape recorders, monochrome and Color TV, electronic desk calculations, electronic components, typewriters, musical instruments, and many others, have already completely gone, or will soon be going, overseas unless industry incentives for doing so are withdrawn. We have already lost not a mere few thousand, but unnumbered thousands of jobs. Expanded Defense efforts were largely responsible for keeping industry employment at acceptable levels during the past few years. But unemployment is now on the rise, and the exodus of plants and exports of jobs, keeps spiraling.

What we are exporting abroad are growth segments of our industries; product lines and jobs that normally should be expanding here in this country—and at a time when blue collar unemployment has already risen sharply and when the labor force is rapidly increasing. The labor force will grow 16 percent, to a total of 94 million by 1975.

This nation cannot afford the luxury of exporting vitally needed jobs; nor of encouraging and assisting the export of these jobs through excessively generous tariff regulations like 806.30 and 807.00.

I would like to finish with one last quote, this one from U.S.-Japan Economic Relationships in 1969, published by the United States-Japan Trade Council.

". . . (R)ecent studies suggest that for the United States the days of a permanent or predictable trade surplus may be over . . . For the United States, more than for any other country, trade and investment go hand-in-hand. *In the future the return on foreign investments is likely to replace the trade balance as the strongest positive element in the U.S. balance of payments. The stability of the*

dollar is a function of an overall external equilibrium not a trade surplus." (Underlining added)

The ominous implications of a statement such as this regarding retention of vitally needed jobs in this country are self-evident. We believe America is at a critical stage in its trade history. We cannot afford to defeat our job development, manpower training and other related programs by permitting further exportation of American jobs. And this is precisely what retention of Items 806.30 and 807.00 is doing.

ELECTRONIC IMPORT ITEMS

FROM GEORGE COLLINS, ASSISTANT TO THE PRESIDENT, INTERNATIONAL UNION OF ELECTRICAL, RADIO & MACHINE WORKERS, WASHINGTON, D.C.

LICENSING AGREEMENTS IN JAPAN

Japanese company	Know-how	Date
RCA		
Tokyo Shibaura Electric Co	An electronic circuit of a new type	July 20, 1968.
Jujo Paper Manufacturing Co	Instructions on manufacture of an electrophotographic system of new type photographic printing paper and a developing solution concerned, and on the method of operating the system.	Dec. 26, 1967.
Akai Electric Co	A tape recorder and its sound reproducing device, both of transistor type.	Oct. 3, 1967.
K. Hattori & Co	A camera shutter and a camera iris stop, both involving the use of a solid-state amplifying circuit.	Do.
Coral Radio Corp	A transistorized and player-equipped radio receiver, a transistorized electric phonograph, etc.	May 30, 1967.
Gakken Co	Same as Coral Radio	Do.
Kyoei Denki Kogyo K.K	do	Do.
Nagaoki Denki Seisakusho K.K	A new type of transistorized radio receiver of amplitude modulation category and a new type radio receiver of frequency modulation category.	Do.
Oritone, Ltd	Same as Nagaoki Denki	Do.
Fuji Kogeisha, Ltd	do	Do.
Sankei Manufacturing Co	A transistorized sound amplifier for tape records, a transistorized electric phonograph, etc.	Do.
TEAC Corp	Same as Sankei Manufacturing	Do.
Tokushu Paper Manufacturing Co	An "Electrofax" type electrophonographic duplicating machine.	May 2, 1967.
Mita Industrial Co	Same as Tokushu Paper	Dec. 27, 1966.
Nippon Gakki Co	A transistorized audible sound wave frequency amplifier (for guitars, etc.)	Nov. 1, 1966.
Kokoku Rayon & Pulp Co	An electrophotographic device	June 7, 1966.
Sanwa Seimitsu Denki K.K	Industrial TV equipment	Mar. 1, 1966.
Shimadzu Seisakusho, Ltd	A "transistor amplifier" (a semitransistorized circuit)	Feb. 1, 1966.
Hitachi, Ltd	A "monolithic integrated circuit"	Do.
Aiwa Co	Radio receiver	1960.
Aria Electric Co	TV set and radio	1962.
Asahi Electric Industries Co	Radio receiver	1962.
Asahi Keiki Co	do	1961.
Conny Onkyo Co	do	1964.
Daiko Denki Seisakusho	Acoustic loudspeaker device and TV image receiver	1664.
Daiwa Denki Kogyo Co	TV set and radio	1962.
Egawa Electric Ltd	do	1962.
Eteluna Tsushin Kogyo Co	Radio receiver	1960.
Fuji Koshuha	do	1960.
Fuji Sensin Co	TV set and radio	1962.
Fujiya Electric Co	Radio receiver	1961.
Funei Keiki Kogyo Co	do	1960.
Gloval Manufacturing Co	do	1960.
Hara Denki Seisaku	do	1961.
Hitachi, Ltd	Colour Braun tube	1960.
Hokuto Electric Co	TV set and radio set	1962.
Hokuyo Musenkogyo Co	do	1962.
Ikefuji Musen Kogyo Co	Communicating m/c	1960.
Japan Radio Co	do	1960.
Japan Storage Battery Co	Semi-conductor element	1963.
Kawaguchi Musen Co	Radio receiver	1962.
Kofuko Sangyo Co	do	1963.
Koyo Electric Industries Co	do	1960.
Kyowa Denki Kagaku Co	do	1960.
Lax Co	Acoustic loudspeaker device and tape recorder and TV image receiver.	1964.
Loyal Co	do	1964.
Marry Electronics Industries Co	TV set and radio set	1962.
Meidensha Electric Manufacturing Co	Transistor	1962l
Meiwa Denshi Kogyo Co	Photoconductive element	1963.

LICENSING AGREEMENTS IN JAPAN—Continued

Japanese company	Know-how	Date
RCA—Continued		
Minato Mishin Seisakusho	TV set and radio	1962.
Mitsubishi Electric Corp	Color cathode ray tube and monochrome cathode ray tube	1962.
Mitsubishi Denki Seisakusho	Radio receiver	1961.
Do	do	1962.
Neat Ankyo Denki Co	TV and radio	1962.
Nessu Co	Industrial television set	1964.
New Hope Jitsugyo Co	Radio receiver	1960.
Nippon Denon	Acoustic loudspeaker device for tape recorder, etc	1964.
Nippon Electric Co	Radio receiver	1960.
Do	Color Braun tube	1960.
Nippon Electronics Industries Co	Industrial TV	1961.
Do	Radio receiver	1964.
Nippon Hobby Co	do	1964.
Nipuko Co	Radio receiver	1964.
Nissho Musen Kogyo Co	TV and radio	1962.
Novol Denki Seisakusho	Acoustic loudspeaker device for tape recorder, etc	1964.
Novel Denpa Co	Radio receiver	1961.
Oral Electric Industries Co	Acoustic loudspeaker device for tape recorder, etc	1964.
Origin Electric Co	Transistor	1965.
Orion Electric Co	TV and radio	1962.
Pioneer Electric Corp	Radio receiver	1960.
Radio Kikusui Co	do	1961.
Roland Electronics Industries Co	TV and radio	1962.
Sankyu Hoki Co	do	1962.
Sanko Radio Industry Co	Radio receiver	1961.
Sanritsu Denki	do	1960.
Sansha Denki Seisakusho	Transistor (silicon semiconductor)	1963.
Sanshin Electric Co	Radio receiver	1961.
Do	TV and radio	1962.
Sanyo Seiko Co	Radio receiver	1960.
Shin Dengen Kogyo Co	Transistor	1960.
Shinhakusa Electric Co	Radio receiver	1960.
Shin Nippon Musen Co	Transistor	1965.
K. K. Shuon Denki Shokai	TV set and radio	1962.
Simmer Electronics Ind. Co	Acoustic loudspeaker for tape recorder etc	1964.
Sony Corp	Radio receiver	1960.
Do	TV image receiver	1961.
K.K. Star	Radio receiver	1962.
Tact Co	Acoustic loudspeaker device for tape recorder, etc	1964.
Tamachi Denki Kogyo	Radio receiver	1964.
Tamura Denshi	Nonbroadcasting communication equipment	1963.
TDK Electrics Co	Magnetic recording device	1963.
Tensho Denki Kogyo Co	Radio, tape recorder, and TV set	1965.
Yashima Denki Sangyo Co	do	1965.
Ohmiya Kogyo Co	do	1965.
Kokusai Musen Kogyo Co	do	1965.
Ono Denshi Kogyo Co	do	1965.
Union Co	do	1965.
Tayo Seiki Co	do	1965.
Sansui Denki Co	do	1965.
Ida Tsushin Kogyo Co	do	1965.
Realton Denshi Kogyo Co	do	1965.
Sanyo Seiko Co	do	1965.
Tobishi Pharmacy Co	Acoustic loudspeaker device for tape recorder, etc	1964.
Toei Musen Co	TV and radio	1962.
Todai Electronics Industries Co	Radio receiver	1960.
Tokai Musen Co	do	1961.
Taka iTsushinki	Acoustic loudspeaker for tape recorder, etc	1964.
Tokyo Denki Sangyo Co	TV and radio	1962.
Tokyo Electronics	do	1962.
Tokyo Optical Co	Radio receiver	1960.
Tokyo Shibaura Electric Co	Colour Braun tube	1960.
Tokyo Transistor Industry Co	Radio receiver	1961.
Torio Corp	do	1961.
Toyo Tsushinki Co	TV and radio	1962.
Usui Denki Co	Radio receiver	1961.
Vision Electronics Industries Co	TV and radio	1962.
Yashica Co	Radio receiver	1960.
Yokohama Toshin Kogyo Co	do	1960.
Yuko Electronic Co	do	1964.
Yutaka Electric Co	TV and radio	1962.
Tokyo Cosmos Denki	Photoconductive element	1964.
Aihon	Electric transistor gramophone and electric stereo gramophone.	1963.
Canon Camera Co	Photoconductive element	1962.
Chugoku Denpa Co	Transistor radio (AM, FM)	1962.
Chuo Electric Industries Co	Cadmium photoconductor	1961.
Coltytone Hachoki Co	Electric transistor gramophone and electric stereo gramophone.	1963.
K.K. Copal	Photoconductive element	1962.
Do	Electric transistor gramophone and electric stereo gramophone.	1963.
Coss Sokuteiki Co	do	1963.

LICENSING AGREEMENTS IN JAPAN—Continued

Japanese company	Know-how	Date
RCA—Continued		
Denshi Onkyo Co	Transistor radio	1963.
Fuji Denshi Kogyo	Photoconductive element	1964.
Fuji Kogei Co	Electric transistor gramophone and electric stereo gramophone.	1963.
Fuji Onkyo Television	Electric transistor gramophone and electric stereo gramophone.	1963.
Hamamatsu T.V. Co	Cadmium photoconductor	1960.
K. Hattori and Co	Transistor radio	1963.
Hitachi, Ltd	Electronic data treating device	1961.
Do	Time division data link	1965.
Homei Denki	Electric transistor gramophone and electric stereo gramophone.	1963.
Izumi Kogyo Co	Transistor radio	1963.
Japan Electron Optics Laboratory Co	X-ray analyzer	1963.
Katsurakawa Electric Co	Cadmium photoconductor	1960.
Koken Denshi	Photoconductive element	1964.
Kokusai Denshi Kogyo	Transistor radio	1963.
Komatsu Electronics, Inc	Electric transistor gramophone and electric stereo	1963.
Konsekisha	Electric transistor gramophone and electric stereo	1963.
Kowa Co	Electrostatic photograph	1963.
Kurake Denko Co	Photoconductive element	1962.
Matsushita Electric Industries Co	Photoconductor	1960.
Maruwa Denshi Kagaku	Electric transistor gramophone and electric stereo gramophone.	1963.
Minico	Electric transistor gramophone and electric stereo gramophone.	1963.
Mitaka Electric Scientific Co	Photoconductive element	1962.
Mitsubishi Electric Corp	Photoconductor	1960.
Misumi Electric Co	Photoconductive element	1964.
Musen Suki Sangyo	Electric transistor gramophone and electric stereo gramophone.	1963.
Nippon Bycro Kogyo	do	1963.
Nippon Denshi Kiki Seisakusho	Industrial TV set, etc	1963.
Nippon Denshi Kogyo	Black and white Braun tube	1963.
Nippon Interphone	Electrictransistor gramophone and electric stereo gramophone.	1963.
Nippon Koden Co	Photoconductor	1961.
Do	Electric transistor gramophone and electric stereo gramophone.	1963.
Nippon Telecoparts	do	1963.
Rion Co	do	1963.
Sankyo Seiki Manufacturing Co	do	1963.
Shimadzu Seisakusho, Ltd	Electronic microscope	1963.
Shinagawa Seisakusho	Electric transistor gramophone and electric stereo gramophone.	1963.
Shodensha	Transistor electric gramophone and electric stereo gramophone.	1963.
Sun Wave Industrial Corp	do	1963.
Taiyo Denshi Co	Electric transistor gramophone and electric stereo gramophone.	1963.
Do	Pencil tube	1963.
Tamachi Denshi	Electric transistor gramophone and electric stereo gramophone.	1963.
Tama Denshi Co	do	1963.
Teikoku Denshi Kogyo	Black and white Braun tube	1963.
Toho Denki Seiki Co	Transistor radio (AM, FM)	1963.
Tokyo Denshi Sochi	Industrial TV set, etc	1963.
Tokyo Interphone	Electric transistor phonograph and electric stereo phonograph.	1963.
Tokyo Rokuon Kogyo	do	1963.
Tokyo Shibaura Electric Co	Time division data link	1965.
Toyo Electric Manufacturing Co	Electric transistor phonograph and electric stereo phonograph.	1963.
Yale Denshi	do	1963.
Yazawa Seisakusho	do	1963.
Akashi Seisakusnol	Electronic microscope	1963.
Canon Camera Co	Electrostatic camera	1963.
Dai Nippon Ink & Chemicals, Inc	do	1963.
Hitachi, Ltd	Electronic microscope	1963.
Japan Electron Optics Laboratory Co	do	1963.
Fuji Electric Manfacturing Co	Magnetic memory core	1960.
Tohoku Metal Industries, Ltd	do	1960.
WESTERN ELECTRIC		
Furukawa Electric Co	Multilayer extruding coater	1963.
Taiyo Kaitei Densen	Submarine cable	1960.
Furukawa Electric Co	Waveguide	1965.
Furukawa Cable Works, Ltd	do	1965.
Sumitomo Electric Industries, Ltd	do	1965.
Anriaka Electric Co	Solid electrolytic condenser	1960.
Anritsu Electronic Works, Ltd	Transistor radiation energy device and diode	1963.
Focks Chemicon	Solid electrolytic condenser	1960.
Fuji Electric Manufacturing Co	do	1960.

LICENSING AGREEMENTS IN JAPAN

Japanese company	Know-how	Date
WESTERN ELECTRIC—Continued		
Fujitsu, Ltd	Isolater	1960.
Do	Unijunction transistor and circuit	1963.
Do	Carbon coating resistor	1964.
Do	Semiconductor, etc	1965.
Furukawa Electric Co	Test of cable repeater	1960.
Hayakawa Electric Co	Semiconductor device	1963.
Hitachi, Ltd	Klystron	1960.
Do	Solid Electrolytic condenser	1960.
Do	Semiconductor device	1962.
Japan Radio Co	Radar and communication devices	1965.
Japan Storage Battery Co	Semiconductor element	1963.
Iwasaki Tsushinki K.K	Central telephone exchange equipment, including data processing and subscriber telephone handling system.	July 9, 1968.
Hayakawa Electric Co	A thin-film device of new type for semiconductor systems	Do.
Ube Industries, Ltd	High pressure polyethylene and other weatherproof coating materials of different grades for electric cables.	Mar. 5, 1968.
Omori Denki Seisakusho K.K	A solid electrolytic capacitor	May 30, 1967.
Ocean Cable Co	Marine telecommunication cables	Feb. 28, 1967.
Mitsui Polychemical Co	Polyolefin products	Jan. 31, 1967.
Tatsuta Electric Wire & Cable Co	Land communication cables	Sept. 6, 1966.
Kokusai Electric Co	Semiconductor materials and a solar battery	June 7, 1966.
Matsuo Denki Co	Solid electrolytic condenser	1960.
Meidensha Electric Manufacturing Co	Transistor, diode, etc	1962.
Mitsubishi Electric Co	Semiconductor device	1962.
Nippon Chemical Condenser Co	Solid electrolytic condenser	1960.
Nippon Condenser Industries Co	do	1960.
Nippon Tsushin Kokyo Co	do	1960.
Ohmori Denki Seisakusho	do	1960.
Oki Electric Industry Co	do	1960.
Do	Semiconductor	1962.
Do	Microwave carrier device	1965.
Origin Electric Co	Transistor and diode	1960.
Do	Semiconductor, etc	1965.
Sankosha Seisakusho	Solid electrolytic condenser	1960.
Sanyo Electric Co	do	1960.
Shin Dengen Kogyo Co	Transistor and diode	1960.
Do	Semiconductor, etc	1965.
Sony Corp	Semiconductor	1962.
Taiyo Yuden Co	Solid electrolytic condenser	1960.
Toho Sanken Co	Transistor and diode	1960.
Towa Chikudenki Co	Solid electrolytic condenser	1960.
Toyo Electric Manufacturing Co	Transistor radiation energy device and diode	1963.
Yaou Electric Co	Transistor and diode	1961.
Hitachi, Ltd	Communication meter, electronic computer	1964.
Matsushita Electric Industrial Co	Semiconductor	1964.
Nippon Electric Co	Dry contact relay switch	1962.
Do	Transistor	1963.
Do	Electronic communication machinery	1963.
Sansha Denki Seisakusho	Transistor diode	1963.
Seconic Co	Silicon sun accumulator	1960.
Tokyo Shibaura Electric Co	Wire spring-type electromagnetic relay	1961.
Fujikura Cable Works, Ltd	Multilayer extruding coater	1963.
Shizuki Denki Seisakusho	Lacquer film condenser	1963.
Tokyo Shibaura Electric Co	Magnetic materials	1960.
GENERAL ELECTRIC (1960, JANUARY 1970)		
Nippon Electric	Camera tube	1964.
Shin Dengen Kogyo	Carrier system microwave device	1963.
Sony Corp	Semiconductor	1963.
Tokyo Shibaura	Consolidation of ground radar	1961.
Fuji Electric Manufacturing Co	Pile for power generator	1960.
Hitachi Lamp Co	Iodide electric bulb	1962.
Hitachi, Ltd	Steam turbine generator	1960.
Do	Turbine generator	1962.
Do	Electric blanket	1963.
Iwasaki Electric Co	Silica tube iodide electric bulb	1961.
Koito Manufacturing Co	Shield beam lead lamp	1962.
Do	Quartz iodine lamp	1964.
Kondo Denki Kogyo Co	Electric bulb	1965.
Kyosan Seisakusko	Electronic machine tools	1964.
Mitsubishi Electric Corp	Gas cooling generator	1962.
Do	Fluorescent lamp	1965.
Shin Nippon Electric Co	do	1961.
Tokyo Shibaura Electric Co	Steam turbine generator	1960.
Do	Transformer	1960.
Do	Arrester	1960.
Do	Switch gear	1960.
Do	Silica tube lamp	1962.
Do	Silica tube infrared ray lamp	1961.
Do	Turbine generator	1961.
Do	Electric device set in plastic insulator	1962.

LICENSING AGREEMENTS IN JAPAN—Continued

Japanese company	Know-how	Date
GENERAL ELECTRIC (1960, JANUARY 1970)—Continued		
Ushio Kogyo Co	Infrared ray lamp	1962.
Do	Quartz pipe iodine electric bulb	1962.
Ishikawajima-Harima Heavy Industries Co.	Jet engine for aircraft	1960.
Do	Turboshaft engine	1961.
Do	Gas turbine for aircraft	1965.
Tokyo Shibaura	Boiler feed pump, turbine 600 MW turbogenerator	1965.
Do	Business calculator system	1964.
Do	Industrial calculator system	1964.
Mitsubishi Heavy Industries	Torpedo	1965.
Showa Electric Wire & Cable Co	Lead cover of cable	1961.
Sumitomo Electric Industries Co	Curing of polyethylene	1960.
Tatsuta Electric Wire & Cable Co	do	1961.
Japan Nuclear Fuel Co	Nuclear fuel energy	May 2, 1967.
Tokyo Shibaura	Boiler for light water-cooled boiling water type nuclear power reactor and facilities involved in reactor.	Do.
Showa Electric Wire & Cable	An electric cable wire rod continuous producing system	1967.
Shizuki Electrical Manufacturing Co	New type of electric capacitor with special paper-polyester film wrapping.	Oct. 3, 1967.
Tokyo Shibaura	Silicone by new process	Dec. 26, 1967.
Iwasaki Electric Co	High-pressure mercury-vapor lamp	Feb. 6, 1968.
Hitachi, Ltd	A transistor of alloy type	Mar. 5, 1968.
Tokyo Shibaura	do	Do.
Meidensha Electric Manufacturing Co	Electric current interrupter of vacuum type	Nov. 19, 1968.
Hitachi Wire & Cable	A chemically bridged polyolefin-type electric insulator wire.	Jan 31, 1967.
Hitachi Ltd	A steam-turbine electric generator for nuclear electric power stations.	May 20, 1969.
M.T.P. Kasei Co., Ltd	Instructions on chemical bridging of polyethylene molecules.	Apr. 4, 1967.
Hokushin Electric Works, Ltd	A mass and liquid flow meter	Dec. 17, 1968.
Matsushita Electric Industrial Co	A television receiver converter circuitry of new type	Sept. 17, 1968.
Shindengen Electric Manufacturing Co. (Shindengen Kogyo K.K.).	A silicone control semiconductor opening and closing element.	Apr. 2, 1968.
Sanken Electric Co. (Sanken Denki K.K.)	do	Do.
Sansha Electric Manufacturing Co	do	Do.
Nippon Sharyo Seizo, Ltd	A diesel-powered electric locomotive of new type	June 4, 1968.
Ikegami Tsushinki Co	A color photographic camera system of PE-250 type	July 9, 1968.
Tatsuta Electric Wire & Cable Co	Copper rods for electric wire production through the "copper dip forming process" (a special method to produce copper rods by passing a slender core wire through molten copper in a crucible).	Do.
Tokyo Aircraft Instrument Co	An aircraft gyrocompass system	May 30, 1967.
Japan Storage Battery Co	A metal halogen type mercury lamp	Do.
Shinei Kaisha	A new type of electric capacitors	Do.
Toshiba Electronic Systems Co	A large-type ground radar system	Feb. 1, 1966.
Eiwa Chemical Industry Co	A bridging-type polyethylene	Mar. 1, 1966.
Tokyo Shibaura Electric Co	A parallel phase detection circuit for television receivers	Apr. 5, 1966.
Nihon Aircon Ltd. (tentative name)	Air conditioners (G.E. invested Yen 171,000,000)	June 7, 1966.
Shinagawa Electric Wire Co	Instructions on curing of polyethylene	Do.
Fujikura Cable Works, Ltd	do	Do.
Nippon Columbia Co	A parallel phase detecting circuit for TV receivers	Sept. 6, 1966.
Japan Metal Finishing Co	Instructions on manufacture and control on employment of resin surface process chemicals.	Nov. 1, 1966.
Toshiba Electronics System Co	A new type of radar	Nov. 22, 1966.
Matsushita Electric Industrial Co	A parallel phase detector circuit for TV receiving sets	Feb. 28, 1967.
Tokyo Shibaura Electric Co	Polyster resin electric insulating materials	Do.
Sekisui Chmical Co	Instructions on molecular bridging of polyethylene	Do.
Dainichi-Nippon Cables Co	do	Do.
Tatsuta Electric Wire & Cable	do	Do.
Nittoku Metal Industry Co	An M61 Vulcan type of 20-mm. machine cannon for defense aircraft.	Jan. 21, 1969.
Matsushita Electric Industrial Co	Licensing of United States Patent 3122610 process concerning production of a frequency modulation type of radio receivers and stereo radiophonographs sets.	Nov. 25, 1969.
Japan Aviation Electronics Industry, Ltd	An optical gunsight of new type and accessories for the F-4E jet fighter-interceptor aircraft of the U.S. Phantom type.	Jan. 19, 27, 1970
Toshiba	Same as above	Do.
Do	A turbine and a generator of new type for nuclear electric power plants.	Do.
Hitachi, Ltd	Japan Nuclear Fuel Co. is a joint venture between G.E., Hitachi and Toshiba.	
ADMIRAL CORP.		
Ando Electric Co	Aircraft radar tester	1964.

LICENSING AGREEMENTS IN JAPAN—Continued

Japanese company	Know-how	Date
ALLIS-CHALMERS		
Fuji Electric Co	A pump turbine of new type (a special water-raising hydroelectric powerhouse turbine for use at peak demand hours).	July 30, 1968.
Dengyosha Machine Works, Ltd	A vane angle-changeable axial-flow pump, a conical plug, and a sliding valve of new type.	July 9, 1968.
Kobayashi Engineering Works, Ltd	A bed-box of new type for the papermaking machinery of long net type.	Apr. 2, 1968.
Shinko Electric Co	Dynamo, electric generator, and transformer	1963.
Kobe Steel Works, Ltd	Pelletizing plant	1963.
AMERICAN MACHINE & FOUNDRY CO.		
Dengensha Co	Welder for stainless steel	1964.
Nagoya Shipbuilding & Engineering Co	Sea-water purifier	1963.
Toshiba Machine Co	Friction welder	1965.
Oshi Kiri Machine Works Co	Automatic bread slicer and wrapping m/c	1965.
AMERICAN OPTICAL CO		
Canon Camera Co	Optical products	1963.
AMERICAN STANDARD		
Kayaba Industry Co	Piston, pump and meter (by Weatherhead)	1964.
AMPEX CORP.		
Matsushita Electric Industrial Co	Magnetic record regenerating device for calculator, meter and video.	1964.
Nippon Electric Co	Video tape recorder	1964.
ARMOUR RESEARCH FOUNDATION OF ILLINOIS INSTITUTE OF TECHNOLOGY		
Sony Corp	Magnetic material for magnetic tape	1963.
BORG-WARNER CORP.		
NSK Warner Co	One way clutch and thermostat for clutch	1964.
Tsubakimoto Morse Co	Transmission gear	1965.
Koyo Seiko Co	Universal joint propeller shaft	1964.
Mitsubishi York Ltd	Air conditioning and refrigeration equipment	1964.
Shimadzu Seisakusho, Ltd	Hydraulic pump, etc	1963.
BURNDY CORP.		
Nippon Burndy	Joint terminal and tools	1963.
CHRYSLER CORP.		
Tokyo Sanyo Electric Co	Closed type compressor	1964.
Toyo Kogyo Co	Manufacturing technique of powder metallurgy	1963.
COLLINS RADIO CO.		
Mitsubishi Electric Corp	Aircraft wireless telegraph	1961.
COLUMBIA BROADCASTING SYSTEM, INC.		
Nippon Columbia Co	An ordinary-type (direct viewing-type) color TV picture tube.	Feb. 1, 1966.
Matsushita Electric Industrial Co	Colour Braun tube	1965.
Hitachi, Ltd	do	1964.
Nippon Electric Co	do	1964.
Toshiba	do	1964.
DYNAMICS CORP. OF AMERICA		
Okumara Manufacturing Co	Air vent, etc. (anemostat)	1965.
EDISON ELECTRIC INSTITUTE		
Central Research Institute of Electric Power Industry.	Instructions on research on, and development of, a plutonium fuel type of core of light (ordinary) water cooled nuclear reactors.	May 2, 1967.

LICENSING AGREEMENTS IN JAPAN—Continued

Japanese company	Know-how	Date
EMERSON ELECTRIC CO.		
Shimadzu Seisakusho, Ltd	A magnetic detector of new type and its components	Jan. 6, 1968.
Nippon Electric Co	A signal data processing and recording system device aboard aircraft.	Dec. 5, 1967.
Ueshima Seisakusho Ltd	A "Rotameter" (flow meter) of Brooks type and accessories.	Oct. 3, 1967.
Nippon Hermetic Co	Motor for refrigerator compressor	1963.
FAIRCHILD CAMERA & INSTRUMENT CORP.		
Hitachi, Ltd	Planar semiconductors (transistors, diode, integrated circuitry).	May 30, 1967.
Toshiba	do	Do.
Kawasaki Fujitsu, Ltd	do	Do.
Nippon Trubo Co	Potentiometer	1963.
GENERAL DYNAMICS		
Japan Radio Co	An "airborne sonobuoy receiver" of the "AN-ARR-52 (A)" type (a radio receiver aboard aircraft to locate signal-emitting buoys on the sea, for use in salvaging water surface-to- or underwater-to-air communications).	Mar. 5, 1968.
Kobe Steel, Ltd	A hydraulic-type torpedo tube	Nov. 1, 1966.
Mitsubishi Heavy Industries, Ltd	A high-energy, high-speed metal fabricating machine	Feb. 1, 1966.
GENERAL INSTRUMENT CORP.		
Oki Electric Industry Co	Transistor and diode	1960.
Kataoka Electric Co	VHF tuner	1963.
GENERAL MOTORS CORP.		
Toshiba	An electric light bulb socket without metal fixtures	Sept. 5, 1967.
Nippon Radio Corp	Supersonic meter	1960.
Teikoku Tsushin Kogyo Co	do	1960.
Toshiba	do	1964.
GENERAL TELEPHONE & ELECTRONICS CORP.		
Sumitomo Electric Industries, Ltd	Multiple wires, etc	Feb. 1, 1966.
Hayakawa Electric Co	Electroluminescent lamp	1963.
Hitachi, Ltd	do	1963.
Iwasaki Electric Co	Electric field illuminating lamp	1961.
Mitsubishi Electric Corp	Electrolumniescent lamp	1963.
Shin Nippon Electric Co	Electric field illuminating lamp	1961.
Toshiba	Electroluminescent lamp	1963.
Tokyo Tungsten Co	Tungsten and molybdenum	1963.
GILBERT & BARKER MANUFACTURING CO.		
Tominaga Oil Pump Manufacturing Co	Meter, etc., for gasoline stand	1965.
GLOBE-UNION		
Murata Manufacturing Co	A ceramic capacitor and microelectronic equipment parts	Sept. 17, 1968.
Alps Electronics Co	Rheostat with switch	1965.
Agatsuma Seiki Co	do	1965.
Matsushita Electric Industrial Co	do	1965.
Mitsumi Electric Co	do	1965.
New Cosmos Electro Co	do	1965.
Teikoku Tsushin Kogyo Co	do	1965.
Tokyo Cosmos Denki	do	1965.
Tsubame Radio Co	do	1965.
Ueda Koa-Denko Co	do	1965.
HONEYWELL		
Nippon Electric Co	Electronics data treatment	1962.
Nippon Koku Electronics Industries Co	Automatic controlling gear gyro device, etc	1961
IBM CORP.		
Sony Corp	Mutual cooperation in development of a new type of video tape recorder and allied products.	Apr. 4, 1967.
Yamura Shinko Seisakusho Co	An electronic computer data processing device	Mar. 1, 1966.
Sony Corp	Joint development of a "Hi-8" type magnetic tape	Feb. 1, 1966.
Amano Special Machinery Co	Manufacture of time recorder with punch system	1965.
Fujitsu, Ltd	Data processing device	1960.
Do	Data processing device parts	1960.

LICENSING AGREEMENTS IN JAPAN—Continued

Japanese company	Know-how	Date
IBM CORP.—Continued		
Hitachi, Ltd	Data processing device	1960.
Do	do	1960.
Fokushin Denki Seisakusho	do	1960.
Matsushita Electric Industrial Co	do	1960.
Do	Data processing device parts	1960.
Mitsubishi Electric Corp	Data processing device	1960.
Do	Data processing device parts	1960.
Nippon Electric Co	Data processing device	1960.
Do	Data processing device parts	1960.
Nippon IBM Co	Electric statistical and accounting m/c, electronic computer.	1960.
Oki Electric Industry Co	Data processing device	1960.
Do	Data processing device parts	1960.
Do	Electronic calculator chain printer	1962.
Parametron Laboratories	Data processing device	1961.
Shiba Electric Co	do	1961.
Tokyo Denki Onkyo Co	do	1961.
Do	Data processing device parts	1961.
Toshiba	Data processing device	1960.
Do	Data processing device parts	1960.
Yokohama Electric Co	Data processing device	1962.
Do	Data processing device parts	1962.
Shimadzu Seisakusho, Ltd	Data processing device	1963.
ITT CORP.		
Tohoku Metal Industries Co	Ferrite	1962.
LITTON INDUSTRIES		
Toshiba	Attachments and accessories for missile shooting direction and control systems in case of a company size defense force unit.	Apr. 2, 1968.
Kobe Industries Corp	Microwave tube	1960.
LORAL CORP.		
Toyo Tsushinki Kawasaki Ltd	An AN/ASA-50 type speed and direction computing system (aboard defense patrol aircraft.)	Nov. 19, 1968.
Toyo Communication Equip. Co	An aircraft navigational computer device of AN/AYK-2 type.	Dec. 5, 1967.
MAGNAVOX CO.		
Toshiba	A computerized general strategic instruction-giving device of AN/ASA-16 type for use aboard antisubmarine patrol aircraft.	Do.
P. R. MALLORY & CO.		
Mitsubishi Mallory Metalizical Co	Electric contact, electro-de material	1965.
McGRAW-EDISON		
Asahi Seisakusho Sohonsha Ltd	Laundry press machinery of new type	January 21, 1969.
Daido Steel Co	A "Lectrodryer"-type drying machine for gas, including vaporized gasoline, atmosphere, etc.	February 28, 1967.
Matsushita Electric Industrial Co	Room cooler	1965.
Daido Steel Co	Dehumidification dryer	1961.
Nippon Furnace Industries Co	Vacuum arc furnace	1964.
Sanyo Electric Co	Full-automatic dry cleaner	1965.
OMARK INDUSTRIES		
Nippon Drive-it Co	Electric stud molding m/c	1965.
PACKAGE MACHINERY CO.		
Tokyo Automatic Machinery Works, Ltd	An automatic packaging machine	June 7, 1966.
PARAMOUNT PICTURE CORP.		
Sony Corp	Chromatron and related m/c	1962.
PHELPS DODGE		
Sumitomo Electric Industries, Ltd	Polyester insulated magnet wire	1965.
PHILCO CORP.		
Koyo Electronics, Inc	Ion generating device	1963.

LICENSING AGREEMENTS IN JAPAN—Continued

Japanese company	Know-how	Date
ROBERTSHAW CONTROLS CO.		
Tokyo Precision Instrument Co	Antivibration level	1961.
SCOVILL MANUFACTURING CO.		
Sanshin Manufacturing Co	Snap fasteners of "Clipper" type	Oct. 3, 1967.
SINGER CO.		
Yamamoto Electric Industry Co	A small-type motor of new type for sewing machines	Oct. 15, 1968.
Mitsubishi Precision Corp	Air controlling device electronic calculator (by General Precision).	1962.
Pine Sewing Machine Manufacturing Co	Sewing machines	1960.
Do	do	1965.
SONOTONE CORP.		
Furakawa Denchi Co	Alkali accumulator	1960.
SPRAGUE ELECTRIC CO.		
Taiyo Yuden Co	A solid type of electrolytic condenser of new type	Dec. 5, 1967.
STANDARD-KOLLSMAN		
Tokyo Aircraft Instrument Co	Aircraft instruments of new type	Oct. 21, 1969.
Matsushita Electric Industrial Co	TV tuner	1961.
Tokyo Aircraft Instrument Co	Meters for F104J fighter	1961.
TRW, INC.		
Fuji Valve Co	A valve lock for the poppet valve of internal combustion engines.	Sept. 5, 1967.
Mitsubishi Electric Corp	Ground station facilities concerned with tracking of, and telemeter contacts with, communications satellites, spacecraft, and all their launching and control equipment.	Dec. 27, 1966.
Tama Electric Industry Co	Carbon alloy resistor and metal coating resistor (by IRC Co.).	1960.
Toko Co	Screw core used in coils for radio	1964.
Mitsubishi TRW Co	Silicon diode for process control system	1961.
Fuji Valve Co	Special alloy steel	1965.
TELEDYNE		
Japan Aviation Electronics Industry, Ltd	An angle of incidence detector and an angle of incidence indicator for aircraft.	Sept. 23, 1969.
Do	An "angle of attack transducer" (a pair of wing-attached climbing angle safety indicators to prevent pitch-up stalling of the F104J fighter-interceptors used in Japan).	
TEXAS INSTRUMENTS		
Kyodo Electronic Laboratories, Inc	Semiconductor elements, equipment and materials involving the use of integrated circuits.	Oct. 15, 1968.
UNION CARBIDE CORP.		
Matsushita Electric Industrial Co	C.E.T. battery	1963.
Mitsubishi Metal Mining Co	Precision alloy casting	1964.
Do	Stellite and hastelloy alloy	1961.
UNITED AIRCRAFT CORP.		
Japan Aviation Electronics Industry, Ltd	An automatic stabilizer for helicopters, hydrofoil boats, air cushion vehicles, VTOL aircraft, etc.	May. 2, 1967.
Nippon Electric Co	Electron beam apparatus, their parts and components	Oct. 4, 1966.
Mitsubishi Heavy Industries, Ltd	Large helicopter	1960.
UNIVERSAL AMERICAN CORP.		
Koyo Vanorman Co	Centerless grinder and milling m/c, etc	
WALDES KOHINOOR, INC.		
Ochiai Seisakusho	An E-shape stop ring removing, fixing and feeding device	Sept. 5, 1967.
WHIRLPOOL CORP.		
Hitachi, Ltd	Dry cleaning m/c	1964.
Osaka Kinzoko Industries Co	All-airtight rotary compressor	1962.

LICENSING AGREEMENTS IN JAPAN—Continued

Japanese company	Know-how	Date
WORTHINGTON CORP.		
Daikin Kogyo Co	Air conditioner	1964.
ZENITH RADIO CORP.		
Toshiba	Instructions on the structural formation of the convergence system in color TV receivers.	June 7, 1966.
BENDIX CORP.		
Tokyo Keiki Seizosho Co	An aircraft navigational computer system	Feb. 24, 1970.
Tokyo Aircraft Instrument Co	An automatic aircraft flight control system of PB-70J type	June 17, 1969.
Kayaba Industry Co	An aircraft deicing system of new type	July 9, 1968.
Matsushita Electric	A motor compressor of new type for air-conditioning systems.	Dec. 26, 1967.
Shinko Electric Co	Aircraft electric equipment, i.e., a voltage regulator, a generator, a controller, a rotary converter, a dynamo, a relay and a contractor.	Apr. 4, 1967.
Yashima Export & Import Co	A chromatographic gas analyzer, and accessories	Feb. 28, 1967.
Yokogawa Electric Works, Ltd	A viscometer and an accompanying recorder and a record adjuster.	Dec. 27, 1966.
Tokyo Aircraft Instrument Co	A direction-distance indicator for aircraft cockpits	Nov. 22, 1966.
Akebono Brake Industry Co	An oil-pressure adjuster for automobile oil hydraulic brakes.	Sept. 6, 1966.
Kobe Industries Corp	Wireless telegraph for aircraft	1960.
Koito Electric Co	Electric connector and cable	1961.
Tokyo Aircraft Instrument Co	Automatic aero controlling device	1965.
Oki Electric Industry Co	Numerical controller	1965.
Tokyo Precision Instrument Co	Automatic aero direction detector	1965.
Akebono Brake Industries Co	Motorcar brake	1961.
Jidosha Kiki K.K	Universal joint for motorcar	1961.
Kayaba Industry Co	Brake lining	1961.
Tejin Seiki Co	Hydraulic pump and fuel injection nozzle for aircraft	1961.
Akebono Brake Industry Co	Brake lining	1961.
Hokushin Denki Seisakusho	Mass spectrometer	1960.
Jidosha Kiki Co	Electric fuel pump	1963.
Koito Manufacturing Co	Filter except for aircraft	1963.
Kuraki Denko Co	Supersonic washing device	1963.
Nippon Air Brake Co	Hydraulic driving device	1963.
Saitama Kiki Co	Hydraulic driving device for motorcar	1963.
Shinko Electric Co	Electromagnetic clutch and brake	1963.
WESTINGHOUSE		
Koike Sanso Kogyo Co	A photoelectric tracer of new type for gas-burning and plasma cutters.	May 20, 1969.
Mitsubishi Atomic Power Industry, Inc	Pile parts	1961.
Mitsubishi Heavy Industries, Ltd	Land and marine gas turbines	1961.
Do	Hollow jet valve	1961.
SPERRY RAND		
Tokyo Precision Instrument Co	A new compass system of "Gyrosyn" (gyromagnet) type for aircraft.	Nov. 25, 1969.
Do	An aircraft horizontal position indicator	Oct. 21, 1969.
Do	An integrated instrument system (an overall instrument commanding, correcting and controlling system) for aircraft, and a turbine vibration indicating system (for aircraft and other jet engines).	June 17, 1969.
Remington Rand Japan, Inc	Instructions on assembly and manufacture of typewriters of Western-language type.	Aug. 2, 1966.
Kobe Industries Corp	Klystron	1960.
Mitsubishi Electric Corp	Klystron tube	1962.
Nippon Electric Co	Klystron	1960.
Oki Electric Industry Co	do	1960.
Toshiba	do	1960.
Oki Remington	Adding m/c and electronic data treating m/c	1962.
Tokyo Precision Instrument Co	Indicator transport	1963.

Mr. ULLMAN. Are there questions?

You have been very helpful to us. Thank you.

Our next witness is Mr. John W. Simpson.

You have with you, I understand, Mr. Claude Hobbs, Mr. Simpson. He is well known to the committee. We recall his services on the Hill for the Appropriations Committee with the Parliamentarian, as well as his appearance in his present capacity.

We welcome you both to the committee. If you will identify yourself officially for the record, you may proceed.

STATEMENT OF JOHN W. SIMPSON, ON BEHALF OF NATIONAL ELECTRICAL MANUFACTURERS ASSOCIATION (NEMA); ACCOMPANIED BY CLAUDE HOBBS, CHAIRMAN, COMMITTEE ON FOREIGN TRADE POLICY

Mr. SIMPSON. Mr. Chairman, members of the committee, my name is John W. Simpson. I am president, Westinghouse Power Systems. I am presenting this statement on behalf of the National Electrical Manufacturers Association, whose 485 members are the principal U.S. manufacturers of electrical and related products used in the generation, transmission, distribution, and utilization of electrical energy. A list of member companies and of the association's product sections has been given to the committee staff.

Mr. Hobbs is the chairman of the NEMA Committee on Foreign Trade Policy.

Our testimony today necessarily repeats much of what we said to this committee 2 years ago. Now, as then, we support the international trade policies of the United States as stated in section 102 of the Trade Expansion Act of 1962, the trade message of President Johnson in 1968, and the trade message of President Nixon in 1969.

But now, as then, we do not see those policies being applied to certain essential sectors of the U.S. electrical manufacturing industry.

Section 102 of the Trade Expansion Act states:

> The purposes of this act are, through trade agreements affording mutual trade benefits: (1) to stimulate the economic growth of the United States and maintain and enlarge foreign markets for the products of U.S. argriculture, industry, mining, and commerce; and (2) to strengthen economic relations with foreign countries *through the development of open and nondiscriminatory trade in the free world. . . .*" (Emphasis supplied.)

President Johnson, in his trade message to the Congress on May 28, 1968, said:

"Trade is a two-way street. A successful trade policy must be built on reciprocity * * *."

President Nixon, in his November 18, 1969, trade policy message to the Congress, said:

"We must insist on fair competition among all countries * * *."

We reiterate what we stated to this committee 2 years ago, and to the Trade Information Committee in 1964 and 1968, that there is not "open and nondiscriminatory international trade," there is not "a two-way street," and there is not "fair competition among all countries" in the internaitonal trade of heavy electrical equipment: those NEMA products used primarily by electric utilities—large steam turbine generators, large power transformers, and large power circuitbreakers.

While the emphasis of our testimony today is on heavy electrical equipment, NEMA is also concerned with the increasing foreign trade problems facing all segments of the electrical manufacturing industry—particularly nontariff barriers to our exports, and also practices that provide foreign competitors with special advantages such as tax rebates in connection with their sales of electrical goods into the United States.

Foreign manufacturers of large electrical equipment can and do sell in the open U.S. market. At the same time, the domestic markets of these same foreign competitors for similar equipment are effec-

tively walled off from U.S. manufacturers. Foreign manufacturers sell from protected home markets where the prices received by them are sufficient to cover all or most of the overhead cost of their manufacturing plants. They can then fill their unused plant capacity by exporting equipment at reduced prices. Much of the time they sell this machinery to American purchasers at prices significantly below the prices they receive for it in their home countries, often supported by various forms of government export subsides and incentives. Thus, American manufacturers, who are not permitted to sell into the closed home markets of foreign suppliers, are being subjected more and more to unfair foreign competition which we, as manufacturers, are powerless to resist.

On the other hand, the U.S. market is wide open. When a U.S. Government power agency buys turbine generators, power transformers, or power circuitbreakers, the purchses made and the prices paid are public information. Investor-owned utilities are pressured by their stockholders and State regulatory agencies to buy at equally low prices, regardless of whether imported equipment prices are subsidized by foreign governments or by foreign users of electricity. Price levels of American-made electrical equipment are thus under constant pressure from unfair foreign competition.

It should be clearly understood that the increase in imports of these products is not primarily the result of better technology or lower cost of foreign manufacturing. American-made large electrical equipment, in most cases, is superior in efficiency and reliability to similar foreign-made equipment. Careful studies indicate that the significantly lower employment costs of foreign manufacturers are substantially offset by better productive facilities and methods in the United States.

Imports of large utility-type equipment into the United Sates occur mainly because of foreign government subsidies and protected home market high prices which support low export pricing.

This is one-way trade in the products of a large industry where the United States has always been a recognized leader in advanced technical competence as well as in productive capability. It is unfair trade.

In preparation for the Kennedy round of tariff negotiations in 1964, our industry requested that U.S. tariffs on large electrical equipment not be reduced unless the tariff and nontariff barriers of other countries were also reduced. We asked for access to foreign markets for such American-made products, equal to the access of similar foreign equipment to markets in the United States. Nevertheless, in the 1967 Kennedy round, responsible officials of the administration saw fit to reduce U.S. duties on nearly all of these products the full 50 percent, with virtually no effective foreign country concessions to open their protected home markets to U.S. bidders. While Britain, a number of European countries. and Japan reduced their tariffs on large electrical equipment, this action was almost meaningless, because the Government-owned or Government-controlled electric utilities in those countries, with some exceptions in Japan, will not buy from American manufacturers. They observe policies which their national governments clearly sanction, and sometimes mandate, whereby they buy almost entirely from their own domestic suppliers.

U.S. Government policies of long standing have encouraged imports

of foreign-made electrical equipment, despite recommendations for reciprocity in government purchasing, and regardless of unfair, artificially low foreign export prices.

In 1954, the report of the Randall Commission on Foreign Economic Policy states as follows (page 45):

"The Buy American Act and legislative provisions of other acts containing the buy American principle should be amended to give authority to the President to exempt from the provisions of such legislation the bidders from other nations that treat our bidders on an equal basis with their own nationals.

"Pending such amendment, the President by Executive order should direct procurement agencies in the public interest to consider foreign bids which satisfy all other considerations on substantially the same price basis as domestic bids."

That same year, part, but not all, of this recommendation was ordered into effect. Executive Order No. 10582 provided that American bids to U.S. Government agencies which exceeded foreign bids by more than 6 percent were to be deemed unreasonable, and that foreign bids should be accepted in such cases.

The Executive order, however, did not honor the other part of the recommendation by requiring that this policy relate only to bidders from nations that treat American bidders on an equal basis with their own nationals.

For the past 10 or 15 years, the principal U.S. purchasers of large electrical equipment from foreign suppliers, at prices substantially below those charged by these same suppliers at home, have been agencies of the U.S. Government—mainly, the Tennessee Valley Authority, Bonneville Power Administration, and the Bureau of Reclamation.

The adverse consequences of these longstanding U.S. Government procurement policies are becoming increasingly more evident to U.S. manufacturers of large electrical equipment. The purchasing procedures of Government electric power agencies, which have been considered a yardstick for measuring practices of investor-owned utilities, have led many investor-owned utilities to curtail their longstanding preference for U.S.-made equipment.

While U.S. Government procurement policy is not the responsibility of this committee, trade policy was the significant factor in reducing our Buy American differential from 25 percent to 6 percent in 1954, and therefore it is appropriate for your committee to review the operation of the Buy American Act. U.S. Government procurement from abroad has a significant impact on our balance of foreign trade and our balance of payments, and it would be fitting for this committee to recommend desirable changes in Buy American regulations appropriate to the competitive realities of 1970.

The apprehension we expressed 2 years ago to this committee and to the Trade Information Committee is not based merely on an impending threat of larger, dual-priced imports of heavy electrical equipment:

> In 1970 through May 31, of the orders for large steam turbine generators placed by electric utilities in the United States, 43 percent, measured in kilowatts of generating capacity, have gone to foreign suppliers.

In the past 2 years, over 95 percent of the large power transformers purchased by agencies of the U.S. Government have been from foreign manufacturers. Of total U.S. orders of large power transformers by all customers—Government- and investor-owned utilities—in the past 2 years, 15 percent were placed with foreign manufacturers.

Federal power agency procurement of extra high voltage power circuit breakers has been approximately 80 percent foreign products since 1963. In the highest and most technologically advanced rating—765,000 volts—all but two power circuit breakers have been purchased from overseas manufacturers.

Nearly half of the free world market for large electrical equipment is in the United States. As the needs of the United States have increased, American manufacturers have expanded their manufacturing capacity to supply U.S. requirements. In recent years, hundreds of millions of dollars have been invested in new and expanded facilities in the United States for the production of large electrical equipment. Such substantial investment by American producers in their own country will be vitiated if unfair foreign competition continues to prevail in the open U.S. market.

At the same time, foreign government exclusionary practices shut us out of potentially profitable foreign markets. About one-fourth of the total world market is in Japan and the industrialized countries of Western Europe. These are the markets to which American manufacturers are effectively denied access. Growth in demand for electric power equipment in the next 10 to 15 years is expected to triple in these closed markets, while the forecast of American equipment demand is for more than doubling of present requirements. Thus, by reason of discriminatory, unfair trade practices, foreign manufacturers will share substantially in the expanding U.S. market, while continuing to enjoy protected status in their own expanding home markets.

If existing trade policy, or lack of trade policy, is allowed to continue long enough, the United States will necessarily become dependent upon foreign manufacturers to supply much of the electrical equipment indispensable to our American standard of living. In the face of an increasing volume of one-way, dual-priced foreign trade, no prudent U.S. industrial management can continue indefinitely to invest in modern plants and sophisticated equipment, finance essential research and development, and maintain employment of the highly skilled personnel needed to supply our ever-increasing demands for more efficient, reliable large electrical equipment.

Let us repeat, American manufacturers have kept their plants and productive processes fully modern. But they cannot require foreign manufacturers or foreign governments to conform to the same standards of marketing which we must observe. Only our Government can do this.

Over the past 6 years, NEMA and its member companies have regularly and frequently urged the executive branch of our Government to deal with unfair international competition in heavy electrical equipment. In testimony before the Trade Information Committee and numerous other representations to trade and procurement

officials, we have asked that ground rules for equal access be laid down.

The results of our efforts are disappointing. While many officials in executive departments and agencies recognize the problem, and seem sympathetic, there is a reluctance finally to meet the problem head on. We, of course, welcome the initiative of the Office of the Special Representative for Trade Negotiations and the Treasury Department, beginning in 1968, to raise the issue of restrictive government procurement in heavy electrical equipment in the Trade Committee of the Organization for Economic Cooperation and Development (OECD).

U.S. representatives in that Committee have proposed drafting international guidelines for government procurement of such equipment, and, we understand, have offered suggested guidelines. But that effort is now almost 2 years old—and without result, except for the negative conclusion that foreign governments, by their inaction, simply do not intend to alter their present restrictive policies.

Realistic solution of our problem thus appears to require legislative action by Congress. But, unfortunately, we do not think H.R. 14870 provides solutions for the particular trade restrictions and inequities we face.

We have the following comments with respect to H.R. 14870 and H.R. 16920.

First: Extension of the President's authority to make duty reductions to compensate for escape clause reductions: We urge the adoption of section 203 of H.R. 16920 rather than section 201 of H.R. 14870. The section 203 approach seems far more equitable than authorizing up to 20 percent additional duty reductions on products which were subjected to the full 50-percent reduction permitted in the Kennedy round. Electrical equipment should not be exposed to further tariff reductions until the other industrialized countries effectively open their markets to American-made electrical equipment.

Furthermore, tariffs on other industrial products which were reduced less than 50 percent in the Kennedy round should first be subjected to any needed compensating reductions. Although the granting of authority to the President to reduce duties an additional 20 percent would not prescribe that our electrical products be the target of such authority, historically we have had little persuasive impact upon the Trade Information Committee or the Trade Executive Committee when they decide which U.S. import duties to reduce. These products could become a further target, thereby compounding existing unfair foreign trade practices.

Second: Escape clause and adjustment assistance:

While NEMA endorses the liberalizing provisions of H.R. 14870 with respect to escape clause relief and adjustment assistance, neither remedy was designed or is appropriate to deal with unfair foreign competition. Indeed, almost by definition, tariff protection or aid to affected industries and workers applies to fair foreign competition which injures or threatens to injure a domestic industry or firm or has been a substantial cause of unemployment. In any event, neither escape clause action nor adjustment assistance can effectively and foreign restrictive practices and unfair competition.

Third: Section 252: Section 252 of the Trade Expansion Act of

1962 was intended to be an important weapon for penalizing unfair foreign competition. (See Senate Report No. 2059, 87 Cong. second sess., report of the Committee on Finance, to accompany H.R. 11970, Sept. 14, 1962, and Senate debate on H.R. 11970.)

To this end, NEMA believes section 252 should be amended to broaden the President's authority to act against discriminatory foreign import restrictions on our exports.

We doubt, however, that the two proposed amendments to section 252 set forth in section 203 of H.R. 14870 would adequately improve the existing law or transform it into the effective, usable element of U.S. trade policy that it can and should be. Nor would these amendments help solve the fundamental trade inequity which faces U.S. manufacturers of heavy electrical equipment; that is, the nationalistic procurement practices of foreign electric utilities and power boards, and the subsidies accorded to foreign exports to the United States, as well as third-country markets.

President Nixon's trade message to the Congress recommends that the President's authority under section 252 be expanded in two ways:

> By extending the existing authority to cover unfair actions against all U.S. products, rather than only against U.S. agricultural products. (Sec. 252(a)(3).)
>
> By providing new authority to take appropriate action against nations that practice what amounts to subsidized competition in third-country markets, when that subsidized competition unfairly affects U.S. exports. (Sec. 252(b)(3).)

But the message does not specify what sorts of "unfair actions" could be reached under amended section 252(a)(3), and it does not indicate what would constitute "subsidized competition in third-country markets" under amended section 252(b)(3).

Even under an amended section 252(a)(3), it would be difficult for the President to reach the nationalistic procurement policies of foreign governments that exclude U.S. products from competing in those foreign markets. Foreign countries signatory to the GATT would argue that such action would violate article III(8)(a) of the GATT, which states:

> The provisions of this article [relating to equal treatment of imported products] shall not apply to laws, regulations, or requirements governing the procurement by governmental agencies of products purchased for governmental purposes and not with a view to commercial resale or with a view to use in the production of goods for commercial sale.

Article III sanctions some restrictive government practices, just as it sanctions the imposition of Buy American Act differentials by the U.S. Government.

But there is a vast commercial and competitive difference between the Buy American Act differential as an "import restriction" and foreign government policies that preclude imports of foreign-made electrical equipment by a government-owned or controlled power agency. Buy American is a publicly stated, objectively applied domestic preference which, at a specified premium, puts foreign-made equipment on even footing with U.S.-made equipment. Certainly the present 6 percent differential has proved no deterrent to foreign sales of electrical equipment to U.S. electric power agencies. Foreign nationalistic procurement practices, on the other hand, are neither publicly stated nor even acknowledged. But, as NEMA has repeatedly testified over the past 6 years, the policy is there, rigidly applied, and the effect

is virtual exclusion of U.S. electrical manufacturers from industrialized foreign markets.

Regardless of whether GATT can or should be amended to cure this situation, we think there should be a clear remedy under U.S. law. Section 252 should be rewritten so that discriminations against U.S. exports can be effectively prevented at least by retaliations which are fully as detrimental to the exports of the offending country or countries as are the discriminations against our exports. Furthermore, the failure of U.S. Government officials to take such action should be appealable by the complaining American parties to an appropriate administrative agency, so that the congressional mandate will not be frustrated.

Accordingly, we recommend that section 252(a)(3) be further amended by adding the following language:

"For purposes of this subsection, an unjustifiable foreign import restriction shall be deemed to include the policy or practice of a foreign government agency or instrumentality of not accepting from U.S. suppliers bids or offers in the procurement of products purchased for purposes of such an entity, or not awarding orders to persons submitting the low responsive proposal."

We believe that the above explicit statutory mandate could properly be interpreted to modify the U.S. commitment to GATT article III(8)(a).

With respect to the proposed amendment of section 252(b), relating to foreign government "subsidies or other such incentives" in third-country markets, we believe a clearer expression of intent is required. This amendment would seem, in effect, to give the United States the right to "countervail" against subsidies on foreign exports to third countries, similar to the concept of section 303 of the Tariff Act of 1930, as amended, relating to imports into the United States. Such amendment could be an effective weapon against unfair foreign competition if there were a more precise definition of what "subsidies or other incentives" are. Unless such a definition is provided, amended section 252(b) will probably suffer the same under-use that has characterized section 303. We hope this committee and the Congress will take appropriate steps to make section 303 an effective provision of law.

With respect to both section 303 and section 252(b), there are two fundamental questions:

1. In the light of the commercial trade practices of the 1970's, what does Congress intend shall constitute an actionable export bounty, grant, or subsidy?

2. How can enforcement procedures be improved so that decisions to invoke section 303 or section 252(b) are not left merely to the discretion of the Secretary of the Treasury or other administrative officials without a right of appeal, or, alternatively, to confer a statutory right of private action for recovery of damages similar to the procedure set forth in section 801 of the Revenue Act of 1916?

With respect to these two questions, we believe that until Congress prescribes the extent to which section 303—and therefore section 252—should be amended to meet the realities of the 1970's by requiring more explicit identification and categorization of statutory references to bounties, grants, subsidies, or other export incentives, and a more

explicit method for enforcing these two provisions, there will likely be no curtailment of the practices that are inhibiting U.S. international competition today.

Mr. BURKE (presiding). Thank you.

Does that complete your testimony?

Mr. SIMPSON. Yes, sir; that completes my testimony.

Mr. BURKE. It has been suggested that our Buy American Act be negotiated away as a nontariff barrier. Do you think we can gain any advantage for our efforts by negotiating on Buy American policy?

Mr. SIMPSON. No, sir.

Mr. BURKE. What do you think the effect of that would be?

Mr. SIMPSON. I believe that the effect would simply be that we would give it away, that foreign nations would thank us for it, and do nothing in return.

Mr. BURKE. I notice Mr. Hobbs is here today. He is highly respected by this committee.

We thank you for your testimony. I am sure that the committee will pay good attention to it.

Mr. SIMPSON. Thank you.

(The following letter was received by the committee:)

NATIONAL ELECTRICAL MANUFACTURERS ASSOCIATION,
New York, N.Y., June 16, 1970.

Hon. WILBUR D. MILLS,
Chairman, Committee on Ways and Means,
Washington, D.C.

DEAR CONGRESSMAN MILLS: In connection with the current hearings on foreign trade being held by the Committee on Ways and Means, this Association testified before the Committee on June 8, 1970.

While our testimony concentrated largely on problems associated with international trade of heavy electrical equipment, we also indicated concern with the increasing foreign trade problems facing all segments of the electrical manufacturing industry, particularly non-tariff barriers to exports. In connection with this latter point, we had received the attached correspondence from the General Telephone & Electronics International Incorporated, which illustrates problems faced by the United States manufacturers of lighting products.

We would appreciate inclusion of the attached letter in the record of the hearings.

Sincerely,

BERNARD H. FALK,
Vice President,
Government and Membership Services.

Enclosure.

GENERAL TELEPHONE & ELECTRONICS INTERNATIONAL, INC.,
New York, N.Y., May 27, 1970.

NEMA STEERING COMMITTEE ON FOREIGN TRADE,
NEW YORK, N.Y.

As part of the Steering Committee's statement to the House Ways and Means Committee next week, I would like to point up one aspect of the costs of foreign trade which particularly affects the lighting industry.

According to studies which Sylvania International has recently reviewed, progress is being made by the United States and its European trading partners in the reduction of apparent tariffs on imports of lamps and lighting products in accordance with the schedule set by the Kennedy Round. However, internal taxes levied by European nations result in a far higher local selling price than a comparable lamp imported into the United States.

Our analyses show that a lamp imported into Germany, France, Switzerland, or the United Kingdom bears a minimum of approximately twice the tariff-tax load as an equivalent lamp reaching a retail customer in the United States. An example showing a fluorescent lamp imported into Germany (the least prej-

udicial European country) is attached. Also attached are the various tariffs and taxes for major EEC and EFTA countries, as well as the 1970 U.S. tariff schedule.

I request, consequently, that you consider making reference in your oral statement to Chairman Mills' Committee next week of my company's position, which I believe is representative of the lamp and lighting products industry:

1. We are firmly committed to free trade in all parts of the world.
2. We are confident of our ability to compete with other manufacturers given equal trading conditions.
3. Current European non-tariff taxes place an undue burden on lamps imported from external sources.
4. In view of this important and unfair restraint on trade, we recommend that the Committee and the Congress provide the President with the power to take appropriate temporary counter measures, such as the delay of further Kennedy Round tariff reductions until the European non-tariff barriers are reduced or nullified.

Sincerely,

ROGER D. WELLINGTON,
Senior Vice President.

Attachments.

A theoretical example of duties and taxes on fluorescent lamps into Germany is as follows:

CIF value, German port	$100.00
1970 tariff rate (9.8%)	9.80
Tax on 11% on landed value	12.08
Importer markup	20.00
Importer TVA ($109.80+$20×11%) ($109.80+$20×11%=$14.28—$12.08)	2.20
Retailer cost ($109.80+$20+$14.28)	144.08
Retailer markup	20.00
Retailer TVA ($109.80+$20+$20×11%=$16.48—$14.28)	2.20
Total	166.28
Tax on lighting items—10%	16.63
Price to consumer	182.91
Total EEC taxes and duties ($9.80+$12.08+$2.20+$2.20+$16.63)	42.91

A comparable American example is currently:

$100+6% ad valorem+$40 markups+local sales tax (probably 5%)	$153.30
Total U.S. duties and taxes ($6.00+$7.30)	13.30

[In percent]

EEC	1970	1971	1972
Tariffs: BTN 8520:			
A. Incandescent lamps and tubes	8.4	7.2	6.0
B. Fluorescent and other discharge lamps	9.8	8.4	7.0

Note: Taxes: France, TVA effective rate 23.5 percent (nominal rate 19 percent). Germany, TVA 11 percent (nominal and effective rate).

EFTA	1970	1971	1972
United Kingdom: Tariffs (sec. 85.20):			
Discharge lamps	17.5	15.0	12.5
All other filament lamps	11.2	9.6	8.0

Note: Taxes: 2.5 percent charge to domicile; 36.6 percent purchase tax (except on projector lamps).

Switzerland: Tariffs: Filament lamps SF200/100 gross kg. Discharge SF84/100 gross kg., dropping to SF72 in 1971 and SF 60 in 1972. Taxes: 3 percent statistical tax; 5.4 percent TVA.

Item	Statute suffix	Articles	Units of quantity	Rates of duty 1	Rates of duty 2
		Automatic voltage and voltage-current regulators, with or without cutout relays, and parts thereof:			
686.22	00	Designed for use in a 6-volt, 12-volt, or 24-volt system.	X	5.5 percent ad val.	25 percent ad val.
686.23	00	If Canadian article and original motor-vehicle equipment (see headnote 2, part 6B, schedule 6).	X	Free	
686.24	00	Other	X	10 percent ad val.	35 percent ad val.
		Electric filament lamps and electric discharge lamps, including ultraviolet and infrared lamps and photoflash lamps; electric luminescent lamps; and arc lamps:			
		Filament lamps:			
686.30	00	Christmas-tree lamps	No	10 percent ad val.	20 percent ad val.
686.40	00	Infrared lamps	No	5.5 percent ad val.	20 percent ad val.
686.50	00	Photoflash lamps	No	5.5 percent ad val.	35 percent ad val.
686.60	00	Sealed-beam lamps	No	5.5 percent ad val.	20 percent ad val.
686.61	00	If Canadian article and original motor-vehicle equipment (see headnote 2, part 6B, schedule 6).	No	Free	
		Other:			
		Designed for operating at less than 100 volts:			
686.70	00	Lamps having glass envelopes not over 0.25 inch in maximum diameter and suitable for use in cystoscopes and other surgical instruments.	Dozen	25 percent ad val.	55 percent ad val.
686.80		Other		5.5 percent ad val.	20 percent ad val.
	20	Flashlight lamps	No		
	40	Other	No		
686.81	00	If Canadian article and original motor-vehicle equipment (see headnote 2, part 6B, schedule 6).	No	Free	
686.90	00	Designed for operating at 100 volts or more.	No	5.5 percent ad val.	20 percent ad val.
687.10	00	Electric discharge lamps, including ultraviolet lamps.	No	6 percent ad val.	20 percent ad val.
687.20	00	Arc lamps	No	8 percent ad val.	35 percent ad val.
687.30	00	Electric luminescent lamps	No	6 percent ad val.	20 percent ad val.
		Electronic tubes (except X-ray tubes); photocells; transistors and other related electronic crystal components; mounted piezo-electric crystals; all the foregoing and parts thereof:			
687.50		Television picture tube		21 percent ad val.	60 percent ad val.
	30	Color	No		
	50	Other	No		
687.51	00	If Canadian article and original motor-vehicle equipment (see headnote 2, part 63, schedule 6).	No	Free	
687.60		Other		8.5 percent ad val.	35 percent ad val
	05	Cathode-ray tubes	No		
	08	Parts of cathode-ray tubes (including parts of television picture tubes).	X		
		Electronic tubes, except cathode-ray tubes:			
	10	Receiving tubes	No		
	20	Other	No		
		Semiconductors:			
	30	Transistors	No		
	35	Integrated circuits	No		
	45	Other	No		
	50	Other, including parts not specially provided for.	X		
687.61	00	If Canadian article and original motor-vehicle equipment (see headnote 2, part 6B, schedule 6).	X	Free	

TARIFF SCHEDULES OF THE UNITED STATES ANNOTATED (1970)—STAGED RATES AND HISTORICAL NOTES

[Modifications of col. 1 rates of duty by Presidential Proclamation 3822 (Kennedy round), Dec. 16, 1967, 32 F.R. 19002]

TSUS item	Prior rate (percent ad valorem)	Rate of duty (percent ad valorem), effective with respect to articles entered on and after Jan. 1—				
		1968	1969	1970	1971	1972
685.50	15.0	13.0	12.0	10.0	9.0	7.5
685.60	15.0	13.0	12.0	10.0	9.0	7.5
685.70	8.5	7.5	6.5	5.5	5.0	4.0
685.80	12.5	12.0	11.0	11.0	10.0	10.0
685.90	17.5	15.5	14.0	12.0	10.0	8.5
686.10	12.5	11.0	10.0	8.5	7.0	6.0
686.22	8.5	7.5	6.5	5.5	5.0	4.0
686.24	15.0	13.0	12.0	10.0	9.0	7.5
686.40	8.0	7.0	6.0	5.5	4.5	4.0
686.50	8.0	7.0	6.0	5.5	4.5	4.0
686.60	8.0	7.0	6.0	5.5	4.5	4.0
686.70	36.0	32.0	28.5	25.0	21.5	1.0
686.80	8.0	7.0	6.0	5.5	4.5	4.0
686.90	8.0	7.0	6.0	5.5	4.5	4.0
687.10	8.0	7.0	6.5	6.0	5.5	5.0
687.20	11.5	10.0	9.0	8.0	6.5	5.5
687.30	8.0	7.0	6.5	6.0	5.5	5.0
687.50	30.0	27.0	24.0	21.0	18.0	15.0
687.60	12.5	11.0	10.0	8.5	7.0	6.0
688.04	17.0	15.0	13.5	11.5	10.0	8.5
688.06	15.0	13.0	12.0	10.0	9.0	7.5
688.12	10.0	9.0	8.0	7.0	6.0	5.0
688.15	17.0	15.0	13.5	11.5	10.0	8.5
688.20	15.0	13.0	12.0	10.0	9.0	7.5
688.25	12.0	10.5	9.5	8.0	7.0	6.0
688.35	19.0	17.0	15.0	13.5	11.5	10.0
688.40	11.5	10.0	9.0	8.0	6.5	5.5

OTHER AMENDMENTS AND MODIFICATIONS

Provision

Part 5 hdnte 1 (v)—Language "and other electrical articles" following "apparatus" deleted. Pub. L. 89–241, Secs. 2(a), 36(f)(1), Oct. 7, 1965, 79 Stat. 933, 940, effective date Dec. 7, 1965.

Part 5 hdnte 2.—Headnote 2 added, Pres. Proc. 3822 (Kennedy Round), Dec. 16, 1967, 32 F.R. 19002, effective date Jan. 1, 1968.

682.05, 682.07, 682.10.—Item 682.10 (column 1 rate—12.5% ad val.; column 2 rate—35% ad val.) deleted and items 682.05 and 682.07 and heading immediately preceding item 682.05 added in lieu thereof. Pres. Proc. 3822 (Kennedy Round), Dec. 16, 1967, 32 F.R. 19002, effective date Jan. 1, 1968.

682.20.—Language ", valued not over $4 each" added to article description. Pub. L. 89–241, Secs. 2(a), 52(a), Oct. 7, 1965, 79 Stat. 933, 944, effective date Dec. 7, 1965.

682.40.—Column 1 rate of duty of 9.5% ad val. reduced to 8.5% ad val. on Jan. 1, 1964. General headnote 3(g).

682.52.—Item 682.52 added. Pub. L. 89–241, Secs. 2(a), 52(b), Oct. 7, 1965, 79 Stat. 933, 944, effective date Dec. 7, 1965.

682.65.—Item 682.65 added. Pub. L. 89–283, Secs. 401(a), 405(b), Oct. 21, 1965, 79 Stat. 1021, 1024; entered into force Dec. 20, 1965, by Pres. Proc. 3682, Oct. 21, 1965, 3 CFR, 1965 Supp., p. 68; effective with respect to articles entered on and after Jan. 18, 1965.

Article description for item 682.65 modified by deleting "682.10" and inserting "682.05" in lieu thereof. Pres. Proc. 3822 (Kennedy Round), Dec. 16, 1967, 32 F.R. 19002, effective date Jan. 1, 1968.

682.70, 682.80, 682.90.—Language "; all the foregoing and parts thereof" added to heading immediately preceding item 682.70. Pub. L. 89–241, Secs. 2(a), 36(f)(2), Oct. 7, 1965, 79 Stat. 933, 940, effective date Dec. 7, 1965.

682.70.—Column 1 rate of duty of 18% ad val. reduced to 16% ad val. Pub. L. 89–241, Secs. 2(a), 36(g), Oct. 7, 1965, 79 Stat. 933, 940, effective date Dec. 7, 1965.

Mr. BURKE. Our next witness is Mr. Joseph Wright.

You are recognized, Mr. Wright, if you will identify your associate.

STATEMENT OF JOSEPH S. WRIGHT, CHAIRMAN OF THE BOARD, ZENITH RADIO CORP.; ACCOMPANIED BY CHARLES SINDELAR, STAFF ASSISTANT

Mr. WRIGHT. This is Mr. Charles Sindelar, who is a staff assistant of mine.

My name is Joseph S. Wright. I am chairman of the Board of Zenith Radio Corp. Zenith got started 51 years ago on a kitchen table in Chicago. We are headquartered there and have a number of major plants and laboratories in the Chicago area, as well as in downstate Illinois and in Missouri, Iowa, and California.

In 1969, our average employment in the United States was 25,000 people. Our sales were $676 million, principally of consumer electronic products.

Zenith has been a pioneer and leader in consumer electronics for many years and has played a major role in almost every development in the radio and television industry. We are, we believe, the world's largest producer of TV receivers, both black-and-white and color, producing and selling more than 2 million TV receivers a year for many years.

I might add, up to now, every one of those receivers has been built in the United States, Mr. Chairman.

We are a leader also among American companies in export trade, and have fought for years to overcome barriers to U.S. exports of our products. Last year, Zenith accounted for approximately one-half of all exports of U.S. TV receivers.

We appreciate this opportunity to present to the committee problems facing us and the industry, and how they relate to matters now pertinent before the committee.

THE CONDITION OF OUR INDUSTRY

I am attaching a series of charts entitled "U.S. Imports in the Consumer Electronics Industry," which are graphic presentations of the official Electronic Industries Association statistics showing what has been happening in the major categories of our business from 1960 through 1969.

This series of charts breaks down by years from 1960 the number of units in the various major categories of our industry that are produced and sold in the United States. The red bar at the bottom of each year shows the share of the total U.S. market that is accounted for by imports. You will notice there is a broken line in the middle of the red, which shows the share of the total imports which are under the U.S. label.

You can see from this chart that in the field of personal portable radios, which accounted for about 27 million units in 1969, the U.S.-produced share amounted to approximately 5 percent.

In the total radio market, of approximately 40 million units, and I am excluding automobile radios from this category, it is expected that the U.S. industry's share will be approximately 10 percent.

Going next to black-and-white television, you will notice that starting from virtually nothing in 1961, the import penetration has gotten almost to 50 percent in 1969. We fully expect it will be much more than 50 percent in 1970.

The product which represents our industry's newest and most advanced technology, of course, is color television. You will see that starting in 1965, there were imports of color TV, and this has gotten up to 18 percent in the fourth quarter of 1969.

I might add that in the first quarter of 1970, the sales of U.S.-produced color and monochrome receivers are down 31.3 percent from 1969, and imports are up 11.8 percent.

I am sure it is not at all difficult to project these figures to a conclusion that 80 percent or more of the U.S. home electronics industry will be produced in foreign countries within 3 or 4 years, unless there is a major change in our trade policy.

Our own branch of the electronics industry has been virtually in complete disarray in terms of its reaction to this situation. Many of our industry members have jumped eagerly into buying finished goods under their own label in Japan. Many of them have established offshore producing facilities in Hong Kong, in South Korea, and in Taiwan, and more recently in the border towns of Tijuana, Nogales, and Juarez in Mexico. Some of them apparently feel that this is a perfectly satisfactory way to operate, and they have been reluctant to speak out about the problem. Others in our industry have made know-how and licensing agreements which have set the Japanese up in business, and given them the basic technology which has made the whole thing possible, in return for a few millions of dollars in royalties. They are likewise reluctant to speak out.

What has happened in the finished goods end of our industry has also, of course, had a substantial impact on the even larger components industry—on the people who make coils, picture tubes, speakers, tuners, transistors, and the like. Most of these companies have also established offshore facilities in the low-labor-cost countries of Hong Kong, Taiwan, and Korea in order to support the runaway set production.

As of January of 1970, Zenith's employment in the United States was down by approximately 4,000 jobs from January 1969, because of the competitive necessity of making or having made offshore products which we had planned only a year and a half ago to produce here in the United States. We are also just starting the construction of a large new plant in Taiwan, in which we may ultimately employ several thousand people. I am sure that will not be the end of it, and that in the next few years, lacking some change in Government policy, more and more of our productive facilities for serving the U.S. market will have to be located in foreign countries.

One of the most distressing aspects of this situation is its impact upon our program for providing training and employment opportunities for the unemployed and underemployed, drawn largely from the minority groups, in the Chicago area. In the past 5 or 6 years we have invested a great deal of money, and time, and effort to recruit, train, and bring along members of such minorities as blacks, Puerto Ricans, Mexicans, and Cubans from the Chicago area to the point where they represented a large and significant portion of our total employment.

In addition our our own financial investment, through our Rauland Tube Division we have carried out Government contracts for training and employing the chronically unemployed and underemployed. This has resulted in our adding to our work force several thousand mem-

bers of minority groups in good jobs with pride in their work and the kind of economic opportunity that would permit them to have good housing and to live in comfort and dignity.

The effect of the massive layoffs in our work force between 1969 and 1970 has unfortunately fallen heaviest upon the most recently added people in our work force. This is required under union rules, and I don't know of any other way to do it, even if we didn't have such rules. Thus, approximately 38 percent of those laid off were nonwhite, and I am sure that the impact of this on their lives has been severe.

THE CAUSES OF OUR PROBLEMS

We are most distressed at the tactics which our Japanese friends have employed in making this massive assault on our market.

Some years ago, the Parts Division of EIA made an extensive investigation of Japanese home market prices vis-a-vis their prices for export to the United States.

You heard Mr. Rowe tell about the antidumping investigation, the complaint that was filed some 2 years ago.

I have a chart here which is attached to my testimony showing the result of a market survey of the average prices in the Japanese market of the 10 largest manufacturers at the different levels of trade as against the average prices at which they were quoting for export to the United States in the same product categories at that time.

Now, as you can see, here is a typical one. The average prices of 19-inch black-and-white receivers in Japan at that time among these manufacturers at retail was $198.27. The lowest price in the Japanese trade was $132.79. Yet they were offered at export for $55.11.

The same thing is true of 16-inch and 12-inch black and white, and to a slightly lesser extent in color.

Now, it would seem that such a complete disparity in the prices of virtually identical goods in the two home markets would have suggested to someone that there might be something in this dumping complaint, and that we might have had some speedier action on it.

I am happy to see that the Treasury Department has modified its policy and is now going to do away with their former practice of telling people who are caught in a dumping situation to go and sin no more.

However, I would like to point out that dumping with intent to injure competition is a criminal violation of section 72 of title 15 of the United States Code. I cannot think of anything that would have a more salutary effect to show that we mean business about dumping in this market than have the Attorney General bring such an action.

There is another area that deserves some attention. Section 303 of the Tariff Act of 1930 is a statute which has been on the books in one form or another since the 1890's, and it requires the Secretary of the Treasury to impose a countervailing duty equal to any bounty or grant which a foreign government makes on export shipments to the United States. The basic purpose of the law is to equalize for American competitors the disadvantages of bucking up against import subsidies. Countervailing duties should be imposed on imports from Japan, which are subject to a whole host of Government subsidies, beginning

with the remission of a commodity tax that ranges between 5 and 20 percent ad valorem, and including such things as export credits for 80 percent of a shipment at a discount rate of 4½ percent, accelerated depreciation, and a variety of other tax advantages and insurance against loss in export. While these bounties and grants are a little difficult to eke out of the original Japanese statutes, they are effectively summarized in a State Department memorandum of November 6, 1968, entitled "Japan's Export Promotion Techniques."

We estimate that the probable actual value of the bounties and grants that are available to Japanese exporters in our business are in the neighborhood of a minimum of 20 percent, so that if our Government had followed its statutory duty in section 303 of the Tariff Act, there would have been some $200 million of revenue in additional duties that would have been imposed on incoming Japanese home electronic products, and it would have had a greatly moderating effect on this assault on our American market.

Furthermore, while taking advantage of the low United States tariff conditions, Japan maintains protectionist attitudes with her own tariff and nontariff barriers on consumer electronic products. Without these measures, such products could be manufactured in the United States and successfully sold in Japan at competitive prices.

The Japanese trade association admits that large-screen TV receivers made in the United States could be delivered to a Japanese importer for a total cost of about $449. Similar Japanese sets sell there for between $1,200 and $1,600. But Japanese nontariff barriers have prevented American entry into the Japanese market. Our attempt to enter the market of several years ago was blocked.

A recent market study indicates that while some of the barriers to our entry have theoretically eased somewhat, there are still clear-cut obstacles to any large-scale U.S. imports into Japan.

For example, Japanese regulations block free entry of necessary repair parts, and the Japanese are notorious for applying what they call "administrative guidance" to control the handling of imported goods.

The Japanese protectionist attitude is further shown by the fact that the current U.S. tariff for television sets is 7 percent, while Japan's rate is 21 percent. Additionally, assessed valuations upon which duties are based vary for the two countries. The U.S. duty of 7 percent is based upon an f.o.b., without taking into consideration the landed cost in the United States, while the Japanese duty of 21 percent is based upon a CIF landed cost in Japan, including the cost of insurance and freight from the United States. The effective rate is therefore even higher than the 21 percent indicates. A copy of a chart showing these tariff differentials is attached.

There are also wide differentials in shipping rates. For merchandise valued over $500 per ton, the rate from Japan to the United States is $40 per 40 cubic feet or per ton, whichever is greater, while the freight rate on the same merchandise from the United States to Japan is $70.

THE ADMINISTRATION'S PROPOSALS

The current administration has spent considerable time here at the beginning of these hearings in support of H.R. 14870, the Trade Act of 1969, and has proposed alternative solutions to the quota legis-

lation presently under consideration. I would like to reply to some of the points made by the administration witnesses, and would like to answer some of the questions raised by the members of this committee at the time of the administration's testimony.

First of all, let me point out that the 1969 balance of trade in consumer electronic products was a negative $890 million. The administration contends that the overall balance-of-trade problem can be handled by increasing our exports, and has even proposed the Domestic International Sale Corporation, DISC, which it is said will not only increase exports but will also bring about the deferral of action to move offshore and, in some cases, will cause "runaway" plants to return home. We believe Zenith to be the largest U.S. exporter of television receivers, and in dollars our exports for the last 3 years have averaged almost one-half of the total value of TV sets exported from the United States.

Doubling or even tripling the size of our exports, which I am sure you will agree would be a sizable task, even without considering the many nontariff barriers, doesn't even make a dent in that negative trade balance in consumer electronic products of minus $890 million.

The DISC proposal of the Treasury Department, if adopted, would not relieve the basic pressures that are forcing us to go to Taiwan, a move we would otherwise not choose to make if Government policy would permit us to stay.

In addition, we do not believe we can successfully compete with the Japanese in subsidies. The U.S. tax aspects of such a move as effected by DISC would be inconsequential when compared to the other factors related to a decision to go abroad. Furthermore, it seems curious that the group charged with enforcing our countervailing duty laws would now propose tax incentive measures for exports which could possibly be held to be a subsidy of the type the Department is supposed to actively protect the United States against.

While we welcome the liberalization of the escape clause and adjustment assistance provisions of H.R. 14870, we sometimes wonder where we are headed. It is difficult to believe that a solution to our foreign-trade problems lies in such factors as adjustment assistance to workers, where the cost of such a program must be borne by all taxpayers, and is no way charged to the damage-causing imports.

As we understand it, H.R. 14870 eases the burden for obtaining relief under escape clause proceedings, but the relief itself remains substantially the same. Certainly, proceedings which result in upward adjustment of tariffs of a few percentage points can hardly be called an adequate remedy. At the heart of the problem is the displacement of workers, and the answer does not lie in making it easier for such individuals to get relief. With respect to the adjustment assistance to firms portion of the bill, we agree with Representative Burke that such help is probably equivalent to paying funeral expenses to a company after it is dead.

Ambassador Gilbert has told this committee that U.S. companies do not have more of an export business because there is more than enough business at home. As we have already pointed out, we can speak from personal experience, and this is certainly not the case, especially in the matter of exporting to Japan. As a matter of fact, there is only one other major country in the world that permits free access to its markets in consumer electronics products, without a sys-

tematic Government policy of discouraging it, and that is the Dominion of Canada.

It is shocking that Mr. Gilbert could be so badly misinformed. Furthermore, the Ambassador told this committee that the Japanese are successful because of good merchandising practices. It is well known that dumping and export subsidization are two of the reasons for Japan's success in our industry, and by no standard can such factors be called good merchandising practices. He should, as we have, shopped the prices in Japan to really know what is going on.

One of our basic problems in this whole area has been the attitude of our own U.S. Government in connection with foreign trade matters. This has been outlined in some detail by Mr. Rowe, chairman of the World Trade Committee of the Parts Division of EIA, and I want to go on record as strongly endorsing his statement.

On the other hand, the Japanese electronics industry has enjoyed the fullest cooperation of its Government in two areas: First, in supporting in every way possible the full-scale assault on the American market, and secondly, in protecting the Japanese home market from any significant imports. Our own negotiators, in the various rounds of talks under GATT, have insulated themselves from the problems of the industries affected, and seem to have operated on some fuzzy notion that they were accomplishing a reciprocal program of worldwide free trade, when in fact they have reduced our tariffs to nominal amounts in return for Japanese promises of future action which have been honored more in their breach than in their observance.

As a result, I know of only one other free world industrial nation besides the United States which does not systematically discourage as a matter of government policy, by both tariff and nontariff barriers, the import of U.S.-manufactured consumer electronic products.

Our negotiators have been apparently perfectly willing to accept as a starting point the notion, for instance, that tariffs into Japan from the United States should be three times the rate of tariffs from Japan into the United States, and that these tariffs inbound should be based on the f.o.b. Japanese price, whereas the Japanese tariffs are on a CIF landed cost in Japan.

As a matter of public policy, the Japanese Government works hand in hand with its industry to set export objectives, and then to do whatever is necessary to carry them out, including massive subsidies to exporters, as well as direct expenditures to promote the sale of goods in this market. Our own Government, on the other hand, has seemed only remotely interested in the problems of the electronics industry.

It is a matter of deep concern to me that as a part of the administration's anti-inflation program we have a credit crunch in this country which makes it difficult, if not impossible, for many people to finance a new home or the purchase of an automobile, while, at the same time, we have outstanding some nearly $4 billion in U.S. loans to Japanese banks which are used to support the availability in Japan of export financing at a rediscount rate of 4½ percent as against the normal interest 10 to 12 percent cost of borrowed money in Japan.

THE PENDING BILLS

You have before you many bills, all designed to provide some sort of solution to a problem that everyone now seems to recognize. The diffi-

culty lies in choosing a proper course, which will create a realistic trade policy, without going to the lengths of building an impenetrable wall around this country.

The suggestion that we merely liberalize the escape clause in the 1962 act is really no solution for anyone. Workers displaced in our industry don't want some glorified form of tax-supported relief—they want jobs and an opportunity to work. If you follow this course, you can expect that the negative trade deficit in consumer electronics will rise from nearly $900 million in 1969 to more than $3 billion by 1975—and that this will be accompanied by a potentially tremendous load on the taxpayer to support displaced workers.

There are a number of bills authorizing import quotas, and here I have some difficulty. As a long-range solution, import quotas have many built-in problems, and I have never seen any machinery for working them out without serious risks of arbitrary and unfair action, not to mention the temptations of possible political corruption.

From the standpoint of our industry, we would be best served by a moderate upward revision of tariffs. I can see no reason why our Japanese friends should complain if our tariffs were equalized—that is, if the tariffs into the United States were set at 21 percent based on the CIF landed cost in the United States—or even as low as 15 percent, if the Japanese tariffs go to that point in the next few years. This would moderate the tremendous rush by U.S. producers to establish overseas plants, and would slow down the rate of increase of Japanese imports, without depriving the Japanese of full access to our markets on a fair basis. It is hard to argue that our tariffs should not be on an equal basis.

This would not in itself attack the problem of dumping at less than home market prices, nor of massive government subsidies of exports from Japan, but these matters can be handled by existing legislation, if only the Treasury Department and our other Government agencies concerned will give adequate attention to enforcement.

In that connection, we were delighted to see a great improvement in the recent announcement by Treasury that they will no longer settle antidumping cases with a simple adjuration—go and sin no more.

We still feel they should go back to their original practice, suspension of evaluations from a reasonable time from the filing of a dumping complaint, so that we will not go several years and have a finding which is so stale that it is completely out of date before administrative action is taken.

If they get around to handling these matters with the same efficiency and dispatch as the Canadian customs, we will see a substantial diminution of dumping into this country.

I am hopeful that Treasury will also take a similar new look at enforcing our countervailing duty statute, which has been on the books for many years, has been interpreted and clarified in several Supreme Court decisions, but which has been virtually a dead letter as far as enforcement in recent times.

The Assistant Attorney General in charge of the Antitrust Division has been making speeches recently expressing alarm that anyone would interfere with the Government's policy of encouraging large-scale imports, and he is certainly correct in his statement that such activity by private groups would be a violation of the Sherman Act.

At the same time, dumping of imports into the United States is a criminal violation of section 72, title 15, of the U.S. Code, and presumably the Attorney General has a duty to prosecute persons who engage in this practice with the intent to injure competition in the United States.

As you know, this matter of intent is not a difficult thing. Intent is presumed from the natural consequences of the action taken. Just one criminal prosecution in this field would have a very salutary effect on dumping and it is high time that the Attorney General take some action in this field.

I would be in favor of import quotas as a short-range method of dealing with the situation, if it would give our Government the muscle and the authority to force a rationalization of our trade with Japan.

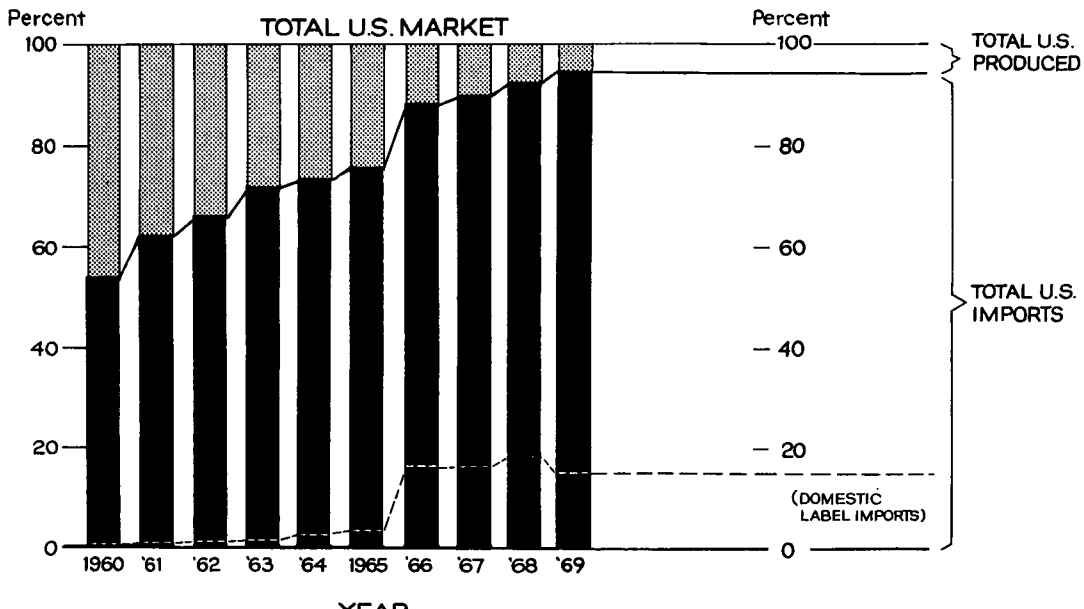
Our Japanese friends are realistic, and I know that they will put their house in order, but certainly not until they are absolutely sure there is no chance that we will permit them to continue their past policies.

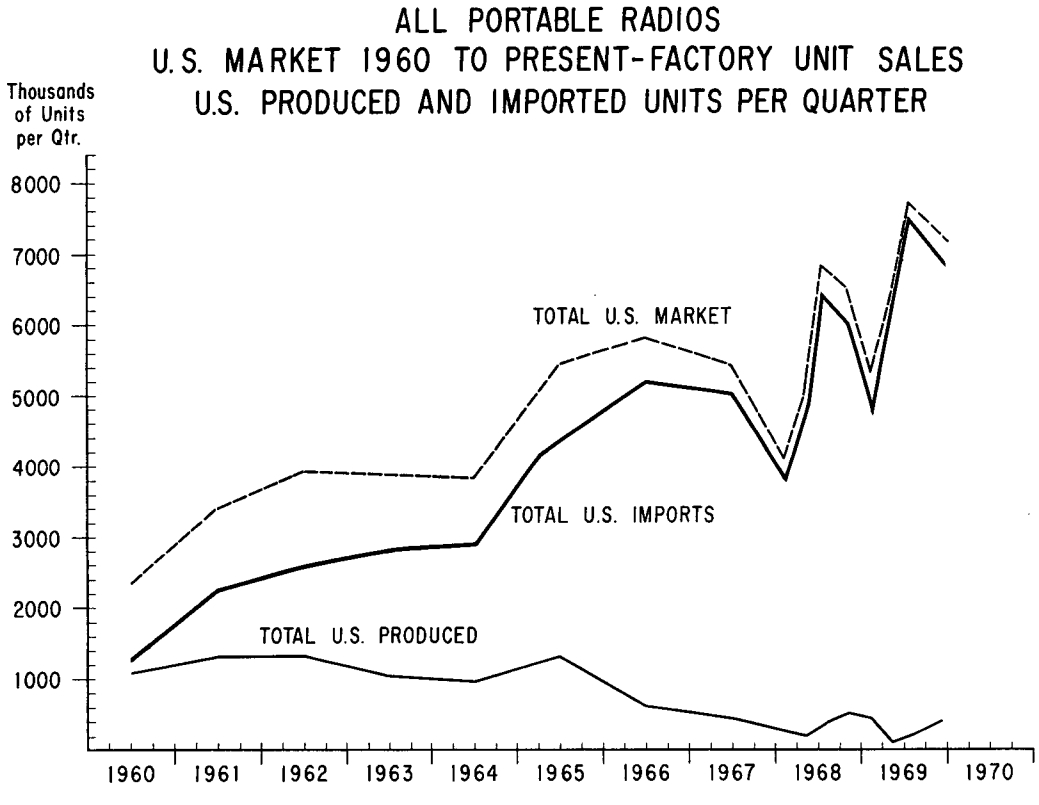
May I conclude by saying that we are most encouraged by the recognition given to our massive problems by the members of this committee. I am sure that the very fact of your investigations of the problem, and your expressions of views, has had a favorable impact on the Government agencies charged with carrying out our trade policy. I only wish that it had been the members of this committee rather than our Commerce and State Department people who had handled the negotiations in past years that got us into this unfortunate situation.

(The series of charts referred to follow:)

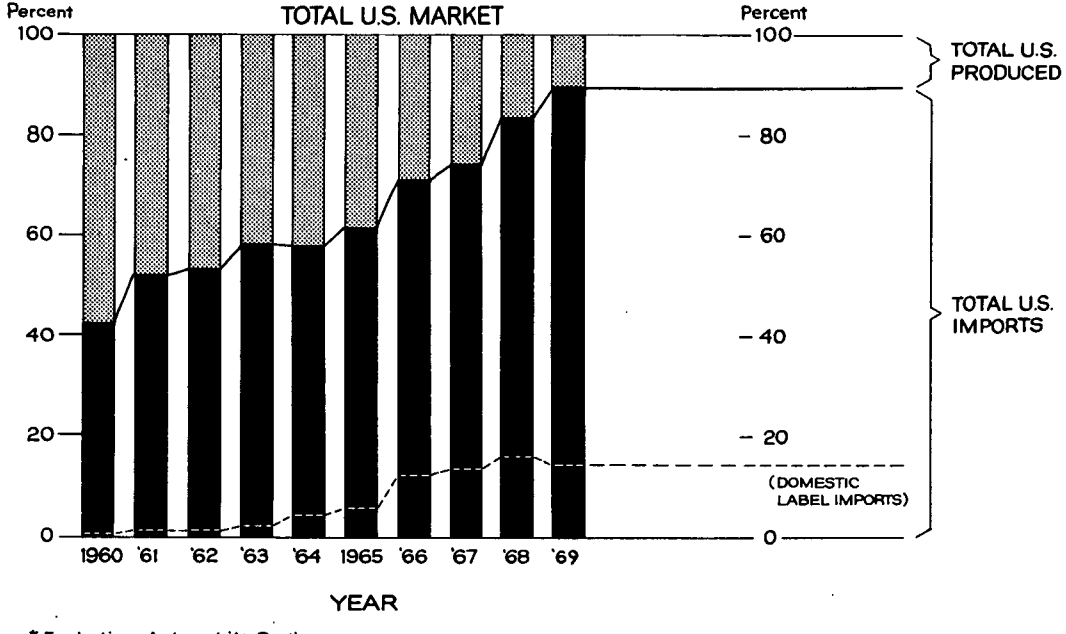
U.S. IMPORTS AND THE CONSUMER ELECTRONICS INDUSTRY

ALL PORTABLE RADIOS
U.S. MARKET 1960-1969 FACTORY UNIT SALES
U.S. PRODUCED VS. IMPORTS AS % OF TOTAL

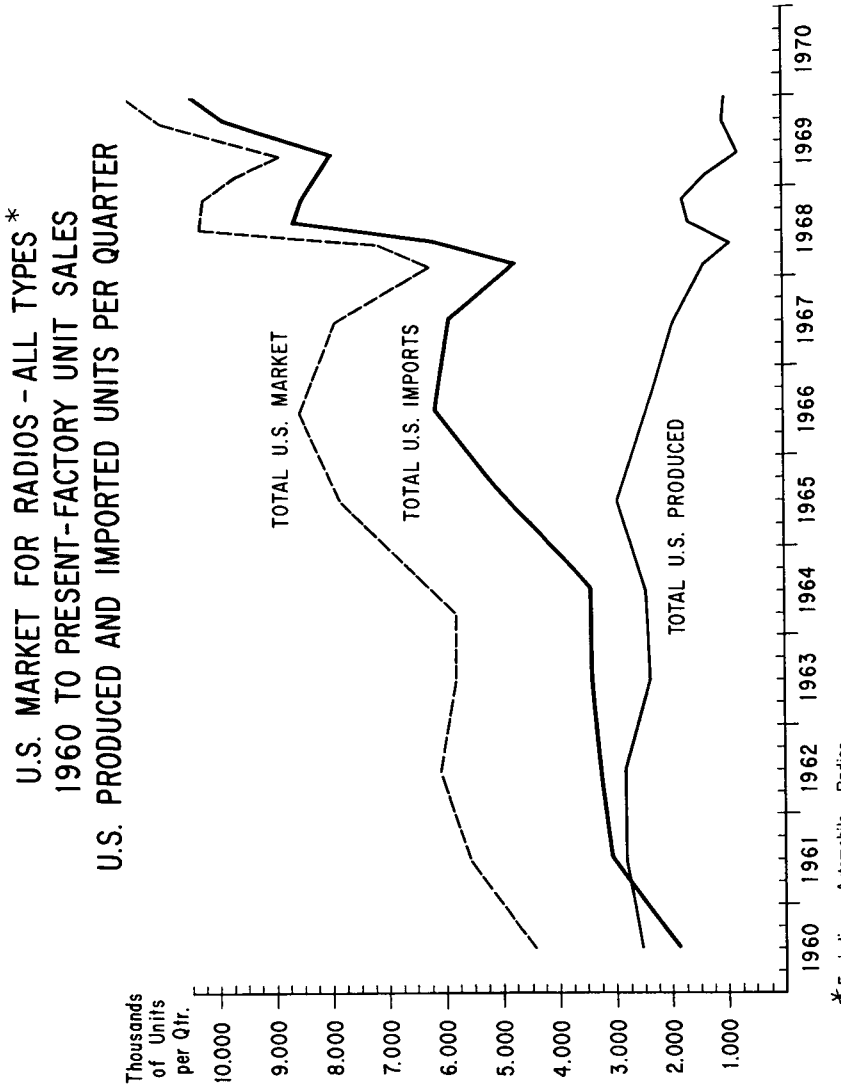



ALL PORTABLE RADIOS
U.S. MARKET 1960 TO PRESENT-FACTORY UNIT SALES
U.S. PRODUCED AND IMPORTED UNITS PER QUARTER
Thousands of Units per Qtr.
8000
7000
6000
5000
4000
3000
2000
1000
TOTAL U.S. MARKET
TOTAL U.S. IMPORTS
TOTAL U.S. PRODUCED
1960
1961
1962
1963
1964
1965
1966
1967
1968
1969
1970

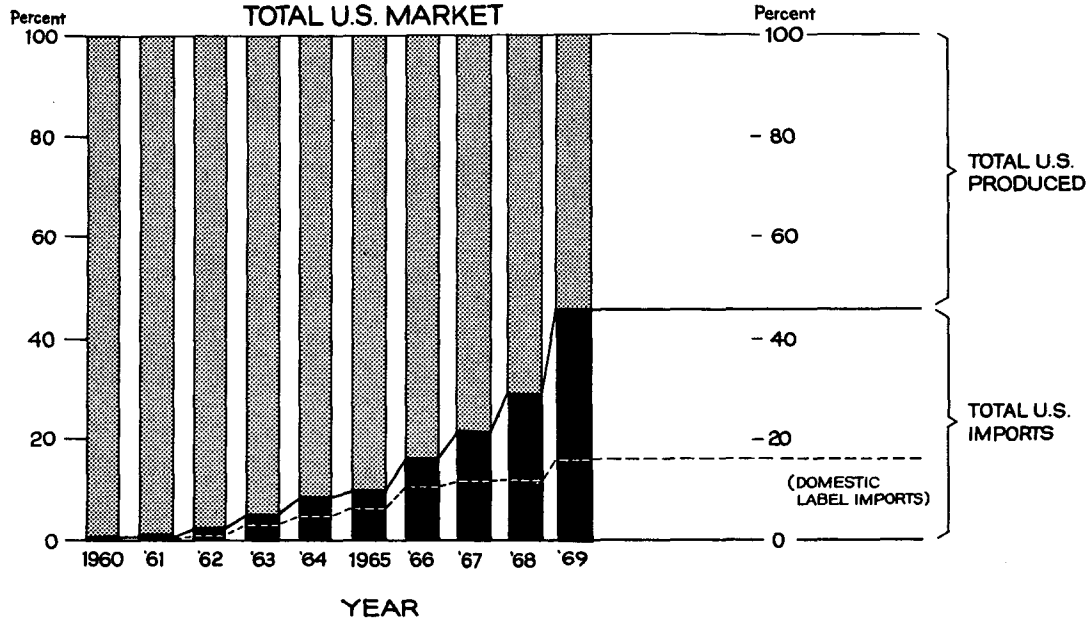
U.S. MARKET FOR RADIOS - ALL TYPES* - 1960-1969
U.S. PRODUCED VS. IMPORTS AS % OF TOTAL FACTORY UNIT SALES

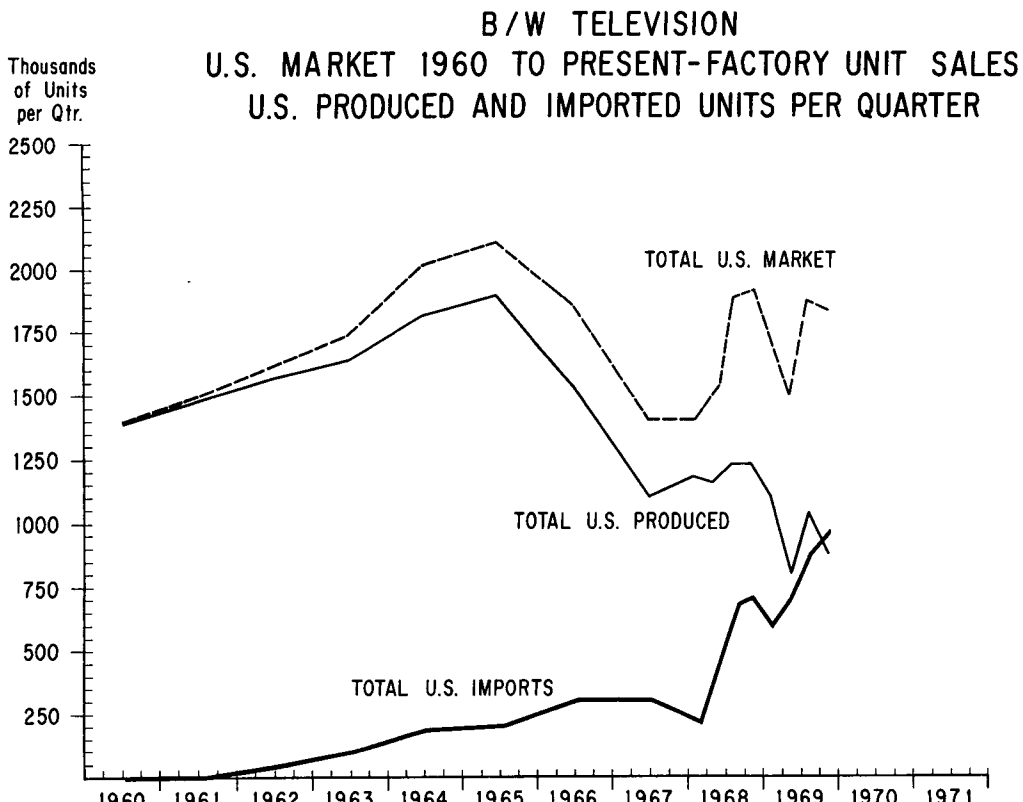


* Excluding Automobile Radios

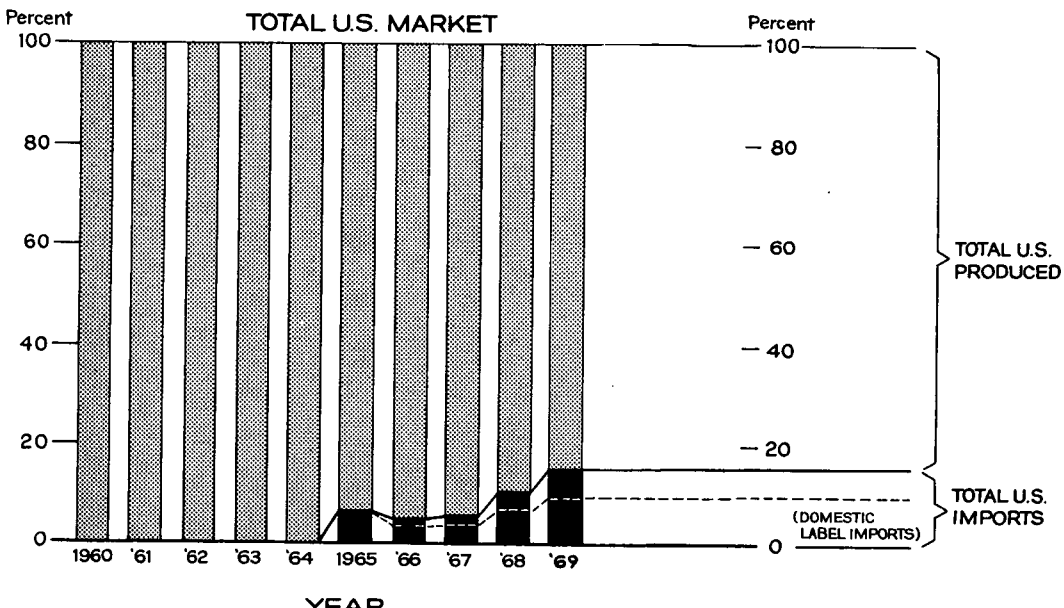

U.S. MARKET FOR RADIOS - ALL TYPES*
1960 TO PRESENT-FACTORY UNIT SALES
U.S. PRODUCED AND IMPORTED UNITS PER QUARTER
Thousands of Units per Qtr.
10.000
9.000
8.000
7.000
6.000
5.000
4.000
3.000
2.000
1.000
TOTAL U.S. MARKET
TOTAL U.S. IMPORTS
TOTAL U.S. PRODUCED
1960
1961
1962
1963
1964
1965
1966
1967
1968
1969
1970
*Excluding Automobile Radios

B/W TELEVISION
U.S. MARKET 1960-1969 FACTORY UNIT SALES
U.S. PRODUCED VS. IMPORTS AS % OF TOTAL




B/W TELEVISION
U.S. MARKET 1960 TO PRESENT-FACTORY UNIT SALES
U.S. PRODUCED AND IMPORTED UNITS PER QUARTER
Thousands of Units per Qtr.
2500
2250
2000
1750
1500
1250
1000
750
500
250
TOTAL U.S. MARKET
TOTAL U.S. PRODUCED
TOTAL U.S. IMPORTS
1960
1961
1962
1963
1964
1965
1966
1967
1968
1969
1970
1971

COLOR TELEVISION
U.S. MARKET 1960-1969 FACTORY UNIT SALES
U.S. PRODUCED VS. IMPORTS AS % OF TOTAL



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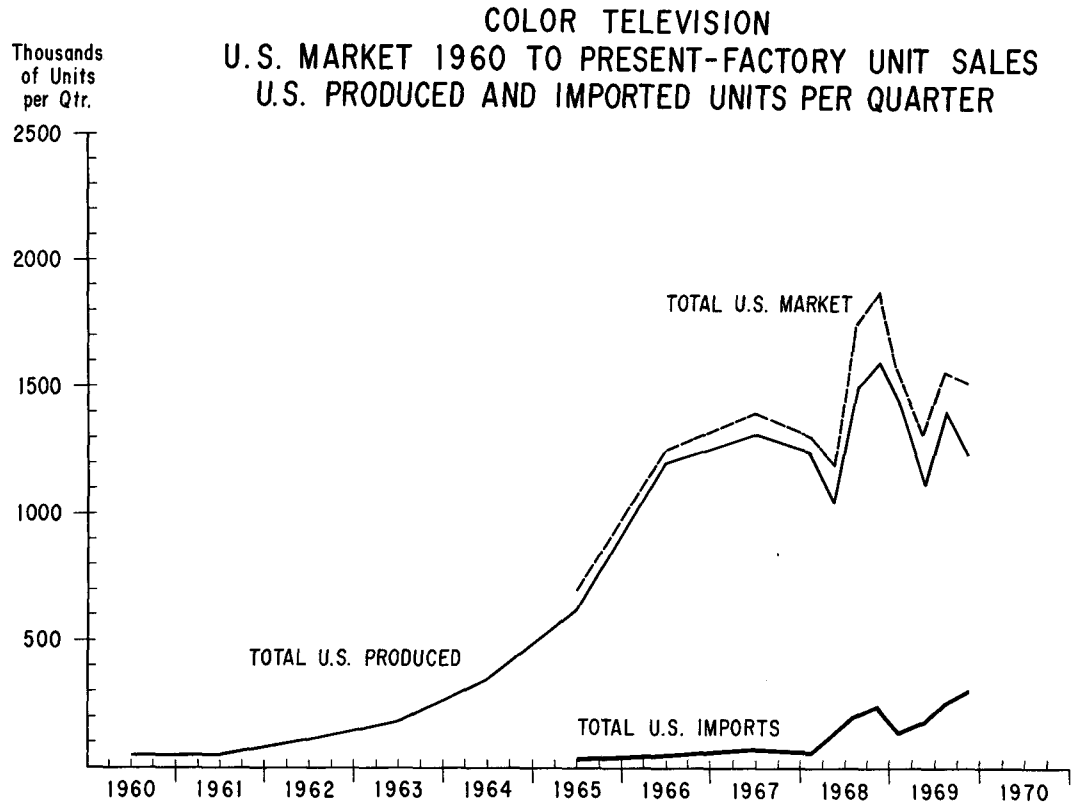
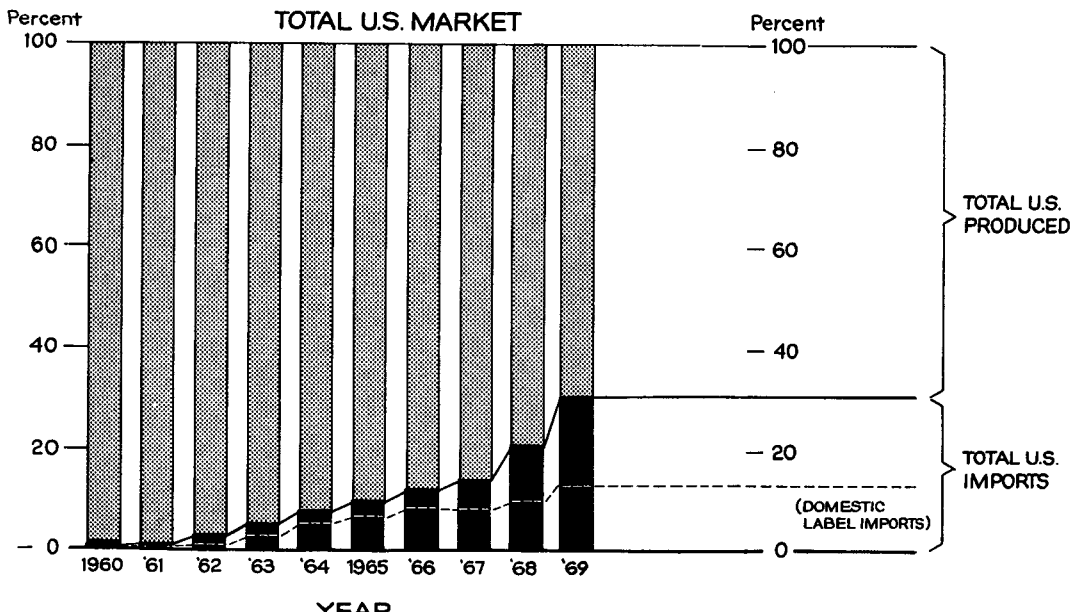
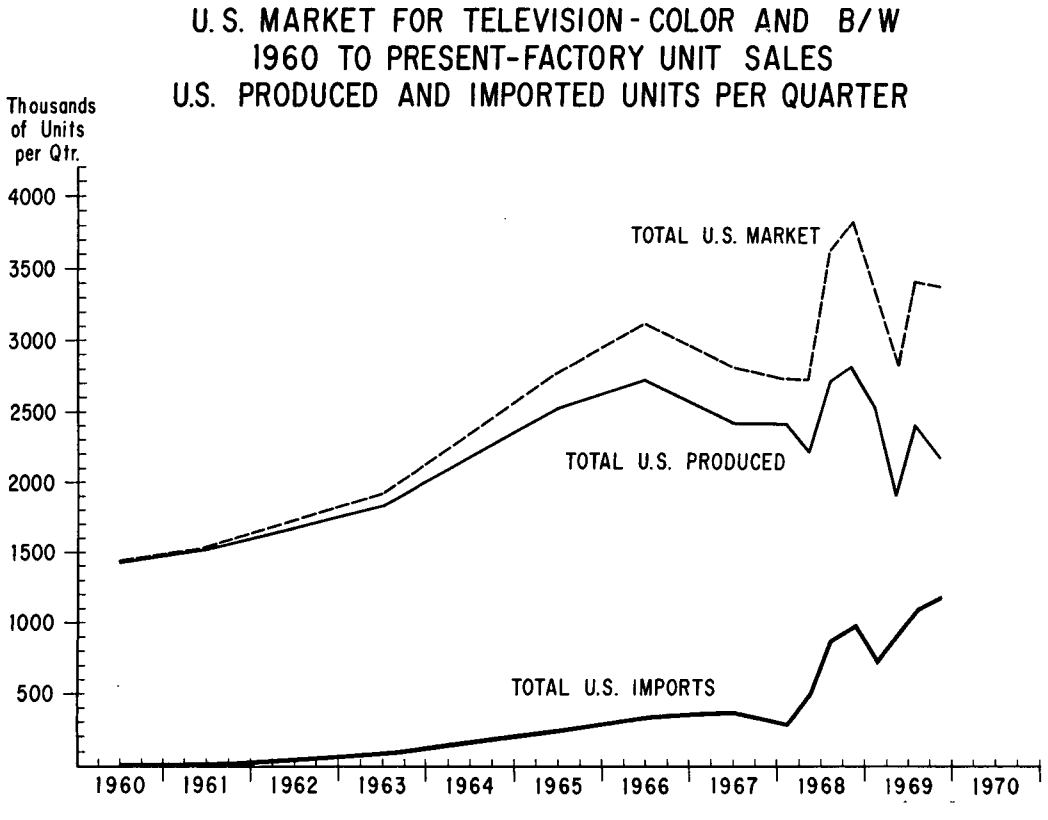
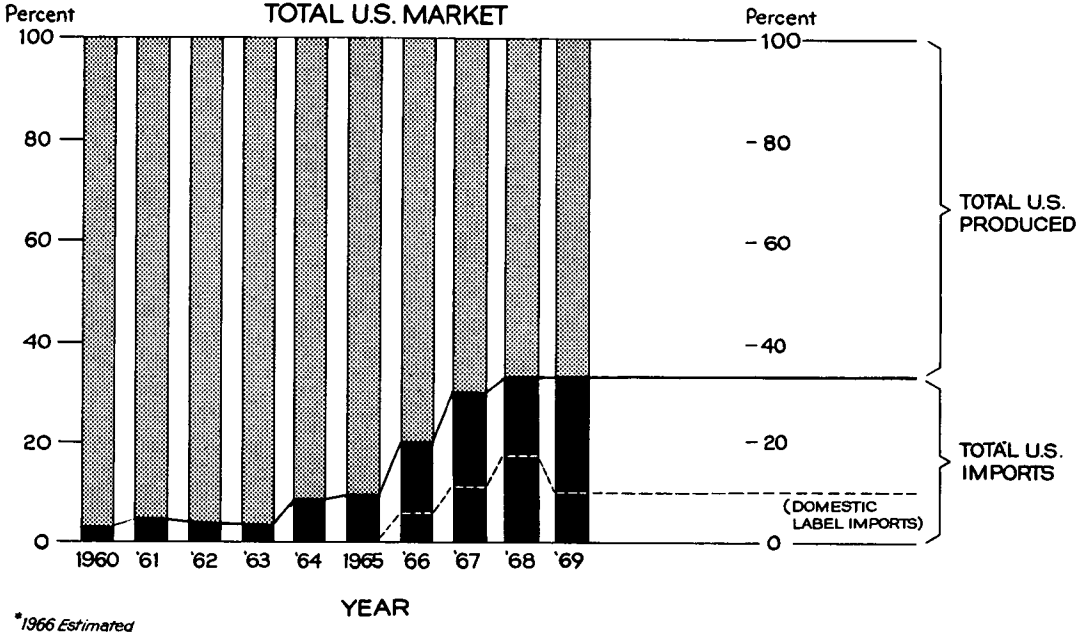

COLOR TELEVISION
U.S. MARKET 1960 TO PRESENT-FACTORY UNIT SALES
U.S. PRODUCED AND IMPORTED UNITS PER QUARTER
Thousands of Units per Qtr.
2500
2000
1500
1000
500
TOTAL U.S. MARKET
TOTAL U.S. PRODUCED
TOTAL U.S. IMPORTS
1960
1961
1962
1963
1964
1965
1966
1967
1968
1969
1970

U.S. MARKET FOR TELEVISION - COLOR & B/W - 1960-1969
U.S. PRODUCED VS. IMPORTS AS % OF TOTAL FACTORY UNIT SALES

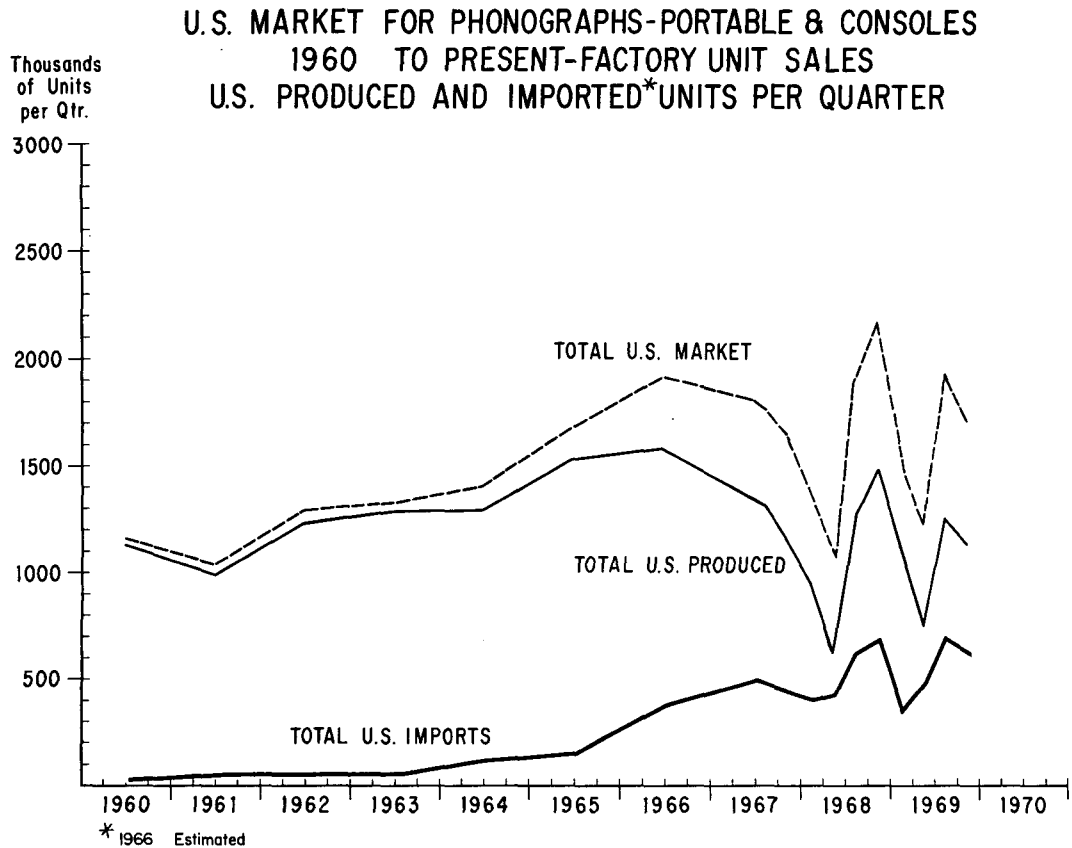


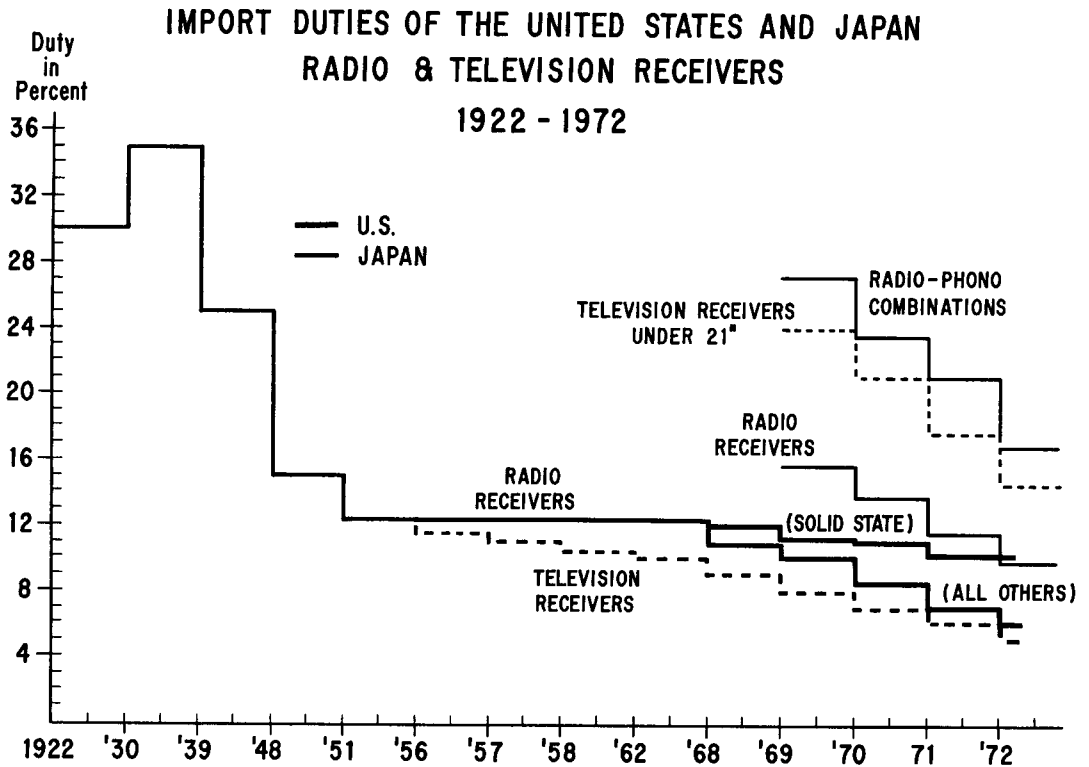

U.S. MARKET FOR TELEVISION - COLOR AND B/W
1960 TO PRESENT-FACTORY UNIT SALES
U.S. PRODUCED AND IMPORTED UNITS PER QUARTER
Thousands of Units per Qtr.
4000
3500
3000
2500
2000
1500
1000
500
TOTAL U.S. MARKET
TOTAL U.S. PRODUCED
TOTAL U.S. IMPORTS
1960
1961
1962
1963
1964
1965
1966
1967
1968
1969
1970

U.S. MARKET FOR PHONOGRAPHS-PORTABLE & CONSOLES- 1960-1969
U.S. PRODUCED VS. IMPORTS* AS % OF TOTAL FACTORY UNIT SALES

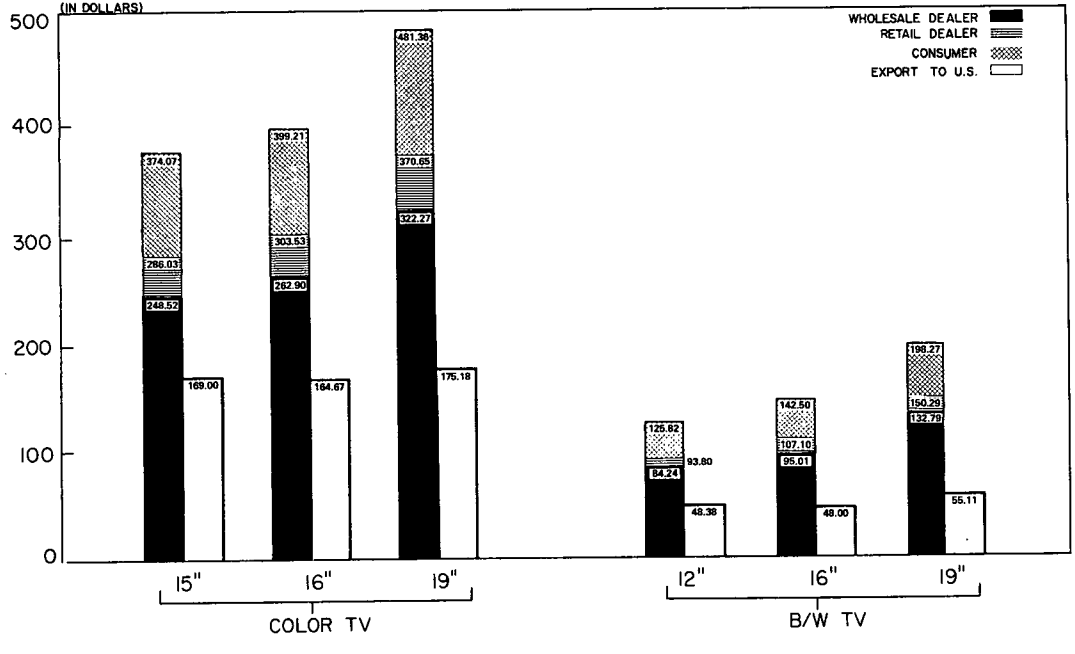


*1966 Estimated


U.S. MARKET FOR PHONOGRAPHS-PORTABLE & CONSOLES
1960 TO PRESENT-FACTORY UNIT SALES
U.S. PRODUCED AND IMPORTED* UNITS PER QUARTER
Thousands of Units per Qtr.
3000
2500
2000
1500
1000
500
TOTAL U.S. MARKET
TOTAL U.S. PRODUCED
TOTAL U.S. IMPORTS
1960
1961
1962
1963
1964
1965
1966
1967
1968
1969
1970
* 1966 Estimated


IMPORT DUTIES OF THE UNITED STATES AND JAPAN
RADIO & TELEVISION RECEIVERS
1922 - 1972
Duty in Percent
36
32
28
24
20
16
12
8
4
U.S.
JAPAN
RADIO-PHONO COMBINATIONS
TELEVISION RECEIVERS UNDER 21"
RADIO RECEIVERS
RADIO RECEIVERS
(SOLID STATE)
TELEVISION RECEIVERS
(ALL OTHERS)
1922
'30
'39
'48
'51
'56
'57
'58
'62
'68
'69
'70
71
'72

COMPARISON OF JAPANESE DEALER AND CONSUMER AVERAGE UNIT PRICE WITH THE PRICE FOR EXPORT TO U.S. JAPANESE-PRODUCED COLOR AND BLACK AND WHITE TELEVISION SETS, SELECTED SETS COVERING PERIOD SEPTEMBER-NOVEMBER 1967



Mr. BURKE. Thank you.

Are there any questions?

Mr. CONABLE. Yes, I would like to ask a question.

Mr. BURKE. Mr. Conable.

Mr. CONABLE. Mr. Wright, that is a very fine statement. Thank you for bringing it. I think it helps us put in perspective some of the very serious problems of your industry.

How do we stand right now in terms of the inventories, the big ticket items that have been rather soft recently in the economy?

This is not necessarily related to trade. However, I note you ascribe the layoff of 4,000 workers at least in part to imports.

I wonder if it is not generally true that there has been some falling off of purchasing by the American public of color TV's in the recent months as a result of the big ticket items, the cars, the color TV's, and refrigerators—bearing part of the brunt of the cooling economy.

Mr. WRIGHT. There is no question, Mr. Conable, but that the administration's anti-inflation efforts have had an effect in this area. However, my recollection of the statistics, and I don't have them right at hand, are that there were more color TV sets sold in the United States in 1969 than there were in 1968.

Mr. CONABLE. I am talking about the early part of 1970.

Mr. WRIGHT. In the first quarter of 1970, the U.S. production of black-and-white and color TV sets, as I stated in my statement, was off by 31.3 percent. Imports, on the other hand, in the same category, were up 11.8 percent for the same period.

So that, as you can see, this is a double-barrel thing that is happening here.

Mr. CONABLE. Also, is it not true that domestic production is somewhat more sensitive to a softening of the market than imports are?

Mr. WRIGHT. I think that is right. I think our domestic industry is probably closer to the situation of sales in terms of leadtimes and inventories than would be someone who is located half way around the world.

Mr. CONABLE. All I am trying to determine is to what degree the layoffs you have had in this area reflected a softness in the domestic market, and to what extent they reflected the aggressiveness of the importers.

Mr. WRIGHT. The layoffs that I was speaking about between 1969 and 1970, 4,000 people, those could be attributed at least 98 percent to the fact that things that we had planned to build here in the United States in this particular period of time, we are now procuring offshore, because we had absolutely no competitive choice.

Mr. CONABLE. That is the point I wanted to find out. You think it is 98 percent attributable to the pressure of imports, and the way your company has had to respond to this pressure?

Mr. WRIGHT. Yes, sir. If you look at some of these charts that I have attached to my statement, black-and-white TV, this really has no relation to economic conditions. This shows a trend line that goes off the page about 3 years down the road, as it has already in certain categories of the radio business.

Mr. CONABLE. I understand, sir.

There is no question about it, though, that there has been some softening of the market domestically?

Mr. WRIGHT. No question about that. Yes, sir.

Mr. CONABLE. Do you see any turnaround on that?

I am not speaking as a member of this committee, now.

Mr. WRIGHT. I can only speak for our own company, Mr. Conable. We are expecting to improve in our production and sales in the second half of 1970 over the second half of 1969.

Mr. CONABLE. You are expecting to improve over the first half of 1970, are you not?

Mr. WRIGHT. I certainly hope so. We had a local situation in Chicago that had us shut down for 6 weeks.

Mr. CONABLE. That is encouraging. I wanted to find out what the status of the market was in TV's. I know you had a difficult time during the first half.

Thank you.

Mr. BURKE. Mr. Chamberlain.

Mr. CHAMBERLAIN. Yes, Mr. Chairman, I would like to ask a couple of questions here.

Mr. Wright, I want to join Mr. Conable in commending you on your statement. I think you have done a very good job of outlining the serious problem that you people face.

However, I need some basic education. As to your suggestion that perhaps we should equalize these tariffs, the 7 percent vis-a-vis the 21 percent, you say that it is hard to argue that our tariffs should not be on an equal basis.

I am inclined to share your view, but the fact that others are not indicates to me that there are some basic arguments why they are not. I am wondering: what is the reason for this? I don't know. I have never confronted this problem before.

Mr. WRIGHT. I don't know, either.

I think, as was mentioned by Mr. Rowe this morning, we started out in the Kennedy round in the GATT negotiations with 35-percent duties on consumer electronics. We are down to 7 percent now. They are going to 5 percent by January 1, 1972. This was the result of negotiation between our State and Commerce Department representatives and the foreign countries that were involved in this.

You can't look at this without thinking that our negotiators lost their breeches, as it were, in this thing. I don't know what they got in return for it.

Mr. CHAMBERLAIN. I am inclined to agree with you.

You made another statement on page 9, that our own negotiators have insulated themselves from the problems of industry. Could you be more specific than just making this general statement? Are our people who are negotiating not in touch with your association folks?

Mr. WRIGHT. I don't know to what extent they are in touch with our association folks. Unfortunately, Zenith is not a member of the Electronics Association. There are a number of policy differences with the management of that organization.

However, we have cooperated on a lot of things of mutual interest. A good illustration of it is the fact that Mr. Bob Sprague and I sought to see Ambassador Gilbert at one point last year, to explain to him, give him some facts on this open season thing, to show that this was something that could be used as a bargaining tool to persuade the Japanese to put their house in order on some of these practices that

have been so unfair to our industry. He wouldn't see us. He felt that it was not proper for him to talk to us about it.

This has been the attitude that we have had displayed generally in the past. I think that our State Department, for instance, has just been on a completely different level than the practical, day-to-day business problems that American industry have for the most part.

Mr. CHAMBERLAIN. I thank you for your response.

I would like to refer to your charts. Your charts don't bear a page number, but it is the one next to the last in your pack, and it is the one you made reference to earlier, about the cost of the 19-inch black-and-white television set, $132.79.

Mr. WRIGHT. Yes, sir.

Mr. CHAMBERLAIN. That being the average cost to the wholesaler. Is that right?

Mr. WRIGHT. The first column in the black and the crosshatched are prices in Japan. On the 19-inch black-and-white that $132.79——

Mr. CHAMBERLAIN. Yes, you pointed that out specifically. I want to know if I read that chart correctly. You are saying that the set that was sold to the Japanese wholesale dealer for $132.79 was exported to this country and was sold here to U.S. sources for $55.11?

Mr. WRIGHT. I cannot tell you that those were exactly comparable receivers in every case.

Mr. CHAMBERLAIN. To get the meaning of your chart, I want to make certain that I understand the message you are giving us. I don't think I do.

Mr. WRIGHT. In the exhibit which was filed by the World Trade Committee of EIA with the Treasury Department are the results of a very elaborate and extensive market survey, giving detailed prices of the principal Japanese manufacturers at different levels in Japan, and also of the same 10 manufacturers in export, were set out.

We took for purposes of simplification a simple average of those prices. Now, that simple average can be distorted some, because I would suppose in that 19-inch black-and-white category there may be some console sets in the Japanese market. I doubt there would be any 19-inch black-and-white consoles exported. So it is distorted some, but it is not distorted very substantially.

Mr. CHAMBERLAIN. Then, if I read you correctly, you are saying that the set which was $132.79 to their wholesale dealer is sold to this country for $55.

Mr. WRIGHT. That is correct.

Mr. CHAMBERLAIN. I do not see how people can argue that that does not come within our dumping situation.

There is another thought that I would like to pursue, and I don't know if you are the proper one to discuss it with or not, but I am going to take a minute or two to try to get at it.

With all your charts running off the pages here, the trend does not show a healthy condition for our electronics industry as a whole—now I am speaking beyond television—and of our requirement for all the black boxes that we have on our Navy vessels and on our planes, what are we doing to our base in this country for the electronics industry in the future, 10 years, 20 years? Is the time going to come when we have no one to turn to, to manufacture the components that are necessary for our own defense purposes?

Mr. WRIGHT. It seems to me that we are headed inevitably that way.

Mr. Butler's statement this morning drawing some kind of distinction between what he called dynamic and stable technology—I don't know. This is a distinction that escaped me completely.

He is obviously not up on the high order of technology involved in some of our more sophisticated consumer products, and we are also in the space and defense business to some extent, too, but you cannot have a sound electronics industry in this country if all of the parts business and all of the consumer electronics business is shipped to Taiwan and Japan and Mexico and South Korea and Malaya.

Mr. CHAMBERLAIN. This is what concerns me. It is regrettable. Has any one witness specifically addressed himself to the national security aspects of your industry, or is there someone that is going to do it?

Mr. WRIGHT. It has not been done up to now, Mr. Chamberlain. I will tell you that.

Mr. CHAMBERLAIN. I would say that I think this is most important for our country as a whole, and that someone in your industry should put your charts together, and project them 10 or 20 years, and tell us where we are headed from a national security point of view.

Thank you, Mr. Chairman.

Mr. BURKE. Thank you.

Now, all these charts we will have included in the record.

Mr. WRIGHT. Thank you, Mr. Burke.

Mr. BURKE. In your statement you refer to the State Department memorandum of November 6, 1968, entitled "Japan's Export Promotion Techniques." Could you furnish the committee with a copy of that memorandum for the record?

Mr. WRIGHT. I have one here. I am happy to supply this, an unclassified memorandum.

Mr. BURKE. Without objection, we will have that included in the record at this point.

Mr. WRIGHT. There are two pages of indexes of the export subsidies that Japan makes available to our electronics industry.

(The document referred to follows:)

November 6, 1968.

From: Amembassy Tokyo
Subject: Japan's Export Promotion Techniques
Ref.: Nagoya A-16, March 4, 1966; Nagoya A-2, July 19, 1965

SUMMARY

I. FAVORABLE TAX TREATMENT

(A) Reserve for Foreign Market Development.
(B) Small and Medium Enterprise Reserve for Foreign Market Development.
(C) Special Depreciation Allowances.
(D) Reserve for Overseas Investment Losses.
(E) Special Exemption for Technical Exports and Certain Other Foreign Currency Earnings.
(F) Entertainment Expenses.
(G) Tariff Rebate to Exporters.

II. SPECIAL FINANCIAL TREATMENT

(A) Export Financing System for Cooperatives.
(B) Export Trade Bill System.
(C) Japan Export-Import Bank.
(D) Overseas Economic Cooperation Fund.
(E) Export Promotion Loan System for Designated Smaller Enterprises.

III. EXPORT INSURANCE SYSTEM

(A) Ordinary Export Insurance.
(1) Individual Insurance.
(a) For the Exporter.
(b) For the Manufacturer.
(c) Against Increased Costs.
(2) Group Floater Insurance.
(B) Export Proceeds Insurance.
(C) Export Bill Insurance.
(D) Export Loan Insurance.
(E) Consignment Sale Export Insurance.
(F) Overseas Advertising Insurance, Overseas Tender Insurance and Overseas Market Research Insurance.
(G) Insurance on the Principal of Overseas Investments.
(H) Insurance on the Profits from Overseas Investments.
(I) Utilization of Insurance Plans.

IV. JAPAN EXTERNAL TRADE RESEARCH ORGANIZATION (JETRO)

(A) Market Research and Related Activities.
(B) Advertisement of Japanese Exports.
(C) Design Improvement.
(D) Credit Investigation Services.
(E) Domestic Services.
(F) Budget.

V. EXPORT PROMOTION BUDGETS OF OTHER GOVERNMENT AGENCIES

(A) Ministry of International Trade and Industry.
(B) Ministry of Agriculture.
(C) Ministry of Transportation.

VI. EXPORTING AS A WAY OF LIFE

(A) Administrative Decisions to Strengthen Japan's Balance of Payments.
(B) Export Promotion as a National Objective.

This report updates and expands upon Nagoya's A–16 of March 4, 1966, entitled *Japan's Export Promotion Techniques*. In addition to the practices outlined in this report, manufacturer and industrial associations carry on a variety of export promotion activities on behalf of their members, and various local governments undertake export promotion programs (see Nagoya's A–2, July 19, 1965).

SUMMARY

The Japanese Government promotes exports by offering a comprehensive system of inducements centering on (1) favorable tax treatment, (2) special financial treatment, (3) a complete export insurance system, and (4) the supporting services of the Japan External Trade Organization (JETRO) and other government and quasi-government bodies.

The favorable tax program allows traders a larger than normal tax write-off for export related expenses. Additionally it provides for accelerated depreciation allowances and grants special concessions in connection with exports of technology and foreign investments.

Special financial treatment permits banks, cooperative and individual exporters to obtain loans at low interest rates.

The Government's export insurance program offers exporters nine kinds of insurance protection. This insurance system is administered by the Ministry of International Trade and Industry and covers roughly 80 percent of insured losses; local government programs cover an additional 15 percent of losses.

JETRO supports participation by Japanese enterprises at international fairs and exhibitions by subleasing exhibit space at favorable rates, by bearing some shipping and display costs, and by paying part of the cost of returning exhibit materials to Japan. JETRO also conducts publicity and design improvement activities, maintains a Business Information Center, and offers a credit investigation service.

In addition to the above measures, the GOJ effectively uses moral suasion and public recognition to promote export promotion as a national objective. Also, government agencies directly and indirectly promote exports by the withholding or granting of official sanction for a variety of business activities

I. FAVORABLE TAX TREATMENT

The following tax measures are provided under the Corporation Law and the Customs Tariff Law. Unless extended by the Diet, all but (G) expire on March 31, 1969.

(A) Reserve for Foreign Market Development (Kaigai Shijo Kaitaku Junbikin). Manufacturers and exporters may set aside specified percentages of gross export proceeds as reserves for foreign market development, to be expensed in equal (20%) installments over the subsequent five-year period. The percentages of gross exports which may be deferred during a given year are as follows: [1]

Type of firm	Basic rate	B exporters (1.3 times basic rate)	A exporters (1.6 times basic rate)
1. Traders	0.5	0.65	0.8
2. Minor traders (firms capitalized at not more than 100,000,000 yen)	1.0	1.30	1.60
3. Manufacturers	1.5	1.95	2.4

It will be noted that the above Basic Rates are raised by either 30 percent or 60 percent, depending on whether a firm qualifies as a B Exporter or an A Exporter. To qualify as a B Exporter, the firm need only increase the value of its exports by one percent or more during the preceding accounting period (the periods covered will be discussed below). To qualify as an A Exporter, this condition must be met and, in addition, the firm must either meet the requirement that its "export ratio" [2] is not decreased, or that the percent increase in its exports is equal to at least two-thirds of the overall increase of Japan's exports in the period covered.

Reserves for Foreign Market Development are written off (deducted from net taxable income) after all business expenses.

In practice, tax computations usually correspond with Japan's semi-annual tax accounting periods (April 1 through September 20, and from October 1 through March 31). Because of the long lag in export documentation availability, the time periods used for the computation of export performance data pre-date the period for which tax is due and payable. Thus, three time periods would typically be involved. Where the period for which tax is payable is October 1, 1967–March 31, 1968, the period October 1, 1966–March 31, 1967 would be the period from which the applicable *export ratio* is derived, and the period October 1, 1965–March 31, 1966 would be the base period in which B and A Exporter status is determined.

(B) Small and medium Enterprise Reserve for Foreign Market Development (Chusho Kigyo Shijo Kaitaku Junbikin). A small or medium enterprise which is a member of a trade or industrial association may contribute to such an association up to 2.5% of its gross export proceeds and deduct the full amount as a legitimate business expense. All such money received by an association is, in turn, tax exempt. Although intended to allow extremely small Japanese exporters to combine their resources to undertake more effective overseas market development programs, thus far, no companies have used this exemption.

(C) Special Depreciation Allowances (Yushutsu Tokubetsu Shokyaku). Any firm producing goods for export may accelerate the statutory depreciation rates accorded its plant and equipment, depending on its "export ratio" (as defined above). For example, if a manufacturer's export ratio is 0.6 during a given accounting period, the company may increase its statutory depreciation by 60% during that period.[3]

Effective April 1, 1968, A and B exporters (defined above) are allowed additional accelerated depreciation rates of 60% and 30% respectively. Thus, A exporters whose export ratios compute to 60% are allowed to accelerate statutory depreciation rates by 96% ($.60 \times 1.60 = 96\%$), and B exporters by 78% ($.60 \times 1.30 = 78\%$).

[1] Note that both the manufacturer and the exporter may set up reserves based on the same export transaction.

[2] *Export ratio* is defined as, "the export revenue of the firm divided by the total revenue of the firm."

[3] Accelerated depreciation does not shorten the period of time it takes to write off a capital investment; it merely causes larger depreciation costs during early accounting periods and smaller costs during later periods. Total depreciation never exceeds original capital outlay.

Added Note on Tax Export Incentives for Japanese Manufacturers: Reserves for overseas market development and accelerated depreciation rates provide real incentives to Japanese manufacturers to produce goods for export. This can be shown by the following hypothetical income statements for Companies "X" and "Y". The companies are identical in every way except that Company X qualifies as an "A Manufacturer", while Company Y sells only to the domestic Japanese market.

HYPOTHETICAL INCOME STATEMENT FOR PERIOD 1

	Company Y	Company X
Gross sales	100	100.0
Cost of goods	80	90.0
Material and labor	(70)	(70.0)
Depreciation [1]	(10)	(19.6)
Gross profit	20	10.4
Reserve for overseas market development [2]		2.4
Adjusted gross profit	20	8.0
Tax at 50 percent	10	4.0
Tax saving		6.0

[1] Company X qualifies for 95 percent acceleration of depreciation.
[2] Company X may set up a reserve for foreign market development equal to 2.4 percent of gross export proceeds.

The table shows that Company X saved taxes, in comparison with Company Y, at the rate of 6.0% of gross sales in the companies' *first period of operation.* This latter qualification is important because in *period 2,* assuming that no further depreciable capital investments are made by either company, the difference in allowable depreciation charges will narrow. Actually, if Companies X and Y were real firms, they would constantly be buying and depreciating new equipment and an adequate illustration of the tax savings provided by accelerated depreciation would focus on the discounted present value of expected tax savings through time (according to various assumptions as to standard depreciation schedules used by the firms, rates of capital investment vis a vis growth in gross and net income, etc.) [1]

On the other hand, the reserve for foreign market development is easier to evaluate. Assuming a corporate income tax rate of 50%, the reserve is the approximate equivalent of a 5-year interest-free loan equal to 1.2% of gross export sales.

(D) Reserve for Overseas Investment Losses (Kaigai Toshi Sonshitsa Junbikin). Any firm may accumulate a fund equal to 50% of its investments abroad as a reserve against overseas investment losses. If no losses occur, amounts paid into this reserve are added back into taxable income at the rate of 20% per year during the 6th–10th years (in other words, after a 5-year grace period). Because the GOJ must approve and license such investments, this incentive is allowed only when Japanese exports will be stimulated or other favorable balance of payments effects will be achieved.

(E) Special Exemption for Technical Exports and Certain Other Foreign Currency Earnings. Article 58 of the Special Taxation Measures Law (Law No. 26 dated March 31, 1957) provides for special deductions from taxable income for Japanese firms which have directly or indirectly earned foreign currencies through exports of various types of technical services. To quote the law, "Deductions . . . shall be made in the percentages shown below:

(1) Exports of industrial properties including patent rights: The lesser of 70% of total gross income from such exports, or 50% of the total net income *of the firm* during the firm's fiscal year;

(2) Transfer or grant of copyrights; or the right to screen motion pictures: The lesser of 30% of total gross income from such transfer or grant, or 50% of the total net income *of the firm* during its fiscal year;

(3) The providing of services which require scientific knowledge and are related to research, survey, planning, consulting, designing, supervision or inspection concerning the construction or production of plant and equipment: The lesser of 20% of total gross income from the providing of such services, or 50% of the total net income *of the firm* during its fiscal year;

[1] Obviously capital intensive industries obtain the greatest benefits from accelerated depreciation. In the above examples, depreciation (without acceleration) represents only 10% of gross sales.

(4) Overseas shipping services; overseas repairing, processing or construction activities; tourist services; and exports of certain primary products (agricultural, forestry, fisheries, mining, etc.): The lesser of 3% of total gross income from the providing of such services (or the exporting of primary products), or 80% of the total net income *of the firm* during its fiscal year."

Technical services eligible for tax reduction may be rendered in or outside Japan. Except for the primary products mentioned in (4) above, only labor or technical services qualify; the export of a commodity into which technical services are incorporated is not eligible. There is no time limit on tax benefits; exemptions may be obtained on royalties for as long as royalties are paid.

(F) Entertainment Expenses. Japanese companies may deduct 100% of expenses incurred overseas in *entertaining* foreign buyers (travel and hotel expenses not eligible). When entertaining foreign buyers in Japan, a specified percentage (usually about 50%) of entertainment, travel and hotel expenses may be deducted.

(G) Tariff Rebate to Exporters (Customs Drawback). Customs tariff paid: on imported raw materials, both crude and processed, which are used in manufacturing 63 items at factories approved by the Chief of each Customs District, are wholly or partly repaid to exporters. The system also applies when subcontracting is involved, notably in the manufacture of ships, large plant facilities and automobiles.

For many items, customs drawback is determined by multiplying a standard factor times the value of the export. For example, for *all approved factories*, the drawback on passenger cars is 0.09% of the fob export value, regardless of the actual amount of customs duties paid on imported components. Customs Bureau officials state that commodities are selected for eligibility for customs drawback on the basis of "what practical value their export would have for Japan."

II. SPECIAL FINANCIAL TREATMENT

(A) Export Financing System for Cooperatives (Yushutsu Kyohan Kinyu Seido). A cooperative which collects agricultural or marine products from its members for processing and subsequent export may borrow funds from commercial banks (to be rediscounted by the Bank of Japan at 5.8% per annum) before an export contract is negotiated. This enables the cooperative to raise the working capital necessary to collect and process agricultural or marine products for which production and cargo-booking are often concentrated seasonally, and where export contracts have not yet been signed.

The amount of financing under this plan is very small.

(B) Export Trade Bill System (Yushutsu Boeki Tegata Seido): (1) Export Advance Bill System:

(a) L/C-supported Trade Bills. In order to provide money for placing orders with manufacturers, paying for packaging and/or transportation costs, etc., commercial banks (supported by the rediscount facilities of the Bank of Japan) discount for periods up to three months prior to shipment bills drawn upon them by exporters. When a letter of credit for the export transaction has been received by the bank, the discount rate is 4.745% per annum (and the rediscount rate of the Bank of Japan is 4.015% per annum).

(b) Trade Bills not supported by L/C. When an L/C has not yet reached the foreign exchange bank, but an export contract has been concluded, banks will discount export advance bills at an annual interest rate of 5.475%. The BOJ will, in turn, re-finance (*loan*, not rediscount) 90% of the bill amount at an annual interest rate of 4.380% (in most cases) for as much as a year prior to actual exports.

(2) Financing Exports After Shipment (Foreign Exchange Fund Loan System:

(a) Export time bills supported by L/C. When exchange banks buy export time bills from their customers, they may borrow the yen equivalent from the Bank of Japan at an annual interest rate of 3.65%, for periods up to six months provided that such bills have been drawn under irrevocable letters of credit and expressed in "designated" foreign currencies. Thus, exchange banks usually charge exporters only about 4% (per annum) to discount such bills.

(b) Export time bills drawn on D/A or D/P basis are treated exactly as

above, provided they are insured under the Export Bill Insurance System (see *Export Insurance System* below).

Added Note on Export Financing as an Export Promotion Device: By U.S. standards, Japanese companies have extremely high debt/equity ratios and annual interest payments represent a significant proportion of overhead costs. Thus, the spread between the discount rate on export trade bills and that on commercial bills provides a strong incentive to Japanese companies to develop a large export trade. This can be illustrated by looking at the financial structure of one of Japan's major manufacturers of heavy equipment, XYZ Corp. (fictitious name):

Out of a total indebtedness of $785 million (equivalent). $285 million is based on export trade receivables and bears an annual interest rate of 4%. The remaining $500 million is comprised of 7.3% mortgage debentures and other instruments including commercial bills carrying an average annual interest rate of 9.9%. XYZ Corp. must continually balance off the higher costs of export trade promotion (relative to domestic sales) against the lower financing costs of overseas sales.

(C) Japan Export-Import Bank (Nippon Yushutsunyu Ginko): (1) A long term contract for the export of plant equipment, ships, vehicles, etc., may be financed by the Japan Exim Bank with the cooperation of a commercial bank. Loans may be granted by the Japan Exim Bank (70%) and commercial bank (30%) at annual interest rates ranging from 4% to 7% per annum for periods ranging from six months to fifteen years.

(2) In special cases, when projects in other nations may contribute to the expansion of Japanese exports, the Japan Exim Bank may make loans directly to foreign governments in connection with economic development projects.

(D) Overseas Economic Cooperation Fund (Kaigai Keizai Kyoryoku Kikin) This fund was established in 1961 as a government agency to provide loans to Japanese firms engaged in industrial development projects, especially in Southeast Asia. The fund can loan or invest in projects that the Japanese Government considers worthwhile toward the development of underdeveloped countries and which will accelerate economic interchange between the recipients and Japan. Interest rates on these loans are usually 3.5%–6.5% per annum, and normal maximum terms are for up to twenty years, usually with 5-year grace periods. Fund activities are normally restricted to projects which would be difficult to finance through a city bank or the Japan Exim Bank.

(E) Export Promotion Loan System for Designated Smaller Enterprises (Tokutei Chusho Kigyo Yushutsu Shinko Yushi Seido). A loan may be granted by the Smaller Enterprise Finance Corporation (Chusho Kigyo Koko) to a small or medium sized firm engaged in the manufacture of export products when that firm needs new equipment either to carry out a long term contract or to improve its production facilities. However, at this time these loans are only granted to the following 15 industries:

Pottery
Metallic Toys
Metallic Watch Bands
Pencils
Cloth Made-up Goods
Flatware
Artificial Flowers
Fabrics
Dyeing and Finishing Tools
Celluloid and Plastics Articles
Imitation Pearls
Smoking Articles
Umbrellas and Ribs
Knit Goods
Work Tools

There is also a Small & Medium Enterprise Equipment Modernization Fund (Chusho Kigyo Setsubi Kindaika Shikin) from which loans are made available to firms that wish to improve their plant and equipment and/or their technical competence. The loans are available to all industries, but manufacturers of export products are given some priority over manufacturers of domestic products. The Fund is administered by local prefectural governments which also supply 50% of required capital contributions (the remaining 50% is supplied by the GOJ).

III. EXPORT INSURANCE SYSTEM

There are eight insurance plans administered by the Ministry of International Trade and Industry under the Export Insurance Law of 1950 (Yushutsu Hoken Ho).[1] Unless otherwise noted, all of these plans are administered by the Export

[1] Some local governments also have independently administered plans which cover losses left unreimbursed by MITI's plans (see Nagoya A–2, 7/19/65).

Insurance Section of MITI through its nine local offices in various parts of Japan.

(A) Ordinary Export Insurance. (Futsu Yushutsu Hoken). (1) Individual Insurance (Kobetsu Hoken):

(a) For the Exporter (Yushutsusha Hoken). This type of insurance is sometimes referred to by MITI as "pre-shipment insurance" since most (not all) of the risks covered involve the impossibility to export for one reason or another. Under this plan, the exporter decides how much his losses might be and sets the amount and type of insurance desired. Nine risks are covered by this insurance:

1. Restriction or prohibition of foreign exchange transactions in a foreign country after a contract has been concluded.
2. Restriction or prohibition of imports at their destination.
3. Suspension of foreign exchange transactions because of war, revolution or rebellion in the foreign country.
4. Inability to export to the foreign country because of war, revolution, or rebellion within that country.
5. Suspension of transportation by an accident which occurs outside of Japan.
6. Other occurrences beyond the control of the beneficiary, such as tariff increases, strikes, or boycotts taking place outside of Japan.
7. Restriction or prohibition of exports by the GOJ under the Foreign Exchange and Foreign Trade Administration Law (Gaikoku Kawase Oyobi Gaikoku Boeki Kanri Ho).
8. Any arbitrary cancellation of a contract by a buyer, when that buyer is a foreign government or a regional public body.
9. Bankruptcy of the buyer.

Items 1–7 are called emergency risks (Hijo Kiken) and 8–9 are called credit risks (Shinyo Kiken). When loss is due to an emergency risk, the amount paid to the beneficiary is 90% of the balance obtained by deducting from the total loss, the value realized or expected from resale of the goods, and/or the value of any savings resulting from early cancellation of the contract. When loss is due to a credit risk, the amount paid is 60% of the above balance.

Premium rates for this type of insurance (both emergency and credit coverage) vary according to the risk classification of the country of destination. There are currently five categories of risk and, due to Japanese concern over the possibility that the U.S. will enact an import surcharge, the U.S. has temporarily been placed in the highest risk category.[1] Current premium rates for medium risk countries are:

SEN PER ¥100 OF THE INSURED AMOUNT

[100 sen = ¥1]

Term insured	Risk insured		
	Emergency	Credit	Emergency plus Credit
2 months or less	22.5	5.9	28.4

For insurance terms longer than two months, premiums are higher, but not in direct and equal proportion to length of contract.

(b) For the Manufacturer (Seisansha Hoken). Under this plan a manufacturer is insured against loss due to an exporter's failure either to execute shipment or to collect the price of the manufacturer's cargo because of any of the nine reasons listed in (a) above. The rates and conditions under which this insurance may be issued are the same as for (a) above.

(c) Against increased Costs (Zoka Hiyo Hoken). This plan pays for unexpected losses caused by increases in land or ocean freight charges and/or marine insurance due to changes in voyages or routes necessitated by emergency risks. This plan also covers restrictions or prohibition of exports by the GOJ under the Foreign Trade and Foreign Exchange Laws.

1. To qualify for this plan, the insured must be a person or corporation eligible

[1] According to MITI, about 20% of Japan's exports to the U.S. are currently being insured under this plan; this proportion is considered higher than normal for such exports.

for the type exporter's insurance described in (a) above. The amount of coverage is determined by the insured. The premium rate is nine sen per ¥100 of the insured amount for medium risk countries (because of the current threat of a dock strike, the U.S. is now in a high risk category) and the term begins six days after the date of the insurance contract and terminates on the day the cargo reaches its destination. Otherwise, conditions are the same as for (a) above.

2. The amount of this insurance is either 100% of the insured amount, or 90% of the balance after deducting [1] and [2] below, from the difference between originally-contracted freight and insurance rates and the actual amounts paid due to emergency risks (whichever is lower):

(1) The remainder after deducting the expenses paid or to be paid by the insured for preventing or lessening the loss from the amount the insured will be able to recover by having prevented or lessened his loss.

(2) The remainder after deducting the expenses required or to be required by the insured for collecting compensation, if compensation is paid by anyone, from the amount which the insured can or will be able to recover by means of compensation.

(2) Group Floater Insurance (Hokatsu Hoken). Any Japanese exporters' association may purchase a group insurance policy from MITI. Associations handling consumer-type goods (where long-term export financing is not involved) may insure both the emergency and credit risks described in (A) above. Associations handling goods which are normally exported under long-term credit arrangements may insure only emergency risks (i.e., only pre-shipment coverage is available). Despite MITI's efforts to promote this type of group insurance, only the following nine associations have thus far signed contracts:

Associations Administering Emergency and Credit Risk Insurance

Name of Association	*Items Insured*
Japan Cotton & Fabric Exporters Association	Cotton yarns and fabrics
Japan Silk & Chemical Fibre Exporters Association	Chemical fibers, yarns and fabrics
Japan Wool and Flax Exporters Association	Woolen goods
Japan Textile Products Exporters Association	Textile and made-up goods
Japan General Merchandise Exporters Association	Footwear

Associations Administering Only Emergency Risk Insurance

Japan Rolling Stock Exporters Association	Railway vehicles
Japan Machinery Exporters Association	Machines and equipment
Japan Ship Exporters Association	Ships
Japan Electrical Wire Exporters Association	Electrical Wire

(a) Amounts of coverage and premium rates are fixed by MITI on a case-by-case basis, according to the contracts between MITI and the different exporters' associations. Risks covered are the same as in (A)(1)(a) above, but the rate of coverage is 90% of insured losses caused by emergency risks and 80% of insured losses caused by credit risks. Amounts which can be insured under the above contracts vary. Textile goods may be insured for up to 30% of export price, footwear for up to 50%, and machinery, equipment and ships for up to 80% of export prices. Thus, maximum compensation for textile goods is 27% of total export value (30% insured value times 90% coverage).

(b) Group floater insurance offers some advantages to members of associations. Premiums are cheaper, insurance is administered by the association itself and does not require case-by-case purchase, there is no limit on the amount of coverage, and insurance becomes effective on request without the usual five-day waiting-period required for individual insurance. On the other hand, *all* member companies' exporters must be insured, so that annual premium costs may be high. Furthermore, for railway vehicles, machinery, vessels, electric wire, and cable, coverage is before shipment only. To obtain after-shipment coverage, exporters must individually purchase Export Proceeds Insurance (see below).

(B) Export Proceeds Insurance (Yushutsu Maikin Hoken). This plan is sometimes called "after shipment insurance" since it covers losses incurred when the insured is unable to collect the export price, rent, or the value of services rendered because of any of the following reasons:

1. Restriction or prohibition of foreign exchange transactions in a foreign country.
2. War, revolution, or rebellion at export destination.
3. An accident, outside of Japan, not caused by either of the contracting parties.
4. Bankruptcy of the contracting party.
5. The contracting party's delay of more than six months in settling a debt (when the exporter is not at fault).

(1) In general, this insurance covers the export price and/or rental cost of equipment, ships, vehicles, or other items designated by the Minister of International Trade and Industry. Additionally, the price or value of technical exports and/or labor services offered under a technical assistance contract, may be insured under this plan.

(2) The insured fixes the amount of coverage within limits set at 90% of the export price for tangible items, and 80% of the value of technical or labor services. The term of insurance begins when the cargo is exported or when the technical or labor service begins, and terminates with the final settlement of the account. The basic premium rate is 26.5 sen per ¥100 of the insured amount for three months or less. Longer coverage is available at higher cost.

(3) For individual insurers, the above rate is reduced by 25% if the insured bears either an L/C opened by a leading bank or a letter of guarantee for payment issued by the foreign government concerned. A 75% reduction is granted if the insured also carries ordinary export insurance (see above). If the individual insurer carries general export insurance but the transaction is not under L/C terms, the rate is reduced by 50%. Special global rates apply to members of export associations.

(4) The maximum loss covered by this insurance is the remainder after deducting (a) from (b) multiplied by (c) below:

(a) Unpaid expenses and the amount which can be collected from the sale of any recovered goods.

(b) The price of the exported cargo or the equivalent value in services which the insured was unable to collect.

(c) Percent of coverage purchased.

(C) *Export Bill Insurance* (Yushutsu Tagata Hoken) This insurance covers the losses of foreign exchange banks which purchase documentary bills that are later dishonored. The system encourages foreign exchange banks to purchase D/A and D/P bills and protects the exporter by exempting him from redeeming bills drawn by him that are later dishonored for reasons beyond his control. However, bills must be drawn against export cargos; clean bills are not insurable.

(1) To date, 70 banks, including 10 foreign banks (Bank of India, Bank of America, First National, Hong Kong and Shanghai Bank, Netherlands Bank, Banque de l'Indochine, 2nd Chartered Bank, Mercantile Bank, Chase Manhattan Bank and Continental Bank) have contracted with MITI for Export Bill Insurance floater policies. An exporter who wishes to benefit from this insurance plan must sell his documentary bills to one of the 70 banks. Insurance enters into force when the bank (at its own discretion) requests MITI to insure a bill.

(2) Prior to purchasing bills, MITI requires a credit report on the drawee of the bill. If the drawee is a foreign government, agency, or public corporation a letter of certification is submitted instead. Once a drawee has been registered with MITI, insurance can be granted without additional credit reports. Risks covered by export bill insurance include:

(a) Cases in which the foreign exchange bank cannot be paid by the drawee of a documentary bill on its due date because:

1. The drawee has refused to accept the goods, or has deferred receiving them for more than six months after the date of the bill;
2. Presentation of documents is impossible due to the drawee's absence or some other unavoidable reason;
3. The drawee has become insolvent.

(b) Cases in which the purchasing bank is compelled to repay a bank which has issued an acceptance with recourse, because of the drawee's failure to pay.

(3) With regard to both (a) and (b) there are no restrictions concerning reasons for a bill being dishonored. However, the maximum insured amount is 80% of the face value of the bill.

(4) Premiums are paid to the National Treasury by policyholders but, in practice, the cost of this insurance is passed on by banks to drawers of such bills. The premium rate for medium risk countries for a sight bill is 23.4 sen per ¥100 of the insured amount. Other rates are:

Sen/¥100 of the insured amount—Term, 10 days or less[1]
(100 sen=¥1)

AFTER-SIGHT BILL		FIXED-DATE OR AFTER-DATE BILL	
D/A	D/P	D/A	D/P
47.7	25.7	43.2	23.4

(5) The amount paid to a bank when a documentary bill is dishonored is 80% of the balance after deducting from the value of the bill, the amount collected by disposing of the cargo.

(6) Although this insurance plan requires foreign exchange banks to absorb 20% of their losses, there are various local systems which allow local governments to shoulder 15% of the burden. (see Natoya's A–2 of July 19, 1965). According to MITI, the insurance costs of these local systems are similar to its own, and banks usually take advantage of both systems when insuring export bills.

(D) *Export Loan Insurance* (Yushutsu Kinyu Hoken) This plan covers bank losses resulting from borrowers' failure to repay export loans. Under this system, MITI has concluded contracts with 86 Japanese banks, insuring funds loaned against bills or advanced through bill discounting. Loans must be limited to the following cases:

(1) Funds needed by an exporter or by an export manufacturer for the execution of an existing export contract;

(2) Funds needed by producers of agricultural, forestry, marine or livestock products, or by manufacturers of sundry goods and certain other items, as designated by the Minister of International Trade and Industry, when these items are promised for future export delivery but an export contract has not yet been signed. Prior MITI approval of this type of transaction is required.

Premium rates for two months or less are 21.6 sen per ¥100 of the insured value of the bill from the date of the loan or discount of commercial bill to the due date (regardless of the export destination). Banks pay insurance premiums to the National Treasury, but may charge borrowers ⅔ of the value of such premiums.

Insurance proceeds amount to 80% of the balance obtained after deducting the amount which was eventually collected by the bank from the amount which the bank could not collect on the due date of the bill.

(E) Consignment Sale Export Insurance (Itaku Hanbai Yushutsu Hoken) This system covers the exporter's losses when a cargo is shipped on consignment and the consignee fails to sell the goods and/or the goods are forfeited to a foreign government due to nonpayment of customs duties etc. Losses stemming from the failure of the consignee to remit the cost of goods are covered under previously-discussed plans; accordingly, consignment sale insurance does not cover losses due to non-delivery of cargo or credit risks. The basic premium is ¥1.8 sen per ¥100 of the insured amount, regardless of the time period involved.

(1) Although anyone can take out insurance under this plan, the beneficiary must be the original consignor. Accordingly, the exporter who receives merchandise on consignment from a manufacturer and re-consigns it to a foreign firm cannot be the beneficiary.

(2) The insurer sets the amount of coverage according to his estimate of possible losses. However, he is required by MITI to estimate his anticipated sales and expenses at the time he applies for insurance.

Expenses include the cost of production, processing, cargo-booking, shipping and inspection charges, warehousing charges, consignee's commission, and any other expenses chargeable to the consignor. The insurer also sets the maturity date of the consignment contract and the value of each unit of the cargo.

(3) Insurance proceeds amount to 80% of the remainder after deducting (a) through (c), below, from actual expenses (which may not exceed estimates described above).

(a) The value of cargo sold during the consignment contract. This value is

[1] Term is the period from sight to due date in the case of an after-sight bill, and from purchase date to due date in the case of a fixed-date or after-date bill. The rates shown here are for medium risk countries; they do not increase in direct and equal proportion with time.

equivalent to the previously-estimated unit value multiplied by the quantity sold, regardless of actual sales receipts.

(b) Proceeds accruing from the disposal of the unsold cargo after its return to Japan, less expenses for its return shipment and disposal. The unsold portion of any consignment must be reshipped to the consignor within three months after the maturity date of the consignment contract. This period may be extended to six months at MITI's discretion.

(c) Net proceeds from disposition of the unsold consignment cargo outside Japan after the maturity date of the original consignment contract. Disposition of such cargoes outside Japan is subject to approval by the Minister of International Trade and Industry.

(F) Overseas Advertising Insurance, Overseas Tender Insurance and Overseas Market Research Insurance 1. Overseas Advertising Insurance (Kaigai Kokoku Hoken). This insurance covers advertising costs when export sales projections are not realized following an overseas promotional campaign. Coverage is up to 50% of advertising costs, in direct proportion to the ratio between anticipated and realized export volumes. For example, if 25% of the previously-established export goal is not reached, 12½% of the advertising costs would be reimbursed to the beneficiary:

(1) Under the plan, "advertising costs" include expenditures for media advertisements, free sampled sent abroad, overseas displays and product demonstrations, and salesmen's overseas travel costs.

(2) The following activities are not insurable under this plan:

(a) Advertising within Japan;

(b) Advertising solely in connection with international bids or with overseas sample shows;

(c) Sending a mission abroad whose activities include more than just advertising;

(d) Advertising through the use of pocket notebooks, calendars, cut-samples, and the like, when such items are sent as a courtesy to foreign customers;

(e) Sending samples to individual persons;

(f) Advertising products whose import is significantly restricted by the foreign government.

(3) Before issuing insurance, MITI examines the advertising plan, the region to be covered, and the anticipated period of time required to recover expenses.

(4) The insured specifies insurance coverage. Premium rates are ¥3.87 per ¥100 of the amount insured, regardless of time period involved.

Although the rationale for reimbursement under this plan is easily stated in general terms (as above), the actual computation is extremely complicated. There is little to be gained from presenting all the formulae and intricate definitions; only the following simplified equations will be given:

(1) Total exports during term of collection (minus) Standard export amount=Export increase;

(2) Export increase x Rate of collection=Collected advertisement expenditures;

(3) Actual advertisement expenditures (minus) Collected advertisement expenditures=Amount of loss;

(4) Amount of loss x 50%=Amount of reimbursement.

Definitions:

Term of collection.—Period during which export increases are assumed to be the result of advertising expenditures. (for purposes of computation).

Standard export amount.—Assumed amount of export earnings that would have occurred in the absence of (the insured) advertising expenditures.

Rate of collection.—Rate at which advertising expenditures are assumed to be recouped from incremental export earnings.

Prior to 1956, MITI issued 20–30 insurance contracts each year under this system and, in doing so, realized sizeable losses. To make the system more self-supporting, MITI raised the "Rate of collection" requirement, effective JFY 1957. Since that time, only a few contracts have been issued; no advertisement insurance was written in JFY 1967.

2. Overseas Tender Insurance (Kokusai Nyusatsu Hokea). Fifty percent of the costs incurred by Japanese companies in bidding unsuccessfully on interna-

tional tenders may be reimbursed up to specified percentages of the value of the tenders. Engineering, research, travel and other costs may be included under this plan. The insured amount may be freely specified by the purchaser and premiums are 3.87% of insured amounts. About 20 tender insurance contracts were issued by MITI in JFY 1967.

3. Overseas Market Research Insurance (Kaigai Shijo Chosa Hoken) This plan is administered in roughly the same manner as Advertising Insurance. As in the case of Advertising Insurance, no contracts were concluded in JFY 1967.

(G) Insurance on the Principal of Overseas Investments (Kaigai Toshi Ganpon Hoken): This plan covers stocks and partnership assets of foreign organizations.[1] The purchase of foreign stocks and assets must have the approval of MITI and the purchase must contribute appreciably to Japan's international balance of payments.

(1) The normal maximum term is 15 years, but may be extended if a long period of plant construction is planned. The insured must estimate the probable annual dividend for each year and set the amount of stock or assets to be insured. The premium rate is 47.9 sen per $100 of the insured amount per annum.

(2) Risks covered by this plan are:

(a) Confiscation of the stock by a foreign government;

(b) Dissolution of a foreign corporation due to damage caused by war, revolution, rebellion, riot or civil disturbance, or to infringement by a foreign government on the individual prerogatives necessary to the conduct of business.

(3) When a company's activities have been suspended and stock has been sold at a loss, reimbursement will be provided only after activities have remained suspended for at least 6 months.

Loss coverage is 75% of the balance obtained after deducting (a) through (c) below, from either the company's net assets or the current market value or original purchase value of its stocks (whichever is lower):

(a) 50% of the dividends paid on the stocks or shares. If these were less than the estimated amount of dividends when the contract was signed, the the estimated amount is deducted.

(b) The amount collected from activities which may have reduced the loss.

(c) The amount obtained or to be obtained by any reparations such as compensation by means of national bonds or installment payments in cases of expropriation by a foreign government.

(H) Insurance on the Profits from Overseas Investments (Kaigai Toshi Rieki Hoken): Insurance covers losses to investors when the remittance to Japan of dividends on overseas investments becomes impossible for more than two years because of:

1. Restriction or prohibition of foreign exchange transactions in a foreign country;
2. Suspension of foreign exchange transactions by war, revolution, or rebellion in a foreign country;
3. Control of dividends by a foreign government or related body;
4. Cancellation of approval for the remittance of dividends, or nonperformance of guaranteed remittance by a foreign government;
5. Confiscation of dividends by a foreign government.

(1) The amount covered by this insurance is 75% of the balance obtained after deducting (a) through (d) below from the amount of the missed dividends:

(a) Banking charges avoided because dividends not paid;

(b) Amount of dividends used for local operations and expenses;

(c) Amount of dividends used for capital investments in overseas companies or increases in the capitalization of a corporation closely affiliated with the investing Japanese corporation;

(d) Amounts acquired through actions taken to reduce losses.

(2) The parties to the insurance contract and the premium costs are the same as in (G) above. The maximum term of insurance is ten years.

(I) Utilization of Insurance Plans: The following table shows the utilization of the above insurance plans during JFY 1967:

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[1] Investments in the form of debentures, loans, technical assistance, etc. are not covered. As previously mentioned, technical assistance contracts are covered by Export Proceeds Insurance.

Kind of insurance	Number of contracts	Insured amount (thousands of yen)
A. Ordinary export insurance	347,835	865,321,344
B. Export proceeds insurance	1,539	294,001,337
C. Export bill insurance	128,053	153,442,547
D. Export loan insurance	308	2,761,987
E. Consignment sale export insurance	139	392,425
F. Overseas advertising insurance, etc.	27	96,722
G. Insurance on the principal of overseas investments	35	1,377,450
H. Insurance on the profits from overseas investments	0	0
Total	477,965	1,317,393,812

[1] All contracts were for overseas tender insurance.

IV. JAPAN EXTERNAL TRADE RESEARCH ORGANIZATION (JETRO)

JETRO was established on July 25, 1958; as a special government-owned corporation. Outlined below are the major trade promotion activities undertaken by JETRO.

(A) Market Research and Related Activities. Overseas facilities owned and operated by JETRO, at present, include 16 trade centers, 6 machinery centers, and 48 offices. Also, there are about 20 stations managed jointly by JETRO and private domestic industrial groups. These overseas installations employ about 220 Japanese and 200 local employees. Market reports prepared by these overseas posts are sent to JETRO's Home Office for distribution to government and private business circles in the daily "Trade Bulletin" (Tsusho Koho), in the monthly "The Overseas Market" (Kaigai Shajo), and in other periodical publications.

(1) JETRO's market and marketing research is conducted either at the request of MITI and/or the Foreign Office, or at the request of individual firms, public corporations, or manufacturers and exports associations.

JETRO also collects research studies published abroad, as well as samples of foreign made products which compete with Japanese exports.

(2) Some market survey teams dispatched abroad by Japanese industry are partly subsidized by JETRO, depending on the team's mission, the significance of its survey, and the extent of its contribution to national export promotion. JETRO also bears some travel and hotel expenses of persons dispatched abroad by manufacturers' or exporters' associations to do market surveys, on the condition that it be given access to the results of such investigations.

(3) JETRO is in contact with foreign governments to obtain advance information on the imposition of import or other trade restrictions, and it sometimes pays for lobbyists to represent Japanese interests on matters before foreign legislative and administrative agencies.

(4) JETRO also may pay for the services of attorneys to represent Japanese interests in trade disputes and in maintaining orderly markets for Japanese goods abroad.

(B) Advertisement of Japanese Exports, JETRO's Trade and Machinery Centers carry out on-the-spot advertising for Japanese exports through press releases, television, movies and publications. Additionally during JFY 1967, JETRO was scheduled to participate in 21 international or special fairs (including 5 in the United States) and to hold 60 exhibitions at Trade and Machinery Centers (21 of which were scheduled in the United States). In foreign-sponsored exhibitions, JETRO usually reserves large blocs of floor space for Japanese exhibitors and bears 75% of rental costs. Exhibitors pay 25% of exhibit rental costs as well as freight and handling charges for exhibits. When unsold exhibits are returned to Japan, JETRO pays the repacking costs and the exhibitor pays shipping expenses. JETRO also offers floor space in its own exhibit halls to private Japanese firms at a rate of $500 per 10 day period:

(1) To promote a better understanding of the Japanese economy and industry and to advertise Japanese export products overseas JETRO conducts all expense paid tours to Japan for influential business leaders and journalists, mainly from developing countries.

(2) Occasionally, JETRO promotes Japan's advanced medicines and medical equipment by donating these products to foreign hospitals and laboratories.

(C) Design Improvement. To encourage improvement in the design of export items, JETRO annually sends five or six designers to America and Europe for up to one year of study. It pays 50% of travel and boarding expenses as well

as tuition. Design students are selected by JETRO from among those with three or more years of experience as designers with private firms. They are sent to art schools, universities, or special design institutes on condition that, on their return to Japan, they will make their services available to their industry for one year (in addition to resuming their normal employment).

(D) Credit Investigation Services. JETRO has concluded a special long-term contract with Dun & Bradstreet, Inc. which allows Japanese firms to use D & B's credit services by paying JETRO a fee of $3,800 per reference. This service is much less expensive than it would be on an individual basis, and is much like the U.S. Department of Commerce's WTDR service.

(E) Domestic Services. JETRO has its own offices in 20 major cities in Japan to guide and serve individual Japanese firms which trade overseas. In October 1964, JETRO created an Information Center to supply Japanese businessmen with information relating to international trade. Information and data currently collected by the Center include: world-wide trade and production statistics, customs tariff schedules and foreign trade regulations, business and commodity directories, annual reports of foreign firms, 1,200 periodicals, 90 economic and financial newspapers, reports and surveys sent in from overseas JETRO offices.

JETRO is now attempting to implement, by fall of 1969, a computer-oriented information retrieval system to handle the large amount of data it is accumulating. MITI will supply a new JEAC computer to JETRO for this program.

(F) Budget. The government's JFY 1968 appropriation for JETRO was $11,812,000, approximately 80% of JETRO's over-all budget. Subsidies from local governments, exhibitor's fees, sales of publications and miscellaneous receipts will account for the remainder of JETRO's 1968 receipts.

Government appropriations for JFY 1967 and JFY 1968 were distributed as follows:

[Dollars in thousands]

	Japanese fiscal year 1967 budget	Japanese fiscal year 1968 budget
(1) Operations of overseas trade centers and other offices	$3,768	$4,154
(2) Exhibitions and fairs	2,650	1,815
(3) Export promotion for specific commodities (agricultural products, light machinery, auto parts, medicine, general merchandise, ship machinery, movies)	1,197	1,285
(4) Overseas advertising for export commodities	1,020	1,068
(5) Commercial reports and overseas commodity surveys	823	1,099
(6) Trade Information Center (JETRO library, information data, retrieval system)	584	617
(7) Trade inquiries, language training, translation of catalogs, promotional shows in Tokyo for products of developing countries	414	463
(8) Special studies and special services to maintain orderly markets overseas	258	269
(9) Japan Design House (promotional program for good designs for export commodities)	69	70
(10) Domestic operations	832	972
Total	11,615	11,812

V. EXPORT PROMOTION BUDGETS OF OTHER GOVERNMENT AGENCIES

The JFY 1968 export promotion budgets of certain government agencies are summarized below. These represent only readily-identifiable expenditures and do not include the salaries and support costs of, for example, Japanese Embassy personnel wholly or partially-engaged in export promotion overseas.

VI. EXPORTING AS A WAY OF LIFE

The export promotion programs described above are, alone, insufficient to explain Japan's enormous success as an exporter during the post-war period. Exporting is truly a way of life in Japan and no discussion on Japan's export promotion techniques would be complete without acknowledging a number of less-obvious, frequently indirect means of export promotion.

(A) Administrative Decisions to Strengthen Japan's Balance of Payments. Because of the complex inter-relationships between business and government in Japan, and because of the high proportion of business activity subject to screening and approval by government agencies, the Japanese bureaucracy has significant opportunities to promote exports by granting or withholding its administrative sanction. This highly-controlled, to the outsider almost mysterious sys-

NATIONAL BUDGET

[Dollars in thousands]

(A) Ministry of International Trade and Industry;	
(1) Funds for overseas market development:	
(a) Heavy industry machinery export promotion	$816
(b) Japan Machine Tool Association	229
(c) Special market surveys	542
(d) Others (trade ship, textile, ceramics, and machinery design centers)	151
(2) Export General Merchandise Show Center (exhibition hall, 6 offices and 25 inspection officers)	592
(3) Small and middle business expert promotion	30
(4) Export inspection offices	2,289
Total	4,049
(B) Ministry of Agriculture:	
(1) Fund for sericultural industry	333
(2) Export inspection offices	3,287
Total	3,620
(C) Ministry of Transportation: Projotion for international tourism	2,507
Grand total	10,776

Source: Ministry of Finance.

tem, is usually justified as necessary to safeguard Japan's balance of payments and the integrity of her under-capitalized industries.

(1) Licensing Overseas Direct Investment. The Ministry of Finance must screen and approve overseas direct investment by Japanese companies. In doing so, the Ministry considers (among other factors) the potential value of Japanese exports that will result from the planned overseas investment.

(2) Screening of Foreign Direct Investment and Licensing in Japan. The Ministry of Finance (actually, all interested ministries of Japanese Government are involved) grants or withholds approval for foreign direct investment in Japan, taking into consideration the value of exports that will result from the investment, and a variety of other factors.

(3) Setting Terms of Deferred Payment Exports. The Ministry of Finance prescribes standard methods of payment for short term exports and standard terms of payment for deferred payment exports (usually partially-financed by Japan's Export-Import Bank). According to a recent press report, the Ministry is considering liberalizing existing export financing guidelines which are as follows:

(a) Down payment—10 to 20%:

(b) Terms of repayment—7–8 years;

(c) Annual interest rate—5.0–6.5%.

(4) Export Cartels. Under the Export and Import Trade Law (August 5, 1952) Japanese exporters may conclude agreements to form cartels (with the approval of Ministry of International Trade and Industry, for the purposes of developing foreign markets, and improving the prices, quality, design, etc. of items to be exported.

(5) Other Opportunities for Indirectly-Promoting Exports. Japanese government agencies have many less-obvious opportunities to favor Japanese companies who have favorable export records. To what extent such favors are extended, for example, in authorizing new-capacity plant investment or in awarding import licenses under Japan's import quota system, is simply not known with any degree of certainty; however, it is often speculated upon by students of the Japanese economy.

(B) Export Promotion as a National Objective. Japan's exports are stimulated and encouraged by the Government of Japan over and above the direct and indirect methods outlined in this paper, by moral suasion and public recognition. As a result, export promotion has become both good business for Japanese businessmen and a continuing national goal.

The principal embodiment of this national objective is the Supreme Export Council chaired by the Prime Minister of Japan. The Council is composed of cabinet ministers and industrial leaders, and is charged the responsibility of setting export targets for Japanese industries. Thousands of Japan's leading businessmen are brought into the export target-setting process through the Council's 72 industry sub-committees, most of which are guided by industry bureaus of MITI. For fiscal 1968 the Supreme Export Council set Japan's overall export target at $12.78 billion (customs clearance basis) representing an

18.5% increase over fiscal 1967 exports. Broken down by major industries and compared with actual fiscal 1967 exports, the Council's fiscal 1968 targets are shown below.

EXPORT TARGETS BY INDUSTRIES FOR FISCAL 1968

[In millions of dollars, on the customs clearance basis]

	Achievements in fiscal 1967	Targets for fiscal 1968	Growth rate (percent)
Industries:			
Agriculture, marine products industry	$601	$627	4.4
Iron and steel	1,399	1,582	13.1
Heavy machinery	2,736	3,271	19.6
Light machinery	1,015	2,270	25.1
Chemicals	787	987	20.4
Ceramics, building materials	121	129	7.1
Light industrial goods	1,228	1,377	12.2
Textile	1,633	1,741	6.8
Paper and pulp	99	114	15.4
Nonferrous metal	161	179	10.9
Others	243	596	140.3
Total	10,777	12,777	18.5

Note.—Recent Embassy reports on the Supreme Export Council include: A-1824, July 26, 1968; A-1332, Apr. 15, 1968; A-1175, Mar. 8, 1968.

TARGETS FOR INVISIBLE TRADE

[In millions of dollars]

	Achievements of fiscal 1967	Targets for fiscal 1968	Growth rate (percent)
Ocean transport:			
Receipt	814	961	18
Payment	1,687	1,733	3
Balance	[1] 873	[1] 772	
Air Transport:[2]			
Receipt	153	187	22
Payment	168	195	16
Balance	[1] 15	[1] 8	
Travel:			
Receipt	97	104	7
Payment	152	183	20
Balance	[1] 55	[1] 79	
Total:			
Receipt	1,064	1,252	18
Payment	2,007	2,111	5
Balance	[1] 943	[1] 859	

[1] In the red.
[2] Figures include certain fees not included in this category in Japan's balance-of-payments statistics.

CONCLUSION

One experienced student of the Japanese economy has summarized the principal reasons for Japan's success as an exporting nation in the following words:

> "Being an importer of raw materials and a fabricator and exporter of finished products makes the entire society export-conscious. Japanese bankers and businessmen generally want to cooperate in doing things officially and socially accepted as being best for Japan. The Government reinforces this Japanese desire to conform to a cooperative social pattern by making sure it does all it can to make export business worthwhile for bankers and businessmen. Sometimes the Government finds banks and business looking inwardly for higher profits in domestic transactions and finds it must act to keep them doing things according to Japanese instead of (merely) human nature. [Among other things] it . . . tightens the domestic economy and makes export transactions even more feasible and attractive in comparison with domestic transactions."

The Embassy concurs in this statement and hopes that the present paper will contribute to a better understanding of how and why the Japanese system works.

Mr. BURKE. Now there is an automatic rollcall on the floor of the House.

We wish to thank you for your testimony. We appreciate it.

The committee will be in recess subject to the call of the Chair. I don't imagine it will be more than 8 or 10 minutes.

Our next witness will be Mr. Meagher.

(Brief recess.)

Mr. WATTS (presiding). Go ahead, Mr. Meagher. Give us your name and for whom you appear.

STATEMENT OF EDWARD MEAGHER, CHAIRMAN, SEMICONDUCTOR DIVISION, ELECTRONIC INDUSTRIES ASSOCIATION; ACCOMPANIED BY JOHN E. FIELD, ECONOMIST, AND MITCHELL J. NEW DELMAN, ATTORNEY

Mr. MEAGHER. Mr. Chairman, I am Edward Meagher, chairman of the Semiconductor Division of the Electronic Industries Association. I have with me here Mr. John E. Field, an economist, and Mr. Mitchell J. New Delman, an attorney, also members of the semiconductor division.

Mr. WATTS. We are delighted to have them both.

Mr. MEAGHER. I am testifying today on behalf of the semiconductor division, whose members represent 95 percent of the sales of the U.S. semiconductor industry.

The semiconductor division is opposed to repeal of item 807 and related provisions of the Tariff Schedules of the United States, and is opposed to import quotas in general, and to import quotas on semiconductor devices in particular.

The semiconductor industry has annual sales of $1.3 billion. The industry employs some 140,000 people in the United States, and it contributed $241.5 million to the U.S. trade surplus in 1969.

ITEM 807 AND RELATED PROVISIONS

The semiconductor division is opposed to repeal of item 807 and related provisions of the Tariff Schedules of the United States.

The semiconductor industry is characterized by a rapidly changing technology, intense competition both in the United States and abroad, and a rapidly declining price structure. The U.S. semiconductor industry, however, has been able to maintain its technological leadership, to increase its sales, and to expand its domestic employment dramatically in this economic environment because it has been able to integrate its production processes internationally. Item 807 of the Tariff Schedules of the United States has helped make this possible.

The production of semiconductor devices may be divided into two clearly defined operations: the manufacture of photochemically engraved dice and the manufacture of piece parts, and the assembly of these dice and piece parts into complete semiconductor devices.

The manufacture of the dice and the piece parts requires a highly skilled labor force and expensive capital equipment. For these reasons, the semiconductor industry's manufacturing operations can be, and are, performed almost exclusively in the United States.

The assembly of semiconductor devices may be performed either with complex and expensive equipment, or by hand with low skilled labor.

The cost of designing and building mechanized assembly equipment,

however, economically restricts this approach to stable, high-volume markets. It is, therefore, not economically viable in an industry where the state of the art is constantly changing.

The U.S. semiconductor industry has, therefore, developed an internationally integrated production process. All the dice and piece parts are manufactured in the United States with highly skilled American labor. These parts are then sent offshore for the low skilled assembly process. After this, a major part is returned to the United States for further processing by American labor prior to sale in domestic and international markets.

This internationally integrated production process has had a beneficial impact on the U.S. semiconductor industry for three reasons.

First, the industry has been able to continue advancing the state of the art, and, therefore, to maintain its technological leadership and its competitive position in domestic and international markets. Thus, the industry's contribution to the U.S. trade surplus has increased from $88 million in 1966 to $241.5 million in 1969.

Second, the industry has been able to maintain the quality assurance necessary in the manufacturing process, and, at the same time, to reduce substantially the cost of assembly, and, therefore, the total cost of production. These production cost reductions have been passed on to the manufacturers of electronic products in the form of lower prices.

For example, single transistors of the kind commonly used in radio and television sets were first introduced on the U.S. market in 1954 at $3.89 per unit. Today, these same devices sell for about 20 cents each, and the simplest can be purchased for less than a dime. Similarly, the first integrated circuit came on the market in 1960 at over $150 per unit. Today, a comparable integrated circuit can be purchased for less than $1.

Third, the industry has been able to increase its penetration of existing markets and to capture new markets as the price of semiconductor devices has come down. Thus, the industry dollar sales have increased from $603 million in 1963 to $1.3 billion in 1969, and unit volume has soared from 760 million units in 1963 to 3.4 billion units in 1969. This, gentlemen, is the result of a highly priced elastic demand curve.

As unit volume has soared, direct employment in the semiconductor industry's U.S. manufacturing plants has also increased dramatically because, as I said earlier, almost all of the dice and piece parts are manufactured in the United States with American labor. Thus, domestic employment in the U.S. semiconductor industry has expanded from 40,000 people in 1963 to 140,000 people in 1969.

These positive results, however, do not tell the full benefits that the U.S. economy derives from the semiconductor industry's internationally integrated production processes. The semiconductor device is the basic component used in most electronic end products. For example, the cost of semiconductors represent from 15 percent to 25 percent of the cost of a computer, and, to a large degree, the U.S. leadership in computer technology is based on U.S. leadership in semiconductor technology. Thus, the benefits which I have already stated are multiplied as they are passed on to the electronic end product industries, and from them, on to the American consumer.

It is clear, therefore, that item 807 of the Tariff Schedules of the

United States, and the semiconductor industry's internationally integrated manufacturing processes, have brought beneficial effects to American business, to American labor, and to the American consumer.

The semiconductor division of the EIA believes that these highly beneficial effects will be underscored in the U.S. Tariff Commission's Report on item 807, and, therefore, joins with the entire electronics industry in strenuously opposing repeal of item 807 and related provisions of the Tariff Schedules of the United States.

IMPORT QUOTAS

The semiconductor division of the EIA is opposed to import quotas in general, and to import quotas on semiconductor devices in particular, for the following reasons:

First, quotas invite foreign retaliation against American exports. Thus, an import quota designed to protect a weak or inefficient domestic industry could well result in foreign retaliation against America's strong industries, such as the computer industry or the semiconductor industry. The American computer industry, whose U.S. employment has soared during the past 7 years, contributed $750 million to the U.S. trade surplus in 1969. As I have already said, the U.S. semiconductor industry employs 140,000 people in the United States, and has contributed $241.5 million to the U.S. trade surplus in 1969. These two strong American industries accounted for almost the entire U.S. trade surplus in 1969.

In any trade war, the United States, as the world's largest trading nation, would stand to lose much more in terms of foreign sales and domestic employment opportunities than its trading partners.

Second, quotas are inflationary. By eliminating the competition of foreign products from the domestic market, quotas permit weak and inefficient domestic industries to pass along their higher costs to the American consumer. Further, the inflationary impact of quota protection in a basic component industry is diffused, and multiplied, throughout the entire electronics industry.

Third, import quotas would cause the United States to lose export sales of components and subassemblies which are part of imported articles subject to quota control. This loss of export sales would, of course, be in addition to the more serious reduction in export sales brought about by foreign retaliation.

Fourth, import quotas and item 807 of the Tariff Schedules of the United States are directly related. If import quota restrictions were placed upon products destined to be returned to the United States under item 807, the value of this provision would be limited by the extent of the restrictions. Therefore, quotas restricting the import of semiconductor devices under item 807 would cancel the highly beneficial impact that this provision of the tariff schedules has had on the American semiconductor industry, on American labor, and on the American consumer.

The U.S. semiconductor industry, by developing an internationally integrated production process which allows it to maintain manufacturing quality assurance and, at the same time, reduce prices year after year, has been able to maintain its technical leadership and its competitive position in domestic and international markets. As a result, the semiconductor industry's sales have increased very rapidly,

and the industry's domestic employment has grown 350 percent, from 40,000 people in 1963 to 140,000 people in 1969.

To continue this healthy process, the semiconductor division of the EIA urges this committee to work toward freer world trade. This can be accomplished if the United States follows its own bold example of the past 35 years and initiates multilateral negotiations to reduce and/or to eliminate all nontariff barriers, including import quotas, on a worldwide basis.

CONCLUSION

The semiconductor division of the EIA firmly believes that given the cooperation and support of our Government, the ability to rationalize international production, and a world of free and open markets, that the U.S. semiconductor industry can, and will, maintain its technical leadership and its competitive position in both domestic and world markets; that the U.S. semiconductor industry can, and will, continue to expand its sales and earnings; and most importantly, that the U.S. semiconductor industry can, and will, continue to expand its domestic employment dramatically in the years ahead.

Thank you, sir, for the opportunity to testify.

Mr. WATTS. Thank you very much, Mr. Meagher, for appearing and bringing us your thought-provoking statement.

Mr. FIELD. Mr. Chairman, may I just make one statement, please, before we conclude?

The semiconductor division voted as a whole not to impose import quotas in general, and semiconductors in particular.

I should like to state that one company did not vote in this way. It was Sprague Electronics. They voted to impose import quotas. I would like to state this for the record.

Mr. WATTS. Thank you.

The next witness was supposed to be Mr. Donaghue. I understand he is ill. He will be given permission to file his statement for the record, which will be inserted at this point in the record.

(Mr. Donaghue's prepared statement follows:)

PREPARED STATEMENT OF HUGH P. DONAGHUE, ASSISTANT TO THE PRESIDENT, CONTROL DATA CORPORATION

I. INTRODUCTION

Control Data Corporation respectfully submits its response to the invitation of the Committee on Ways and Means of the U.S. House of Representatives in its deliberations concerning the subject of foreign trade and tariffs, with particular emphasis on the President's foreign trade proposals.

Control Data Corporation, incorporated in Delaware with corporate headquarters in Minneapolis, Minnesota, is a major manufacturer of computers and related peripheral equipment; and through its subsidiary, Commercial Credit Company, is a major factor in consumer and commercial financing enterprises. On the computer side of our business, we manufacture some of the largest and highest capacity digital computer systems in the world. Also, we are a major supplier of peripheral equipment, not only for our own systems' needs, but for other computer manufacturers in the United States and abroad. For the year ending on 31 December 1969, our computer operations produced revenues of $570 million. Of this $148 million was produced through the sale and lease of computers, peripheral equipment and services overseas. This compares with revenues of $468 million for 1968, with overseas revenues of $106 million. In the years 1967, 1968 and 1969, Control Data's international sales represented 21.8%, 22.7% and 26%, respectively, of our total revenues. This high rate of international sales growth for Control Data in the cited three-year period is characteristic of the historical growth rate for the entire industry during the 1960's and that which

has been projected for the 1970's—providing, of course, the environment within which we operate is not unduly tampered with by the imposition of short-sighted restrictive measures or the removal of specific incentives which have contributed significantly to the competitive advantage so far enjoyed by the U.S. computer industry.

During the 1960's, the cumulative sales of U.S. based computer firms, world-wide, increased 13-fold—from $2.27 billion in 1960 to $29.6 billion in 1969. Of these, cumulative sales in the international market place increased almost 27-fold from $330 million to $8.7 billion, or, double the domestic rate of growth. During the next five years, that is, from 1970 to 1975 it has been reliably projected that the cumulative sales totals of U.S. based computer firms will more than double, world-wide, and will almost triple in the international market place. The following charts, based on statistics provided by the EDP Industry Report, dated 12 March 1970, Vol. V, No. 9, substantiate these figures.

CHART I.—HISTORICAL REVIEW OF COMPUTER ACTIVITY BY U.S.-BASED MANUFACTURERS

	Number systems shipped	Cumulative number in use	Value shipped (million dollars)	Cumulative value in use (billion dollars)
Worldwide:				
1960	2,200	6,500	720	2.27
1961	3,400	9,300	1,100	3.26
1962	4,500	12,600	1,400	4.51
1963	3,600	16,800	1,710	5,97
1964	7,500	24,000	2,200	7.92
1965	7,400	31,000	2,400	10.10
1966	10,200	40,600	3,660	13.50
1967	18,700	57,600	5,900	18.90
1968	14,700	69.400	7,150	24.60
1969	19,650	89,000	7,170	29.60
U.S. Computer Market:				
1960	1,790	5,400	590	1.94
1961	2,700	7,500	880	2.71
1962	3,470	9,900	1,090	3.62
1963	4,200	12,850	1,300	4.72
1964	5,600	18,200	1,670	6.10
1965	5,350	23,200	1,770	7.65
1966	7,250	29,800	2,640	10.00
1967	11,200	40,100	3,900	13.60
1968	9,100	47,100	4,950	17.35
1969	13,735	62,600	4,915	20.90
International computer market:				
1960	410	1,100	130	.33
1961	700	1,750	220	.55
1962	1,030	2,700	310	.89
1963	1,400	3,950	410	1.25
1964	1,900	5,800	530	1.82
1965	2,050	7,800	630	2.45
1966	2,950	10,800	1,020	3.47
1967	7,500	17,500	2,000	5.30
1968	5,600	22,300	2,200	7.15
1969	5,915	26,800	2,255	8.70

CHART II.—PROJECTION OF COMPUTER ACTIVITY, U.S.-BASED COMPUTER MANUFACTURERS

	Number systems shipped	Cumulative number in use	Value shipped (million dollars)	Cumulative value in use (billion dollars)
Worldwide:				
1970	25,080	109,800	7,720	35.0
1971	33,800	124,700	8,840	41.2
1972	42,840	173,900	10,340	48.1
1973	53,120	219,100	11,820	56.0
1974	62,190	272,100	14,330	64.8
United States:				
1970	17,920	78,200	5,260	24.3
1971	24,250	97,900	6,030	28.2
1972	36,400	145,000	7,050	32.5
1973	44,900	157,600	6,910	37.4
1974	45,500	197,300	8,610	42.9
International:				
1970	7,160	32,600	2,460	10.7
1971	9,550	39,800	2,910	13.0
1972	12,050	49,300	3,490	15.6
1973	14,620	61,500	4,100	18.6
1974	16,690	74,800	5,720	21.9

II. THE ISSUE

It would be well to pause here and reflect upon this remarkable growth rate, not only in terms of the environment which made it possible, but in terms of the potential for stunting this growth through tampering with that environment. The events leading up to the consideration of the Administration's Trade Act and other trade legislation that has been introduced this year are, in our opinion, symptomatic of a growing trend towards a protectionist trade posture on the part of certain segments of our government, fostered by short-sighted objectives of labor unions and other special interest groups, and a revival of isolationism which was the keynote of our ill-fated foreign policy prior to World War II. In short, instead of progressing, we seem to be retrogressing.

In the spirit of leadership, inspiraton and adding to the equality of life throughout the Western Hemisphere, the Rockefeller Report on the Americas makes strong and specific recommendations concerning reorganization of the United States Government's foreign policy structure, fundamental changes of U.S. trade and lending policies, re-negotiation of foreign debts, and a more realistic division of labor in the Western Hemisphere.

In his address to the Congress on Foreign Policy on 18 February 1970, President Nixon said a few things well worth quoting, and bearing in mind throughout these deliberations:

"The low income countries need increased export earnings to finance the imports they need for development."

"Such export increases must come largely in manufactured goods, since the demand for most primary commodities—their traditional exports—grows relatively slowly."

"We propose that all industrialized nations eliminate their tariffs on most manufactured goods exported to them by all developing countries."

"Private investment must play a central role in the development process, to whatever extent desired by the nations themselves."

In its report to the President, dated 4 March 1970, the Task Force on International Development echoed these sentiments. The Task Force made three specific recommendations, among many others, that are worthy of note in this issue:

1. That the Overseas Private Investment Corporaton (OPIC) make greater use of guaranty programs, in combination with other countries, to encourage international joint ventures.
2. That current restraints on U.S. direct private investment in developing countries be eliminated.
3. That trade policy be taken into account—specifically, the value of preferential arrangements and measures taken to open markets to imports of manufactured and agricultural commodities from developing countries.

In a recent speech before the Electronic Industries Association's annual meeting in Washington, D.C., the Honorable Kenneth N. Davis, Jr., Assistant Secretary of Commerce for Domestic and International Business, asserted:

"If our great industries and the nation as a whole do not maintain their strength and vitality, we will not have the financial resources to solve our massive national social and economic problems. Also, we would not be able to continue to provide leadership in international economic development which is so vital to the whole world's future

* * * * * * *

"For a business to be strong today, it is no longer enough just to be able to compete effectively with other American companies here at home. The world has suddenly become a global market place! We must now compete more effectively in this new global environment if we are to stay strong as industries and as a nation."

These are welcome words from the viewpoint of U.S. industry engaged in international sales since they present a contrasting appearance to what we consider an ominous trend. Let us look at the recent record.

The Export Administration Act of 1969, which replaced the Export Control Act of 1949, retained many of the restrictive aspects of its predecessor which was enacted at the height of the cold war. The new legislation which was first introduced in the Senate, originally provided for a marked liberalization in our export policy in the interests of trade expansion. In fact, the original title was "Export Expansion Act of 1968." The final, watered-down version of this legislation struck the term "Expansion" from the title, and the thrust, of the bill.

In January 1968, the President instituted a new Foreign Direct Investment Program which materially restricted the ability of U.S. industry to expand in international sales by curtailing and limiting foreign capital investment necessary for these industries to continue to grow in the global market place to which Secretary Davis referred. Companies who were already heavily committed in overseas operations were forced to raise money in support of their activities from foreign sources—money that must eventually be paid back. Under this program, computers shipped overseas for lease were considered as foreign capital investments whose value must be returned in one year. If U.S. industry had not sought out foreign money this restriction would have precluded the lease of many U.S. computers and the resultant inflow of dollars over an ensuing period of years.

Today's hue and cry concerning foreign direct investment as it applies to the issue of operations conducted under items 806.30 and 807.00 of the Tariff Schedules are equally unrealistic. These operations remove few dollars from the U.S. and through enhancing our position in the global market place result in an increasingly favorable contribution to our balance of trade and balance of payments.

On 28 August 1969, the President requested the United States Tariff Commission to conduct an investigation of the economic factors affecting the use of items 806.30 and 807.00 of the Tariff Schedules of the United States (TSUS). Under these provisions, articles manufactured in the United States are shipped abroad for further processing or assembly, and are then returned to this country for incorporation into finished products for sale world-wide. Import duties on these articles are limited to the value added by foreign labor.

Foreign trade is inherently a two-way street wherein trade concessions on one side open profitable opportunities on the other. Under items 807.00 and 806.30 of the Tariff Schedules, major U.S. manufacturers have, through reciprocal agreements, been able not only to conduct offshore assembly and processing operations but, through these activities, have gotten a "foot in the door" for major sales in those countries. Further, major industries, acting under incentives such as the Specific Risk Guaranty Program, have supported our government's programs aimed at fostering self-sufficiency among developing nations, at a profit—largely because of items 806.30 and 807.00 of the Tariff Schedules. Short-sighted efforts to repeal these provisions now seem to be undertaken without regard to the impact upon our precarious balance of payments and balance of trade posture and without due consideration to the foreign policy repercussions that might accrue.

The fact is, however, the matter *is* under investigation, and Control Data was privileged to testify on behalf of retaining items 807.00 and 806.30 before the Tariff Commission on 13 May 1970. We are somewhat alarmed, however, that a bill (H.R. 14188) was introduced, on 3 October 1969, after the Tariff Commission commenced its inquiry, which would repeal item 807.00 of the Tariff Schedules. Since the Tariff Commission has undertaken this investigation, it appears that the most prudent course would be to postpone legislative action in this issue until objective conclusions and recommendations resulting from this exhaustive inquiry can provide the basis for viable legislation.

A recapitulation of the separate actions adding up to the trend towards protectionism would not be complete without the citing of three additional measures that have been introduced and referred to the House Ways and Means Committee: H.R. 16920 governing textile and leather footwear imports, H.R. 9274 and H.R. 993 which would establish quotas for electronic products, not limited to consumer products alone.

Let us now turn our attention to H.R. 14870, the Administration's proposed trade legislation. This bill, which will amend P.L. 87–794, the Trade Expansion Act of 1962, has also strangely eliminated the word "Expansion" from its title and is known simply as: "Trade Act of 1969." The stated purposes of this Act are:

1. To continue to strengthen the trade agreements program of the United States.
2. To establish a viable program of tariff adjustment for industries and other assistance for firms and workers affected by imports.
3. To promote the reduction or elimination of non-tariff barriers to trade.

In contrast, the purposes of the 1962 Act were couched in terms such as "stimulation of economic growth"; "enlarge foreign markets"; "development of open and non-discriminatory trading in the free world"; and other optimistic terms. Clearly, as the President has stated, the 1969 Act is "modest in scope" when compared to its predecessor, and takes an unmistakably more defensive posture on trade than did the 1962 Act.

Aside from this, we are concerned about those aspects of the proposed Trade Act which tend to down-grade the importance and effectiveness of the United States Tariff Commission in foreign trade matters. In his message which transmitted this proposed legislation to the Congress, the President recommended "that the Tariff Commission continue to gather and supply the needed factual information, but that determinations of eligibility to apply for assistance be made by the President." However, the Executive Department's Analysis of the Administration's proposals embodied in H.R. 14870 clearly expresses the intention that the Tariff Commission, when reporting to the President on matters referred to it for investigation, will not include in its reports, conclusions, opinions or judgments which are tantamount to the determinations. This limitation imposed upon the content of the Commissions reports would appear to curtail the purpose for which the Tariff Commission was established: that is, to serve the Congress and the President as an *advisory* body, in addition to serving as a fact-finding agency on tariff, commercial policy and foreign trade matters. If the Tariff Commission is able to react only within limits prescribed by the President, it might as a consequence, fall short of fulfilling its advisory role to the Congress.

III. CONTROL DATA CORPORATION AND THE MULTI-NATIONAL CORPORATION

Much is being said these days about the multi-national corporation. Control Data Corporation considers itself to be a truly multi-national corporation, and subscribes to its definition by Eldridge Haynes, Chairman and President of Business International Corporation in his recent testimony before the Subcommittee on Foreign Economic Policy of the Joint Committee of the U.S. Congress on Economic Policy as . . . "a company that looks at the entire world as its area of operation, and acts that way. It searches everywhere for new technology, talented people, new processes, for raw materials, ideas and capital. It thinks about the entire world as its market, and strives to serve customers everywhere. It produces goods or renders services wherever they can be economically produced or rendered to serve one or more markets at a profit."

Control Data's philosophy as a multi-national corporation, and as an advanced-technology company, aims at running its business so that this technology will be diffused throughout its subsidiaries in various countries of the world. Initially, this flow is outward from the development centers in the United States, but there is soon a return flow, and after a while a flow between the various countries. There was a time, and not so long ago, when any red-blooded corporation could define its primary aim by the simple statement that it stood for making a profit for its shareholders. That basic objective still stands, of course, but the modern world-wide corporation has additional responsibilities. As we see it, and within the constraints imposed by the laws of countries concerned, protection of local industry, local labor practices and the like, we must use our managerial talents, our innovative capability, our technical resources, our educational facilities and our resources in consumer financing to make our contribution to a better world—at home and abroad.

Motivated by the encouragement of our government to take part in programs aimed at self-sufficiency within developing nations and to solving the problems of unemployment and under-employment in our inner cities and depressed rural areas, Control Data has entered into these programs with equal fervor. We have opened plants vital to our feeder-plant concept of operations in Korea, Hong Kong, Tijuana and Portugal. During the same period, we have opened plants equally vital to our production chain in the ghettos of Minneapolis and Washington, D.C., employing hard-core unemployed and underemployed Americans; and in Appalachia. In addition, we have recently opened a plant in St. Paul, Minnesota, aimed at employing part-time help such as mothers with school-age children and high school students who need to earn money. Each of these plants, foreign and domestic, was established on the premise that it must show a profit for itself and for Control Data if the objective of developing self-sufficiency were to be realized. Because of the feeder-plant concept under which we operate, each of these facilities was established as a permanent plant supplying components vital to our established product line, and not as a temporary, or stop-gap measure. Taking this one step further, many of these plants are dependent upon each other for assemblies to be utilized in their final product. For example, the Minneapolis ghetto plant is directly dependent upon assemblies imported under item 807.00 of the Tariff Schedules in its production.

Control Data, a multi-national corporation, is fortunately able to react as we have described, domestically and overseas to enhance government fostered

programs and to produce a profit for our shareholders whether it be in procuring materials or components, conducting assembly operations, or utilizing existing labor markets. Mr. Haynes of Business International Corporation, quoted again to illustrate our point, stated in his congressional testimony that:

"Clearly, the multi-national corporation needs international cooperation. Except for the public at large, it has more to gain by international cooperation, and more to lose by its absence, than does any other segment of society." . . . "Multinational corporations cannot be hurt by free trade because they are prepared to serve their customers with the lowest cost product—imported if necessary. Incidentally, protectionists almost invariably represent companies that have not ventured to invest in manufacturing outside their home countries."

Control Data would like to add a footnote to the effect that the multi-national corporation inherently possesses the flexibility to adjust its posture in pursuit of its primary objectives; importing where necessary to serve its customers with the lowest cost product, *or exporting* where necessary, its products, its operations and its purchasing activities to meet current or prospective exigencies that threaten its competitive position in the world market place.

IV. SUMMARY

We in Control Data Corporation are proud of our heritage wherein we grew, in a little more than a decade, from the idea of a few dedicated and far-sighted men to one of the world's leaders in the computer industry. We accomplished this in an atmosphere epitomized by the words I have quoted from our leaders in government—an atmosphere where success thrives in competition—an atmosphere of free enterprise which is our American way of life.

There is no compromise between protectionism and free-trade philosophy. It would be, in our opinion, sheer folly to retreat behind our own kind of "iron curtain" pieced together with tariffs, quotas and other barriers to trade to meet the demands of some of our industries and labor groups. To do so will almost certainly invite a wave of retaliation by our foreign trading partners, and probable counter-retaliation thereby nourishing a spiraling contraction of world trade, employment and income.

In summary, Control Data Corporation urges that the Congress of the United States continue to adopt an attitude that favors a free-trade atmosphere in consideration of current trade legislation. We support the Administration's Trade Act, in general, and strongly oppose any efforts to further change our liberal trade policy through the adoption of quotas, increased tariffs, and repeal of items 806.30 and 807.00 of the United States Tariff Schedules.

Mr. WATTS. The next witness is C. Lester Hogan.

STATEMENT OF THOMAS HINKELMAN, VICE PRESIDENT FOR CORPORATE PLANNING, FAIRCHILD CAMERA & INSTRUMENT CORP.; ACCOMPANIED BY ROBERT HERZSTEIN, ATTORNEY

Mr. HINKELMAN. Dr. Hogan could not be here. I am Thomas Hinkelman, vice president of Fairchild Camera & Instrument.

This is Mr. Robert Herzstein, our attorney.

Mr. WATTS. You are recognized for 10 minutes.

Mr. HINKELMAN. In my testimony, which I would like to submit for the record, I shall focus on H.R. 14188, which calls for the flat repeal of tariff item 807. In certain instances I will depart from the statement that we have previously presented.

Mr. WATTS. You desire your entire statement put in the record?

Mr. HINKELMAN. That is correct.

Mr. WATTS. Without objection, that will be done.

Proceed.

Mr. HINKELMAN. Tariff item 807 is a provision under which many American manufacturers, including Fairchild, are able to produce or purchase American-made components, assemble them abroad, and

then bring back the finished product to this country without paying a duty on the value of the American-made components.

It is the position of Fairchild—and I believe that in this regard Fairchild also speaks for its major competitors in the semiconductor industry, that this tariff item should not be repealed. It is our belief that a careful analysis of tariff item 807 will reveal that, at least in such high technology industries as the manufacture of semiconductors, this provision permits an international division of labor which is extremely beneficial not only to this country but also to its less developed trading partners. This provision increases rather than decreases American jobs. It produces positive and not negative effects on the U.S. balance of trade. It permits U.S. companies to innovate rapidly and thereby stay ahead of their foreign competitors. It promotes rather than eliminates the formation of new U.S. companies. And finally, it ensures that this country can foster the industrial productivity of less developed countries with the fewest detrimental side effects for its own industries.

Due to time limitations, I shall not be able to present orally the detailed data which would highlight all of these various statements. Instead, let me just touch on some of the more significant points at issue:

At the outset, it is necessary for this committee to understand something about the semiconductor industry.

Silicon is a metallic-like element which has semiconducting properties, and that is how we get the name of our industry. A semiconductor is made by depositing an electrical circuit on a pinhead-size chip of specially prepared silicon, mounting the chip on a larger base or container, connecting the terminals of the electrical circuit to lead wires which emerge from the base, and then encapsulating the device to protect it.

Fairchild and many other companies in the semiconductor industry have for some years produced the silicon chips in this country. They have also either produced or purchased various of the other parts, such as lead wires, bases, and caps in the United States, and then sent both the chips and the other components to plants located abroad, where they could be assembled.

This careful integration of domestic and foreign production activities has, of course, permitted companies such as Fairchild to manufacture semiconductors less expensively than would be the case if all of their operations were carried out in the United States.

In our industry, this ability to lower costs has not had the effect of producing larger profits on the same number of items sold. It has, instead, permitted rapid and steep price reductions, which have been followed by similarly rapid and steep increases in the quantity of items sold. Thus, when I tell you about our industry's use of Tariff Item 807 to construct an internationally integrated manufacturing process, I am, in effect, relating a story about how volume markets are created, and the quality of goods improved.

Let me be more specific. Integrated circuits of the kind used in computers were first introduced in the U.S. market in 1963. At that time, the average price for an integrated circuit was $31.60. By 1965, the price of an integrated circuit had been reduced to $8.33. But even at this reduced figure the demand was low, and the market limited.

However, when we learned how to mass produce integrated circuits for less than $1—and this would not be possible without an input of low-cost assembly labor—we quickly found mass markets which could consume the goods. Thus, by 1969, we had multiplied the number of integrated circuits sold in 1963 by a factor of 500, to 250 million units. In effect, then, by performing assembly work on semiconductors abroad, we have reduced the cost involved in bringing these products to the market.

But Tariff Item 807 has not simply produced benefits for industry alone. Its existence has also been absolutely indispensable to the creation of jobs in this country. In 1962—before Fairchild Semiconductor opened any foreign assembly plants—it employed 2,500 people in the United States. Today, the Semiconductor Division's domestic employment has reached 10,500.

This same job development phenomenon has occurred throughout the entire industry, as mentioned by the previous speaker. In 1963, some 40,000 American workers were employed in the production of semiconductors. By 1969, that figure had risen to 140,000 workers.

But it may be argued by those who oppose Tariff Item 807 that these statistics and claims prove nothing. Although they show the number of U.S. workers that Fairchild in particular and the semiconductor industry as a whole employ, they do not point up the number of foreign workers which these companies utilize. If the U.S. job picture is as impressive as it now seems—the argument goes—think how much more impressive it would be if all the jobs created abroad by the semiconductor industry were returned to the United States and given to domestic workers.

This line of reasoning—which seeks to translate foreign employment into a one-for-one ratio of jobs lost in the United States—is utterly fallacious. The weakness of this simple cause-and-effect theory is its failure to take account of the realities of industrial production and the basic economics of supply and demand curves. Domestic employment in the semiconductor industry has grown because that industry has succeeded in creating an enormous demand for its products. If companies such as my own were unable to produce semiconductors at 10 cents or 20 cents apiece—but rather had to produce them at 50 cents apiece—they would lose sales, and, as they lost sales, they would have to cut back their direct employment. In turn, immediate reductions in domestic employment would occur for the direct suppliers of these semiconductor manufacturers.

Thus, for me, the genius of Tariff Item 807 is that it permits high technology companies—such as my own—to establish a manufacturing process under which production costs can be reduced. For each reduction in production costs, sales are increased, and concomitantly worldwide employment—including employment in the United States—is also increased.

Moreover, the jobs which are retained in this country under an internationally integrated manufacturing process are the ones that we should prize the most—the skilled jobs. In the years ahead, this country should be seeking to maximize industrial employment which relates to the most difficult phases of the production process, rather than to the simpler parts of that process. While it may be theoretically interesting to argue that there are millions of Americans interested

in working at jobs paying only the lawful minimum wage, the practicalities are that such a potential work force does not exist. And basic semiconductor assembly employment—which cannot even be economically justified at the U.S. minimum wage—will certainly not support a working force being paid wages substantially higher than that minimum.

In addition, it must also be made clear that along with semiconductor industry and employment growth, there has come a steadily increasing favorable balance of trade. In 1966, it amounted to $88 million. In 1969, it had risen to $241.5 million. This constantly increasing trade balance is also intertwined with the existence of Tariff Item 807. An internationally integrated manufacturing process has permitted the U.S. semiconductor industry to maintain an edge in the intensely competitive world market for semiconductor products. By manufacturing or purchasing components in the United States and then shipping them abroad for assembly, our industry has kept production costs low, and quality and technological advancement high.

I might add as an aside at this point that of all the radios built in Hong Kong, half of them do not enter the United States but rather are shipped throughout the world. However, 70 percent of all of these radios are made with Fairchild conductors, and all of the high technology work on these transistors is done in the United States. So the problem is far more complex than some of the speakers would have you believe.

Through this international integration of manufacturing, our industry has also been able to introduce new products with less investment an less risk than would otherwise be possible.

I will go back to my example of the fantastic growth in the integrated circuit market over a period of 7 years. Management in this industry, as in all industries, has been forced to weigh carefully the risks involved in producing large quantities of novel and new devices, and the cost of taking them to the market. When these risks can be held to a minimum through the use of foreign assembly, a company is obviously in a position to authorize the production of new products more readily and more frequently. The result—and I should say a very important result—for the technology of this country is an economical system of production, making rapid introduction of new products possible.

This continual introduction of a wide variety of new advanced semiconductor products has in turn had vast economic consequences for the industries which use these basic building blocks as components for larger electric appliances and electronic systems, such as computers. For example, many of the great strides made in the U.S. computer industry have been grounded upon the progressive and forward thrust of this country's semiconductor industry. The ability of the computer industry to obtain a constantly evolving supply of low-cost electronic building blocks from American semiconductor companies—with whom a close working relationship can be maintained—has enabled that industry to keep a technological lead over its foreign competitors.

Keep in mind, again, that the favorable balance of trade in the electronics industry is the direct result and contribution of both the computer industry and the semiconductor industry. In point of fact,

the favorable balance obtained from sale of computers and semiconductors is equal to the entire trade surplus which this country had in 1969.

If Tariff Item 807 were repealed, the semiconductor companies utilizing these provisions would, in effect, be required to begin paying a tariff to the United States Government on the value of the components turned out by the high technology operations they maintain in this country. In effect, a repeal of the tariff items in question would result in the imposition of a tax on American labor.

Not only is this result unfair, but it is senseless when put in the context of the potentially awesome effects which a repeal of Tariff Item 807 could produce. In the semiconductor industry, the rebalancing of basic economic factors which could result might well produce consequences that are completely opposite to those expected by persons in Government, industry, and the labor movement who favor repeal.

In my judgment, the most significant consequences would be as follows:

Production costs would increase, since the U.S. industry would either have to pay more in duties for the privilege of using foreign assembly labor, or would have to use more expensive U.S. labor.

Higher assembly costs would begin to produce an adverse effect on the sale of domestic semiconductor products. Customers of the U.S. semiconductor industry would begin either to look for substitute products, or for substitute foreign suppliers.

As the investment required for the introduction of new semiconductor products increased, the domestic industry would have to decrease the number of such products being developed in order to stay within the limits of its resources. The rate of innovation on which the domestic semiconductor industry has thrived would be seriously handicapped.

The higher cost of producing semiconductors—particularly new devices—would make our industry far less capable of competing with foreign semiconductor manufacturers, in both the U.S. and foreign markets.

Faced with these problems, many U.S. semiconductor manufacturers would reach the decision that they were embarked upon a course which could only lead to second- or third-rate status for their industry. To counteract this process, they would take the only practical step, which would be to shift a far greater portion of their semiconductor production work abroad.

As fully integrated semiconductor manufacturing facilities were established abroad, the U.S. balance of trade would begin to suffer seriously. Domestic employment would, of course, drop disastrously.

Placed in this context, repeal of Tariff Item 807 must be viewed as a short-sighted effort. In proverbial terms, a repeal would mean that this country's trade policymakers had decided to kill the goose that laid the golden egg.

In my judgment, such a course should be rejected as folly. But I do recognize that other witnesses whom you either have heard or will hear may disagree. I would therefore like to stress to this committee's members that regardless of their current views on Tariff Item 807,

or the effectiveness of Fairchild's testimony in helping to form those views, this is the wrong time for the Congress to deal with this tariff provision. For, if nothing else, I hope that my statement will convince this committee that the question of repealing Tariff Item 807 is far from a simple matter. Rather, it involves a series of difficult questions relating to that provision's current economic effects on a number of specific industries, and the ramifications which might be caused by its deletion from the Tariff Schedules.

At the present time, the Tariff Commission—at President Nixon's request—is completing a meticulous investigation of Tariff Item 807. In light of this investigation, and the economic complexities surrounding the use and effect of this provision, it is Fairchild's belief that the most reasonable course for this committee to follow is to await the results of the Commission's study.

For the present, the committee should concentrate on strengthening the factors which have been responsible for the present growth and achievement of such industries as the manufacture of semiconductors. Within this general guideline:

> Every effort should be made to foster the export potential of this country's high technology industries. In this regard, the DISC proposal of the Treasury Department is a worthwhile step forward. But note should be taken at this stage, before concrete legislation is formulated, that the Treasury's proposal currently appears to include a poorly conceived recommendation to discriminate against American companies producing goods under the auspices of Tariff Item 807. If our interpretation is correct, this recommendation should be changed before concrete legislation is drafted.
>
> U.S. policy must avoid an excessive reliance on import quotas—be they statutorily imposed or voluntarily accepted.

We at Fairchild cannot pretend to be experts on textiles or shoes, and cannot comment on the proposals now being aired to provide assistance to these industries. But we do think it important for this Committee—with its overriding responsibility for American trade policy—to understand that the imposition of import quotas for a wide variety of products, including such items as consumer electronic products and electronic parts used in those products, will ultimately harm this country's high technology industries. For if this country begins to raise its own barriers to the relatively free movement of goods, it will lose its ability to protect its export industries against the establishment of reciprocal trade barriers in Western Europe and the Far East. We think that if a wide variety of U.S. quotas are established, the most logical response for the Japanese and for the countries of the Common Market would be to erect reciprocal barriers against the U.S. computer and semiconductor industries. We believe this because both the Japanese and the Common Market countries have stated that a build-up of these high technology industries constitutes national goals for their economies.

> U.S. policy should also be specifically directed toward keeping open world markets for products such as semiconductors.

There are disturbing indications that certain European countries are planning to erect non-tariff barriers against U.S. technological products, in the form of testing and certification requirements which would discriminate against American products and would favor similar products made within Europe.

American industry, American workers, and the U.S. Government should all direct their efforts at heading off the implementation of such non-tariff barriers as the European Multipartite Agreement, which might unfairly deprive American industry, with its highly efficient international production facilities, of important foreign markets.

Finally, the U.S. Government and the domestic industry should work in harmony with labor organizations, universities, and other segments of the economy in an effort to maintain and improve the critical mass of engineers, skilled workers, refined equipment, and technological information which will be needed in the years to come.

The U.S. semiconductor industry—and other high technology industries—will be unable to maintain a strong position in the face of increasing foreign competition if such a full-scale and cooperative effort is not begun as rapidly as possible.

We ask only that Congress not commit this country to an apparent trade policy panacea, for in the long run these cure-alls will never solve the problems at which they are being directed.

Thank you, Mr. Chairman.

Mr. GIBBONS (presiding). Thank you, sir.

(Mr. Hinkelman's prepared statement follows:)

PREPARED STATEMENT OF THOMAS HINKELMAN, VICE PRESIDENT FOR CORPORATE PLANNING, FAIRCHILD CAMERA AND INSTRUMENT CORPORATION

Mr. Chairman and members of the Committee, I am Thomas Hinkelman, Vice President for Corporate Planning, of the Fairchild Camera and Instrument Corporation.

At the outset, I should like to mention how pleased I and my associates at Fairchild have been with the thoroughness of this Committee's investigation into the trade policies of the United States. If this country is to reexamine and possibly alter some of these policies, it must do so only after a careful analysis of concrete facts and figures and a reasoned judgment regarding the consequences which these alterations will have both here and abroad. It can never be productive to make trade policy decisions on the basis of catch phrases such as "free trade," "protectionism," or "export of jobs." The world has become too small and the interplay between government programs, resources, labor, capital, management, and markets too complex to permit this type of simplistic reasoning.

In my testimony, I shall therefore attempt to avoid these catch phrases. Instead, I shall concentrate on setting forth a description of the practices of my company and the semiconductor industry as a whole and the effects that these practices have on the U.S. economy. In particular, I shall focus on H.R. 14188 which calls for a flat repeal of Tariff Item 807—a provision under which many American manufacturers, including Fairchild, are able to produce or purchase American-made components, assemble them abroad, and then bring back the finished product to this country without paying a duty on the value of the American-made components.

It is the position of Fairchild—and I believe that in this regard Fairchild also speaks for its major competitors in the semiconductor industry—that this tariff item should not be repealed. It is our belief that a stringent analysis of Tariff Item 807 will reveal that, at least in such high technology industries as the manufacture of semiconductors, this provision permits an international division of labor which is extremely beneficial, not only to this country but also to its less developed trading partners. This provision—and its related counterpart, Tariff Item 806.30—increases rather than decreases American jobs; it produces positive and not negative effects on the U.S. balance of trade; it permits U.S. companies to innovate rapidly and thereby stay ahead rather than lag behind foreign competitors; it promotes rather than eliminates the formation of new U.S. companies; and finally, it ensures that this country can foster the industrial productivity of less developed countries with the fewest detrimental side effects for its own industries.

But, before presenting detailed testimony which will develop these points more fully, I should like to stress to this Committee's members that regardless of their current views on Tariff Item 807 or the effectiveness of Fairchild's testimony in helping to form those views, this is the wrong time for the Congress to consider this tariff provision. For if nothing else, I hope that my statement will convince this Committee that the question of repealing Tariff Item 807 is far from a simple matter. Rather, it involves a series of difficult questions relating to the current economic effects of that provision on a number of specific industries and the ramifications which might be caused by its deletion from the Tariff Schedules. At the present time, the Tariff Commission—at President Nixon's request—is completing a meticulous investigation of Tariff Item 807.[1] In light of this investigation and the economic complexities surrounding the use and effect of this provision, it is Fairchild's belief that the most reasonable course for this Committee to follow is to await the results of the Commission's study.

In presenting Fairchild's position on Tariff Item 807, I should like to break down my statement into four parts, namely:

(1) a general description of the semiconductor industry and its use of the tariff item at issue;

(2) an anlysis of the effects which this tariff item produces for (a) the semiconductor industry, (b) industries which utilize semiconductors as components—and the customers of such industries, and (c) the economies of countries in which U.S. companies have located assembly plants;

(3) a discussion of the ramifications which a repeal of Tariff Item 807 could have when put in the context of an industry such as the manufacture of semiconductors; and

(4) a short statement setting forth the conclusions which can be drawn from a careful scrutiny of those various effects.

1. THE SEMICONDUCTOR INDUSTRY—AN INDUSTRY MARKED BY STRENGTH AND INNOVATION

The range of semiconductor devices produced by Fairchild and its competitors changes each year, for all of these companies are part of an industry which is marked by a continuing process of innovation resulting from new scientific and manufacturing breakthroughs and from the discovery of new applications and uses for its products. But what this industry produces and how its technologically creative manufacturing process actually operates is, in fact, quite simple.

(a) The product

A semiconductor—be it a diode, transistor, or an integrated circuit—is made by depositing an electrical circuit on a tiny chip of specially prepared silicon, mounting the chip on a larger base or container, connecting the terminals of the electrical circuit to lead wires which emerge from the base, and then encapsulating the device to protect it.

The first phase of this manufacturing process, involving the preparation of the silicon chip and the depositing of an electrical circuit on that chip, depends upon a series of refined operations requiring specialized equipment, highly trained employees, and extreme care. The second phase of this process, involving assembly and encapsulation, is far less refined.

Fairchild and many other companies in the semiconductor industry, of which Fairchild is typical, have for some years produced the silicon chips in this country. They have also either produced or purchased various of the other parts, such as lead wires, bases, and caps in the United States and then sent both the chips and the other components to plants located abroad, where they could be assembled. Some of these completed products have been tested and sold abroad to foreign customers. Many have been brought back to the United States for further processing or for testing and labeling purposes. But all of these articles have borne one common feature: they contained basic components manufactured in the United States.

(b) The significance of an internationally integrated manufacturing process

This careful integration of domestic and foreign production activities has, of course, permitted companies such as Fairchild to manufacture semiconductors less expensively than would be the case if all of their operations were carried

[1] It is also investigating Tariff Item 806.30.

out in the United States. The significance of this statement cannot be emphasized too strongly. At the same time, however, we must be absolutely clear as to the exact economic ramifications which have resulted from this cost reducing process.

In our industry, the ability to lower costs has not had the effect of producing larger profits on the same number of items sold. For our customers, the significance of steadily declining costs for certain of their basic components has not meant that they have simply purchased in the same volumes but possessed ever greater ability to derive profits from their own customers. Rather, when I describe the economic effects that an integrated manufacturing process has had for the semiconductor industry, I am presenting the basic stuff out of which supply and demand curves are constructed. I am, in effect, relating a story about how volume markets are created and the quality of goods improved.

Let me be more specific. Simple transistors of the kind commonly used in radio and television sets were first introduced on the U.S. market in 1954. At that time, the price for each one of these devices was $3.89. By 1960, the per item price for transistors had fallen to $2.36. But even at this reduced figure, the demand was low and the market limited. Only a relatively few consumers could boast that their high-priced radios contained these remarkable new products of technology. But when we had learned how to mass produce transistors for twenty cents each—as can now be done—we quickly found mass markets which could consume them. Thus, by 1969, we had multiplied the number of transistors sold in 1960 by a factor of nine, to 1.14 billion units.

This same process occurred—in an even more dramatic fashion—with the discovery of integrated circuits. The first of these devices came on the market in 1960 at over $150.00 apiece. Their use was limited. But by the time our industry had brought the price on integrated circuits down to approximately $10.00 each and then to $1.50 each, consumption had geometrically increased. Those who became purchasers began to find new and revolutionary uses for these electronic building blocks—and this in turn demanded more production on our part. Within nine years after the first marketing of an integrated circuit, worldwide sales of these devices by American companies had reached $500 million. And I predict that as we become more technologically proficient and more capable of bringing prices down and quality up, integrated circuit sales will continue to increase by geometric proportions.

In effect then, the semiconductor industry has developed large markets by bringing down prices. And, as each new market has opened up following a price reduction, the industry has been able to justify further technological efforts to improve its products and bring costs down even lower.

(c) *The reasons for reducing costs through an internationally integrated manufacturing process*

It may be asked, however, why we selected an integrated manufacturing process—combining high- and low-cost labor—as the method for reducing prices. Since semiconductor assembly operations are labor-intensive, why have we not resorted to the use of automatic equipment as the mechanism for bringing down per unit costs?

The question is a sound one, but from a business standpoint, the reasons for going the route which the semi-conductor industry has taken are obvious. First, the designing and production of automatic equipment is a time-consuming process. It is a hard fact of economic life that potential markets do not await lagging producers. Second, the cost of designing and buying complex automatic equipment is substantial. When a market has not yet been clearly established, the risks involved in the purchase of capital equipment are too great for all but the largest manufacturers. Third and most significantly, the purchase of expensive and highly specialized capital equipment cannot be justified until a product line has been stabilized. So long as the articles which a company is producing may be superseded by other articles which either it or its competitors are in the process of developing, there is little merit in investing in specialized machinery which may proveto be outdated well before its cost has been amortized or even before it has been installed.

It is for these reasons that Fairchild chose the alternative of opening assembly facilities in such areas as Hong Kong, Singapore, and South Korea. It is for the same reasons that Fairchild's major American competitors have opened up similar facilities in these or other low-wage countries.

This is not to say, however, that Fairchild has totally rejected the option of performing assembly work domestically with automatic equipment. On the contrary, when a particular product line has achieved a high volume on a stable

basis, we can afford to make the substantial investment of time and money in this high-cost machinery, and we have done so. In this way, we are able to return certain assembly operations to the United States which had formerly been performed abroad.

In short, then, foreign assembly facilities provide a low-cost and flexible resource permitting high-volume production before any assurance has been obtained that a particular product will succeed. They provide a mechanism through which new and changing product designs can be built into volume businesses. For semiconductor companies, an internationally integrated manufacturing process is thus the rational intermediate step through which high technology products are brought to a constantly expanding group of consumers at a constantly decreasing price between the time when these products are born and the time that they reach full and stable maturity in the marketplace.

2. AN ANALYSIS OF THE EFFECTS OBTAINED THROUGH AN INTERNATIONALLY INTEGRATED MANUFACTURING PROCESS

In my judgment, the development of this internationally integrated manufacturing process has been the primary reason for the successful evolution of the semiconductor industry. In slightly more than a decade, that industry has grown from nothing to a multibillion dollar operation, employing hundreds of thousands of men and women, both in the United States and abroad. And the companies which comprise that industry are still growing and still changing product lines to meet the needs of industrial customers and the consuming public.

But I shall not dwell on broad generalizations. Instead, let me turn to a discussion of how the facts and figures which portray the strength of this country's semiconductor industry and of industries using semiconductors are intimately intertwined with an international manufacturing process fostered by the tariff provision presently at issue.

(*a*) *Benefits for the semiconductor industry*

(i) *Product innovation.*—For the semiconductor industry, the most basic and important benefit derived from the integration of domestic and foreign facilities is the speed and relatively low cost with which new product lines can be introduced. Ever more sophisticated semiconductor devices are being developed at an exceedingly rapid rate. But each time one of these innovative products is designed—and I might add that many of them are extraordinarily experimental—corporate management must determine whether to commit the resources necessary to mass product it. This determination is necessarily a hard and cold, dollars-and-cents calculation. It takes into account, on the one hand, the cost of producing marketable quantities of a product and of selling these quantities at an appealing price. It takes into account, on the other hand, the revenues that may be expected if and when the product catches on with those who can be expected to purchase it.

When the assembly work on a new product can be performed abroad, the cost of bringing that product to the market is greatly reduced. If either of the other alternatives normally suggested by those who oppose Tariff Item 807 were to be relied upon—namely, hand assembly in the United States or the use of automatic assembly equipment—much more substantial corporate outlays would be required. And it is a matter of common sense that the higher the initial dollar outlay, the less likely a corporation is to risk its capital in the development of a number of experimental products—many of which are certain to fail.

In short, the existence of foreign assembly facilities permits companies such as Fairchild to introduce a larger number of product lines, since the initial investment in the production of marketable quantities of any given line can be kept at a relatively low level. In turn, the revenues obtained from such a rapid and large-scale introduction of new products permits these companies to recycle funds back into the research and development of still more products. Success has unquestionably bred upon itself with the result that the U.S. semiconductor industry has become the world leader both in technological achievement and in the capacity for further achievement.

Our company spends approximately 8.1 percent of its gross revenues on research and development. By way of comparison, President Nixon's Task Force on Science Policy recently suggested that the federal government should begin spending .1 percent of the GNP for basic scientific research and noted that if this suggestion were adopted, it would increase the federal commitment in this vital area by about 60 percent.

(ii) *The growth of domestic employment.*— Let me now turn to the issue of U.S. semiconductor employment, since the question whether Tariff Item 807 fosters or impedes domestic employment is obviously important to this investigation. My own judgment is that in a high technology industry, such as the manufacture of semiconductors, the existence of this tariff provision has been absolutely indispensable to the creation of jobs in this country. In 1962—before Fairchild Semiconductor opened any foreign assembly plants—it employed 2,500 people in the United States. Today, the Semiconductor Division's domestic employment has reached 10,500. As our foreign assembly facilities came on stream, our U.S. employment went up rapidly.

This same job development phenomenon has occurred throughout the entire industry. In 1963, some 40,000 American workers were employed in the production of semiconductors; by 1969, that figure had risen to 140,000 workers.

Let me add, however, that these statistics show only increases in the employment of those companies directly manufacturing semiconductors. They do not describe the derivative employment effect which has resulted because of the increased production of U.S. semiconductors. My company—and to the best of my knowledge, my company's domestic competition—does not manufacture most of the machinery with which semiconductors are produced or assembled or all of the components which comprise these tiny devices. Instead, these machines and parts are purchased from other companies, most of which are based in the United States. As these purchases increase, secondary and tertiary level jobs based solely upon a growing production of semiconductors also increase.

But it may be argued by those who oppose Tariff Item 807 that these statistics and claims prove nothing. Although they show the number of U.S. workers that Fairchild in particular and the semiconductor industry as a whole employ, they do not point up the number of foreign workers which these companies utilize. If the U.S. job picture is as impressive as it now seems—the argument goes—think how much more impressive it would be if all the jobs created abroad by the semiconductor industry were returned to the United States and given to domestic workers. Would Fairchild and its competitors then not be able to contribute even more substantially to the solution of many of the unemployment problems which currently exist in this country?

My answer to this question is an emphatic "no." This line of reasoning—which seeks to translate foreign employment into a one-for-one ratio of jobs lost in the United States—is utterly fallacious. The weakness of this simple cause-and-effect theory is its failure to take account of the realities of industrial production and the basic economics of supply and demand curves. Domestic employment in the semiconductor industry has grown because that industry has succeeded in creating an enormous demand for its products. If companies, such as my own, were unable to produce semiconductors at 20¢ apiece—but rather had to produce them at 50¢ apiece—they would lose sales and, as they lost sales, they would have to cut back their direct employment. In turn, immediate reductions in domestic employment would occur for the direct suppliers of these semiconductor manufacturers.

Thus, for me, the genius of Tariff Item 807 is that it permits high technology companies—such as my own—to establish a manufacturing process under which production costs can be reduced. For each reduction in production costs, sales are increased and concomitantly worldwide employment—including employment in the United States—is also increased.

Moreover, the jobs which are retained in this country under an internationally integrated manufacturing process are the ones that we should prize the most—the skilled jobs. In the years ahead, this country should be seeking to maximize industrial employment which relates to the most difficult phases of the production process, rather than to the simpler parts of that process. It does not take an economist to realize that as skills go up, pay also increases. While it may be theoretically interesting to argue that there are millions of Americans interested in working at jobs paying only the lawful minimum wage, the practicalities are that such a potential work force does not exist. And basic semiconductor assembly employment—which cannot even be economically justified at the U.S. minimum wage—will certainly not support a working force being paid wages substantially higher than that minimum.

(iii) *The creation of new semiconductor companies.*—Although the U.S. semiconductor industry contains several large companies, it has continued—to the pride and benefit of all of its members—to be an industry in which small companies have continually been able to enter with new ideas, new products, and new combinations of management and engineering personnel.

With a few key men and a relatively small investment stake, such companies have been quite successful in entering the dynamic market for semiconductor products. In 1964, there were perhaps 114 firms manufacturing these electronic building blocks. By 1969, that number had increased to 156.

The primary reason for this healthy economic phenomenon has been the ability of new companies to take innovative product designs and bring finished products into the market with a relatively low investment. By relying upon the foreign assembly of U.S.-made components, these firms have been able to avoid investing in enormously expensive capital equipment. They have also been able to hold down the cost of their inventories of finished products. And, they have been able to divide up working functions and maintain the skilled jobs in the United States—where ready access to a rapidly changing technology existed—while utilizing relatively unskilled foreign workers to assemble the experimental products they were seeking to sell.

The tariff item now in question has played a substantial role in the birth, growth, and continued prosperity of a wide number of small U.S. semiconductor companies. This provision has, in fact, proved to be a catalyst helping young companies to rationalize their manufacturing functions and ensuring them of product costs which might interest customers in buying new types of semiconductor devices.

(iv) *Balance of trade effects.*—A balance of trade analysis of the U.S. semiconductor industry can lead to only one conclusion—namely, that the industry's international activities produce dollar surpluses for this country. More importantly, this favorable balance of trade is steadily increasing. In 1966, it amounted to $88 million; in 1969, it had risen to $241.5 million.

This constantly increasing trade balance is also intertwined with the existence of Tariff Item 807. An internationally integrated manufacturing process has permitted the U.S. semiconductor industry to maintain an edge in the intensely competitive world market for semiconductor products. By manufacturing or purchasing components in the United States and then shipping them abroad for assembly, our industry has kept production costs low and quality and technological advancement high.

Many of these assembled products have then been sold abroad on terms which compared favorably with those offered by our foreign competitors. Some of the more complex semiconductor devices have been brought back to the United States under the tariff item in question for further manufacturing or testing work and then shipped back out to foreign customers. They have still been able to compete on very favorable terms.

Obviously, sales under both of these techniques have a favorable effect on the balance of trade. But it may be argued that this positive balance of trade would exist even without Tariff Item 807. In fact, the argument goes, if American companies avoided foreign assembly costs, they could even improve the U.S. balance of trade.

Unfortunately, this contention—like its counterpart in the job creation area—misses the point. American semiconductor companies are able to sell on the worldwide market because their products are technologically superior to those of their foreign competitors. Moreover, they are as inexpensive. But taking away the tariff provisions under which U.S. companies can integrate their facilities on an international basis and that step will help to cut out the underpinning upon which American companies base their product development and pricing policies. And once this underpinning is gone, American companies will either have to locate all of their facilities abroad or else face a loss of foreign sales. Either way, the U.S. balance of trade is bound to suffer.

(*b*) *Benefits for industries using semiconductors*

Up to this point, I have dwelt on only the relationship of Tariff Item 807 to the production of semiconductors. But, from an economic standpoint, this type of analysis does not probe deeply enough. The semiconductor industry's ability to introduce a wide variety of new advanced products—rapidly, in large volume, and at low prices—has also had vast consequences for the industries which use these basic building blocks as components for larger electric appliances and electronic systems.

An example of a very important industry which has derived a great benefit from the progress of semiconductor technology is the computer industry. Early computers, made from 1955 to 1960, used vacuum tubes similar to those once found in an ordinary radio. These early computers were very bulky and generated tremendous heat requiring special air conditioning. Their computing

power was limited by poor reliability, and often it took so long to find one faulty tube that another would burn out before the first failure was found.

By 1960, computers using transistors began to be available. Each new generation of semiconductor devices was quickly followed by a new generation of computers which was more powerful, less costly, and more reliable than the previous generation.

In 1958, a vacuum tube computer of only modest power cost $500,000 to produce and required a full-time maintenance engineer to keep it working. Today a computer which is 50 times faster costs less than $25,000 and will operate for six months between failures.

An analogy to the automobile industry will help to bring this progress into proper focus: If the automobile industry had made the same progress during the same time period, one would now be able to purchase a car for less than $100 which would travel at 5,000 miles per hour without failing for about 10 years!

The availability of these reliable computers at low cost has greatly expanded the market for them. During approximately the last decade, U.S. computer sales went from less than $500 million to over $5 billion and the positive balance of trade derived from computer sales soared from $17.6 million to $706 million.

Many of these great strides in the U.S. computer industry have been grounded upon the progressive and forward thrust of this country's semiconductor industry. The ability of the computer industry to obtain a constantly evolving supply of low-cost electronic building blocks from American semiconductor companies—with which a close working relationship can be maintained—has enabled that industry to keep a technological lead over its foreign competitors.

Obviously, the manufacturers of computers comprise only one group of high technology companies which utilize semiconductors. In the aerospace industry, or the testing equipment industry, for example, the same competitive advantages I have described above have been obtained by American companies through reliance not only on their own technological resources but on the technological resources, innovative skills, and low costs of the suppliers of basic electronic components.

Moreover, this same economic process, by which the competitive strength of an end product is built on the technological advantages of its electronic components, reaches down to manufacturing levels three or four stages removed from the actual sale of these components. Computers, for example, are themselves building blocks for industrial control equipment, navigational devices, and similar complex end items. In this production chain, any cost increases or losses in technological proficiency experienced by U.S. semiconductor producers may be felt all along the line and influence other industrial, as well as consumer, decisions.

While I shudder at the scope of the problem, I am only seeking to make clear that to analyze Tariff Item 807 fully, a difficult multilevel economic examination must be undertaken. For if the effects which the tariff item in question has on a particular industry are to be measured accurately, the investigator must be willing to look at not only the advantages which this provision gives to that industry, but at the benefits provided to the industries and consumers which utilize the end-products derived from a long and complex production chain. Certainly, in the electronics field, only this type of detailed study—which begins with an examination of such basic building blocks as semiconductors—will paint a true picture of the economic advantages which I believe Tariff Item 807 provides to this country.

(c) *International benefits from the establishment of U.S. assembly plants in foreign nations*

To complete my analysis of the benefits which are derived from the use of Tariff Item 807—and Tariff Item 806.30 as well—by certain American industries, I would like to turn briefly to a discussion of the effects which this provision has on the economies of countries in which assembly plants are established, and on the U.S. government's efforts to strengthen those economies. As I am sure all of you know, American semiconductor manufacturers normally establish foreign assembly plants in less-developed, low-wage nations. These nations are chosen because the assembly work must be done where a ready work force is available and where labor costs do not surpass the economic value of the work being done.

When these types of facilities are set up in less-developed countries, they are of great value to those countries. They provide desperately needed jobs and personal income which in turn can purchase services and goods. While it may be argued that the wages being paid to these foreign workers are low by American

standards, the reverse side of that argument is that the wages being paid are usually above the norm in the particular countries where the plants operate.

I do not wish to urge upon the Committee a simplistic argument that the tariff item in question is meritorious simply because it produces jobs in foreign countries. Rather, I would like to argue that it is meritorious because it permits this country to keep pace with its own well-established policy which calls for the industrial development of poorer nations. To advance that policy, this country has not only provided foreign aid, but has also encouraged its private companies to invest abroad. To most policymakers, this latter method of assisting in the development of foreign countries has long been preferable. To quote a 1955 message of President Eisenhower to the Congress:

"[T]he flow of capital abroad from our country must be stimulated and in such a manner that it results in investment largely by individuals and private enterprises rather than by government."[2]

Today, President Nixon has asserted that he wishes to carry this same private investment theme forward. In fact, the President has noted that he is willing to consider even a tariff preference concept to stimulate the trading potential of less-developed nations which have developed industries with export potential. But the caveat has also been added that any tariff preferences will not be made available for certain products, such as textiles and shoes, which are in fact the easiest products for less-developed countries to manufacture.

If these basic industries are not to be fostered in foreign countries because of their export potential, then what is to be fostered there if the United States is not to make a sham out of its own policy? Clearly, this country cannot be talking about creating very sophisticated industries in these low-cost countries. Not only are such countries not prepared for this level of industrial production but, more importantly, if such full-scale manufacturing operations were to be established abroad, the potential economic danger for the U.S. economy could be awesome. Thus, when our policymakers talk about encouraging private investment abroad, it seems to me that they must be urging (i) the formation of certain industries (such as housing and frozen food production) which satisfy only a country's internal needs, and (ii) the establishment of feeder or assembly plants which will have exportable products which complement rather than displace U.S. production. If this theory is correct, then the export industries sought are exactly the types which are currently being established abroad under the tariff item now in question.

In short, Tariff Item 807—and Tariff Item 806.30 as well—is in line with this country's most reasonable foreign assistance program, which is to build up the economic base of the free world's less-developed countries, while at the same time producing an international division of labor in which this country manages to preserve for its own workers the jobs they are best equipped to perform.

3. EFFECT OF REPEAL OF TARIFF ITEMS 806.30 AND 807

As I have tried to indicate, an analysis of Tariff Item 807—when put in the context of a specific industry such as the manufacture of semiconductors—demonstrates that this provision produces vast benefits, not only for the industry involved but for its employees, its suppliers, and its customers. Moreover, this tariff item provides one of the most feasible methods for stimulating private investment in less-developed countries at a relatively low cost to the economic strength of the United States.

If Tariff Item 807 were repealed, the semiconductor companies utilizing this provision would, in effect, be required to begin paying a tariff to the United States government on the value of the components turned out by the high technology operations they maintain in this country. These components comprise anywhere from 35 to 70 percent of the value of a typical semiconductor device imported by us under Tariff Item 807. The production of these U.S. components—as I have pointed out—is at the heart of this entire industry. It is difficult to conceive of any segment of a U.S. industry which contributes more in ultimate benefits to the domestic economy than do these thousands of home plant employees, working with the elaborate equipment and impressive engineering support that the U.S. industry has collected together. To repeal the tariff item in question would have the effect of imposing a tax on American labor.

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[2] Special Message to the Congress on the Foreign Economic Policy of the United States, January 10, 1955. See Report of the World Bank's Commission on International Development, *Partners In Development*, 122–23 (1969).

Not only is this result unfair but it is senseless when put in the context of the potentially awesome immediate, intermediate, and long-range effects which a repeal of Tariff Item 807 could produce. In the semiconductor industry, the shifting or rebalancing of basic economic factors which could result might well produce consequences that are completely opposite to those expected by persons in government, industry, and the labor movement who favor repeal.

(*a*) *Immediate consequences*

In my judgment, the immediate consequences of a repeal of Tariff Item 807 for the semiconductor industry would be as follows:

Production costs would increase since the U.S. industry would either have to pay more in duties for the privilege of using foreign assembly labor, or would have to use more expensive U.S. labor.

A few semi-stable product lines might be automated—even if the domestic industry were not fully persuaded that these lines were mature enough to justify the installation of expensive and inflexible assembly machines.

Higher assembly costs would begin to produce an adverse effect on the sale of domestic semiconductor products. Customers of the U.S. semiconductor industry—particularly U.S. manufacturers—would begin either to look for substitute products or for substitute foreign suppliers.

Smaller or prospective U.S. semiconductor manufacturers would find themselves in an economic squeeze. Deprived of the use of Tariff Item 807, they would be faced with the necessity of increasing the investment required to introduce new products and with the prospect of experiencing substantially higher losses if any particular product failed. Under these circumstances, the flow of speculative capital to new semiconductor companies would be curtailed because the investment risks would have measurably increased.

Domestic semiconductor employment might increase at the start as certain assembly line functions were brought home, but would quickly taper off as automatic assembly equipment was brought in and sales began to drop.

(*b*) *Intermediate and long-range consequences*

But these consequences are only the immediate ones flowing from a repeal of Tariff Item 807. Their importance should not be overemphasized. Rather, these immediate consequences must be put in the broader context of the intermediate and longer-range effects which would probably follow within a reasonable period after repeal had taken place. In a fairly short sequence, the following developments might be expected to occur:

As the investment required for the introduction of new semiconductor products increased, the domestic industry would have to decrease the number of such products being developed in order to stay within the limits of its resources. The rate of innovation on which the domestic semiconductor industry has thrived would thereupon be seriously handicapped. Customers in such diverse industries as computer and aerospace manufacturing and automobile safety designing would inevitably be deprived of some of the new building blocks with which they could have constructed more efficient and less costly products.

The higher cost of producing semiconductors—particularly new devices—would make our industry far less capable of competing with foreign semiconductor manufacturers, in both the U.S. and foreign markets. Foreign companies, making their semiconductors entirely abroad, would not experience any cost increase as a result of the repeal of Tariff Item 807, while at the same time U.S. companies would have to pay substantially more than they now do to manufacture similar devices.

Faced with these problems, many U.S. semiconductor manufacturers would reach the decision that they were embarked upon a course which could only lead to second- or third-rate status for their industry. To counteract this process they would take the only practical step, which would be to shift a far greater portion of their semiconductor production work a broad. Obviously, economics would favor this type of decisions. After a repeal of Tariff Item 807, semiconductors assembled in Taiwan, for example, with silicon chips also made in Taiwan would be entering the United States market on the same tariff terms as semiconductors assembled in Taiwan with U.S. components, whereas at present the U.S. components enjoy a ten percent advantage because they are not subject to U.S. duties.

As fully integrated semiconductor manufacturing facilities were established abroad, the U.S. balance of trade would begin to suffer seriously.

Purchases by U.S. computer or aerospace companies of semiconductors from these foreign facilities would have a negative effect on that balance since the entire production process of these devices would have been accomplished abroad. Moreover, foreign sales by these foreign facilities would no longer produce a plus in the U.S. trade balance: rather they would be without significance since the products and all their components would have come from plants located abroad.

As production work was transferred abroad, the high technology that supports it—presently almost entirely retained in this country—would have to go with it. First, the elaborate machines for diffusion of silicon and depositing of electronic circuits thereon would be taken abroad to permit the manufacture of chips. Next, there would be a strong incentive to take testing and finishing and all quality assurance operations abroad rather than leave them in the United States. And as all of these production operations moved out of this country, it is likely that some of the machines involved in the production process would be made in countries closer to the base of production rather than in the United States.

Most damaging of all, there would be strong incentives for transferring abroad the engineers and research and development personnel who perform the creative and exacting work involved in designing new semiconductor products. These men work most effectively in close conjunction with the actual plants where silicon chips are being produced. If the plants are abroad, the men may find it desirable, or even necessary, to go there also. These articulate and dynamic engineers and scientists are one of our most basic and important national resources, and we as a nation should carefully avoid creating economic incentives that might encourage them to locate abroad.

As U.S. jobs disappeared and the trade balance went down, I would suspect that both the Executive Branch and the Congress would be faced with a growing demand for import quotas on semiconductors produced abroad in order to protect that segment of the industry which had remained in the United States. This country might then find itself faced with a situation in which the adoption of severe protectionist policies—fraught with serious implications from an international standpoint—had become a reasonable remedy for a difficult problem. And unfortunately, the problem which these policies would be attempting to deal with would have been one which we had created for ourselves.

4. CONCLUSION

As I have tried to indicate throughout this testimony, semiconductor devices are so small and of such little weight that they can easily be transported to markets anywhere in the world. Thus, any plant in any country is a potential competitor of any other plant in any other country. American factories have no natural advantages merely because of their location.

Similarly, resources from various parts of the world can be used harmoniously to promote the economical production of new semiconductor products. Under Tariff Item 807, semiconductor companies such as Fairchild have been able to use technological resources in the United States (including large numbers of U.S. workers) in combination with foreign resources to build a powerful industry that one might fairly say utilizes worldwide capabilities to serve worldwide markets.

Placed in this context, a repeal of Tariff Item 807 must be viewed as a shortsighted effort. Rather than increasing the number of jobs performed in the United States, it would probably result in a long-run decrease in those jobs. A repeal would, in fact, strike directly at the resources and manufacturing techniques which the U.S. industry has relied upon to remain competitive in a worldwide market. In proverbial terms, a repeal would mean that this country's policymakers had decided to kill the goose that had laid the golden egg.

Such a course must be rejected as folly. Instead, U.S. policy should concentrate on strengthening the factors which have been responsible for the present growth and achievement of such industries as the manufacture of semiconductors. More specifically:

U.S. policy should be directed toward keeping the cost of new product introductions by American companies as low as possible. It should permit the semiconductor industry (as well as other industries) to utilize its do-

mestic technological resources in combination with less expensive assembly labor from other parts of the world. In short, this country's effort should be aimed at fostering the manufacture of new products embodying American technology on terms that will be most competitive in any market. In this regard, serious thought should be given to relaxing the conditions under which products can qualify for Tariff Item 807 treatment in particular. Under that provision, it might well prove useful to allow American companies to engage in certain minimal fabrication processes abroad during the assembly stage. So long as these processes were related to assembly or were necessary to permit an efficient shipping of products, they should not disqualify a manufacturer from qualifying his assembled article under this tariff item. Unfortunately, they appear to do so under the present wording of Tariff Item 807.

Every effort should be made by this country to foster the export potential of its high technology industries. In this regard, the DISC proposal of the Treasury Department is a worthwhile step forward. But, as we interpret the Treasury's proposal, it would seem to discriminate against American companies producing goods under the auspices of Tariff Item 807. In its explanation of the DISC proposal, Treasury states that if a DISC's commodities are to qualify as "export property" they cannot include *any*—and I emphasize the word *any*[3]—components produced by an American company utilizing Tariff Item 807. In contrast, as we interpret the Treasury's proposal, it is satisfactory for the DISC's commodities to include a certain percentage of foreign-produced components. Thus, a computer being prepared for export by an American DISC could apparently include semiconductors produced in Japan by Nippon or in Europe by Phillips, but could not include one single semiconductor produced by Fairchild or any of its American competitors under an internationally integrated manufacturing process. We assume that such a result could not have been intended, and any legislation authorizing the formation of DISCs will preclude such a result. For surely legislation designed to improve United States exports should not retard the export potential of high technology industries such as the manufacturing of semiconductors.

U.S. policy must avoid an excessive reliance on import quotas—be they statutorily imposed or voluntarily accepted. We at Fairchild cannot pretend to be experts on textiles or shoes and cannot comment on the proposals now being aired to provide assistance to these industries. But we do think it important for this Committee—with its overriding responsibilty for American trade policy—to understand that the imposition of import quotas for a wide variety of products, including such items as consumer electronic products and electronic parts used in those products, will ultimately harm this country's high technology industries. For if this country begins to raise its own barriers to the relatively free movement of goods, it will lose its ability to protect its export industries against the establishment of barriers in Western Europe and the Far East against their products. It is Fairchild's belief that if particular American industries or particular companies and their workers are to be protected from import competition, this country must respect international procedures and require the requisite injury determinations before utilizing limited and short-term procedures for providing protection.

U.S. policy should also be directed toward keeping open the world markets for products such as semiconductors. There are disturbing indications that certain European countries are planning to erect new nontariff bariers against U.S. technological products, in the form of testing and certification requirements which would discriminate against American products and would favor similar products made within Europe. American industry, American workers, and the U.S. Government should all direct their efforts at heading off the implementation of this and any similar barriers which might unfairly deprive American industry, with its highly efficient international production facilities, of important foreign markets.

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[3] The Technical Explanation of Treasury Proposal states that "any item containing components imported into the United States and classified under Item 807 of the Tariff Schedules of the United States will not qualify as 'export property.'" Ways and Means Committee Print, May 12, 1970, p. 44.

Finally, the U.S. Government and the domestic industry should work in harmony with labor organizations, universities, and other segments of the economy in an effort to maintain and improve the critical mass of engineers, skilled workers, refined equipment, and technological information which will be needed in the years to come. The U.S. semiconductor industry—and other high technology industries—will be unable to maintain a strong position in the face of increasing foreign competition if such a full-scale and cooperative effort is not begun as rapidly as possible.

Thank you.

Mr. GIBBONS. Mr. Betts.

Mr. BETTS. No questions.

Mr. GIBBONS. May I ask you a question? I think I know a computer, but what is a semiconductor?

Mr. HINKELMAN. A semiconductor is an electronic article which is made out of a semiconductor element, normally silicon. Its size would be no larger, in its completed form, than the tip of a cigarette. The active silicon element of a semiconductor, which is encapsulated inside enclosing material, would be no larger than the head of a pin.

On the surface of this silicon, there are deposited electrical circuits, the degree of complexity ranging from a very simple circuitry setup to a setup involving complexities five or 10 times more difficult than an entire television set.

For example, gates have been constructed—gates are used as logical elements in computers—where as many as a thousand functions are achieved through the use of one piece of silicon.

The complex semiconductors are at the heart of the technological revolution in electronics. It is a combination of semiconductor technology and computer technology, that has made the U.S. electronics industry into the world leader.

Mr. GIBBONS. Let me ask you another question.

What assures America of its leading position in the semiconductor area? Isn't it something that we are going to soon lose our exclusiveness in?

Mr. HINKELMAN. If we can maintain our present system of international, integrated production, we can compete anywhere in the world.

Mr. GIBBONS. That is, if we let them keep their heads up?

Mr. HINKELMAN. We utilize less-developed countries to provide labor for assembly processes. This lowers costs and we can save money. It permits companies like Fairchild, for example, to export semiconductors to Japan.

Just recently, I saw an advertisement for a Japanese stereo component in which the reverse side, indicating the circuitry, showed four American-made integrated circuits. We are strong suppliers to Japan. We could be substantially stronger suppliers to that country if our Government would take more effective action to force the Japanese to reduce their import quotas.

We believe we can compete anywhere in the world.

Mr. GIBBONS. Does anyone else have the technique for making semiconductors as we do?

Mr. HINKELMAN. Yes, it exists in Western Europe and Japan, primarily.

Generally we have found that we have maintained a five-year lead in technology over companies in those countries.

Mr. GIBBONS. That is all the questions we have for you.

We appreciate your coming and informing us of this matter.

The next witness is Mr. Edward Lesnick.

Would you come forward, please, and identify yourself for the record?

STATEMENT OF EDWARD LESNICK, DIRECTOR OF PRODUCT PLANNING, WANG LABORATORIES, INC.

Mr. LESNICK. My name is Edward Lesnick. I am director of product planning of Wang Laboratories.

Mr. Jones, who was also to be with me, is out of the country.

Mr. GIBBONS. Where are you located?

Mr. LESNICK. In Tewksbury, Mass., which is north of Boston.

Gentlemen, we are pleased to be granted this opportunity to give our views on the subject of foreign trade in the electronic calculator market.

Wang Laboratories is a publicly held company with general offices and manufacturing facilities located in Massachusetts. We number about 1,200 employees, and have become a leader in the design, manufacture, and sale of electronic calculators for both business and scientific use.

The electronic calculator industry, since its inception in 1964, reached a sales figure in 1968 of $85 million, of which 16 percent were foreign imports.

Last year, the market grew to $135 million—and over 178,000 units were sold. Of these, 70 percent were foreign made, a growth in 1 year of over 54 percent, primarily Japanese. Concurrently, American workmen were laid off their jobs, because American calculator manufacturers were closing their plants in favor of selling foreign calculators.

Last year, Shuichi Ando, the president of The Canon USA, which is a subsidiary of Canon of Tokyo, was quoted by Electronic News, and said that virtually all of the U.S. calculator market would be taken over by the Japanese within the next 12 months.

Gentlemen, beginning in 1975, the electronic calculator market in the U.S. alone is estimated to be half a billion dollars a year.

The partial reason for the phenomenal growth of the Japanese calculators in the United States is unfortunately a whole series of factors which favor them, and factors which are at the same time stifling U.S. industry, and tends to force the U.S. companies, one by one, to act as salesmen for the Japanese.

Item—Approximately 2 years ago, the Japanese MIT, the Ministry of International Trade, declared electronic calculators an industry vital to the growth of Japan. It restricted the import of electronic calculators and established a firm 15-percent duty rate on list price. Our company, until early this year, was not permitted by the MIT to export any machines to Japan, and now we only manage to obtain licenses for one or two units a month, contrasted with up to 18,000 a month shipped by Japan to the United States.

Item—Recently, I received a special report on the Kennedy round of tariff reductions. It shows that the U.S. tariff on calculators is below 8 percent on declared value, as contrasted with 15 percent on list price the Japanese still charge us. Our studies have found that Japanese

calculators selling here for upward of $1,200 are being imported at a declared value of approximately $300. The result is the Japanese are paying an average 3½ percent on list price, with no restrictions on numbers of units. Is our Government doing anything? A recent newspaper article read as follows:

Commerce and State Department officials ask U.S. firms wanting to export, to continue pressure on the Japanese to make their computer imports larger.

Item—The number of units being imported from Japan (approximately 115,000 last year) are far in excess of the totals reported under electronic calculators' categories by the Department of Commerce. Some time ago, we became aware that thousands of units each month were being imported at a declared value similar to that of an electronic calculator, but spread over several classifications other than that assigned to electronic calculators. We determined from phone calls to individual customs officials that these units were, indeed, electronic calculators, but so long as the duty was the same, they (customs) would accept the description used by the shipper. Unfortunately, these are the official Government figures.

Item—We have found that thousands of units declared officially as calculators were being imported at a very low value. We are almost certain that these units are in truth adding machines, which have a 10-percent duty rate, and are being classified as calculators to save 2 percent duty.

If our assumptions are correct, this practice has cost the Government thousands of dollars each month in the proper collection of duties.

Item—Thousands of Japanese calculators are now being sold here, marked "Made in U.S.A.," because of a Government decision that products containing more than 50 percent U.S.-made components are considered made in America. Because of the "declared values" given by one Japanese company, their calculators are considered made in U.S.A., and as such, they are being freely sold to the Government under the Buy America Act.

Gentlemen, urgent action by the Government is required to protect U.S. industry and reestablish free, worldwide competition. To this end, I would like to offer the following suggestions for your consideration:

1. Demand reciprocal treatment by countries who wish to protect their market and at the same time exploit the United States.

It is almost ironic that late last year Electronic News said that the executive vice president of Sony Corp., of Tokyo was invited to speak to the U.S. Joint Economic Subcommittee. He told them that there has been more tension than deserved in the press about certain economic issues vis-a-vis the United States and Japan. Japan, he pointed out, has refrained from converting its dollar holdings into gold, and he said "that to avoid or to soften competition by political intervention is to negate the whole concept of the free enterprise system." His company participated in the request to the Japanese MIT to restrict all calculator imports.

2. Immediately impose a reciprocal system for valuing products—if they use list price, we should, too. Also, permit only the total quantity permitted to be imported into a foreign country to be imported into the United States.

3. Means should be established to tighten the requirement for proper classification of imports, along with severe penalties for violations.

4. Consideration should be given to establishing a Cabinet level Department of International Trade. This Department would combine all functions concerning international trade, and replace the fragmented responsibilities which are now scattered through Department of Commerce, the Treasury Department, and the State Department. The evidence of the last few years shows that Government cannot react in time to changing foreign trade conditions, and relegating responsibilities for foreign trade to a division of the Department of Commerce, with full dependence upon cooperation from Treasury, State, and others, is hindering the growth of U.S. interests abroad, in the face of well coordinated efforts by Japan, Germany, Italy, and other countries. The emergence of many countries as industrial giants requires a concerted effort by a Cabinet level post to reverse our balance of trade deficit. The current situation provides almost no leadership for American industrial growth and expansion abroad.

5. Before considering a blanket repeal of section 807, we believe that Government should consider the following:

Wang Laboratory feels that under normal competitive circumstances, the repeal of section 807 would not be injurious to American industry. However, these are not normal times, nor, as I have tried to point out above, is our industry in a normal competitive position. It is ironic that it is felt in some quarters that the repeal of section 807 would add to the employment rolls within the United States, when, in truth, as far as we are concerned, section 807 provides us with a means to stay competitive in both the United States and worldwide markets. The relatively few people employed by our company to perform memory assembly abroad is certainly preferable when we find that seven out of the 10 calculator companies in the Business Equipment Manufacturers Association are selling foreign-made calculators, and to our knowledge at least one other is actively negotiating with the Japanese for the purchase of machines instead of manufacturing in the United States.

If Government is to act to prevent greater unemployment, we feel it should look to the thousands of employees who are losing their jobs in American companies which are curtailing manufacturing operations to become salesmen for the Japanese. The Japanese themselves are making increasing use of tax-free export processing zones in Taiwan, Korea, and Hong Kong, which place even greater threats to U.S. industry in itself, even without repealing 807. We find that section 807 would not be necessary, if the United States were to insist upon reciprocal trade barriers, and stop the activities which permit foreign competition to exploit the American market.

6. Repeal all decisions which would brand foreign products as made in America.

The electronics industry moves at a lightning-like fast rate. All we ask is that Government move with all due speed to meet this industry's needs.

This, gentlemen, ends our presentation, and we would like to thank you for your kind attention.

Mr. BURKE (presiding). Thank you, Mr. Lesnick. The committee appreciates your testimony.

Our next witness will be Mr. Edmund Stanwyck.

Please identify yourself for the record, and you may proceed.

STATEMENT OF EDMUND STANWYCK, PRESIDENT, E. STANWYCK COIL CO., INC.

Mr. STANWYCK. I am Edmund Stanwyck, president of E. Stanwyck Coil Co., Inc., in Newburgh, N.Y.

We are a manufacturer and designer of RF and IF coils along with associated hardware for various electronic and product assemblers. Less than 10 percent of our production go into Government used equipment via subcontracts.

Our trade started in 1935 in my parents' basement and grew to an industry in our town, after several splits in partnership, which employed as many as 700 people in 1955. Today's total employment is about 300, and according to average national growth should have been 1,500. The lost business and low numbers of employees in our trade was totally due to unrestricted imports of electronic products from Japan, Taiwan, Hong Kong, Singapore, and South Korea.

As part of this report, I am attaching a letter from Mr. Richard Parker, president of Fair-Rite Products, Wallkill, N.Y. This letter states the problems in another area of our industry. Also attached is a summary of my meeting with former Representative Katherine St. George, dated October 1960. The summary information is still similar to today's conditions.

We first suffered severely from imports of radio components and completed radios being brought into this country at very low prices compared to American-made products. With a minimum wage control here, we are not able to compete with Asian wages averaging 10 cents per hour.

After several years of spiraling imports, about 90 percent of the radios sold in this country were Asian made, and most of them carried American company labels. This had ruined our radio trade completely; 1963 brought the imports of TV components, which took more business away. We were at one time selling items to General Electric for 21 cents each, a very competitive bid price, and lost the business to a Japanese company for parts landed here in this country at 14 cents each. This took more of our business to Asia.

In speaking to our customers, Westinghouse, Emerson, DuMont, General Electric, RCA, Magnavox, et cetera, we were advised that they had to buy offshore to remain competitive. Now, they are themselves screaming, as their business has virtually disappeared via the imports of completed TV sets. A number of these companies are putting their "brand" on foreign-made sets, but no longer are assemblers.

This makes for a very weak national position in an emergency, as the electronics trade is a "must" in our national defense.

If more component manufacturers are forced to close due to the above, can you gentlemen guarantee delivery of needed parts from Asia? It is us small component manufacturers who keep big assemblers in business, and already a lot of them are not in a position to assemble. The current situation seems poorly planned for national defense, as a vital industry is being dried up and is almost now useless.

The type of jobs lost in our industry are a type that ordinary, everyday workers that have no special talent could perform, as job movements can be easily broken down. With such jobs restored, there would

be a drop in welfare rolls, and this type person could become a semi-skilled operator.

We are seeking a quota on all imported consumer electronics assemblies. This would allow the electronics trade to again pick up and keep our national defense at peaks. It could take many people off welfare rolls, as for every Asian working on electronics parts imported here, we lose one worker.

Gentlemen, to restore safety to our trade, we must set a quota based on year 1960 imports, and no later year, as that is when the figures of imports started to hurt the trade. It is a "must" that something be done real soon.

Thank you.

Mr. BURKE. We will have this statement here included in the record, and also the letter from the former Congresswoman.

Mr. STANWYCK. I would like them to be filed.

I was limited to 5 minutes, and I tried to stay to the 5 minutes.

Mr. BURKE. The committee appreciates your cooperation, because this has been a rather rough day, and we apologize for keeping everybody so late, but we have just had one rollcall after another.

If you wish to say anything else, the committee will be glad to hear you.

Mr. STANWYCK. I would just appreciate some of the committee reading the total report as I have it, especially the letter summarizing my meetings with Katherine St. George, because they are 10 years old, and they are pertinent today.

Mr. BURKE. I can see by just making a fast examination of the letter that you certainly predicted things that have come about, and they have come about.

Mr. STANWYCK. I am sorry they came about, but this was in the hands of our representative that far back, and it is most important that business people and citizens keep in contact with their Representatives and Senators.

Mr. BURKE. The committee appreciates your testimony, and these letters will be brought to the attention of the members of the committee, and the staff at present is fully aware of it.

You have made a great contribution here today. Thank you very much.

(The statement and letter referred to follow:)

To: House, Ways and Means Committee.
From: R. G. Parker, president
Fair-Rite Products Corp., Wallkill, N.Y.

Fair-Rite Products is a manufacturer of magnetic cores which are used in the manufacture of radio frequency coils and transformers. The company was organized in 1952, and by 1966 sales had grown to $2,400,000. During this period, our major customers were manufacturers of radio and TV sets and suppliers of coils to these same manufacturers. Sales since 1966 have dropped off to between $1,800,000 and $2,000,000 even though Fair-Rite has become more and more involved in maufacturing components for computers and telecommunication equipment. The reason for this reduction in sales has been the increase in imports of coils and completed radios and television sets.

Two examples should make clear what our company has faced. In 1966, our two largest customers were General Instrument Corporation and TRW Electronic Components Division. Sales to General Instrument slid from $230,000 in 1966, to less than $23,000 in 1969. During this same period, General Instrument virtually ceased manufacture of coils in Newark, severely curtailed manufacture in their Beckley, West Virginia plant, and reduced employment at their F. W.

Sickles Division in Chicopee, Massachusetts from about 4,000 to 800, most of whom are salaried personnel.

At the same time, General Instrument increased their employment in their plant in Taiwan from a few hundred to about 12,000. A similar condition exists at TRW. Sales of $388,000 in 1966 dropped to $240,000 in 1969. TRW was about two years behind General Instrument in establishing their plant in Taiwan. This can be seen by the results for the first five months of 1970 compared to the same period in 1969. Sales dropped from $120,000 to $40,000. Since 1967, TRW Electronics has closed down six plants in Illinois and Indiana, leaving only one factory in Marshall, Illinois. Other of our customers have been unable to compete with these two large manufacturers using American labor, and have been obliged to establish border plants in Mexico.

In speaking with General Instrument and TRW, I was told very simply that the move to Taiwan was made because they could not compete with Japanese manufacturers who were shipping both coils and completed sets to this country at prices that could not be approached using American labor. We see the move of Philco-Ford Electronics to Taiwan, General Electric to Hong Kong and now to Singapore, and the same story repeated with virtually every manufacturer in this land.

A brief history of ferrites in the world is not only interesting, but frightening. The first ferrites were produced in Japan in 1935, as claimed by TDK, Japan's and the world's largest ferrite manufacturer. Not until after the war, were any ferrites produced in the United States, and these under license to Philips of Holland. Considerable development of ferrites took place in this country for the next twenty years, but with the shrinking market, the Japanese, Russians, Germans and Dutch promise to assert dominance in the field of this important magnetic material. With military research and development involving ferrites being cut back, the outlook is extremely bleak for the growth of technical competence of the United States in this field. It would appear that our government is not only permitting great economic damage to be wrought, but is also sponsoring technological suicide.

If this industry is to again become viable, import quotas must be established that will protect it.

E. STANWYCK COIL CO.,
October 26, 1960.

Hon. KATHARINE ST. GEORGE,
Port Jervis, N.Y.

DEAR MRS. ST. GEORGE: The following is a resume of our meeting of Oct. 13, 1960:

We have been in the electronics business since 1935 and have started as small as possible and through split-ups in our partnership the coil trade in our area has several plants and had employed at one time about 700 persons (1952) and to-day employes only about 325 persons.

We grew up with the trade and are very familiar with its component requirements and manufacturers, also the radio and television manufacturers whom we service.

We have had a very marked decline in domestic made radios therefore all in our type industries have had less components to make—thereby causing prices to be very competitive and costs to be watched carefully. This meant we had been on the alert for more efficient means to manufacture and believe we are near tops in the industry.

We are a very self-sufficient plant whereby we design radio and TV coils for firms such as Westinghouse Electric; RCA; General Electric and a number of smaller firms. We hold several patents of which products are used by the entire industry. We do our own engineering, tool making, running of the tools in presses, molding, hardware assembly and then the conventional winding of the coils and treatment of same as any other coil company would do. We supply our competition with our patented hardware.

As more and more imported radios from Japan have hit our markets here, our type company keep feeling greater pinches due to less domestic made radios being assembled and sold.

The companies that make the radios are primarily assemblers and not manufacturers. Companies such as ours are their manufacturer of components. Only General Electric and Zenith Radio are considered manufacturers as they make nearly everything needed for the finished sets.

Japan is to-day sending in 4 million radios per year out of the 12 million average yearly sales in this country. They are now sending in approximately 2 million sets of components which are being assembled here under American brand names by the largest of sets assemblers in this country.

As everyone well knows that electronics is a most important factor in our national defense, we as a nation are being led into a suicidal trap by allowing all the small electronic parts manufacturers to die off due to foreign imports. The large assembler could not help our nation soon enough, if called upon, in an emergency, without small firms who really do the parts manufacturing.

The above situation is based upon radio imports. There is even a greater threat now that Japan is producing TV sets where their own people cannot afford to buy them due to their price but if sold here would be priced 30% under our domestic products. This will only make conditions worse.

Please check into the proper labeling on sets assembled here, carrying a large company name, but made up of almost completely imported parts.

Please advise if any added information would be useful as I would be willing to meet with you or a committee in Washington, D.C. regarding the above situation.

Trusting to hear from you in due time, I remain,

Very truly yours,

EDMUND STANWYCK.

(The following statements were received for the record:)

STATEMENT OF HON. SILVIO O. CONTE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MASSACHUSETTS

Mr. Chairman, I appreciate this opportunity to present my views on the developing crisis of international trade not only as it affects our balance of trade and payments, but also, and more seriously, as it affects American job security.

It is becoming increasingly apparent that the language of foreign trade is no longer well served by such outworn and simplistic phrases as "free trade" and "protectionism." While trade expansion remains a necessity for promoting stability among nations, we cannot ignore some significant changes that have occured in the past two decades. Among them are the dramatic resurgence of economies once ravaged by war, the rise of managed economies, and the emergence of U.S.-owned, multinational corporations.

I need not dwell on these changes, Mr. Chairman, for they are now well appreciated by you and your colleagues. In their total effect, they have created a crisis that can only be solved by clearly establishing that our national goal must be an *orderly* expansion of trade which minimizes economic dislocations and which is done on a *reciprocal* basis.

I am convinced that both the Administration and this Committee are well on the way to taking significant action in this direction. But I do feel it is essential, when looking at the broad spectrum of problems America faces today in the field of international trade, to consider all industries affected.

Mr. Chairman, you and my distinguished colleague from Massachusetts, Congressman Burke, have led the way in demonstrating the need to revitalize our textile and leather footwear industries. I have been proud to join you in that effort. My bill H.R. 17045 is identical to your bills, H.R. 16920 and H.R. 16937.

My hope today is that you and your colleagues will similarly embrace an effort that I and my distinguished colleague Edward P. Boland are engaged in to deal with the developing crisis in electronic imports. We have recently introduced legislation, H.R. 17625, which we believe will do the job.

I want to briefly discuss the need for relief in the electronics field, and how our bill would provide it. Following that, I will discuss a more specialized problem affecting the large power transformer industry. I refer to the flagrant dumping practices that have gravely disrupted our domestic industry.

Before discussing these two main topics I would like briefly to indicate my support for one other measure you have under consideration.

ESCAPE CLAUSE AND ADJUSTMENT ASSISTANCE

Having introduced H.R. 17045, identical to H.R. 16920, I obviously am strongly in favor of the proposed changes in the Escape Clause-Adjustment Assistance provisions of the Trade Expansion Act of 1962. While the 1962 act greatly im-

proved this facet of our trade law by adding the adjustment assistance features and permitting relief to individual firms and even groups of workers, the requirement that trade concessions be the "major" cause of resulting injury is unduly burdensome. In effect, this feature has virtually nullified the true intent of Congress. The Administration's amendment to require that concessions need be only a "primary cause" of injury represents an improvement, but the Chairman's bill and my own which speak only of a "substantial cause" are, in my view, far more realistic.

THE NEED FOR AN EQUITABLE SHARING OF THE U.S. ELECTRONICS MARKET

Mr. Chairman, I need not dwell here on the massive adverse impact on American jobs in the electronics industry caused by the twin developments of a great influx in imports and the moving of so many U.S. manufacturing operations abroad. That record has been amply set out before you by a number of witnesses including spokesmen from the major unions affected and the Electronics Industries Association.

Let me merely point out that employment has indeed fallen sharply. Total U.S. employment in this industry, over 530,000 workers, is more than twice the employment in the footwear industry, which is a subject of relief in H.R. 16920. Since November 1966, 47,000 jobs have been lost. This is nearly as great as the loss in the textile industry, and several times the loss suffered in our footwear industry.

What is the response I recommend to deal with this crisis? It is not the short-sighted answer of a rigid protectionism. On the contrary, it is a flexible response, providing for orderly growth of imports within a framework of fair competition.

But it is also a serious response. I have already mentioned my support for a sensible adjustment assistance program. This avenue of relief is now being pursued by Local 1500 of the International Brotherhood of Electrical Workers from the Sickles Division of General Instruments in Chicopee, Massachusetts. General Instrument, the largest employer in Taiwan has already closed three plants in Connecticut and Massachusetts. I strongly support the action of the Sickles union which represents many workers living in my district.

But, as others have pointed out, adjustment assistance offers little more than death benefits. We must take more decisive action to get at the root causes of the problem.

I believe that H.R. 17625, which I have introduced with Congressman Boland, would enable us to take that decisive action.

This bill will limit the import of electronic products and components initially to the levels existing in recent years.

At the same time it provides for the adjustment of permissible imports if domestic consumption of a particular product or component increases, or decreases, more than five per cent. This is an especially important feature, since it provides a "safety valve," ensuring that consumers will not be made to suffer from the danger of price increases prompted by short supply.

The bill also provides that the Secretary of Commerce shall allocate these imports to particular countries based on their past imports, but also permitting him to give due account to special factors among them favoring those nations which have no greater restrictions than our own.

Let no mention at this point, Mr. Chairman, that this bill has eliminated one factor which was contained in an earlier bill, H.R. 9274 which I introduced. That bill permitted favoritism to those countries which permitted unrestricted U.S. investment. Such a provision makes no sense today. It would only compound the problem.

At the same time H.R. 17625 leaves with the President the discretion to adjust import levels pursuant to negotiated agreements.

In sum, Mr. Chairman, I believe H.R. 17625 is a responsible approach. It has the support of representatives of the Electronic Industries Association as well as three major AFL–CIO affiliated unions with a combined membership of nearly 2,225,000 workers (the International Union of Electrical, Radio and Machine Workers; the International Brotherhood of Electrical Workers; and the International Association of Machinists.)

While I would hope that the essential features of H.R. 17625 could be incorporated into a trade bill encompassing textiles, footwear and perhaps other industries, I realize that it is not the only solution. The broader approach of the Orderly Marketing Act proposed as H.R. 9912, introduced by Congressman Burke and our late, lamented colleague William H. Bates should also be considered.

I have also examined H.R. 16287 and find myself sympathetic to its basic approach.

I would only urge, Mr. Chairman, that you and your colleagues keep in mind the crisis in the electronics industry as you consider appropriate legislation.

THE CRISIS IN THE POWER TRANSFORMER INDUSTRY

There is another important subject I wish to discuss today, Mr. Chairman. I refer to the epidemic of dumping that now afflicts our large power transformer industry. Unlike the matters I have discussed so far which involve a complex series of causes, the situation in this industry is a simple matter of price discrimination and unfair competition.

Many industries in the United States today find themselves in an economic struggle with manufacturers around the world. If this competition were free and untrammeled, it would be a healthy and vigorous indication of the international trade climate. Fair, open trade on a reciprocal basis can produce more and better products for Americans as well as for all other peoples. Free, fair trade is one of the fundamental concepts of our American system.

The Congress has demonstrated, through tariff reductions, its belief in liberal international trade during the Kennedy Round of Tariff Negotiations. Our laws have made the American market the most open in the world.

Today, however, the foreign competition that many of our industries are facing is far from free and untrammeled. In fact, the trade policies of most of the industrialized foreign nations are such that they keep their markets for many products effectively closed to American manufacturers while increasing their exports to our open market.

A good example of this worsening situation is found in the electrical equipment industry and particularly in the power transformer field.

Power transformers are major elements in all electrical transmission systems. Without them, long-distance transmission of electricity would be impossible. As the demand for electrical power and the amount of power transmitted increase, the system voltage must also increase; the size of generating stations grows and the ratings of power transformers get bigger.

For the past 80 years, American manufacturers have conducted the research, developed the technology and acquired the skills necessary to build these transformers. They are recognized as leaders in technical fitness and productive capability. One of the most prominent of these manufacturers is located in my district.

But imports of foreign-made power transformers into the United States are posing a serious threat to our domestic industry. As I have stated, this is not because of superior efficiency. Nor is it because of lower cost of foreign manufacturing. Lower labor costs abroad have been found to be offset, in large part, by more efficient production methods and facilities in the United States. It is because many foreign governments provide export subsidies to their heavy electrical equipment manufacturers and, at the same time, protect their home market at high price levels against American entry. It's a one-sided, unfair, losing battle. Recently, one manufacturer—Westinghouse—filed an antidumping action with the Bureau of Customs. It deserves a thorough hearing and complete support. Only this week an important first step in this case was taken when the Bureau of Customs made a preliminary finding that dumping was probably taking place, and launched a full investigation.

A look at the cause and effect of unfair foreign competition in this area can perhaps point to solutions.

American requirements for large power transformers are increasingly being filled from foreign sources. It is abundantly clear that unless some constructive legislative action is taken to arrest or reverse this trend, foreign manufacturers will be providing one-third of the total power transformers purchased by American utilities in four or five years. That is the situation in summary.

How did it happen?

After World War II the demand in the United Kingdom, Europe and Japan for electric power and, therefore, for large power transformers, was great. The capability of the electrical manufacturing industry in those countries was fully utilized, often with the aid of considerable American technical expertise, in keeping with our national purpose to assist the economy of these war-torn countries. When the extraordinary demands of these countries were met, their electrical equipment manufacturers found that their normal national requirements were insufficient to utilize their capacity. It was natural, therefore, that since the

early 1950's they started looking to the American market. They are encouraged to do so, not just to be able to operate their facilities to capacity, but also because their governments seek American dollars.

Mergers, acquisitions and general restructuring of the heavy electrical equipment manufacturing industry in many countries, notably England, Italy, West Germany, Switzerland, France, Sweden and Japan, point to their effort to support the research and production facilities necessary to manufacturing the largest types of power transformers, for which America is the world's largest market. Their effort is paying off for them. In 1969 foreign manufacturers captured 22 percent of the dollar volume of power transformers purchased by electric utilities in the United States. Only one of the seven or eight highly competent American power transformer manufacturers secured more business than this.

One of the most disturbing factors in this gloomy picture is the action of our own government-owned utilities, primarily the Tennessee Valley Authority, Bureau of Reclamation. Their purchases of transformers from overseas suppliers has steadily increased to a point where they exceed 95 percent of the electrical capacity purchased, for the past three consecutive years. The reason is low price—but artificially low price.

Privately owned utilities, customarily measured for efficient procurement against government-owned utilities, are forsaking their previous preference for domestic equipment and shopping overseas for these artificially low prices. Several of them are now purchasing 20 percent or more of their requirements abroad.

In the past six years, nearly $100 million worth of power transformers have been purchased from foreign suppliers. Even at a conservative estimate, this represents at least six months' work for all of the employees in the entire United States power transformer industry. That work is lost forever to them and to the countless other American workers who supply materials and services to the power transformer industry. It also means lost tax revenue.

But that's not all. Our nation is running the risk of losing its technology in this vital area.

Electricity revolutionized American industry. We led the world in development and use of this energy form. Experts tell us that our electric utility industry must continue to double in size every ten years to keep pace with future demands for electricity. Knowledgeable people, including Secretary of the Interior Hickel, believe that a national power grid will have to be installed within a few years. Already, many areas of the country are interconnected by high-voltage transmission systems, and more inter-connections are effected each year. Such systems operate at very high voltages: 345,000 and 500,000-voltage systems are quite common. Recently, one utility—The American Electric Power Company—energized a 765,000-volt system, probably the highest voltage system in the world. But even higher voltage systems may be needed in the future.

In all these systems, power transformers are essential equipment. These are the very items being purchased increasingly from foreign sources. Of the 765,000-volt transformers purchased, 21 percent have been foreign made. Overseas supplies have secured 20 percent of overall American purchases of 500,000-volt transformers, but have supplied 75 percent of TVA's requirement in this rating. These are not simple pieces of equipment. They are huge and require skillful engineering. Some of them weigh three-quarters of a million pounds and cost about as many dollars. Decades of research and experience back up the technology necessary to design and build them.

I have personally seen many of these large power transformers. I have watched them being built and tested. I know many of the engineers who design them and the skilled craftsmen who put them together. There is no doubt in my mind that the technology required for the future can be developed by American manufacturers. But why should they bother? If the current trend continues and more and more of these high-voltage units are purchased overseas, there seems little incentive for any American manufacture to invest the time, money and manpower needed to keep up the technological pace. Power transformer technology is in danger of being transferred overseas.

But this is not the only risk. America's national well-being is involved. Great power systems in this country, dependent on foreign suppliers, might be unable to secure service or parts in time of emergency, or in periods when these foreign suppliers had to give priority to their home market demands. Besides, it is unlikely that present "cut-rate" foreign prices would long prevail, if American

power transformer manufacturers were no longer considered meaningful competitors.

Nevertheless, "cut-rate" prices are the reason for the alarming upsurge in purchases of foreign-made power transformers. A hard-headed utility executive or prudent purchasing agent cannot be blamed for taking advantage of a bargain. Some foreign bids have been 25 to 30 percent lower than domestic manufacturers' prices. They have also been well below the prices at which these same foreign suppliers have sold similar equipment in their own domestic markets.

Foreign suppliers can consistently underbid their American competition in the American market because their governments subsidize them for all exports to the United States. Different countries have different forms of subsidy—tax rebates or abatements, adjustments to corporate income tax, in some instances tax forgiveness, guaranteed financing and even direct payments for power transformer exports to the United States.

These are powerful incentives, but there are still more. In many industrialized countries, the electric utility industry is either government-owned or government-controlled. Investigation has shown that these utilities purchase equipment from their domestic suppliers at prices sufficiently high to offset the low prices these same suppliers charge in the United States. At the same time, because their home markets are protected, foreign manufacturers have no fear of American competition, and frequently sell in their own domestic markets at prices higher than those charged by United States manufacturers for similar equipment.

Earlier, I mentioned that American utilities had purchased $100 million worth of power transformers from foreign suppliers during the past six years. It is noteworthy that, in the same period, the extremely few transformers sold by American manufacturers in the home markets of these foreign suppliers were special types they could not build themselves.

There is nothing reciprocal about this kind of trade. It is unfair competition. It is a one-way street.

The American electrical equipment manufacturing industry has publicly declared its support for free, fair, reciprocal international trade. I know our American producers of large power transformers have the technological, engineering and manufacturing skill, and the research and production facilities and capability to be worthy competitors in their field. But only the Congress and the Government can remove dscriminatory obstacles to their export trade. Unless or until this is accomplished, this major industry, on which so much of our internal economy has depended, will remain in jeopardy.

Mr. Chairman, I referred earlier to the major Antidumping Act case filed by Westinghouse. As we watch its progress, we will have a better idea of whether legislative changes are needed to make this relief more effective.

Already there have been major criticisms of the antidumping law. It has been pointed out that the recent tendency to accept written assurances that dumping would end without an actual finding of dumping, constitutes, in effect, a license to continue dumping until a finding is about to be made.

In a thoughtful presentation before a conference on the crisis in international trade sponsored by the Industrial Union Department, AFL–CIO on March 19, 1970 U.S. Tariff Commissioner Bruce E. Clubb recommended three changes in the present law: an end to the undue delays that now occur in such cases, an end to the two-stage proceeding involving both the Treasury Department and the Tariff Commission, and provisions for a right of appeal when dumping is not found.

I urge this Committee to keep these proposals in mind and to exercise strong legislative oversight of the effectiveness of the present act and its implementation. As I said before, there is simply no justification for continuing this price discrimination.

In closing, Mr. Chairman, I thank you and your colleagues again for the opportunity to present my views.

Statement of General Electric Co., New York, N.Y.

I. INTRODUCTION

The General Electric Company wishes to comment on several of the trade and tariff matters now before the Committee on Ways and Means of the House of Representatives.

General Electric endorses the principle of expanded international trade set forth by President Nixon in his November 19, 1969 message to Congress. Over the years, General Electric has consistently supported the principle expressed by the President that full world wide competition "requires us to insist on fair competition among all countries" through the reciprocal opening of markets and elimination of non-tariff barriers among the trading nations.

As a Company which contributes positively to the nation's trade and payment balances through its exports and overseas investment, General Electric's stake in a positive U.S. trade policy is large. It believes that such a policy can be achieved best when Congress provides the Executive with guidance as to Congressional intent in approving any trade legislation. Indeed, in his November, 1969 trade message, President Nixon invited just such active Congressional intent and called also for close cooperation by the private sector.

In previous statements to the Congress and the Executive, General Electric has called attention to certain underlying imbalances and inequities which distort the flow of world trade. Accordingly, in this statement, General Electric wishes to comment on certain proposals in H.R. 14870, "the Trade Act of 1969". The Company wishes to comment in particular on the proposals having to do with the President's basic authority for trade agreements, annual appropriations for GATT, and enlargement of the President's retaliatory authority against foreign import restrictions and other discriminatory acts.

In addition, with regard to other trade matters now before the Committee, General Electric wishes to comment on: (a) proposals in H.R. 14188 which would eliminate Item 807.00 and Item 806.30 from the Tariff Schedules of the United States; (b) proposals for certain aids and incentives to export expansion, notably the proposed authorization of Domestic International Sales Corporations (DISC) and legislation such as H.R. 13713 which would provide for refunds of certain duties and taxes on exported articles; and (c) proposed legislation in H.R. 17625 requiring the establishment of quotas governing the importation of electronic articles.

II. PERSPECTIVES ON THE ADMINISTRATION OF TRADE POLICY (H.R. 14870)

General Electric endorses the purposes of H.R. 14870, the Trade Act of 1969 to strengthen the U.S. trade position. The Act provides for a necessary continuity in U.S. trade policy which has existed since the mid-1930's. It gives the Executive necessary administrative tools to handle the trade problems of the 1970's while preserving the gains which have come from the expansion of U.S. trade ever since World War II.

General Electric agrees with the proposals of Title II of the Bill which concern the administration and execution of trade agreements, and wishes to comment specifically on their necessity.

A. Necessity for the President: Trade Agreement Authority

In recognition of the need to provide the President with the necessary authority for the compensatory adjustment of the U.S. tariff rates, General Electric supports enactment of Section 201 of H.R. 14870 rather than the more restrictive Section 203 of H.R. 16920.

This adjustment authority is especially important in view of two current possibilities: (1) that the Congress will enact legislated quotas governing the importation of many articles into the U.S.; and (2) that there will be a growing resort to "escape clause" action which will result in tariff rate increases on a variety of imported goods. Under the GATT rules, the President will be required to make compensatory rate reductions on other goods so that the total volume of all U.S. imports remains comparatively unchanged.

Although the authority requested in H.R. 14870 is so modest as not to be designed for use in major tariff negotiations, it is nevertheless broader than that which would be granted in H.R. 16920 and gives the President a reasonable set of options for those times when he must make compensatory adjustments in U.S. tariffs as a result of quotas or other unilateral trade actions which might be undertaken by the United States. Within the limits of the proposed legislation, the President's selection of TSUS Items for adjustment could be carried out in such manner that the least harm would befall the domestic economy of this country.

On the other hand, by restricting the President's tariff-cutting authority solely to those articles which were not subjected to a full 50 percent reduction during the Kennedy Round. Section 203 of H.R. 16920 would virtually force the burden of compensatory adjustment onto a very few articles. Many items which were

not fully reduced during the Kennedy Round are precisely those for which quotas already exist or are now being sought—notably oil and petroleum products, textile and apparel, footwear, and certain consumer electronic products. Other such items—for example, flat glass—are subject to current or prospective "escape clause" action. Still other items such as porcelain insulators and ceramic tiles already face intensive foreign competition. It seems improbable that such articles would be those which the President would pick in his search for eligible items on which tariffs might be reduced.

Under the restrictive provisions of H.R. 16920, compensatory adjustment would fall necessarily on those few articles which could not seek relief in quotas or escape clause procedures. As a practical matter, because of the large potential market opportunities which they might offer to imports, the articles bearing the brunt of compensatory tariff reductions would inevitably be agricultural and fisheries products together with a certain few classes of electrical and mechanical equipment. It is General Electric's belief that these few industries would probably be unduly injured in consequence of such tariff reductions; in time, they themselves would emerge as prospects for legislative or administrative relief.

In its statement to this Committee on pending trade legislation in 1968, General Electric pointed out the unfair competitive practices which occur in the course of importing foreign heavy electrical equipment into the United States. Tariff reductions in these and other products would simply enlarge the existing problem of foreign unfair trade practices facing the U.S. heavy electrical equipment manufacturers. In addition, it is conceivable that tariff reductions on certain price-sensitive goods would result in a new flood of import competition.

To avoid these consequences, we suggest that, in granting the President's request for authority, Congress amend Section 201 of H.R. 14870 so that compensatory reductions of duties be proclaimed only after:

1. There has been full consultation between the Executive branch and those U.S. industries which will be affected by such reductions;
2. The President has issued a finding that such prospective compensatory imports are not now or likely to be imported into the United States while enjoying the advantage of unfair competitive practices in international trade.

B. Future Funding of the U.S. Share of GATT Expenses

General Electric supports the proposed change of Section 202 of H.R. 14870 whereby U.S. payments for this country's share of the expense of the contracting Parties to the General Agreement on Tariffs and Trade will be authorized by the Congress in annual appropriations rather than financed from general contingency funds.

While making clear this country's continuing support of the organization, the measure will enable the Congress to exercise a degree of legislative oversight in future GATT negotiations. It is our hope that, as a result of such Congressional attention, negotiations on the solution or regularization of international trade and tariff problems would proceed more rapidly and effectively than has been the case sometimes in the past.

Three such important negotiations in GATT are of considerable importance to the expansion of international trade under fair and equitable conditions.

First, as has been pointed out by the President, we must look to GATT as the instrument for a dismantling of non-tariff barriers to trade which cause discrimination against U.S. exports. This is an opportunity for the Congress to respond to the President's request for a "clear statement of Congressional intent with regard to non-tariff barriers to assist our efforts to obtain reciprocal lowering of such barriers."

Second, in authorizing this funding the Congress could express its desire for more rapid progress in efforts to resolve the inequities under which high border taxation and rebates place the goods of direct-tax countries such as the U.S. at a trade disadvantage in competition with goods of nations who depend primarily on in-direct taxes.

Third, Congressional interest could speed up progress in the GATT discussions which seek to establish more precise definitions as to what are legitimate and illegitimate aids and incentives to export. General Electric regards this negotiation as especially important because the United States uses comparatively few aids and incentives in behalf of expanding the nation's exports while American products compete in world trade against the goods of other industrialized countries whose export-support programs are much more extensive.

C. Enlargement of the President's Retaliatory Authority

General Electric supports Section 203 of H.R. 14870 amending Section 252 of the Trade Expansion Act of 1962, to expand the President's authority—(1) to move against unjustifiable import restrictions imposed on U.S. industrial goods and (2) to move against foreign export subsidies and other incentives which place U.S. goods at an unfair disadvantage in competition for third country markets.

We support these two amendments because they provide the President and his trade advisors with greater flexibility in dealing with the complex trade issues of the 1970's. But, General Electric equally believes that Congress should assert a strong voice in and continuing oversight of the formulation of such trade policy. The Congressional intent should be made abundantly clear to the Executive Branch—not only in general terms but also with respect to particular foreign unfair trade practices and trade imbalances. Indeed, President Nixon in his November, 1969 trade message invited Congress to identify and express its direct concerns about major problems it considers important.

One major area of foreign unfair trade practice that we wish to call to the Committee's particular attention is the nationalistic procurement policies and practices of foreign governments which exclude U.S. heavy electrical equipment from foreign markets, and, thereby, permit low prices foreign exports into the open U.S. market.

The facts and competitive consequences of the exclusionary procurement policies of electric utilities and power agencies owned or controlled by foreign governments have been stated many times by General Electric individually and by the U.S. electrical equipment industry, through its trade association, the National Electrical Manufacturers Association (NEMA). The testimony given to this Committee by NEMA on June 8, 1970 reiterates what members of the U.S. heavy electrical industry have been telling this Committee and Administration trade and procurement officials for years. Foreign manufacturers of high technology, heavy electrical equipment—such as turbine-generators, power transformers and power circuit breakers—enjoy protected home markets, insulated from outside competition. As a result, they consistently pursue a market strategy of dual pricing—selling high in their home markets and low into the U.S. market. This is a non-tariff barrier which not only excludes U.S. manufacturers from industrial markets of Europe but also permits heavy foreign penetration of the U.S. market.

General Electric believes that until foreign government procurement policies are changed to permit U.S. manufacturers of heavy electrical equipment a fair opportunity to compete in foreign markets, the present one-way trade street into this country should be curtailed. Accordingly, we have asked the Executive branch, in numerous presentations and meetings with trade and procurement officials, to adopt what is in effect a moratorium on the purchase of foreign manufactured Extra-High-Voltage power transmission equipment for so long as exclusionary devices are practiced by foreign countries and foreign producers.

This Committee's consideration of Section 252 to broaden the President's retaliatory authority against unfair foreign trade practices offers an excellent opportunity for U.S. attention to the significant non-tariff barrier erected by foreign government nationalistic procurement practices. However, H.R. 14870's proposed amendment of Section 252(a)(3) does not provide a remedy for the U.S. heavy electric equipment industry because nationalistic procurement policies are not "unjustifiable" import restrictions under GATT. General Electric believes that the most effective remedy would be statutory sanctions against foreign exclusionary policies and practices and recommends three such actions:

1. Amend Section 252(a)(3) to expressly provide that exclusion of U.S. products by foreign governments or their instrumentalities shall be an "unjustifiable import restriction."
2. Amend the Buy American Act (41 U.S.C.A. 10a) to authorize imposition of prohibitive margins by Federal procurement agencies on foreign-made goods from countries which have such policies and practices.
3. Amend the enabling statutes of Federal procurement agencies such as the Tennessee Valley Authority, Bonneville Power Administration, U.S. Bureau of Reclamation and others to authorize them to prohibit purchase of foreign-made goods from countries which have such policies and practices.

Even without the benefit of such statutory remedies, the Congress should express a clear intent to the Executive branch that it should issue Executive instructions to Federal procurement agencies to satisfy themselves, on the record

that any proposed decision to purchase foreign-made goods from countries which discriminate against equivalent American-made goods in their home markets is consistent with the principles of free, fair trade and in the national interest.

III. NEED FOB RETENTION OF TARIFF ITEMS 806.30 AND 807.00

One of the proposed international trade matters before the Congress, H.R. 14188, would repeal Item 807.00 which allows the duty-free entry of the U.S.-made portion of finished goods assembled abroad. Several proponents of this action have urged also the repeal of Item 806.30 which allows the duty-free entry of U.S.-origin articles of metal which are processed abroad and returned to the United States for further processing.

General Electric opposes repeal of either Item 806.30 or Item 807.00 because their use by U.S. manufacturers results in several significant benefits to the U.S. economy and U.S. employment.

At the President's request, the Tariff Commission is conducting a detailed investigation into the effects of the use of these Items on the U.S. economy. In response to this Tariff Commission inquiry, the General Electric Company, on June 11, submitted a comprehensive statement urging that these Items be retained in the Tariff Schedules because the facts of their use indicate that these Items: (a) are entirely consistent with long-standing U.S. tariff policies; (b) help meet U.S. peak demands for goods that would otherwise be supplied by goods of entirely foreign manufacture; (c) help U.S. manufacturers keep competitive against foreign competition in product lines where cost of assembly is critical; (d) facilitate the incorporation of U.S.-made goods in the finished goods of foreign manufacturers. The record indicates that in many cases, U.S. employment has been sustained or increased where the U.S. manufacturer has been able to use these Items to combat foreign competition in the U.S. market. Additionally, the use of these items has enabled the retention of important U.S. technology, minimized foreign competitor penetration of U.S. markets, and significantly aided the U.S. balance of trade.

A. TSUS Items 806.30 and 807.00 are Consistent with U.S. Tariff Policies

Items 806.30 and 807.00 were established to permit the duty-free re-entry of manufactured goods of U.S. origin which have not lost their identity abroad. Full duty is imposed on all foreign value added. Both Items are therefore entirely consistent with the underlying concept of tariff application and with long-standing U.S. tariff policy. The exemption of re-entering American goods is available to foreign manufacturers as well as to domestic businesses. Hence foreign manufacturers are encouraged to include American-made goods in products they manufacture abroad for shipment to the U.S. market.

The legislative histories of Items 806.30 and 807.00, as well as judicial interpretation of their predecessor provisions, make it clear that these provisions are intended to benefit only American-made articles which have not lost their identity as such. Even though 806.30 and 807.00 articles may be advanced in value or improved in condition, they nevertheless retain their American character and identity. Any other value added to the goods while they are abroad, whether by addition of parts, the application of labor, or otherwise is wholly subject to U.S. duty.

Therefore, it makes good economic sense and is compatible with long-standing Congressional tariff policy that such American-made articles, should not be burdened with U.S. duties. Repeal of either or both of these Items would, in effect impose a penalty on American-made goods re-entering the U.S. market.

B. General Electric's experience in the use of Items 806.30 and 807.00

General Electric's own experience in the use of Items 806.30 and 807.00 indicates that these Items enable it to maximize the U.S. content of its goods while retaining essential cost competitive positions against other manufacturers both domestic and foreign.

During 1968 and 1969 the General Electric Company utilized both TSUS Items 806.30 and 807.00 in conjunction with 40 identifiable categories of products. In 1969 the imported value of these goods totalled $45.6 million (exclusive of transportation charges and duty paid) of which American content amounting to $17.5 million re-entered duty-free. Prior to distribution in the U.S., the articles involved in these transactions were incorporated either directly or indirectly into finished products whose Company sales value amounted to some $250 million.

In the aggregate, when sold in the United States, these finished products had

a foreign content of $28.1 million or 11 per cent, and a re-entered American content of 7 per cent. Between re-entered U.S. content and operations performed in U.S.-based establishments of the Company, the American content in the overall $250 million of finished goods totalled $222 million or 89 per cent.

It is evident, therefore, that General Electric is assuredly not engaged in "runaway" operations. Rather, the Company's use of 806.30 and 807.00 is directed toward the fundamental purpose of meeting current conditions of U.S. market demand with a variety of competitive products which have a maximum U.S. manufactured content.

C. Use of Items 806.30 and 807.00 to meet peak demand in the U.S.

In recent years, there has been a succession of extraordinary periods of sharply rising demand for particular articles of consumer and capital goods. During such periods, demand has occurred under conditions where the production capacity of General Electric and its domestic competitors are already overtaxed, and where plant expansion could not be completed in sufficient time to supply immediate market place requirements. It is General Electric's experience that capacity shortages usually occur in a few critical assembly and/or machining operations which constitute only a fraction of manufacturing operations. Where these shortages occur, the availability of Items 806.30 and 807.00 make it possible to meet peak demands with goods of essentially American character. Otherwise the demand would be met by foreign competitors.

Thus, for instance, in order to respond rapidly to U.S. market demand for television receivers, General Electric imported color TV picture tubes and ultra-high frequency TV tuners, respectively, from its affiliates in Canada and Ireland. As demand conditions changed and stabilized, and as General Electric's U.S. plants were able to accommodate production requirements, importation of these articles ceased in late 1969.

A dramatic example of the use of both TSUS Items 806.30 and 807.00 to meet peak demand has come in the wake of the Northeast blackout of 1965 and subsequent major power failures in other parts of the United States. Since these occurrences, electric utilities have accelerated their order levels for additional power generation apparatus thereby keeping filled the U.S. plant capacities for manufacturing such equipment.

Faced with this escalating demand, General Electric has engaged in a long expansion program to add new capacity for such power generation products as gas turbines and steam turbine-generators. But with respect to certain machining operations and the assembly of certain components, the Company has not had enough immediately available skilled workers and facilities in this country to meet new or temporary peaks for these specialized manufacturing processes. Domestic subcontracting sources have not been available or willing to undertake the custom manufacturing operations necessary for machining or assembling of such specialized components.

Under these circumstances, General Electric has turned to particular foreign manufacturers whose plants had excess capacity and who were willing to perform custom operations on specialized components to our design and quality requirements. Material or components are shipped from the United States to these manufacturers for various machining, processing or assembly operations. On return to the U.S., the value of the article as it left this country is re-admitted free of duty; and duty is paid on the value added abroad.

Where articles of metal are returned under Item 806.30, the article is further processed in General Electric Company's United States plants. Where components and assemblies re-enter under Item 807.00, the component or assembly becomes part of a complete General Electric gas or steam turbine generator. Thus, under both Items these foreign operations constitute only a minor fraction of the total manufacturing process. The ability of General Electric to obtain offshore a small proportion of turbine-generator components, for example, has meant a large gain to the overall U.S. production of these products. It is worthy of note that the offshore costs of processing or assembly are generally higher than or at least equal to the cost of production of identical goods in the U.S.—even had the necessary manufacturing facilities and skilled labor been available to the Company.

In the absence of domestic capacity, and without Items 806.30 and 807.00, the higher cost foreign subcontracting of operations in the production of turbine-generator components would have been compounded by duty charges, and thus would have increased component and machining costs still further. The Company would then have been required to seek higher prices for its finished prod-

ucts in competition against foreign manufacturers whose open capacity makes it possible for them to meet the delivery schedules of U.S. electric utilities for complete turbine-generators.

With the unfair advantage of closed home markets and dual pricing discussed above, much of the demand would have been supplied from offshore by equipment of totally foreign design and origin. The result would have been a permanent capture by offshore suppliers of significant portions of this country's gas and steam turbine generator markets normally served by U.S. manufacturers who employ American labor and incorporate predominately American materials in their products.

At a minimum, therefore, General Electric's use of Items 806.30 and 807.00 to meet peak demands for the Company's finished products has enabled the Company to continue to serve U.S. markets. Portions of these markets would have been lost permanently to foreign manufacturers with available capacity. U.S. manufacturers would have been seriously hampered in their efforts to add domestic capacity to meet these growing demands.

D. Use of Items 806.30 and 807.00 to meet low-cost foreign competition

Challenges in the U.S. markets from foreign suppliers have built up steadily during the 1960's and show every indication of intensifying during the 1970's. Under heaviest fire from such competition are the consumer electronic businesses and electronic components used in such goods as radios, television sets, phonograph amplifiers and similar products. Their assembly is characterized by labor-intensive operations which account for much of their total cost of production.

These are businesses that must sell in volume to remain competitive and capable of growth. But they can do so only by maximizing savings in production costs while retaining technological capability.

Foreign manufacturers, particularly the Japanese, have long since achieved technological equality with the U.S. in most consumer electronic product and electronic components lines. Although Japanese labor costs have been increasing rapidly in recent years, Japan's developed labor skills in conjunction with her technological expertise have given her manufacturers a competitive edge to penetrate U.S. markets in growing volumes for such products as tape recorders, multiband stereo radios, and small screen television sets. And from Japan these skills have spread to the lower-wage countries of the Far East.

Confronted by such competition, General Electric has utilized Item 807.00 in certain of its electronics operations to achieve cost competitiveness at critical points of assembly operations. Meanwhile, the Company's electronic businesses have retained in the U.S. those many portions of the manufacturing and distribution process which can continue competitive using American-based operations.

For many products incorporating offshore assemblies imported under Item 807.00, high-skill manufacturing is kept in General Electric's U.S. facilities. Similarly, research, development and engineering remain centered in this country. And lastly, domestic sales and distribution organizations remain strong and fully employed.

If Item 807.00 were eliminated in respect to these products, the costs of U.S. operations would inevitably rise still further because of the imposition of duty on U.S. goods re-entering the U.S. But because U.S. market prices for such goods are established through intense competition, the surviving American operations would be further jeopardized. Elimination of the Item, would, therefore, have the effect of further accelerating the offshore movement of these businesses or, alternatively, the capture of an even larger share of the American market by products of wholly foreign origin.

E. Use of Items 806.30 and 807.00 to encourage the use of U.S.-made components in imports from foreign manufacturers

TSUS Item 807.00 is available for utilizatiton not only by American manufacturers but also by foreign producers who are thereby encouraged to procure parts and subassemblies in the United States for incorporation in their exports to this country.

American components are used extensively in imported goods which now enjoy large markets in the United States. For example, certain automobile manufacturers of Europe and Japan make it a policy to include a significant percentage of U.S.-made parts in vehicles destined for sale in this country. Several of these exporters use General Electric's automotive lamps made in Ohio, Kentucky and

Tennessee and thus provide considerable employment in the United States for the production of lamps which enter the U.S. under Item 807.00 as well as for the replacement market which might otherwise be served by imports.

Another example is the GE CF700 jet engine (made in Ohio), the power plant for the Falcon aircraft, a jet plane manufactured and assembled in France for world-wide sales to certificated carriers and corporate fleets. This aircraft has found considerable favor in the U.S. where it is marketed through direct sale or leasing by several airlines. In addition, it is finding growing demand in Europe, Canada, Latin America and South Africa.

It is by no means certain that the French aircraft manufacturer would have selected an American-built engine if Item 807.00 were not in the U.S. Tariff Schedule. There is growing intensive international competition from European manufacturers who are progressing rapidly in the field of small jet engines. Having had its engines selected for this and other European-produced aircraft, General Electric is able to maintain an important technology in the United States, and, through continuing sales of spare engines and replacement parts to aircraft purchasers, provide long-term benefits in the national interest that include continued employment in its U.S. plants and a steady flow of export sales throughout the service life of the aircraft.

F. Beneficial effects from the use of Items 806.30 and 807.00

Actual use of Items 806.30 and 807.00 shows that the availability of these Items provides several specific beneficial effects for this country.

General Electric's experience indicates that its own domestic employment has been sustained and, in fact, increased in its establishments which manufacture finished goods that incorporate re-entered articles under Items 806.30 and 807.00. Both hourly-rated and salaried employment has increased.

Where these Items are utilized for purposes of maintaining cost competitiveness, domestic employment is sustained for a longer time and employed in higher skilled jobs than if a manufacturer were forced to obtain his goods entirely from offshore sources. In the U.S. plants of General Electric which reported to the Tariff Commission on domestic employment trends between 1967 and 1969, there were few, if any, losses of jobs in those establishments utilizing the Items in order to stay competitive.

A full appreciation of the beneficial effects on domestic employment, however, emerges only when all the reasons for Item usage (in addition to cost competitiveness) are taken into consideration. When total employment changes between 1967 and 1969 in all 24 reporting GE plants are analyzed in full, these Item-using establishments show significant gains in jobs. For instances, employment of production and related workers in these plants—the people on the factory floor—increased by 5.5 percent. Employment on research and development staffs, which include highly skilled and highly paid personnel, grew by 26.6 percent. Thus, the actual record emphasizes that far from destroying American jobs, prudent utilization of the Items contributes to employment growth.

Removal of the advantages obtained under the Items would inhibit the ability of U.S. manufacturers to meet competition and satisfy peak demands, and hence their ability to create additional and upgraded employment. Worse still, to the extent that cost competition forced sourcing of wholly foreign-produced goods from offshore locations, employment in these industries and among their U.S. materials suppliers would surely decrease—in some instances, precipitately.

With respect to technology, General Electric's experience indicates that the retention of U.S. high-end technologies is aided by the use of Items 806.30 and 807.00.

The growth of General Electric's employment in research and development personnel reflects the beneficial effect of the Items on the preservation and progress of U.S. technology. The vital linkage between advancing technology and this nation's economic growth is well understood. Not so well appreciated, however, is the rapid rate at which simpler technologies become assimilated in most developing countries and the speed with which all the advanced industrial nations have become capable of developing competitive technologies that are new and complex.

Partly as a result of Item 806.30 and 807.00, the American content retained in U.S. manufacture has higher technology while foreign content normally utilizes simpler technologies. For example, a fundamental reason for retaining U.S.-made forging blanks in the manufacturing of blades for steam turbines is the proprietary metallurgical control that General Electric can exercise over materials prior

to shipment for overseas processing. The offshore operations, though requiring precise manufacturing technique, are in essence simpler technologies than the metallurgy.

In this and numerous other usages of the Items the "high-end" technologies are retained in the U.S. as a basis for further advancement. But when technologies become too widespread and cost vulnerable to remain competitive in U.S. manufacturing operations, then offshore manufacturing may be the only solution. Yet, through use of Items 806.30 and 807.00, U.S. manufacturers can marry "high-end" technologies that create American content with "low-end" technologies that absorb foreign content.

Some technologies inevitably leave U.S. shores. But the Items permit the retention of many critical techniques in the United States. For instance, nearly all domestically-sold AM radios are now imported. However, these still contain some American-made semiconductors and other components which the Items now allow duty free re-entry and which represent greater technical sophistication than the radio itself.

Conversely, the fate of ceramic electrical insulators, essential in the transmission of high voltage electricity, illustrates the technological erosion of an industry where the Items are inapplicable. This was once a field where American technique received world-wide recognition for engineering and product excellence. Declining profits gradually caused domestic manufacturers to cut back severely on their research and development expenditures. Gradually too, cost and price competition led to procurement of insulator components and complete products from offshore, primarily Japan. Today, Japanese sales volume has grown so large that it has supported the development of an advanced technical proficiency in that country. In short, technological leadership in a major product area that is critical to the operation and expansion of U.S. electric power systems has passed from the United States to Japan.

Like many American manufacturers, General Electric prefers to retain a maximum of U.S. content in finished goods sold into domestic markets. There are obvious interests of "corporate citizenship" which dictate that a manufacturer has responsibilities to those communities in which he has establishments. Furthermore, in complex operations, good management practice calls for holding together personnel—both hourly-rated and salaried alike—whose skills are integral to operations. Such skills are not easily duplicable through the movement of complex production processes to foreign locations.

Of critical importance is the manufacturer's investment in his facilities. Contrary to the impression held by some, such investments are highly fixed, rather than mobile. The manufacture of most heavy electrical equipment requires highly specialized buildings whose usefulness for other production is extremely limited. Inside these structures are large and complex machines, tools and test facilities that, once emplaced, are virtually impossible to move to a new site.

For these reasons, U.S. manufacturers seek continuance and maximum utilization of their domestic production facilities. And, by preserving American content in re-entered goods related to these facilities, Items 806.30 and 807.00 make a positive contribution to keeping these domestically-based operations healthy.

In growth markets, the presence of the Items serves as a bridge while making new investment in added facilities on an economic basis. The Items help to ensure that the investment process itself is orderly, directed to creating new plant which has reasonable assurance of optimum capacity utilization and the creation of permanent employment. In short, such investment is directed toward long-term efficiency in U.S. operations which will survive the pressures of international competition.

Costly, untimely and hurried investment is made unnecessay. Where such investment might be undertaken to meet temporary peaks, a decline in demand would mean higher overhead costs per unit as production declines. Some efforts at recapturing these costs would most certainly be made in the form of higher pricing—a circumstance that would surely invite increased competition from products of wholly foreign origin. But where profitability could not be sustained through price increases, the reduced return on investment would discourage future plant expansion in more orderly times.

General Electric has also found in its own case that the use of Items 806.30 and 807.00 helps the U.S. balance of trade to the extent that this use: (a) helps the Company meet peak demands for goods that would otherwise be supplied by goods of foreign manufacture; (b) helps keep the Company able to compete against foreign manufacturers with essentially American goods as against being

forced to rely on goods of totally foreign manufacture in order to survive in the U.S. market; and (c) facilitates the incorporation of U.S. goods in the finished goods of foreign manufacturers. In short, the U.S. balance of trade is helped to the extent that foreign content of imported goods is minimized and export and inclusion of American content is aided.

It is clear that elimination of the Items would force U.S. manufacturers into seeking more and more offshore sources as replacement for the American content in their imported goods. In terms of imported goods alone, there would, therefore, be further erosion of this country's precarious trade balance. Additional erosion of the trade balance would gradually develop as U.S. manufacturers' domestic operations, now deprived of the cost competitive advantages provided by the Items, would escalate the speed at which they would shift to offshore locations in order to stay in business.

But even deeper erosions would likely occur on the export side of the trade balance, as the following General Electric examples illustrate:

First, while an appreciable fraction of General Electric's usage of the Items is carried out in conjunction with the Canadian General Electric Company, it is significant that the total merchandise transactions between the two companies provide a heavy positive balance in favor of the U.S. establishments. Overall, the Canadian Company purchases some $60 million annually in goods produced at General Electric's U.S. plants. Purchases by the Company's U.S. establishments from the Canadian company approximate $11 million—including 806.30 and 807.00 operations performed in Canada, transactions which strengthen the Canadian Company's ability to purchase from the United States.

Second, in conjunction with its subcontracting operations under Item 807.00, General Electric's domestically based gas turbine plants export large quantities of U.S.-made components which do not re-enter the U.S. but are sold offshore in the home markets of the subcontractors and in third-country markets. Absent the ability of General Electric to use these foreign subcontractors for 807.00 operations, it is doubtful that they would find it economical to include U.S.-made components in their offshore sales of complete gas turbine plants.

G. Items 806.30 and 807.00 should be retained

In view of the persuasive evidence of benefit to the United States, the General Electric Company believes that both Items 806.30 and 807.00 should be retained in the Tariff Schedules. These Items have been established as entirely consistent with U.S. tariff practices of long standing. Their availability arms the U.S. manufacturer with means to compete with increasingly aggressive foreign competition in the U.S. market and elsewhere in the world. Actual use of these Items has a range of beneficial effects for the U.S. economy generally which outweigh their possible injury to any one segment of that economy.

These conclusions as to the desirability of Items 806.30 and 807.00 are based on the actual evidence of their use by General Electric Company. It is the Company's belief that the evidence of use by other responsible U.S. manufacturers will similarly bear out the desirability of retaining these Items. When completed, the current investigation of the U.S. Tariff Commission into the use of these Items will provide important information on this subject. At a minimum, Congress should defer action on H.R. 14188 until it has the benefit of the findings from this exhaustive study.

IV. COMMENTS ON THE DISC PROPOSAL AND H.R. 13713 ON REFUND OF DUTIES AND TAXES

A. Perspective on the Proposal to Establish a Domestic International Sales Corporation

The Treasury is to be commended for its efforts to relieve American exporters from their inequitable situation with respect to foreign competitors. It has been demonstrated that foreign governments have for many years been developing effective ways of partially relieving their exports from certain domestic costs, such as taxes, insurance, interest, etc., with the objective of expanding exports. As a result, it has become increasingly difficult for U.S. exports to compete in third countries on a free, fair trade basis.

However, the benefit in forming a DISC will be materially diluted if it is necessary to provide currently for U.S. Federal income taxes to be paid upon distribution of the DISC's income to its parent. While as the Treasury has said, the American Institute of Certified Public Accountants has informally stated that the DISC income can be treated under the rules applicable to the income

of foreign subsidiaries, the non-accrual of future taxes applies in such cases only when there is a substantial probability that the tax will never become due. Thus, the desirability of utilizing the benefits of a DISC will be directly related to the remoteness of the likelihood of there being a taxable distribution at some future time. Therefore, we would urge that, to the fullest extent feasible, the DISC device be so structured as to reduce to an absolute minimum the likelihood of a tax eventually being paid on DISC earnings.

General Electric also urges that the legislation make it clear that the DISC can be employed on a basis which will make it unnecessary to incur significant operating costs, or to require material restructuring of operating responsibilities or internal reorganizations. This can be accomplished by providing that if the DISC is validly incorporated, its existence cannot be challenged and its income cannot be reallocated to the parent if its net income does not exceed certain limits to be specified in the law.

Finally, General Electric objects to the proposed disqualification of those goods imported under the provisions of TSUS Item 807.00. This provision would have the effect of "tainting" large exports of goods because they contain a relatively minor component imported under the Item. A more proper rule would take into account the value subjected to duty in determining whether total foreign content exceeds 50% of the total cost of the exported product.

Because, to date, statutory language has not been drafted for the DISC proposal, General Electric wishes to defer comment on technical details of the proposal.

B. Comment on H.R. 13713 Establishing a Refund of Duties and Taxes on Exported Articles

General Electric supports this action as a necessary and desirable supplement to the DISC proposal. In our opinion, this measure represents an approach to tax remissions and abatements similar to that which prevails in many of those industrialized countries with whom the U.S. competes for exports. In those nations, refunds in fact comprise significantly higher proportions of the export value of goods than refunds proposed under H.R. 13713. This measure, taken together with DISC, could have a significant beneficial effect on increasing U.S. export trade.

V. QUOTA PROPOSAL ON ELECTRONIC ARTICLES

General Electric opposes the enactment of H.R. 17625 and its proposal to establish quotas on the importation of electronic articles because of the severe problems it would create including arbitrary limitation of consumption and the possibility of widespread inflationary and artificially increased price levels for consumer electronic products.

The mechanisms proposed in H.R. 17625 would make it extremely difficult for domestic manufacturers and importers alike to adjust to the rapid changes in demand which characterize the markets for the many electronic products and components covered by the Bill. Sections 1 and 2 of the Bill provide that quotas will be determined on the basis of the "*quantity and value*" of imports for each type of consumer product during the year 1966 or for the base period 1964–1966 in the instance of each type of component. Since that time, profound changes have occurred in the design of products and the technical specifications of such components as semiconductors and circuit assemblies. These changes make any "*quantity and value*" determination in 1966 terms nearly impossible. So too, the 1970 prices of these articles have been so altered from those of the middle 1960's that it would be extremely difficult to reconcile quantities and values, as the Bill requires.

Furthermore, those Sections of the Bill together with Sections 4 and 5 require that quotas be determined and allocated by the Secretary of Commerce in accordance with estimates of annual demand for each article during the immediately ensuing calendar year. General Electric suggests that such an annual procedure does not correspond realistically to either flucuations in market demand or to production cycles in the various electrinic industries at home and abroad. An earlier portion of this statement in conjunction with the retention of TSUS Item 807.00, points out that the ability to import selectively helps U.S. manufacurers meet peak demands without resort to installing excess capacity which unnecessarily raises costs (and prices) during times of lower consumption. Just as elimination of Item 807.00 would tend to cause shortages, the probable result of the proposed electronic quota-setting procedures would be a chronic shortage of many differing electronic products in the United States. Domestic manufacturers would find it

uneconomic to maintain a capacity sufficient to meet demand fluctuations and importers will be prohibited from doing so.

The net effect of such a quota on electronic products would be an artificial limitation on consumption. The consequence is artificially increased price levels and a further fueling of the inflationary spiral. It is a further possibility that such artificially induced shortages would divert efficiently utilized resources from those healthy sectors of the electronics industries which now compete effectively against foreign competitors in the U.S. markets and overseas.

General Electric is further concerned that the proposed annual quota-setting authority would seriously inhibit the production and investment decisions of domestic manufacturers in the electronic industries. Unusually fast decisions are required by the need for adjustment to rapid technological change, competition between suppliers and fluctuating market conditions. It is impossible to see how domestic manufacturers would be able to respond with the speed of decision that is essential to survival in the industry.

The roll-back provisions of H.R. 17625 to 1964–1966 import levels will almost certainly provoke foreign demands for compensatory U.S. tariff reductions on other imported goods. Or, as an alternative, the quota-bound countries could legitimately impose retaliatary tariff increases against U.S. exports which sought to cross their borders. In consumer electronic products alone, the values affecting this country's international trade would appear to involve at least $600 million. This is a burden which other sectors of the U.S. economy would have to bear immediately if the Congress deals with the acute problem of electronics competition by such an approach to mandatory quotas. Furthermore, the total U.S. electronics industry currently enjoys *growing* exports which surpass $1 billion annually. To the extent that retaliatary tariffs were directed at these exports, this proposed legislation would in our opinion be doubly damaging to the U.S.

By no means is General Electric complacent or unconcerned about the rapid growth of imported consumer electronic products and components. Along with other manufacturers of these articles, the Company faces severe and increasing competition in its largest and most important electronics market. Out of necessity rather than preference, the Company has been forced by the cost-price squeeze in the U.S. to expand its offshore production in certain electronic articles.

Yet, as the Committee on Ways and Means has seen in the statements of the Electronics Industries Association, there is much uncertainty on the nature of the root causes for the steep increase in electronic imports. For instance, there is a need to know whether or not many of these imports stem from unfair competitive practices; but no such precise knowledge exists in this country. There is genuine concern over seeming losses in jobs; but it is a fact reported by the Bureau of Labor Statistics that total U.S. employment in electronic components and consumer products manufacturing reached record high levels during the first quarter of 1970. While much attention focuses on plant cutbacks and closings, comparatively little notice is given to factory openings and expansions.

The problem of import competition is nevertheless real; but its causes—and therefore its solutions—are not yet understood. The industry itself is divided on how to approach the problem. Under such conditions of uncertainty, General Electric believes that quota limitations on imports of electronic articles now would further confuse the situation and throw the industry into chaos.

VI. CONCLUSION

General Electric has commented at some length on these various trade matters now before the Committee because these matters are so important to the long-range interests of the United States.

In spite of the progress achieved under GATT, a range of inequities still exist in the trade and trade practices among nations. The lucrative, growing U.S. domestic market has attracted foreign imports benefiting from non-tariff barriers and exclusions in their home nation markets. Both the domestic economy of the United States and its ability to export have been affected to a degree by this aggressive and unfair foreign competition in some products, such as heavy electrical equipment.

The effects of U.S. quota establishment, for instance, go far beyond merely just regulating the importation of goods. Under GATT, where quotas are established, the affected trading nations have the right to ask for compensatory tariff reductions on other goods. Where such compensatory tariff reductions are negotiated, the penalty not only comes back to the quota sponsoring nation but is applied across a broader cross-section of the economy. If compensatory tariff reductions are refused, then the affected quota-bound nation could retaliate by

severe exclusion of U.S. goods. This could have a catastrophic effect on U.S. exports. At present, for instance, the annual U.S. exports to Japan alone amount to some $3.5 billion.

Therefore, General Electric believes that where trade inequities occur, existing avenues of negotiation under GATT and elsewhere should be pursued to their utmost on specific time limits before unilateral remedies are proposed. Where international negotiation is unproductive, any unilateral remedy adopted should not have the effect of creating larger problems than it solves—as in the case of electronics quotas.

It is in the long-range interests of the United States' expanding economy to continue the U.S. policy of trade liberalization on a reciprocal basis rather than retreat into well meaning but self-defeating measures of protection.

As indicated in this statement, there are several positive proposals now before the Committee which can provide: (a) the Executive branch with needed flexibility and powers of initiative to attack trade inequities; and (b) provide U.S. industry with means to compete fairly with the goods of foreign nations. General Electric urges Congress to give serious consideration to these positive proposals.

General Electric reiterates its belief in the principle of free fair trade and its continued application in the U.S. policy of trade liberalization on a reciprocal basis. In particular, it supports all reasonable efforts which can lead to expansion rather than contraction of U.S. exports.

STATEMENT OF H. WILLIAM TANAKA, COUNSEL, TOSHIBA AMERICA, INC.

This statement is submitted on behalf of Toshiba America, Inc., an importer and distributor of consumer electronic products and components. Toshiba America is incorporated in the United States with offices at 477 Madison Avenue, New York, New York. It is a subsidiary of Tokya Shibaura Electric Co., Ltd., a leading Japanese manufacturer of electronic products. Toshiba America appreciates this opportunity to present its views on the vital trade policy issues now pending before the Committee on Ways and Means.

SUMMARY

1. There is a close relationship between the U.S. and Japanese electronic industries. Trade between the two countries in electronic products has been mutually beneficial. U.S. electronics exports to Japan primarily consist of highly sophisticated industrial equipment and components, reflecting the technological leadership of the U.S. industry. Japanese manufacturers have applied U.S. technology to the development of consumer electronic products which constitute the majority of exports to the United States by the Japanese industry.

2. Previous testimony has conveyed incorrect information and inaccurate impressions concerning Japanese trade policy in electronics. The charges of Japanese restrictions on imports of consumer electronic products and Government subsidization of Japanese exports are untrue.

3. Innovations by Japanese manufacturers have made substantial contributions to the increase in the U.S. market for consumer electronic products. These innovations have created markets for new products which would not have existed were it not for imports from Japan.

4. The present slowness of demand in the U.S. has affected sales of Japanese as well as domestically produced electronic products. These short term market conditions do not warrant measures as drastic as import quotas.

5. Import quotas would completely disrupt the market for consumer electronic products, stifle product innovation, and bring about price increases. The consumer, the industry, and the economy as a whole would suffer as a result. Moreover, imposition of quota restrictions on electronics would have serious repercussions for overall world trade.

We are submitting this statement because of our deep concern over the rising trend of protectionism reflected in the many quota bills now pending before this Committee. In particular, we wish to register our opposition to the various bills which would impose quotas on imports of consumer electronic products and components. We submit that there is no need or justification for such drastic trade restrictions.

There is a close relationship between the U.S. and Japanese electronics industries

First, in considering the trade policy alternatives for the electronics industry,

it is essential for the Committee to recognize the international character of the industry. Perhaps more than any other major industry, electronics is truly international in scope, both with respect to marketing and sourcing. In many respects it is a perfect illustration of the classic theory of comparative advantage. The United States is the world leader in electronics technology, and the U.S. industry is most successful in those product areas where its advanced technology can best be put to use. Japan, in turn, has utilized some of this technology in developing a wide range of consumer electronic products. The less developed countries are also playing an increasing role in the world electronics market in the manufacture of relatively low technology high labor input products such as small transistor radios. Electronics components are manufactured in many countries, and producers of finished products in Japan, the United States and Europe purchase their components on a worldwide basis.

Relations between the electronic industries in the United States and Japan are particularly close, and trade between the two countries in electronic products is mutually beneficial. The United States and Japan lead the world in the production and export of electronic products although the United States is by far the largest in both production and exports. In 1969, U.S. production amounted to approximately $29 billion compared with Japanese production of $6.6 billion. The United States earned approximately $2.9 billion from exports of electronic products while Japan earned approximately $1.9 billion. The trade between the two countries alone amounted to about $1.2 billion.

Today most of the major American electronic companies use Japanese-made components or subassemblies in their products. In addition, a number of U.S. manufacturers import finished consumer electronic products from Japan to round out their product lines. It is unlikely that any manufacturer can produce all of the great number and variety of home entertainment products which the American consumer desires. In order to offer a full line of consumer products, many American manufacturers look to Japan as a source for products which they do not manufacture themselves, while concentrating on those products which they can produce most efficiently in volume. These Japanese products are generally produced to U.S. manufacturers' specifications for sale under U.S. brand names.

In turn, most of the major Japanese companies purchase extremely expensive U.S. electronic computers and other high technology equipment and components such as integrated circuits and semiconductors. In addition, many Japanese electronic companies have purchased U.S. technology through patent and know-how licensing agreements for which they pay royalties amounting to approximately a quarter of a billion dollars per year.

Thus, America and Japan draw freely upon each other's talents, skills and resources to create the fantastic array of electronic products now available to homes and industries.

The trade between the two countries in electronics is substantial. The United States is the largest market for Japanese exports while Japan is the second largest customer for U.S. electronic products, after Canada. Japan represents a rapidly growing market with great potential for the future.

In 1969 U.S. supplied Japan with 5.4% of her total consumption of electronic products, not including substantial amounts of telecommunications equipment. In that year Japan accounted for about 3.5% of the total U.S. electronics market, and about 14% of consumer electronic consumption. It is also significant to compare the share of total imports of electronic products by each country. In 1969, the United States accounted for 73% of Japan's total imports of electronic products, while about 55% of total U.S. electronic product imports were purchased from Japan.

The relative size and market power of the two industries is illustrated by the fact that in 1969, 51.5% of Japan's total electronic exports were shipped to the United States, while sales to Japan accounted for only 10% of total U.S. electronics exports. Nevertheless, the United States was able to supply 5.4% of total Japanese consumption with only 10% of its exports while Japan could supply only 3.5% of the total U.S. market even though the United States absorbed more than half of Japan's total exports.

Another noteworthy fact is the complementary nature of the electronics industries in Japan and the United States. The U.S. industry has long been the world leader in technology as a result of huge research and development expenditures for defense applications which have greatly contributed to the overall technical capability of the American manufacturers.

On the other hand, the Japanese industry has progressed by purchasing basic

technology from the United States for the development of transistors, integrated circuits, etc. Japanese manufacturers have utilized this technology in the production of a variety of consumer electronic products such as radios, television receivers, tape recorders, and portable desk type electronic computers. Thus the growth of the Japanese industry has largely been stimulated by growth in the consumer electronics sector.

This fact is reflected in the trade pattern of the two countries. Consumer products accounted for about 71% of total Japanese electronics exports in 1969, followed by electronic parts (18%) and industrial electronic equipment (11%). American electronic exports show precisely the opposite pattern with industrial products accounting for more than 66% of total exports, components accounting for 31%, and consumer products about 4%.

Thus Japan is a substantial purchaser of foreign industrial electronic equipment, with such equipment accounting for 52.5% of Japan's total electronic imports in 1969. And the United States supplied approximately 75% of Japan's imports of industrial electronic equipment with sales increasing by 32.4% between 1968 and 1969. On the other hand, the United States is a substantial purchaser of foreign consumer electronic products. Consumer products accounted for 54.5% of total U.S. electronics imports in 1969, and Japan supplied a little more than half of U.S. imports of consumer products, a substantial percentage of which was purchased by U.S. original equipment manufacturers.

The foregoing statistics give an indication of the important stake which both countries have in a free flow of trade in electronic products—a stake which is jeopardized by the pending quota bills.

These facts tend to become obscured in the heated debate over trade policy. Instead, a great deal of incorrect information and inaccurate impressions have been conveyed which give a distorted picture of the true situation in U.S.-Japan electronics trade. We would like to take this opportunity to correct some of these misconceptions.

The charges of Japanese protectionism and export subsidies are untrue

In our opinion, the charges of Japanese protectionism in electronics are unfair and contrary to the facts. For example, it has been asserted that U.S. manufacturers are prevented from selling television sets in Japan by non-tariff barriers such as import licensing, currency controls, and quotas. This is simply untrue. Such controls on imports of television sets were removed several years ago, and U.S. companies can export to Japan free of any such restrictions. In fact, it is possible for American manufacturers to sell large color TV sets in Japan at prices well below those of Japanese manufacturers. The lack of significant U.S. exports to Japan of large screen TV sets is not due to Japanese trade restrictions, but rather to the fact that such sets are *too large* for most Japanese homes.

Japan agreed in the Kennedy Round negotiations to reduce its duties on television sets in several stages. Japan recently decided to speed up its scheduled duty reduction by nine months so that the full Kennedy Round reduction will be completed on April 1, 1971. On that date, the duty rate for color TV sets will be 12.5% for screen sizes of 20 inches and over (compared to 17.5% in 1970) and 15% for screen sizes of 19 inches and under (compared to 21% in 1970). The duty on black and white sets with screen sizes of 20 inches and over will be cut from 14% in 1970 to 10% in April, 1971, while the duty for sets of 19 inches and under will be reduced from 21% to 15%.

In addition, Japan is opening her doors to U.S. investment in the electronics industry. Contrary to some claims, there are no restrictions on investment in the consumer electronics sector. A total of 29 American companies are now operating in Japan of which 7 share more than 15% of the capital of local ventures or operate through wholly owned subsidiaries. These foreign capital affiliated companies accounted for 2.9% of total Japanese sales of electrical and electronic products in 1966 compared to 2.4% the previous year. In addition to capital affiliation, most of the major Japanese electronics companies are involved in technical licensing agreements with their American counterparts. For example, our parent company, Tokyo Shibaura Electric Company, has a long history of technical tieups with General Electric, and is presently engaged in joint ventures with General Electric and Ampex.

Finally, there have been repeated charges that exports to the United States of electronics products are subsidized by the Japanese Government in violation of the General Agreement on Tariffs and Trade. These charges are also untrue. The Japanese industry receives no export subsidies or bounties within the meaning of the GATT. To us it seems rather strange that protectionists in this country

should complain of government subsidization when the U.S. electronics industries owes its technological leadership to massive governmental expenditures for research and development, and when nearly half of the industry's total sales consists of products and services sold under contract to the Department of Defense.

Japanese Product Innovations Have Contributed To The Expansion Of The U.S. Market

In considering the growth in imports of Japanese electronic products, it is important to recognize the substantial contributions which the Japanese manufactures have made to the U.S. consumer electronics market. The Japanese industry has played a leading role in adapting new technology to consumer electronic products, and in the process, has widened the range of products available to the consumer—particularly the low-income groups. The Japanese companies applied miniaturization technology purchased from the United States to develop products such as the small transistor radio, the micro-TV set, and the portable tape recorder. There was no significant market for such products in the United States before the advent of imports from Japan. These Japanese innovations have opened a vast new market potential in the United States offering a much wider range of products for the consumer, to the benefit of the U.S. as well as the Japanese industry.

The pocket-size transistor radio is a classic example. The transistor, which was invented by Bell Laboratories in 1947, was originally used only in industrial and military equipment. No American company considered the transistor ready for use in consumer products. But Japanese manufacturers who obtained licenses for transistor technology recognized its potential for home entertainment products, and succeeded in reducing transistor cost to the point where small transistor radios could be sold at competitive prices. The development of the small transistor radio *revitalized* the radio market which was steadily declining from the impact of television. During the early 1950's before the advent of imported transistor radios, total home radio sales dropped from 9.2 million in 1950 to 6.1 million in 1954. But radio sales increased sharply after imported transistor sets began entering the country in the mid-1950's, and total sales in 1959 amounted to 39.4 million units. (Marketing Services Department, Electronic Industries Association.)

The imported micro-TV set is another example where Japanese manufacturers have developed a market largely overlooked by the domestic industry. The U.S. manufacturers concentrated primarily on the larger console type television sets. They did not meet the consumer's need for a truly portable set by merely adding luggage handles on 19-inch sets weighing 30 or 40 pounds. However, the Japanese manufacturers applied miniaturization and transistor technology for the development of truly portable "personalized" 2-inch and 5-inch television sets. These imports have opened an entirely new market since in addition to the large living room console, the average family can now afford a second or third television set for other rooms or for outdoor use.

With recgnition of the innovating role of Japanese products, some of the claims of import injury can be placed in a better perspective. For example, great emphasis has been placed on statistics showing that imports now account for about 88% of U.S. radio consumption, with the implication that imports have practically destroyed this segment of the U.S. industry by capturing the market for American manufacturers. Actually, the figures represent the creation of a *new* market by imports which did not exist before Japanese manufacturers developed the pocket size transistor radio. The same is true for other products such as portable tape recorders and small screen TV sets. Japanese imports have not captured the market for these products. Instead, they have *created* markets for these products through their own innovation, and the home entertainment industry has been the richer for their efforts.

These Japanese innovations have not displaced domestic production since, in general, comparable products are not produced in this country. Thus, it is incorrect to assume that every imported transistor radio, portable tape recorder, or small screen TV set means one less item produced in the United States with a corresponding loss of employment. Were it not for imports, these products would not have been available to the American consumer since U.S. manufacturers have generally concentrated on the larger and higher profit items.

The Present Slowness Of Demand In Affecting Japanese As Well As U.S. Producers

U.S. manufacturers of consumer electronic products have recognized the important contribution of imports, and have generally supported a liberal trade policy. The Consumer Products Division of the Electronic Industries Association vigorously opposed import quotas in testimony before this Committee in 1968. While the Consumer Products Division maintained this position in testimony during the present series of hearings, its testimony demonstrates concern over competition from imports. In view of present market conditions it is understandable that domestic companies would be concerned about competition from *any* source, but it should be recognized that all producers, both domestic and foreign, are feeling the pinch.

In the present uncertain economic situation with continued inflation on the one hand and rising unemployment on the other, consumers have less money to spend for items such as television sets and other home entertainment products. The effects have already been reflected in the sales of U.S. manufacturers. The Japanese companies have also been affected although the results have not, as yet, been clearly reflected in the import statistics. Market changes do not show up as quickly in imports statistics because of the time lag between order and delivery and because of the fact that many imported products are purchased under long-term contracts. As far as our own company is concerned, however, we can state that our imports have fallen off.

Moreover, the results are now beginning to appear in the Japanese export figures. According to statistics of the Japanese Ministry of Finance, color television exports to the United States dropped by 41% in April, 1970 compared to 1969, bringing the four-month total down 7% from the same period of 1969. April, 1970 exports of transistor radios were off 14.4%, radio phonographs were down 8.4%, low power transceivers dropped by 28.4%, and auto tape players were down 6.4%.

We are all going through a difficult period. But we are confident that the market will pick up when the economy recovers from the present period of uncertainty and readjustment. When that happens the sales of both U.S. and Japanese manufacturers will improve.

Certainly, it would be short sighted to take such drastic measures as imposition quotas because of a short term market condition.

Import Quotas Would Disrupt The Market And Stifle Product Innovations

Import quotas are the most stringent and onerous form of trade restrictions. They completely disrupt the normal forces of supply and demand, and artificially inflate prices, precisely at a time when inflation is the most urgent domestic problem. The price rise would be particularly severe if import quotas were imposed on electronic products.

The consumer electronics industry has an enviable record of price stability in contrast to the general inflationary trend. Last year, television prices averaged about 80 on the consumer price index (1957–59=100) while radios were approximately 75. These price trends should be compared to the average index for all consumer goods of 127.7.

Clearly, imports have contributed substantially to this price stability. But if the supply of imports were artificially restricted by quotas, prices would inevitably rise. The consumer and the economy as a whole would suffer. This could not happen at a worse time with the Government desperately trying to slow down the inflationary spiral.

Quotas would seriously restrict competition, stifle product innovation, and thereby limit the price and produce options available to American consumers—particularly the low income consumers including the minorities. Moreover, this would also be harmful for the consumer electronics industry. The industry is dynamic, and marked by a constantly changing product mix as manufacturers apply technology to development of new products. Many home entertainment products sold today were not on the market or even developed a few years ago. The Japanese manufacturers have made important contributions to consumer electronic product innovation.

Imposition of import quotas would stifle this vital process of new product development which has been the primary factor behind the tremendous expansion of the consumer electronics market. For example, H.R. 16287, a bill supported by the World Trade Committee, Parts Division, Electronic Industries Association, would establish a 1970 quota for consumer electronic products and

components based on the average annual quantity and value of such articles entered during the three calendar years 1966 through 1968 with provision for increases or decreases proportionate to changes in consumption compared with the 1966–68 base years. By basing quotas on imports of three or four years ago, this bill would tend to freeze the product mix and provide no room for new developments.

Such legislation would deprive the consumer of many new and moderately priced consumer entertainment products which are now in the development stage and would shut off the great potential for market growth which these products offer. Moreover, the consumer electronics industry would be deprived of the competitive stimulus of product innovation. The consumer, the industry, and the nation as a whole would suffer as a result.

In addition, the establishment of quotas for an industry as complex as consumer electronics would be an administrative nightmare for industry and government as well. It would be extremely difficult for any company to conduct business when supply of its stock in trade is totally uncertain due to arbitrary restrictions. Once the annual quotas are filled, all additional imports would be totally embargoed until the new quotas opened. Even if the overall quota is known in advance, no individual importer can be sure that his own shipment will be entered before the quota is filled. If the gates are closed while the shipment is on the way, the importer must bear warehousing costs until the quota reopens. It is difficult to see how an importer can make commitments to his customers and suppliers under such circumstances.

Previous experience demonstrates that some measures must be taken to allocate the quotas in order to avoid a chaotic scramble among exporters and importers. This would not only require allocation among foreign supplier nations, but also some method of assigning quota shares to U.S. importers such as the issuance of import licenses. In an industry as large and diverse as consumer electronics, the administrative problems would be monumental. Moreover, any such arrangement would obviously have serious anticompetitive effects within the United States.

But of greatest importance would be the effects on international trade and the prosperity of the free world. The effect of U.S. quota restraints on such a large item of trade would spread well beyond the electronics industry itself. It could serve to reverse the trend toward reduction of trade barriers in which the United States has played the leading role. Instead, we would once again find ourselves in a vicious circle of retaliation and counter-retaliation in which all nations would lose.

JAPANESE ELECTRONICS IMPORTS—TOTAL IMPORTS AND SHARE FROM UNITED STATES

[In thousands of dollars

	1966	1967	1968	1969	1967/66 (percent)	1968/67 (percent)	1969/68 (percent)
Industrial products:							
Total	$14,377	$168,970	$193,499	$246,046	+47.7	+14.5	+27.2
From United States	$75,039	$110,791	$132,253	$175,061	+47.6	+19.4	+32.4
Percent from United States	65.6	65.6	68.3	71.1			
Components:							
Total	$24,616	$39,728	$72,470	$116,787	+61.4	+82.4	+61.2
From United States	$20,437	$31,417	$58,459	$92,287	+53.7	+86.1	+57.9
Percent from United States	83.0	79.1	80.7	79.0			
Consumer products:							
Total	$5,319	$7,968	$9,049	$12,344	+49.8	+13.6	+36.4
From United States	$2,949	$5,616	$6,003	$6,640	+90.4	+6.9	+10.0
Percent from United States	55.4	70.5	66.7	53.8			
Electronics total:							
Total	$144,312	$216,666	$275,018	$375,177	+50.1	+26.9	+36.4
From United States	$98,425	$147,824	$196,745	$273,988	+50.2	+33.1	+39.3
Percent from United States	68.2	68.2	71.5	73.0			

NOTES

The United States supplies nearly ¾ of Japan's imports of industrial electronics.
U.S. industrial electronic sales to Japan increased 133 percent between 1966 and 1969.
The United States supplies almost ⅘ of Japan's imports of electronic components.
U.S. exports of electronic components have quadrupled in the past 3 years.
The United States supplies over ½ of Japan's imports of consumer electronics.
U.S. consumer electronic sales to Japan more than doubled between 1966 and 1969.

In conclusion, we respectfully submit that there is no need or justification for imposition of quotas on imports of consumer electronic products and components. Such measures would only disrupt a vital and growing industry to the detriment of the consumer, the industry, and the nation as a whole.

ELECTRONICS CONSUMPTION IN JAPAN AND U.S. SHARE

[Dollar amounts in thousands]

	1966	1967	1968	1969	1969/68 (percent)
Consumer products:					
Japanese factory sales	$1,272,760	$1,709,867	$2,302,319	$3,503,319	+52.2
Imports	5,319	7,968	9,049	12,344	+36.4
Exports	(670,535)	(741,461)	(1,004,369)	(1,390,322)	+38.4
Consumption	607,535	976,374	1,306,999	2,125,341	+62.6
Imports from United States	2,949	5,616	6,003	6,640	+10.6
Share of United States (percent)	0.4	0.6	0.5	0.3	
Industrial electronic products:					
Japanese factory sales	$544,359	$745,776	$1,005,769	$1,260,900	+25.4
Imports	114,377	168,970	193,499	246,046	+37.2
Exports	(77,618)	(94,668)	(139,367)	(211,816)	+52.0
Consumption	581,118	820,078	1,059,901	1,295,130	+22.2
Imports from United States	75,039	110,791	132,253	175,061	+32.4
Share of U.S. (percent)	12.9	13.5	12.5	13.5	
Components:					
Japanese factory sales	$763,840	$957,726	$1,222,764	$1,883,392	+54.0
Imports	24,616	39,728	72,470	116,787	+61.2
Exports	(179,568)	(180,518)	(257,615)	(350,105)	+35.9
Consumption	608,888	816,936	1,037,619	1,049,994	+59.0
Imports from United States	20,437	31,417	58,459	92,287	+57.9
Share of United States (percent)	3.4	3.8	5.6	5.6	
Electronics total:					
Japanese factory sales	$2,580,959	$3,413,369	$4,530,852	$6,647,611	+46.7
Imports	114,312	216,666	275,018	375,199	+36.4
Exports	(864,728)	(1,016,647)	(1,401,351)	(1,952,323)	+39.3
Total consumption	1,860,543	2,613,388	3,404,519	5,070,465	+48.9
Imports from United States	98,425	147,824	196,745	273,988	+39.3
Share of U.S. (percent)	5.3	5.7	5.8	5.4	

Note: Above data exclude telecommunications equipment and parts thereof.

Source: Japanese factory sales—Japanese Ministry of International Trade and Industry; imports and exports—Japanese Ministry of Finance.

OPTICAL MANUFACTURERS ASSOCIATION,
New York, N.Y., May 20, 1970.

MR. JOHN M. MARTIN, JR.,
Chief Counsel, Committee on Ways and Means
Washington, D.C.

DEAR MR. MARTIN: The Optical Manufacturers Association is a trade association whose members produce in excess of 90% of the dollar volume of the ophthalmic products produced in this country.

Since this industry is essential to the national security in time of war, and to the public health, the members of this association are concerned with the ever increasing quantities of imports of ophthalmic frames and lenses from foreign countries with lower costs and lower wage rates. For this reason, we are vitally interested in the hearings on tariff and trade proposals now being held by the Committee on Ways and Means.

Because of time limitations and the number of witnesses to be heard, we are not asking for a hearing. However, we are offering, herewith, several comments and respectfully request that they be made a part of the official record of the proceedings.

First, we would like to set forth for the Committee the impact of imports of spectacle frames and lenses over the past ten years:

DOMESTIC CONSUMPTION

	1959		1969	
	Amount	Percent	Amount	Percent
Frames (million units):				
Domestic industry	22.2	85.7	26.1	67.1
Imports	3.7	14.3	12.8	32.9
Total	25.9	100.0	38.9	100.0
Lenses (million units in pairs):				
Domestic industry	24.8	87.6	36.6	81.9
Imports	3.5	12.4	8.1	18.1
Total	28.3	100.0	44.7	100.0

During this same period, exports of frames increased from 1.3 million units to 1.6 million units and lenses increased from 1.6 million pairs to 5.6 million pairs.

We have studied the two bills now before the Committee, namely H.R. 14870 and H.R. 16920 and we are of the opinion that neither bill will completely meet the needs of this industry. The proposed changes in the Escape Clause contained in H.R. 14870 would be a big improvement, but it does not fully meet the needs of the ophthalmic industry.

H.R. 16920 calls for quotas on textiles and footwear, but does not make adequate provision for essential but smaller industries such as the ophthalmic industry that are also being adversely affected by imports.

It is our understanding that Fair International Trade bills have been introduced by more than 65 House Members. This bill would make it possible to establish a ceiling on imports if market concentration reached certain levels. This bill would not prevent the growth of imports nor call for drastic cutbacks of imports.

We would strongly urge that a combination of the Fair International Trade Bill and H.R. 16920 be considered as a possible solution that would offer some protection where needed without serious cutbacks in imports. The main desire would be to add the ceiling proposal as a third alternative remedy to the two already in the existing law and in H.R. 16920.

We strongly urge favorable consideration of the comments set forth above.

Sincerely yours,

CHARLES F. ODDY,
Secretary-Treasurer,
Optical Manufacturers Association.

WELCH ALLYN,
Skaneateles Falls, N.Y.

Mr. JOHN M. MARTIN, Jr.,
Chief Counsel, Committee on Ways and Means,
House of Representatives, Washington, D.C.

DEAR MR. MARTIN: Attached is a statement which we believe will update you concerning the critical problem we are facing with imports from Germany. Should there be any questions concerning the report, we will be happy to provide any additional specifics.

Sincerely,

C. M. EVANS, *President.*

Enclosure:

Welch Allyn, Inc. was founded in 1915 and from its inception specialized in the manufacture of Otoscopes and Ophthalmoscopes. At later dates, additional diagnostic instruments, such as sigmoidoscopes, laryngoscope, headlights, etc., were added to the line. However, currently the bulk of sales are still in the Otoscope-Ophthalmoscope area. Sales to the Armed Forces began during World War II and during this period the company was a primary supplier of Otoscopes and Ophthalmoscopes to the Government. The efforts of the company were recognized by an "Army-Navy" "E" award and two subsequent stars for continued performance. Parenthetically, during this period the Otoscope and Ophthalmoscope (stock number 3-540-800) were sold to the Armed Services from $30.00 to $32.00. The equivalent civilian list price at the time was $66.30 (details on Exhibit "A"). You will note that in 1948 and 1949 quotations on this set were made as follows:

STOCK NO. 3-540-800

OTOSCOPES/OPHTHALMOSCOPES: ELECTRIC

Invitation No.	Date	Quantity	National	Welch Allyn	Bausch & Lomb	American Optical	ACMI	BEOHM
MD48-530	Mar. 30, 1948	676	$36.00	$33.02	$37.50		$43.62	
MD49-165	Sept. 7, 1948	500	a. 33.00 b. 37.00	36.58	49.75	$41.01	49.05	
MD49-705	Dec. 28, 1948	432	a. 33.00 b. 35.90	32.90	54.50	36.45	43.60	
MD49-702	do	75	a. 33.50 b. 36.40	32.95	54.75	36.45		
MD49-791	Jan. 18, 1949	118	a. 36.00 b. 37.00	33.00		41.01	32.75	
MD49-1031	Feb. 23, 1949	56	a. 37.90 b. 41.73	32.60	55.40	45.57	[1] 31.75	
MD49-1176	Apr. 19, 1949	15	a. 39.90 b. 41.73	32.60	54.50	45.57	[1] 31.75	
MD49-1248	May 9, 1949	6	a. 39.90 b. 41.73		55.25	[1] 45.57	[1] 31.75	
In 1950, there were still 6 active domestic manufacturers bidding on this set—for example:								
Vet. I-21	Sept. 22, 1950	306	35.00	37.20	43.90	36.96	24.15	31.15

[1] Each.

Following World War II, competition for this business increased to the point where little or no profit was possible. Occasionally, WELCH ALLYN would quote below cost in order to continue to expose military doctors to our products and to, also, balance employment levels over the period of years. The National Electric Instrument Company enjoyed the bulk of this business during this period.

During the past three years, two importers, (The Propper Company with products made by the Heine Co. in Germany and the Halco Instrument Corporation with products made by the Reister Co., also in Germany), have entered the competitive market for military business. The price structure has further deteriorated and at the same time the number of domestic manufacturers of Otoscopes and Ophthalmoscopes has gone from six to two as illustrated on the most recent bid to the Government (EXHIBIT B).

During the past twenty-five years, otoscopes and opthalmoscopes have improved in quality and increased in cost. The present otoscope/ophthalmoscope diagnostic set now purchased by the Government (#6515-550-7199) has a list of *$109.50*. Details in Exhibits "C", "D", "E", "F", and "G".

The Diagnostic Set now purchased by the Government as indicated is sold by Welch Allyn in the civilian market at a list of $109.50. Dealers in the United States receive this item at a maximum discount of 40 & 10%, bringing the net price to $59.13. Our cost on this item is $45.45. Welch Allyn is not in position to compete with similar products made in Germany and landed at prices indicated.

We understand that The National Electric Instrument Company has lost money the past few years and as of July 1, 1970, is closing its factory on Long Island. There is no question that The National Electric Instrument Company would have continued to operate and in the "black" if they had not been subjected to price pressure from offshore sources.

While National may try to continue some operations on some products through the Stratham Instrument Co. in California, for all practical purposes, Welch Allyn is the only domestic manufacturer of otoscopes and ophthalmoscopes left.

It certainly is not helping the balance of payments problem for a branch of our Government to purchase 100% of its diagnostic instrument requirements offshore. We are regularly contacted by the Department of Commerce to do everything possible to increase our export business (latest visit was made by Robert F. Valentine and Milton Blecher). We have gone all out to support this policy by regularly having our most qualified personnel visit South America, the Far East, Europe, etc. These trips have been more than negated by offshore purchases of otoscopes and ophthalmoscopes by the Armed Forces.

The current list price of a HEINE OPOTECHNIC Diagnostic Set as imported by the Propper Company is in the neighborhood of $103.30. The published wholesale prices of HEINE sets are subject to a 50% discount. This would bring the list price down to $51.65. The price of the set as offered to the D.P.S.C. on bids range between $17.50 and $24.00. It would appear that this is a clearcut example of a manufacturer dumping a product in a foreign market at less than the cost of production. This practice must be damaging to domestic producers and in the long run cannot serve the best interests of the D.P.S.C.

If we are to continue to exist, we need some definitive action to be taken to equalize competition with offshore companies; specifically, we suggest that a 100% differential be required in quoted prices before the Government awards a contract to an importer of otoscopes and ophthalmoscopes.

Welch Allyn has tried to follow every possible good business principle to survive. We believe that we have the finest Research & Development Department working in improving old instruments and designing new ones. We believe we have the finest Production Engineering Department in the industry concentrating in effecting cost savings. We believe we have an outstanding Sales Department. All of this, however, will not compensate in the competitive market for the wage differential without assistance from our Government.

We will be glad to appear before any Committee, or group, to provide more detailed information if desired.

We are anxious to protect the income of 320 fine people—and to protect the last domestic productive facility capable of manufacturing electrically illuminated otoscopes and ophthalmoscopes and other diagnostic instruments necessary to the health and welfare of our country.

Sincerely,

C. M. EVANS, *President.*

Enclosures.

Exhibit "A"—List price on otoscope-ophthalmoscope set in 1948, 1949

1 leatherette case (we made this)	$7.50
1 No. 216 Army type otoscope 2/GE No. 14 lamp with 4 specula	14.50
1 702-A cord (this was the split type)	5.00
1 106 w/National type No. 9 lamp	24.00
6 extra No. 14 lamps	1.40
1 pin cap	.50
1 slit cap	.50
3 extra national type No. 9 lamps	4.50
1 700 handle	8.00
2 copies of service data	.40
Total list price of set	66.30

Note: The Army set with stock number 3-540-800 consists of the above.

EXHIBIT "B", MAY 26, 1970

Special report:

Subject: Defense Personnel Support Center, 2800 South 20th Street, Philadelphia, Pa.

Results of Defense Personnel Support Center "Invitation for Bids DSA-120-70-BO1796"—Opened 70/May/21.

According to telephone conversation with Mr. Campanaro 5/26/70:

National Statham	$40.39
Proper Manufacturer	$23.77 Duty Free
	$26.83 Duty Included
Holco Inst. Corp	$22.48 Duty Free
	$28.32 Duty Included

Mr. Farber transferred to another area.

Mr. Campanaro and Miss Grisser now our contacts for our product area.

GEORGE E. BLOWERS.

Exhibit "C"—Stock Number 6515-550-7199 consists of the following:

1 No. 121 (115)	$50.00
1 No. 216 (4 specula)	23.60
1 Sandura case	10.00
2 No. 9 lamps	5.00
2 No. 2 lamps	5.00
1 700 handle	15.50
2 Copies of service data	.40
Total	109.50

EXHIBIT "D"

OTOSCOPE AND OPHTHALNOSCOPE SET BATTERY TYPE—2040SE

Bidders (3)	Terms	288 Alt	1368 tr	144 col	144 nem	96 nft.
1. National Elec. Inst., Elmhurst, N.Y., C. Daneb	Nlt	29.60	29.60	29.60	29.60	29.60
2. Welch Allyne, Inc., N.Y., W. D. Allyn	Nlt	45.00	45.00	45.00	45.00	45.00
3. Proffer Mfg. Co. Inc., L.I.C., N.Y.	2-30	19.93	19.93	19.93	19.93	19.93
E. Cantor		4.67	4.67	4.67	4.67	4.67
Awarded		24.60				

Notes: Alternate 6515-935-4058.
Germany, duty.

EXHIBIT "E"

NOTICE TO UNSUCCESSFUL OFFERORS

Solicitation #DSA 120-69-R-2581 sent to 10 prospective contractors was opened/closed on 14 March 1969 with 4 offers received.

After evaluation, your recent offer submitted in response to the above solicitation was not eligible for a contract award for the following reasons.

Name and Address of Successful Offeror:

Propper Mfg. Co., Inc.,
Long Island City, N.Y.:
Item 1–4
Quantity (sets) 5,592
Unit Price (Excl duty) $17.68

Additional information may be requested from the contracting officer (*Applicable to Negotiated Solicitations*)

An abstract of offers showing offers received and awards made pursuant to this solicitation may be inspected at this Center. (*Applicable advertised solicitations only*)

Your interest in bidding on the requirements of this Center is appreciated. Your name will be retained on the bidders' list to receive future solicitations.

Sincerely yours,

BENJAMIN F. NOVIA,
Contracting Officer.

EXHIBIT "F"

NOTICE TO UNSUCCESSFUL OFFERORS

Solicitation #DSA-120-69-Q-R141 sent to 4 prospective contractors was opened/closed on 12/20 12/23 with 4 offers received.

After evaluation, your recent offer submitted in response to the above solicitation was not eligible for a contract award for the following reasons.

Name and Address of Successful Offeror:

Holco Instrument Corp.,
New York, N.Y.:
Item 1–6
Quantity 2,448

Additional information may be requested from the contracting officer (*Applicable to Negotiated Solicitations*)

An abstract of offers showing offers received and awards made pursuant to this solicitation may be inspected at this Center. (*Applicable advertised solicitations only*)

Your interest in bidding on the requirements of this Center is appreciated. Your name will be retained on the bidders' list to receive future solicitations.

Sincerely yours,

ALBERT W. BAZZEL,
Contracting Officer.

EXHIBIT "G"

NOTICE TO UNSUCCESSFUL OFFERERS

Solicitation #DSA 120-70-R-1140 sent to 12 prospective contractors was opened/closed on 30 Jan. 70 with 4 offers received.

After evaluation, your recent offer submitted in response to the above solicitation was not eligible for a contract award for the following reasons.

Additional information may be requested from the contracting officer (*Applicable to Negotiated Solicitations*)

An abstract of offers showing offers received and awards made pursuant to

Name and address of successful offeror	Item	Quantity	Unit price
Holco Instr. Corp., New York, N.Y.	1–4	[1] 2040	[2] $20.86
	5	[1] 576	[2] 20.66

[1] Sets.
[2] Excluding duty.
(FSN 6515-550-7199 Otoscope and Ophthalmoscope Set.)

this solicitation may be inspected at this Center. (*Applicable advertissed solicitations only*)

Your interest in bidding on the requirements of this Center is appreciated. Your name will be retained on the bidders' list to receive future solicitations.

Sincerely yours,

BENJAMIN F. NOVEA,
Contracting Officer.

STATEMENT OF J. ROBERT HOFF, PRESIDENT, BALLANTYNE OF OMAHA, INC.

FOREWORD

During the past decade Congress has been and continues to be the champion of small business. We present herewith a petition of one business or industry that has received little consideration in foreign trade and tariffs because of its smallness per se.

This petition deals with the import and export of professional 35mm theatre projectors. When exported, it is referred to as Cinematografica Projection Equipment.

INTRODUCTION

Previous Consideration

The writer is informed that the House Ways and Means Committee considered the problem of tariffs in motion picture theatre projection equipment in their hearings in the latter part of 1968. A presentation was made at that time by one of the prominent manufacturers of this equipment in the United States, the Century Projector Company, and no action was taken. The principal reason stated for the granting of no relief at that time was that the matter was inconsequential since it involved only two and a half to three million dollars of foreign trade. As one of the only three remaining manufacturers of this equipment in the country, we contend that the matter should not be dismissed purely because of its smallness.

BACKGROUND

Ballantyne of Omaha, Inc. has been engaged in the manufacture of professional motion picture theatre sound and projection equipment for over thirty-eight years. The writer was President of the Theatre Equipment and Supply Manufacturers Association from 1952 to 1954 and is still active as a member on the Board of Directors. Back in the very late 1940's, I personally was the one who was instrumental in getting the release of strategic materials to our industry by appearing before the Department of Commerce and getting a relaxation of the restrictions in force at that time.

Up until 1955, American manufacturers in motion picture and sound projection equipment enjoyed ninety percent of the domestic market. Since that date foreign manufacturers have taken over the bulk of our domestic market. In 1955, we had such manufacturers as RCA of Camden, New Jersey, Motiograph Company of Chicago, Holmes Company of Chicago, Wenzel Projection Company of Chicago, Devry Corporation of Chicago, National Theatre Supply of New York, Century Projector Company of New York, and Ballantyne. The only ones left, actively manufacturing motion picture theatre projectors today, are National Theatre Supply Company, Century and Ballantyne.

During the past fifteen years, Norelco (Philips of Eindhoven, Holland), Cinemeccanica of Italy, Gaumont-Kalee of Great Britain, Zeiss-Icon of Germany, and Toshiba of Japan have moved into this country with little or no tariff and have taken over more than *seventy percent* of our sales and installations.

What provokes Ballantyne's intense interest in this situation at this time? Like others, we suspended projector manufacturing in 1962. In an effort to reenter the market with a better product, we have completed research and development on a new modern projector which will be ready for the domestic *and foreign markets* in September of this year. We will have invested in this research and development approximately a quarter of a million dollars. We would like only a fair chance to recover this investment and also to help re-establish the American market for not only Ballantyne, but our two friendly competitors, National Theatre Supply and Century.

IMPORT AND EXPORT DUTIES

Import

The Import Duty on professional motion picture projectors into the United States is forty-five percent of the delivered price from *less favored* countries

(Communist and satellite countries) and *only eight percent* on imports from favored countries (countries outside of Communist sphere).

Import Duties—Foreign Countries

We will recite only the Duties on imports of Cinematografica Projection Equipment from the United States into the four countries which have taken over the American market. They are as follows:

England.—(Tariff 90.08–0099) 17½ percent ad valorem, plus a fluctuating purchase tax.

Holland.—(Tariff 90.08–30) 12.6 percent ad valorem, plus 12 percent purchase tax.

Germany.—(Tariff 90.08–11) 11.2 percent ad valorem plus 11 percent import tax.

Italy.—(Tariff 90.08–B) 19 percent import duty, plus 6 percent added value tax.

Summary

In plain words, when motion picture projectors are imported into the United States, the foreign manufacturers, principally those manufacturers in England, Holland, West Germany and Italy, have imposed on them only a nominal tax of eight percent. When American manufacturers export to these same countries, the importers must pay a tax of anywhere from 17½ percent to 25 percent. We believe this to be grossly unfair and inequitable, and recommend to the House Ways and Means Committee that the Import Duties on these foreign projectors sold in the United States be made comparable with the duties levied by these foreign countries on American projectors. This will enable American manufacturers to: (1) re-establish themselves in our domestic market, and (2) compete with foreign projectors that have taken over seventy percent of the sales in this country because of low labor costs abroad, and (3) compete in the foreign market through the savings effected by quantity production.

NATIONAL COUNCIL OF MUSIC IMPORTERS,
Wheeling, Ill., June 10, 1970.

Hon. WILBUR D. MILLS,
Chairman, Committee on Ways and Means, U.S. House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: I am writing to you in my capacity as President of the National Council of Music Importers to support the Administration's Trade Bill H.R. 14870, with some modifications, and to ask that your Committee not act favorably on other measures pending before it which would be restrictive to trade.

The National Council of Music Importers consists of 19 members (a list is attached) who import musical instruments of all kinds. Many of our members are also distributors of domestically made products. We estimate that our members handle over 70 percent of all musical instruments imported into the United States.

We have seen at first hand the enormous contribution that imports have made to the ability of the American consuming public to buy musical instruments which they want and need at reasonable prices. There are some products in which the American products are supreme, and imports play a very minor role; and for others because of hand work involved or other skills, imports have played a significant and valuable role.

We are especially concerned about the possibility that the escape clause provisions of the Trade Expansion Act of 1962 may be amended in ways that would lead to unnecessary and undesirable import restrictions. We wish to register a strong objection, in particular, to opening the door to the increase in duties or the imposition of quantitative restrictions if increased imports are found to have been a "substantial" cause of serious injury.

We are not sure what exactly the Congress means by the word "substantial," or what the Tariff Commission would mean by it, but we believe that in any particular situation, there are many causes that could be regarded as making a substantial contribution to the end result. It is commonplace that whenever a business runs into difficulties, management tells its stockholders and its workers that import competition is the trouble, and yet scrutiny often reveals that if applicable at all, this is simply one of many factors. We would urge that your Committee report out favorably a test no less stringent than the "primary" cause which is suggested in the Administration's bill.

We would also urge that your Committee not drop altogether the casual connection which exists in the present law between the increased imports and tariff reductions. As we understand the international situation, the United States is allowed under Article 19 of the GATT to invoke the escape clause only where the increased imports result from reductions that have been made under the GATT. While it may be that this test has been too stringent under the Trade Expansion Act of 1962, we would urge that it not be abandoned.

Our last and very important point is that the so-called segmentation provision not be adopted, which would permit relief where only a portion of particular establishments were injured. This seems to us entirely out of harmony with the conception of adjustment, which has inspired our trade legislation in recent years. Surely, if a company is engaged in a number of different lines of business, and it can move to those which are most profitable while it abandons those which are not, this is exactly the kind of business behavior which protects the interest of its stockholders and workers, and is in harmony with the interests of the economy as a whole. If we permit relief to a segment of a business where the business as a whole remains profitable, it seems to us that we will be subsidizing inefficient business against the interest of the whole American people.

Respectfully submitted,

NORMAN R. SACKHEIM,
President,
National Council of Music Importers.

MUSICAL INSTRUMENTS IMPORTERS ASSOCIATION

Mr. Robert Seidman, Limmco, Inc., 98 Tec Street, Hicksville, New York.
Mr. Ernest J. Briefel, Merson/Unichord, 33 Frost Street, Westbury, New York.
Mr. Thomas S. LoDuca, LoDuca Brothers Musical Instruments, Inc., 3034 West Walnut Street, Milwaukee, Wisconsin.
Mr. A. A. Heine, Worldwide Musical Instrument Company, Inc., 404 Park Avenue, S., New York, New York.
Mr. Galen E. Stine, General Manager, M. Hohner, Inc., Andrews Road, Hicksville, New York.
Mr. Bela Sternberg, Halifax Distributing Co., 1421 South Saling Street, Syracuse, New York.
Mr. Jerome Hershman, Gova Music Corporation, 53 West 23rd Street, New York, New York.
Mr. Harold Freeman, Ardsley Musical Instrument Corp., 244 West 49th Street, New York, New York.
Mr. Austin Lempit, Bugeleisen & Jacobson, Inc., 5 Union Square, New York, New York.
Mr. S. Weindling, W.M.I. Corporation, 3725 West Lunt Avenue, Lincolnwood, Illinois.
Mr. Vito Pascucci, G. LeBlanc Corporation, 7019–30th Avenue, Kenosha, Wisconsin.
Mr. Carl Gasparetti, Imperial Accordian & Musical Instrument Co., 2618 West 59th Street, Chicago, Illinois.
Mr. Harold Sorkin, Multivox Corporation of America, 370 Vanderbilt Motor Parkway, Hauppage, New York.
Mr. Sheldon Goldberg, C. Bruno & Son, Inc., 3034 East Commerce Street, San Antonio, Texas.
Mr. J. T. Ravella, Vice President, Sales, Kawai Piano (America) Corp., 24200 South Vermont Avenue, Harbor City, California.
Mr. John Janac, White Eagle Rawhide Manufacturing Co., 1652 North Throop Street, Chicago, Illinois.
Mr. Fred Rosenwall, Musical Instrument Corp. of America, 6801 Jericho Turnpike, Syosset, New York.
Mr. Norman R. Sackheim, Strum & Drum, Inc., 177 West Hintz Road, Wheeling, Illinois.
Mr. John Zielinski, Yamaha International Corporation, 7733 Telegraph Road, Montebello, California.

Mr. BURKE. The committee stands adjourned, to meet at 10 a.m. tomorrow morning.

(Whereupon, at 5:10 p.m., the committee adjourned, to reconvene at 10 a.m., Tuesday, June 9, 1970.)

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