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 16 of 16 Parts

(June 25, 1970)

Printed for the use of the Committee on Ways and Means

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TARIFF AND TRADE PROPOSALS

THURSDAY, JUNE 25, 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. Wilbur D. Mills (chairman of the committee) presiding.

The CHAIRMAN. The committee will please be in order.

We are pleased this morning to have back with us the Secretary of Commerce, the Honorable Maurice H. Stans.

STATEMENT OF HON. MAURICE H. STANS, SECRETARY OF COMMERCE; ACCOMPANIED BY HON. STANLEY NEHMER, DEPUTY ASSISTANT SECRETARY FOR RESOURCES; SETH BODNER, SPECIAL ASSISTANT TO DEPUTY ASSISTANT SECRETARY; MICHAEL F. BUTLER, ASSISTANT GENERAL COUNSEL FOR DOMESTIC AND INTERNATIONAL BUSINESS; FOREST E. ABBUHL, DIRECTOR, TRADE AND COMMERCIAL POLICY DIVISION; AND CHADWICK JOHNSON, JAPAN DESK OFFICER, DEPARTMENT OF COMMERCE

The CHAIRMAN. In keeping with the understanding that the committee had with Mr. Stans, when he appeared before, we said we would hold the hearings open until he had an opportunity to have some further discussions and then come back to us and discuss the bill again.

You are recognized. We appreciate having you.

Secretary STANS. Thank you, Mr. Chairman and gentlemen.

I would like to address myself this morning to two subjects, if I may. The first is the matter of our textile negotiations and what has come of them and; second, the DISC proposal, the proposal of the Treasury Department for Domestic International Sales Corporation, which was presented to this committee after I testified the first time.

If I may, I will talk first on textiles and then on the DISC matter.

Mr. Chairman, on May 12, I testified before this committee on the administration's legislative proposals on trade and on the textile import problem and H.R. 16920.

At that time, I sketched out for the committee the situation in the textile and apparel industry that led the administration to make a major effort to negotiate international agreements through which U.S. textile and apparel imports could be limited in a reasonable and orderly way.

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I also outlined for the committee the extent of our negotiations, noting the effort we have made to reach agreement with the principal textile exporting countries.

On the basis of recent actions, we believed at that time that agreements might still be negotiated successfully and requested the committee to allow me to return and report to it before the close of the hearings. I appreciate this opportunity.

Since my appearance before the committee on May 12, I had extensive discussions with the Japanese Minister of International Trade and Industry in Washington this week with the view to working out an effective voluntary agreement on textiles between the two governments.

Regrettably, after full exploration of the matter for 3 days, the Minister and I concluded that it is not possible to negotiate such an agreement at this time. My hope that such an agreement could be negotiated has not been borne out.

The need for a solution to the textile import problem is clearly apparent. In the absence of agreements with Japan and with other key exporting countries, it is our reluctant judgment that the only means presently available for solving this problem is the textile legislation now before this committee.

The administration in principle is not in favor of quota legislation. However, in view of the fact that H.R. 16920 allows negotiated agreements to supersede the quotas, we do support the enactment of the textile provisions in the bill, with the two amendments I outlined in my testimony of May 12.

In essence, it is our view that this legislation which authorizes a continuing negotiating effort and which, if amended as we proposed, would provide ample flexibility to avoid controls where controls are not required, is the appropriate course of action at this time.

It would be our intention never to cease in our efforts to negotiate fair agreements even after the passage of this legislation.

Now with your permission, I would like to make some observations about the Domestic International Sales Corporation tax deferral proposal for export operations submitted by the Treasury Department on May 12.

The committee has already heard from the President, from other Cabinet members and myself, as well as from non-Government witnesses, on the need to improve our export performance.

We must make our companies more competitive and more export-minded. No single tool is adequate. We have made considerable progress in improving export credit facilities, and developing our overseas promotional services. The principal missing ingredient is tax treatment more comparable in effect to that accorded exporters by other major trading nations.

As this committee knows, many different types of export tax measures have been considered by the Departments of Treasury and Commerce. Others have been put forward by interested segments of the business community.

For a variety of reasons—unworkability, inordinate cost, lack of incentive value, or violation of our international commitments—none was wholly acceptable.

We believe DISC fills all the specifications. It is workable because its use will require a minimum of readjustment in business practice.

I understand that Treasury has provided the committee with an estimate that the revenue loss from DISC would range between $450 million to $600 million for the first year.

Treasury has not attempted to estimate the increased export sales resulting from DISC, and indeed, it would be impossible to make a precise estimate.

On this point, however, I would like to say that in my judgment, based on the reactions I have had from the business community, the increased exports of U.S. goods resulting from DISC would be more than several times the revenue loss. Indeed, since the increased production of U.S. goods for export will result in more wages to U.S. workers and more materials and equipment purchased to produce those goods, the revenue loss from DISC may be offset by the revenue gain from taxation of those additional wages and sales of supplies and equipment.

DISC should have high incentive value. The tax deferral privilege would offer stimulant to exports. Moreover, DISC should have great appeal to small- and medium-sized business, which cannot take advantage of other deferral devices utilized by companies with extensive manufacturing facilities abroad.

Tax deferrals and exemptions for foreign income are not an unfamiliar concept to our trading partners and this proposal should not result in significant objections.

The business comment we have received on DISC is overwhelmingly favorable. It has been endorsed by a variety of leading organizations in all parts of the country. The National Association of Manufacturers, the National Foreign Trade Council, the Machinery and Allied Products Institute, the International Trade Club of Chicago, World Trade Club of St. Louis, the Western International Trade Group, the Minnesota World Trade Association, the Bankers Association for Foreign Trade and others are supporting it, and I understand similar expressions will be forthcoming shortly from the U.S. Chamber of Commerce and the Electronic Industries Association.

Mr. Chairman, the DISC will succeed or fail depending on whether businessmen actually use it. In this light, I have selected a few comments at random from the letters we have received on DISC. There are a number of these.

I don't think it is necessary for me to read them. I want to point out, however, that various companies feel that DISC makes the difference between continued exports and moving production abroad, that many of them expect to use DISC. They think DISC is helpful in meeting export market development expenses.

They would use it in less-developed countries to provide competitive terms; they believe it would accelerate their penetration of foreign markets, and so forth.

I would like to submit all these quotations for the record as part of my statement without reading them for you. These are all representative of the reactions we have been getting from the Treasury proposal.

Many businessmen have pointed to the fact that DISC is not as potent an incentive as one might wish. Some prefer tax credits for export business or a lower rate of tax, such as by extending the Western Hemisphere Trade Corporation provisions to a worldwide basis and simplifying them.

Despite this, however, there is a general realization that DISC, although cut to a more modest fiscal pattern, will be helpful, and that the Government is at last demonstrating that it is willing to take forthright action to help exports.

We have found that the more businessmen understand the DISC proposal and realize its applicability to their operations, the greater their enthusiasm.

I strongly believe that DISC would be very widely used and that it would produce major export gains, help protect our present markets from the inroads of foreign competitors, and help deter the movement of U.S. plants abroad.

By this, and I think this is the most important point of all, it would create new jobs and add greater security to existing jobs.

If we increased exports by as much as $1 billion a year by using DISC, we can assume that we would thereby have created 100,000 jobs in the United States that wouldn't otherwise prevail.

I also have an advance copy of the report of the National Export Expansion Council's Tax Action Committee which has just come from the printer.

With your permission, I would like to file the report with the committee because it contains much greater detail on this subject than I have included in my testimony.

I want it clear that I personally and the administration feel very strongly that the DISC proposal is one to create jobs for people in this country, to prevent the movement of American plants overseas by matching, relatively, the kind of incentives that other countries give to their corporations for export trade.

Mr. Chairman, this concludes my two statements. I will be glad to have your questions.

(The statement containing quotations and excerpts from the report referred to follow:)

STATEMENT OF HON. MAURICE H. STANS, SECRETARY OF COMMERCE

Mr. Chairman and Members of the Committee: First, with the Committee's permission, I would like to make some observations about the Domestic International Sales Corporation tax deferral proposal for export operations submitted by the Treasury Department on May 12.

The Committee has already heard from the President, from other Cabinet members and myself, as well as from non-government witnesses, on the need to improve our export performance. We must make our companies more competitive and more export-minded. No single tool is adequate. We have made considerable progress in improving export credit facilities, and developing our overseas promotional services. The principal missing ingredient is tax treatment more comparable in effect to that accorded exporters by other major trading nations.

As this Committee knows, many different types of export tax measures have been considered by the Departments of Treasury and Commerce. Others have been put forward by interested segments of the business community. For a variety of reasons—unworkability, inordinate cost, lack of incentive value, or violation of our international commitments—none was wholly acceptable.

We believe DISC fills all the specifications It is workable because its use will require a minimum of readjustment in business practice. I understand that Treasury has provided the Committee with an estimate that the revenue loss from DISC would range between $450–$600 million for the first year. Treasury has not attempted to estimate the increased export sales resulting from DISC, and indeed, it would be impossible to make a precise estimate. On this point, however, I would like to say that in my judgment, based on the reactions I have had from the business community, the increased exports of U.S. goods resulting from DISC would be more than several times the revenue loss. Indeed, since the increased production of U.S. goods for export will result in more wages to U.S. workers and more materials and equipment purchased to produce those goods, the revenue loss from DISC may be offset by the revenue gain from taxation of those additional wages and sales of supplies and equipment.

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Mr. Chairman, the DISC will succeed or fail depending on whether businessmen actually use it. In this light, I have selected a few comments at random from the letters we have received on DISC:

A miner and processor of filter materials sees DISC making the difference between continued export and moving production abroad.

"Unless programs such as DISC materialize in the near future, GREFCO will have no other alternative but to look for sources of raw materials in foreign lands and to build a foreign operating plant producing diatomaceous earth filter-aids and fillers. However, with tax incentives, it is probable that we will be able to maintain our position in the world market as it is today by producing and exporting our diatomite products from the U.S."—Grefco, Inc., Los Angeles.

* * *

An agricultural equipment manufacturer would probably take the same course.

"We feel that if this program for the domestic international sales corporations was eventually set up, that we could probably use this medium for establishing our overseas operation rather than to set up a foreign subsidiary corporation. This would result in savings in organizational expense as well as operational expenses and also permit us to keep dollars here that possibly would have to be invested overseas if we set up a foreign subsidiary. For that reason, we are very much in favor of this program."—Gehl Company, West Bend, Wisc.

* * *

A major air-conditioning equipment manufacturer expects to use DISC.

"Accordingly, we in Carrier Corporation expect to establish a DISC if the plan is adopted. We are confident that it will be of substantial assistance in expanding further our export business."—Carrier Corp., Syracuse.

* * *

A chemical manufacturer regards DISC as helpful in meeting export market development expenses.

"We have learned as a result of our efforts to export that export marketing and distribution are more expensive than domestic. Therefore, we need help along the lines of the tax benefits which I understand will be available through DISC."—Mallinckrodt Chemical Works, St. Louis.

* * *

A major designer of test instrumentation and other engineering equipment would use DISC to increase market efforts in less-developed countries, to provide competitive credit terms, and to set up a leasing program.

"It is my belief that passage of the DISC proposal into law would give U.S. businessmen a powerful tool with which to increase U.S. exports.

"I anticipate our major use of DISC's profits would fall into three areas:

(1) To provide sharply increased marketing support in the lesser developed

countries of the world where our business is growing at rapid rates, but where the volume is still quite small.

(2) To provide flexible credit terms which would be more nearly equivalent to those supplied by our Japanese and European competitors.

(3) To institute an international leasing program tailormade to meet the needs of our data processing products and other high value items."—Hewlett-Packard Co., Palo Alto.

* * *

Producers of precision electronic instrumentation and micro systems see DISC as accelerating foreign market penetration efforts.

"At present, the world market for our type of product is expanding rapidly and we do have an excellent opportunity for growth. However, foreign competition is growing and the U.S. technological lead will not last indefinitely. Greater emphasis on marketing and service will be required. As I now understand it, your proposal will assist substantially in providing the additional finance that is needed to undertake this effort."—Fluke International Corp., Seattle.

* * *

"The ISC proposal, if it becomes law, would probably enable us to develop a participation in the European market earlier than planned as well as increasing our exports to the far east."—American Micro-Systems, Inc., Santa Clara, Cal.

* * *

The foregoing sampling is representative of the reaction we have been getting to the Treasury's proposal. Many businessmen have pointed to the fact that DISC is not as potent an incentive as one might wish. Some prefer tax credits for export business or a lower rate of tax, such as by extending the Western Hemisphere Trade Corporation provisions to a world-wide basis and simplifying them. Despite this, however, there is a general realization that DISC, although cut to a more modest fiscal pattern, will be helpful, and that the Government is at last demonstrating that it is willing to take forthright action to help exports.

We have found that the more businessmen understand the DISC proposal and realize its applicability to their operations, the greater their enthusiasm. I strongly believe that DISC would be very widely used and that it would produce major export gains, help protect our present markets from the inroads of foreign competitors, and help deter the movement of U.S. plants abroad. By this, it would create new jobs and add greater security to existing jobs.

Mr. Chairman, I have an advance copy of the Report of the National Export Expansion Council's Tax Action Committee which has just come from the printer. With your permission I would like to file the report with the Committee.

National Export Expansion Council

INTRODUCTION

President Nixon wrote to Chairman Mills of the Committee on Ways and Means, House of Representatives, on May 11, 1970, urging speedy enactment of the Administration's trade bill.

After reviewing the need for the trade legislation he had proposed and announcing his intention to reexamine the entire range of our trade and related policies, the President listed some steps taken and to be taken in the interest of improved export performance by American industry.

The following paragraph is quoted in this connection from the President's letter:

> *Improved Export Performance*
>
> For a number of reasons it is possible that American industry has been less export-minded than that of other major competing industrialized countries. Attractive alternatives to export sales development—in our very large domestic market for example, and in the alternative of direct foreign investment abroad for manufacture of products in locations closer to the foreign markets being served—have existed for American industries to a greater degree than for foreign companies. Furthermore, our tax laws tend to favor sales by foreign subsidiaries of U.S. corporations over exports from the United States. Administration witnesses will submit a legislative proposal to improve the tax situation for income earned on exports.

On May 12, 1970, the legislative proposals referred to by the President was presented to the Ways and Means Committee in the form of a recommendation to permit United States industry to form Domestic International Sales Corporations (DISC) to carry on export business. The DISC proposal was presented to the Committee by the Honorable David M. Kennedy, Secretary of the Treasury. Presentation in more detail was made by John S. Nolan, Acting Assistant Secretary of the Treasury for Tax Policy. Mr. Nolan's statement is included in this report as Appendix A. A more detailed explanation of the DISC proposal is contained in a Technical Memorandum by the Treasury Department—Appendix B.

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Carrier Corporation

May 25, 1970.

Mr. CARL A. GERSTACKER,
Chairman, National Export Expansion Council,
U.S. Department of Commerce, Washington, D.S.

DEAR MR. GERSTACKER: Attached is the report of the Action Committee on Taxation of the National Export Expansion Council (NEEC).

This report reflects the action taken by NEEC a its special plenary session on May 14, 1970.

Sincerely,

MELVIN C. HOLM,
Chairman, Action Committee on Taxation.

REPORT AND RECOMMENDATIONS

The Action Committee on Taxation of the National Export Expansion Council was originally organized in 1965 to study the effect of the existing tax structure and administrative policies of the Treasury Department on U.S. exports. The earlier reports of this Committee recommended, among other things, legislative action as follows:

1. To liberalize and simplify the requirements for obtaining tax benefits as an Export Trade Corporation.
2. To allow companies an extra incentive deduction for promotion expenses incurred in overseas market development.
3. To provide a border tax on imports and a rebate on exports based on existing indirect taxes reflected in the cost of production.
4. To provide an additional capital allowance each year for equipment manufactured in the United States and used in producing goods for export.

Unfortunately, no legislative action was taken on these recommendations.

Late in 1969 the Treasury Department announced a proposal which would permit the establishment of a domestic international sales corporation (DISC) to handle export sales of U.S. manufactured products.

The Action Committee on Taxation of NEEC supports this proposal, subject to comments set forth later in this report.

Under the proposal, with certain qualifications, income derived from export activities could be accumulated in a DISC and income tax deferred so long as such income is invested in export-related assets. "Export-related assets" included loans by the DISC to domestic manufacturers for investments in export-related manufacturing facilities, inventories and research and development.

The Treasury proposal contemplates that strict section 482 standards will not be applicable to pricing arrangements between a DISC and its manufacturing parent and that special standards and safe-haven rules will be developed to permit the DISC to accumulate adequate profits for investment in export-related assets.

It is believed that the DISC concept has major potential for the preservation and expansion of exports, particularly if the accounting treatment of the deferred tax liability will enhance per share earnings; and provided that realistic and simple rules for transfer pricing to the DISC are developed.

Accounting treatment which would permit reporting DISC profits without accrual of deferred tax liability would significantly increase the export incentive over that provided by a cash flow benefit alone. Such accounting treatment would significantly increases the export incentive over that provided by a cash flow benefit alone. Such accounting treatment would permit a flow-through of before-tax profits of the DISC to consolidated book earnings reported to shareholders. This is the treatment accorded the earnings of most foreign sales subsidiaries. The operations of the DISC appear to be sufficiently similar to be accorded the same treatment.

However, it is strongly urged that the final rules and regulations with respect to DISC be framed in a manner that will support this conclusion.

The Treasury has said: "The sales of goods for export by a related domestic manufacturer to the DISC would be subject to a definitive allocation rule governing intercompany pricing. This rule would enable the DISC to earn a profit in excess of the profit which would be attributable to it under the existing rules governing allocation of profits between related companies." The definitive allocation rule which would apply has not yet been spelled out.

The Committee believes that the parameters within which transfer pricing guidelines should be established should take into account the tax structured competitive position in foreign markets. Foreign countries rely more heavily than the United States on indirect taxes which are frequently rebated to the manufacturer. Some countries impose their income taxes on a territorial basis and tend not to tax export income at all. Others treat all or part of income from exports as exempt income through the route of special exemptions and deductions. Furthermore, some countries provide special subsidies such as grants for investments in manufacturing facilities and financing of exports at less than prevailing interest rates. Thus, the combination of lower tax rates, rebates of high indirect taxes, and exclusion of export income, as well as subsidies, creates a bias in favor of exports by many foreign countries and encourages foreign manufacturing by U.S. companies.

The obvious objectives of the DISC in promoting exports are the improvement in our balance of trade position and retention of jobs in this country. To best meet these objectives the Committee recommends that the Treasury Department's export pricing rules applicable for the DISC be as broad as possible. Specifically, it is recommended that the pricing guidelines require no more than a transfer price based upon inventory costs or upon incremental or marginal costs plus a small profit to the manufacturing parent as a percentage of incremental costs. For this purpose, incremental or marginal costs shall mean the additional costs—direct and indirect—incurred in the production of an item for export.

The proposed guideline for DISC pricing would, of course, be applicable only if it produced more DISC profits than would be the case if the regular section 482 pricing rules were applied.

It should also be noted that retention of income by a DISC is limted by the requirement that the income of the DISC be invested in export-related assets in order that tax be deferred. If the pricing guideline suggested should produce more income in the DISC than it can invest in export-related assets, the income will be taxed currently. If all the income is invested in export-related assets, it seems appropriate that tax be deferred.

It is the recommendation of the Committee that loans by a DISC to overseas manufacturing subsidiaries of the parent of DISC be permitted, with the restriction that funds thus loaned may be used only to finance exports of finished goods from the United States for resale abroad through the facilities of such an overseas subsidiary.

Similarly, it is recommended that loans to affiliated U.S. finance companies to finance U.S. exports should be permitted.

Memoranda issued to date satisfactorily respond to most of the questions and suggestions advanced by the Committee.

For example, the original requirements that at least 95 per cent of DISC income be derived from export sales and at least 95 per cent of its assets be export-related in order to qualify for tax deferral were far too restrictive. Modifications agreed to by the Treasury Department provide for deficiency distribtuions of non-qualified income and assets and, in effect, substitute a 70-percent gross receipts rule for the prior 95 per cent rule, making the DISC proposal much more workable.

Similarly, the expansion of tax deferral benefits to commissions earned on export sales eliminates an inadvertent discrimination against exports handled through commission agents. Also, addition of expenditures for research and development and inventories to the list of export-related assets substantially increases the potential utility of the DISC.

It is anticipated that Treasury will define the term "U.S. exports" so as to preclude problems arising in those cases where some foreign made components are included in U.S. made products, or where assembly and packaging operations are performed abroad on products exported from this country.

Finally, the Committee has urged and the Treasury has agreed that expeditious ruling procedures must be provided so that companies which have reorganized their international operations and establish DISC's, and those which intend to do so, can obtain prompt answers to questions not anticipated in the regulations. Availability of such procedures will simplify implementation and administration of the DISC program.

However, the final recommendation of Treasury with respect to transfer pricing is an important open question.

Assuming an adequate solution of the transfer pricing problem, the Action Committee on Taxation strongly recommends that the National Export Expansion Council endorse the DISC proposal and urge legislative action toward its enactment into law.

With enactment of the DISC proposal, it is anticipated that companies not now engaged in foreign markets would be motivated to enter the export business and that companies with existing foreign and export operations would expand their export efforts.

DISC could provide small and medium-sized manufacturers with limited or no export sales operations with the necessary incentive for increased activity. This is particularly meaningful in light of capital requirements. At the same time, combination export managers, whether dealing on their own account or as agents for manufacturers who do not have their own export departments, would be in a position to use the funds available through deferred DISC tax treatment to augment their working capital, expand staffs, seek additional representatives, and lend to their manufacturing principals to expand facilities.

It is stating the obvious that benefits to American labor in the preservation of employment opportunities and the creation of new ones are inherent in the DISC proposal. The emphasis in the DISC proposal is to expand productive capacity and thus jobs. No incentive is included to expand manufacturing abroad either through owned subsidiaries or licensing arrangements. The support of organized labor should be solicited.

It is possible that some companies, due to their particular circumstances, will not be able to take full advantage of the DISC proposal. However, there is nothing in that proposal which would disturb their method of operation. Put another way, the DISC proposal offers only positive benefits and no detriments to present operations.

If the DISC proposal is enacted, it is important that the law be regarded as a permanent feature of the Internal Revenue Code.

It has been suggested that the DISC proposal be enlarged to cover services performed for foreigners unrelated to exports and royalties from foreign licensees, payment for which constitutes a credit to the balance of payments. The Committee gave some preliminary consideration to these problems, but in view of time limitations was unable to reach any conclusion.

The Ways and Means Committee of the House of Representatives began hearings on the President's foreign trade proposals the week of May 11 and the DISC proposal is being considered during those hearings. The Committee urges that members of the National Export Expansion Council seek an opportunity to testify on behalf of DISC at those hearings and that other organizations and individual companies do likewise.

The CHAIRMAN. Mr. Boggs will inquire.

Mr. BOGGS. As you know, Mr. Secretary, I have been very interested in this subject for many years, and I am also Chairman of the Foreign Economic Policy Subcommittee of the Joint Economic Committee.

Would you mind summarizing briefly just exactly what you propose?

Secretary STANS. With respect to textiles?

Mr. BOGGS. With respect to textiles and the whole package. Just give it to me in a paragraph.

Secretary STANS. We propose that the Congress enact the administration's bill in the field of trade legislation. It calls for a number of things that I think will open up markets in the United States and in other countries to increase trade in both directions.

The administration's bill calls for, among other things, an elimination of the American selling price clause which is one of the nontariff barriers that is most repugnant to our European trading partners.

It also calls for action to loosen up the provisions of the law dealing with escape clause action and adjustment assistance action for American companies that are injured by imports.

The present law that is on the books has been so tight that only recently has any corporation succeeded in qualifying for relief under it. We think it ought to be liberalized to a degree that makes it possible for us to deal with many cases of substantial import invasion by helping the American company either to compete or to diversify his activities.

Among other things, the administration proposal also asks authority for the President to adjust tariffs in minor degrees in order to compensate in cases in which we use the escape clause action in one way or another.

It also asks the sense of the Congress in support of our efforts to negotiate the elimination of nontariff barriers with other countries around the world.

We feel, as I said before, that we are much more the victim of nontariff barriers in other countries than we are the culprit in imposing them here.

We seek reciprocity arrangements with other countries so that the number of the barriers that are impeding our trade can be reduced.

In contrast, they are increasing almost every day in one country after another. These are the general provisions of the trade bill.

There are two other additional means of strengthening the President's hand.

Mr. BOGGS. What about the direct assistance program that we put in the 1962 act?

Secretary STANS. This is the adjustment assistance program that I have been discussing. We think the 1962 act is so tight because of its provisions that it is almost impossible for American concerns to qualify for that relief.

We would like some of the conditions for qualification modified to make it easier because if we can grant relief to companies that are affected seriously by imports, it may be possible to avoid the loss of employment that would otherwise be involved.

But generally, that is the outline of the administration's bill.

In addition, we have proposed subsequently the creation of tax deferment provisions for domestic international sales corporations these being corporations which are created exclusively within the United States to engage in export trade.

The tax deferment would prevail so long as the profits and the assets of those corporations were used exclusively in export activity.

Mr. BOGGS. That is similar to a provision I had in a bill some years back, which was H.R. 5.

Secretary STANS. I am not aware of that, but I am glad to hear that, because then I assume we can count on your support.

Mr. BOGGS. At least to that extent.

Secretary STANS. Additionally, my testimony today makes it clear that the administration supports the provisions of the so-called Mills bill, H.R. 16920, with respect to its imposition of quota limits on importations of textile products in the United States.

The administration does not support the provisions of that bill insofar as it relates to the importation of shoes into the United States, and believes that the problem involved in the importation of shoes can be dealt with by other means domestically, principally by the present provisions of the Trade Expansion Act allowing adjustment assistance and escape clause actions, and by the proposal to liberalize those provisions of the Trade Expansion Act.

Insofar as textiles are concerned, we are supporting the provisions of the Mills bill for quotas, relying on——

Mr. BOGGS. What formula of quotas?

Secretary STANS. The quota formula in the bill allows the importation into the United States of the average of 1967 and 1968 imports from each country.

Mr. BOGGS. You are supporting that specific provision?

Secretary STANS. We are supporting that specific proposal, with reliance, however, on the additional provision in the bill that in all cases negotiated agreements with other countries would supersede those quota provisions.

The advantage, obviously, in having the authority to negotiate agreements is that we can work out relationships which are equitable with the other countries and also by so doing can avoid the retaliation which otherwise might occur under our GATT arrangements.

Mr. BOGGS. Would those negotiation provisions apply to other commodities as well as textiles?

Secretary STANS. Under the bill, and insofar as our support goes, it relates only to textiles.

Mr. BOGGS. So that negotiations would not relate to the 70 or more items where manufacturers of different items have come before the committee asking for some type of relief?

Secretary STANS. As the bill is drafted, in my opinion it would relate only to textiles and shoes.

Mr. BOGGS. What else does the bill provide?

Secretary STANS. The other provision relating to textiles that is important to us is that we believe there should be two amendments to the bill, one to define more closely the textile articles that are covered by it, because there are items such as silk and silk products which are not a concern of American history.

Mr. BOGGS. I am told that the tie manufacturers are almost entirely dependent upon imports, the people who make neckties.

Secretary STANS. They would not be affected by it.

Mr. BOGGS. They would not be affected by it?

Secretary STANS. That is correct, with the amendment as we propose.

Mr. BOGGS. How, specifically, would they not be affected?

Secretary STANS. Let me go back to your question and be sure I get it clearly.

Mr. BOGGS. My question involves the material that is imported to make ties. I am told that something like 90 percent of all the material that goes into tiemaking is imported from Italy, Austria, Thailand, other places in the world.

Secretary STANS. To the extent that that consists of silk, there would be no restriction under our amendment proposed to the bill.

Mr. BOGGS. To the extent that it consists of silk?

Secretary STANS. Yes.

Mr. BOGGS. It is my understanding that the industry is vitally concerned in permitting imports of all material used in the making of ties, not just silk. Would such material of manmade fiber be affected?

Secretary STANS. The last amendment we proposed to the bill is one which would give the President authority to exclude imports of textiles from any country in which it was determined that those imports were not disrupting our markets.

The basic purpose of this is to recognize that certain high quality, cost imports, particularly from the European countries, do not disrupt our textile markets.

Mr. BOGGS. What countries and what specific articles do you have in mind?

Secretary STANS. We have not made that determination yet. It would depend upon studies that would be made as we went along.

Mr. BOGGS. You are asking for general authorization in the bill to make that determination?

Secretary STANS. For the President to make that determination, yes.

Mr. BOGGS. Again limited only to textiles?

Secretary STANS. Yes.

Mr. BOGGS. Go ahead.

Secretary STANS. Of course, if the Congress passes the bill with shoes also covered by the quota legislation, then we would urge that our amendments also be applied to shoes as well.

Mr. BOGGS. Suppose they took 10 or 15 other items as well?

Secretary STANS. I can't anticipate what the administration's action and what the President's decision would be with respect to such a bill. It is our desire, very strongly——

Mr. BOGGS. I might say to you that I would be very much surprised if this committee reported a bill that was limited exclusively to textiles, but go ahead.

Secretary STANS. I think I have answered your last question.

Mr. BOGGS. What else is in your proposal?

Secretary STANS. I think that covers it all.

Mr. BOGGS. Did you say something about an export subsidy?

Secretary STANS. That is the proposal that we described as DISC, the Domestic International Sales Corp. It is not a bounty. It is a tax deferment on profits.

Mr. BOGGS. I understand. There was a proposal by the previous administration for a time, a scheme of that sort. The chairman will remember it.

Secretary STANS. I am not aware of that particular one.

Mr. BOGGS. What are the total imports now of textiles from Japan?

Secretary STANS. As you know, imports of cotton textiles into the United States are presently restricted under the long-term cotton textile arrangement.

My answer, then, will deal only with manmade fibers and wool, which are the immediate concerns.

In fiscal 1969, our imports of textiles and apparel made of manmade fibers were 546 million yards.

Mr. BOGGS. I am sorry, I didn't hear you. What was it?

Secretary STANS. 546 million yards in fiscal year 1969.

Mr. BOGGS. How does that compare with, let us say, 5 years ago?

Secretary STANS. Let me give you the figures for the 3 years I have here and we will submit the others. In calendar 1969, imports of textiles and apparel made from manmade fibers were 585 million yards; in 1968, they were 448 million yards; in 1967, they were 352 million yards, and in the preceding 2 years they were considerably less.

Mr. BOGGS. That is from Japan?

Secretary STANS. That is from Japan alone.

Mr. BOGGS. What about from Korea, Taiwan and Hong Kong?

Secretary STANS. I will give them to you separately for each country. For 1969, from Korea, 212 million yards; for 1968, 137 million yards; for 1967, 64 million yards.

For Taiwan, in 1969, they were 238 million yards; in 1968, 123 million yards; in 1967, 59 million yards.

From Hong Kong, in 1969, these imports were 145 million yards; in 1968, they were 99 million yards; in 1967, they were 75 million yards.

Mr. BOGGS. How about Korea?

Secretary STANS. Korea was the second country out of the four I named for you.

Mr. BOGGS. Are there any other significant exporting countries?

Secretary STANS. There are no other significant exporting countries at this time, although a number of other countries are beginning to export in increasing quantities and have indicated a substantial interest in our market.

I may say also, while you are pusuing this line of questioning, that for the first 4 months of this year, the trend of increases that I indicated in the previous years is continuing and imports are up substantially from all of these countries in the first 4 months of this year.

Mr. BOGGS. Does your proposal in any way contravene the GATT provisions that we subscribe to?

Secretary STANS. It does not contravene the GATT provisions. It does involve the right of other countries to ask for compensation or to retaliate on U.S. exports to an equivalent extent if trade expansion should result provided, of course, that the quota limitations in the bill are effective and are not superseded by voluntary agreements.

If there are voluntary agreements, then there is no retaliation provision under GATT that would be applicable.

Mr. BOGGS. In your negotiations which I read about in the press, have you discussed with the Japanese representatives what retaliation they might contemplate?

Secretary STANS. I would say that we did not discuss that specifically. We were more interested in trying to see whether it was possible to reach a voluntary agreement at this time that would be of significance in resolving the problem.

Mr. BOGGS. Why were you unable to reach an agreement?

Secretary STANS. Well, I suppose they would say that we were asking for too much, and I would say they were offering too little.

Mr. BOGGS. Will you be specific about that?

Secretary STANS. Yes. The Japanese offer for textiles was that they would execute an agreement restricting the shipments of textiles to the United States for a period of 1 year provided we would agree that we would not ask for an extension at the end of that year, and that during that year they would be permitted an increase in shipments to the United States in manmade items of 12 to 15 percent, and in wool items of 1 percent.

They also proposed a formula for administration which would permit the shifting within categories on an unlimited basis with the result that they would have the opportunity to add substantially to the labor component of these imports if they set out to do so.

Our proposal was, in contrast, that an agreement would not be of significant help unless it were for approximately 5 years; that we were perfectly willing to allow them during that period of 5 years to share in the growth of the U.S. market, and that the growth formula we proposed would be to allow in each calendar year of the agreement the percentage of increase in the growth of the U.S. market during the preceding year, so their growth in shipments would follow exactly the growth in the U.S. market.

Mr. BOGGS. What was it percentagewise in that growth formula?

Secretary STANS. In the last full year it was 5.8 percent, in the fiscal year ended June 30, 1969, and in the fiscal year ending June 30, 1970, we estimate it will be about 4 percent.

With respect to the formula for exercising the controls, we felt that it should, in effect, be comprehensive to prevent shifting of goods from one category to another; that there should be approximately 23 specific categories of goods which had limits on their exports to the United States, subject only to the growth formula, and that with respect to all of the other nonspecific categories there would be a provision whereby if there was a significant increase we could trigger a mechanism that would limit the growth of that category.

These conditions were not acceptable at all to the Japanese, and their proposal was one of general limitations only, as I said earlier, with the right to shift from one category of goods to another.

Mr. BOGGS. If you don't get a bill, what happens?

Secretary STANS. If we don't get a bill, I would think that it would be an extremely difficult circumstance for the textile industry in the United States, and it would be an extremely difficult circumstance for their employees.

We lost about 65,000 employees in the textile and apparel industry in the last year, and I would guess that if we don't get a bill that rate would accelerate, that rate of loss in employment would accelerate.

We lost a number of plants and companies in the textile business in the last year. I would think that in the future that would accelerate, if we had no bill.

It is quite evident from the rate of increase in shipments from the four countries I named to the United States that in the absence of legislation it will not be possible for us to get them to agree to voluntary restraints, and in the absence of such agreements that their shipments will continue to accelerate in volume and thereby cause increasing injury to the industry and to employment in this country.

Mr. BOGGS. Would you mind stating some of the restrictive devices that Japan employs against U.S. exports?

Secretary STANS. There are a very great many restrictive devices.

Mr. BOGGS. If you don't mind, I wish you would spell them out.

Secretary STANS. I will give you some from memory and I will be glad to supply additional information for the record.

Japan is in clear violation of her commitments under GATT to the extent of approximately 100 categories of goods in which it quantitatively restricts importations into its country.

This at one time, almost a year ago, was 120 items. They have fully liberalized 22 of them, approximately, but are still in violation with respect to about 100 categories. Japan restricts some 40 additional items for "security" reasons, which we do not necessarily agree are valid under GATT.

In addition, they impose licensing procedures which have a restrictive characteristic because they can deny licenses. They can delay action on licenses, and so forth.

They also have a process called administrative guidance, whereby the Government, working with industry, can determine the attitude with respect to any import transaction or with respect to any investment by a U.S. corporation in Japan.

They have, in addition to reducing some of their violations under GATT, recently suspended an advance import deposit requirement that they had, which is a liberalization. The Minister of MITI (the Ministry of International Trade and Industry), with whom I met in the last few days, has informed me that they are hopeful of moving more aggressively and positively on the elimination of further restrictions in the ensuing months and he hopes to have further discussions with me later in the year on that subject.

I am not informed at all as to what he has in mind.

Beyond that, I will supply further details in the record as to the kind of restrictions they impose.

(The information referred to follows:)

Japan's Nontariff Trade Barriers

Possibly the most serious non-tariff barrier is the general attitude of the Japanese Government toward import competition. The Government wishes to facilitate imports of what it considers to be essential commodities, but restricts the importation of many foodstuffs and manufactured items which compete with domestic production. All aspects of foreign trade are under some degree of control, but many of the control mechanisms are not committed to paper and thus the guidelines are not freely available to foreign suppliers. Most important of all is the pervasive influence which the Government can exert on both importers and end-users, if it so desires, reflecting the close working relationship between the Government bureaucracy and Japanese business. This type of control by the Government is referred to as "administrative guidance".

Specific non-tariff trade barriers (NTBs) which are believed to restrict U.S. exports to Japan are as follows:

1. *Import Quota (IQ) System.*—Japan maintains quantitative controls on more commodities than any other developed country in the free world. These controls on 98 items (4-digit BTN basis), about two-thirds of which are agricultural, are in violation of Japan's GATT obligations. Some of these items—such as charcoal, seaweed, ramie and manioc—are of little trade interest to the United States. There is, however, a significant trade impact on a number of items, such as color film, leather, automobile engines for assembly, electronic computers and parts, and certain prepared foods and confectionery. Japan has announced that it will reduce the number of items subject to import controls to 60 by the end of 1971.

2. *Import Quota (IQ) System Administration.*—Quotas for items importable under the IQ system are not made public and applications for quota allocation certificates may be filed only at specified times. Furthermore, allocations are granted to a relatively small group of importers who have a past history of importing, thus virtually excluding newcomers.

3. *Automatic Import Quota (AIQ) and Automatic Approval (AA) Systems.*—All imports into Japan require an import license which is issued by a foreign exchange bank. Prior to obtaining an import license, a quota allocation certificate must be obtained for importation of the 98 items importable under the IQ system and the approximately 120 items importable under the AIQ system. These requirements provide Government ministries with the opportunity to discourage imports that may compete with domestic products and add to the burdensome administrative procedures and paper work. Importers have complained of undue delays in the issuance of AIQ allocation certificates. Copies of the bank-issued licenses for all commodities other than the IQ and AIQ items are also furnished to Government ministries, thus affording them the opportunity to contact importers and end-users to influence them to use domestic merchandise.

4. *Import Deposit System* (Suspended May 18, 1970).—Until recently, at the time an import license was issued, an import deposit consisting of 1% of the value had to be made. The deposit, which was later returned, was an added cost of importing. As of May 18, 1970, Japan suspended indefinitely the 1% import deposit requirement but the system remains intact and the deposit requirement could be reimposed.

5. *Standard Method of Settlement.*—Importers who wish to settle import transactions on different terms or methods than those specified as Standard Methods must obtain permission from the Ministry of International Trade and Industry (MITI. This requirement applies to IQ, AIQ and AA systems of importation. In general, Standard Method of settlement exclude payments in advance of shipping and payment later than four months after customs clearance. Name of end-user is also required, thus affording administrative agencies an opportunity to exercise administrative guidance to influence the purchase of a domestic product.

6. *Central Bank Trade Financing.*—Import bills are not eligible for discount or security for loans by the Bank of Japan (BOJ). Imports must be financed at market interest rates which are generally higher than those for most domestic commercial bank loans which are eligible for BOJ discount or security for BOJ loans. The cost of imports relative to other transactions in therefore, higher. Discounts and loans for imports should be granted on the same basis as for export bills.

7. *Administrtive Guidance.*—As noted in the first paragraph on the first page, this represents the most important barrier facing U.S. exporters.

8. *Japanese Government Procurement.*—Japanese Government procurement is normally carried out through negotiated contracts or invited bidding. Potential foreign suppliers are not normally allowed to participate except where Japanese suppliers are unable to furnish the needed equipment or merchandise.

9. *State Trading.*—A number of items including wheat, barley, tobacco, rice, dairy products, salts, and ethyl alcohol are subject to varying degrees of restrictions because of Government involvement in purchasing and sales.

10. *Internal Taxes.*—High internal commodity taxes discriminate against such U.S. products as automobiles and whiskey. Taxes on automobiles, based on cylinder capacity and wheelbase, make the larger U.S. vehicle more expensive to buy. The more expensive whiskies, in which class most imported whiskies fall, are taxed at 150 or 220 percent, which is three to four times the tax on cheaper whiskies, in which class most domestic whiskies fall.

11. *Restrictions on Use of Premiums.*—The Japanese Fair Trade Commission (FTC) has determined that premiums which would "induce customers of competitors to an undue degree into dealing with the corporate body concerned" are unfair methods of transaction. Restrictions on the use of premiums apply to those offered by foreign exporters to Japanese dealers as well as to premiums offered by domestic manufacturers, but they do not apply to offers of premiums by Japanese exporters to foreign importers.

12. *Labeling Requirements.*—The Weights and Measures Law requires that only metric weights and measures appear on the labels of imported products. Where both metric and English measurements are shown, over-labeling is required, thereby adding to handling costs and increasing the selling price.

13. *Customs Practices.*—Uplift valuations on goods sold by parent company to subsidary are frequently arbitrary and excessive compared with those of other countries. Classification—and thus tariff level—is said to be inconsistent with practices elsewhere. Administration of customs procedures within Japan is sometimes uncoordinated with different classifications occurring at different ports of entry. Excessively detailed administrative requirements prevent expeditious release of products from customs.

14. *Licensing of Domestic Manufacture as a Prerequisite To Import.*—In at least one area (heavy electric generating equipment) Japanese Government agencies require foreign companies to agree to license Japanese manufacture prior to permitting imports. Moreover, the foreign supplier is normally allowed to sell only a prototype unit, with follow-on units usually supplied by the Japanese licensee.

15. *Controls on Sales and Service.*—Administrative controls are often imposed on the establishment of branch sales and service offices. These controls are particularly severe in such key industries as electronic computers. In cases where branch offices are permitted, financial controls include restrictions on inward

transfer of funds for operating expenses; remittance of eranings and transfer of proceeds of liquidation of investments; and requirements that Japanese credit facilities (usually with higher interest rates) be used. Additionally, burdensome reporting requirements and various conditions restricting sales and the rendering of services are imposed.

16. *Quarantine Restrictions.*—Japanese quarantine regulations in many cases are more strict with respect to food and seed disease tolerances than those in effect in the U.S., thus resulting in the refusal of entry or requiring special handling.

17. *Sanitary Restrictions.*—Japan's sanitary restrictions are of two types: the first limitations on imports of products containing certain types of additives which are used to flavor, preserve or improve the appearance of products; the second, regulations aimed at excluding from Japan, plant and animal diseases not native to the country or present only to a minor extent. In some cases, Japanese products contain the same additives which are not permitted for imported products. In other cases, Japan will not permit importation of products containing additives on which ample toxicological, safety and use data are available.

Mr. Boggs. Exept for the voluntary agreement on cotton textiles, do we impose any restrictions at all on Japanese imports into this country?

Secretary Stans. I cannot recall any other restrictions that we have on their imports into the United States.

Mr. Boggs. Do they export chemicals into the United States?

Secretary Stans. Yes, they do.

Mr. Boggs. So the American selling price would have some bearing in that respect?

Secretary Stans. Yes, it would. I can't tell you how much. I will get that figure for the record.

(The following was supplied for the record:)

Information on the value of U.S. imports of benzenoid chemicals subject to American Selling Price (ASP) valuation is not available by specific exporter country. Total chemical imports from Japan in 1969 amounted to about $120 million. Only a very small fraction of that total is subject to ASP valuation.

Mr. Boggs. How much have automobile exports from Japan to the United States increased in recent years?

Secretary Stans. Their automobile imports into the United States have increased very substantially. I think the figure for this year is close to 300,000 automobiles that will be imported from Japan.

Mr. Boggs. How about 10 years ago?

Secretary Stans. This is another place where the situation is highly uneven because the U.S. exports of automobiles to Japan is only a matter of a few thousand.

Their import duties, and commodity and road taxes make it extremely difficult and very expensive for an American car to be imported into Japan.

The imports of automobiles from Japan went up 55 percent last year, and undoubtedly will go up at approximately a similar percentage or more this year.

Mr. Boggs. Do we discriminate in any way on Japanese investment in this country?

Secretary Stans. No, there is no discrimination against Japan on investment in the United States.

As you know, the policy of the United States is to permit investment by people of foreign countries with practically no limits.

Mr. BOGGS. And there is a free flow of dividends back to Japan without any restrictions?

Secretary STANS. Yes.

Mr. BOGGS. Does Japan discriminate against U.S. investment in Japan?

Secretary STANS. Japan's policy with respect to U.S. investment there is very restrictive.

Mr. BOGGS. Would you spell that out, please?

Secretary STANS. Japan has a long list of industries in which it will not permit foreign direct investment. It has a list of industries in which it will permit foreign direct investment only to the extent of 50 percent ownership. And it has a relatively small list of industries in which it will permit investments by foreign interests above 50 percent. These are principally industries in which we have very little interest in investing in Japan.

Only recently has there been any inclination on the part of the Japanese Government to reduce these restrictions on investment.

I understand that they are considering permitting Chrysler Corp. to join in a minority position with a Japanese manufacturer of automobiles.

But in general, the restricted list is very long, and it has been very difficult to induce the Japanese to liberalize it.

They have announced a program, a four-stage program, of liberalization of their policy with respect to incoming direct investment.

The first two stages have been effective, and some liberalization has taken place. They may accelerate the third and fourth stages of liberalization, but it will probably be almost 2 years before that is accomplished.

Mr. BOGGS. Do they permit full repatriation of dividends?

Secretary STANS. I am not sure about that. I think they do——

Mr. BOGGS. I don't think they do, but I would like to know.

Secretary STANS. I will supply that answer for you, sir.

Mr. BOGGS. Doesn't somebody on your staff have——

Mr. JOHNSON. I am Japan desk officer for the Department of Commerce.

In answer to your question as to whether the Japanese Government permits remittances of earnings of foreign corporations, including U.S. corporations located in Japan, the answer is yes, with respect to those United States and foreign companies which have been approved for investment in Japan.

There are a number of companies, foreign companies, that invested in Japan before 1963 on a so-called yen basis, where there was no requirement for Japanese Government approval and, therefore, no approval for remittances. Current earnings of such yen-based companies have been freely remittable since April 1964. Controls on earnings accumulated prior to 1963 were lifted in September 1969.

Mr. BOGGS. Thank you very much.

Mr. Secretary, I only have one or two more questions.

What is the balance of trade now between the United States and Japan?

Secretary STANS. In 1969, our balance of trade was in the negative by $1,400 million. In other words, their exports to us exceeded their imports from us by $1,400 million.

Mr. BOGGS. How does that compare with 5 years ago?

Secretary STANS. Five years ago, we had a surplus with Japan. In 1964. we had a surplus of $241 million. For the preceding 15 years, we had a surplus with Japan.

Mr. BOGGS. What accounts for this tremendous increase? Break them down. There are textiles and what other items. Let us have it in dollars, if you don't mind.

Secretary STANS. There are quite a number of categories of their goods which they export to us in volume. We have already mentioned automobiles as an important category. Automobiles, passenger cars, motorcycles, and so forth, amounted to $528 million in 1969.

Another important category is textiles, clothing, and similar items.

Mr. BOGGS. What about iron and steel?

Secretary STANS. I am coming to that. Iron and steel products, electronic equipment, TV and radio receivers, and so forth, all in substantial amounts of money.

Mr. BOGGS. Sporting goods?

Secretary STANS. Sporting goods are included, toys, sporting goods, and amusement equipment, amounting to $112 million in 1969. Musical instruments, phonographs, tape recorders, and so forth, $302 million; scientific, medical, optical, photographic instruments, $150 million.

Mr. BOGGS. Photographic is how much? How great an increase is that?

Secretary STANS. Eighteen percent increase in 1969 over 1968.

Mr. BOGGS. How about radios and TV sets?

Secretary STANS. Radio receiving sets and TV receiving sets together made up approximately $500 million in 1969, which was about a one-third increase over 1968.

Mr. BOGGS. What are our principal exports to Japan and how much do they amount to?

Secretary STANS. Our principal exports to Japan are logs and lumber, coal, soybeans, corn, aircraft, chemicals, and some machinery.

Mr. BOGGS. Would you give us the dollarwise amount? First give the total and then break it down.

Secretary STANS. The first breakdown is agricultural commodities, which made up $933 million; nonagricultural commodities made up $2,528 million.

In agricultural commodities, grains and cereals made up about $400 million.

Soybeans made up about $200 million. Logs and lumber were $276 million.

In manufactured and nonagricultural, coal made up about $240 million; chemicals, $305 million; machinery and transport equipment, $800 million; and miscellaneous manufactured articles, $200 million.

Mr. BOGGS. What is our total trade picture today, export and import, in dollars? I am talking about the total.

Secretary STANS. In total altogether?

Mr. BOGGS. Right.

Secretary STANS. We will be at the export level of about $40 billion in 1970, and imports about $38 billion, in the very roughest of dimensions.

We expect a trade surplus this year of about $2 billion. That includes, however, the exports of agricultural and other commodities under the AID programs which make up about $2 billion or slightly more.

Mr. BOGGS. So that if you exclude Public Law 480 and other programs, we are just about even.

Secretary STANS. Just about even this year.

Mr. BOGGS. Which represents a rather substantial decline, does it not?

Secretary STANS. Yes. The decline took place principally in 1968. We had been running about a $5 billion average surplus in the first 7 years of the 1960's. In 1968, it went down under $1 billion, even including the AID programs. In 1969, it came back a little bit, to about $1.2 billion.

Mr. BOGGS. What do you anticipate in the way of a balance-of-payments deficit in 1970?

Secretary STANS. I have no estimate on that at the present time. The first quarter was at the same rate as last year.

Mr. BOGGS. And what was that?

Secretary STANS. Approximately, in round numbers, $2.5 billion.

Mr. BOGGS. $2.5 billion?

Secretary STANS. In the first quarter. The first quarter is always nonrepresentative because it contains the influence of previous year transactions.

But last year's deficit in the balance of payments on a liquidity basis was about $7 billion. I would expect that it would be somewhat less than that this year, but I couldn't at this time estimate how much.

Mr. BOGGS. One final question: Assuming the admission of the United Kingdom into the Common Market, and assuming the continuation of existing preferential treatment in the Common Market, what impact do you see on U.S. trade with the expanded Common Market?

Secretary STANS. That is a very hard question to answer, obviously. There have been a few studies on it. I would assume that over the long run our trade relations with the Common Market would become considerably more difficult.

At the present time, the Common Market countries have a considerable number of nontariff barriers. They have a number of——

Mr. BOGGS. Spell those out. I know what they are, but spell them out.

Secretary STANS. Among the principal ones are their requirements for scientific and technical standards of one kind and another, their border taxes, their export subsidies.

I think those are the principal categories. There is a wide range of others.

Mr. BOGGS. And there are some very discriminatory practices with regard to American agriculture, is that correct?

Secretary STANS. There have been in the past, and there is a growing tendency to limit or try to limit the imports of American agricultural products. There have been proposals within the Common Market to restrict the importations of soybeans and similar products.

The difficulty there is that their own agricultural policy is so expensive, it has such high levels of price support, that they are producing farm surpluses in tremendous quantities, and in some cases selling these in world markets at lower prices than the world prices.

All of this is one element of the difficulties in our relationships with the Common Market that must be worked out in time.

Mr. BOGGS. Would it be a fair generalization to say that the Common Market has been inward-looking rather than outward-looking in trade policies?

Secretary STANS. I certainly think that would be a fair generalization. It applies not only to the Common Market, of course, but to Japan and a number of other countries.

Mr. BOGGS. Mr. Secretary, you have been very helpful.

Thank you very much.

I want to thank my colleagues for being so generous with me. Thank you.

The CHAIRMAN. Mr. Byrnes will inquire, Mr. Secretary.

Mr. BYRNES. Mr. Secretary, there are some questions I would like to ask, but I hesitate to ask them because I don't want to freeze you into a firm position. It might be better to leave you with some degree of flexibility. Maybe I should confine myself to a statement with respect to this textile situation.

I wonder, though, if we don't have here a case history of the difficulty of obtaining voluntary agreements which, of course, are authorized under the present statute.

In our Trade Agreements Act today we have authority and, in fact, we encourage voluntary agreements to avoid problems, don't we?

Secretary STANS Yes; of course.

My BYRNES. It is in the law. It is not just an executive matter that has been developed by the executive branch. Congress has also put its stamp of approval and encouragement on it in the 1962 act.

Secretary STANS. Section 204 of the Agricultural Act also provides authority for negotiation.

Mr. BYRNES. Right. But here we see a case where it is acknowledged, apparently, all around, that an industry is in serious difficulty and needs protection.

Your testimony today is that, with the failure of the effort to obtain a voluntary agreement, you do recommend or you do support the enactment of a quota formula by law.

We have other industries, now, and I am also thinking of industries in the future, that might get into a similar situation.

Trade legislation is always a bit sticky, as far as getting it through the Congress is concerned. The last legislation in this area was in 1962. We had some hearings in 1968 looking toward legislation, but none was forthcoming.

If we take care of textiles at this time and we have another problem comparable to textiles in 1972, 1974, or 1975, the industries involved will be in the same situation as textiles have been for the past several years and are still in, but maybe somewhat taken care of if legislation does clear both Houses of the Congress this year.

I am considering asking you to do some thinking about it, rather than to give me a quick judgment as to either your position or the administration's position.

The question that bothers me is whether we shouldn't have some generalized legislation to take care of, or at least attempt to take care of, future situations that might arise, and even situations that exist today, that are comparable to the problem in the textile industry, and whether, therefore, there shouldn't be a mechanism that would trigger a requirement for executive efforts to negotiate a voluntary agreement.

There isn't anything today that requires the Executive to initiate negotiations looking toward a voluntary agreement; is there?

Secretary STANS. No, there is nothing that I can recall. There is authority.

Mr. BYRNES. There is authority but nothing that says "Here are conditions and if these conditions exist, you shall attempt to negotiate."

Secretary STANS. No; there is nothing of that kind.

Mr. BYRNES. So that is wide open. I have always been fearful that too often action is based on, to put it baldly, the political clout that the particular industry might have.

I wonder, therefore, whether it wouldn't be advisable to have a mechanism that would automatically trigger those efforts, and have a backstop of a quota formula, that would go into effect in the event negotiations couldn't be successful.

What I am doing is using the textile situation as sort of a model case. We see here even if we had something that triggered a requirement for negotiations of a voluntary agreement, there is nothing to bring it to fruition anymore than we had here in the textile situation where every effort was made on the part of you, Mr. Secretary, to obtain a voluntary agreement and yet it fell through. Now there is nothing left except legislation.

Shouldn't there be something that other industries, if they got into a similar kind of a situation, could depend on in the future?

I say that, simply because I am not too confident that adjustment assistance is a very satisfactory solution to some of these problems, anymore than it is a satisfactory solution to the textile problem.

We have the problem today of finding jobs for people. It is suggested that we have a program that will train people for jobs and pay them during the period of training. I don't know that this would give a person a great deal of satisfaction unless he knew there would be a job at the end of the road.

If you would care to comment, that would be fine, but I am not going to ask you to comment because I don't want you to get too firmly entrenched, unless it is in favor of proceeding along this line.

That is all, Mr. Secretary.

Secretary STANS. I would like to comment, Mr. Congressman, in very general terms only, because we did discuss this to some extent when I testified here the last time.

The key answer to this, I suppose, is in the sentence in my testimony this morning, that the administration, in principle, does not favor quota legislation, except in the textile situation because of its unusual circumstances as an industry and because of the provision in the bill which permits negotiated agreements to supersede the quotas.

I share with you the great concern over the future of American industry in many respects by reason of the growing imports. The last time I was here I referred to some studies we have made in the Department of Commerce that indicate that we are not gaining at all on our net trade balance in agricultural products; we are losing our position regularly insofar as trade in natural resource products is concerned, oil and minerals; we are losing our trade position very substantially insofar as manufactured goods of low technology are concerned because other countries are able to compete with our technology.

The only strong place in our trade picture is in the relatively limited number of categories of goods of high technology.

I expect that during the years to come we are going to have a great many problems of imports affecting employment and business in the United States.

Mr. BYRNES. Could I interrupt you there? In't it true that in the high technology industries, too, labor is not as big a component as it is in these other areas where we are falling behind and having problems in terms of the import competition?

Secretary STANS. I wouldn't say that was true without studying it more carefully. Certainly in aircraft labor is a high component item. It is in electronic equipment and items of that type. It is not so much in chemicals. I would just question whether——

Mr. BYRNES. In other words, you can't generalize?

Secretary STANS. I can't generalize on that.

I would like to go on relating to your comments by saying that we would hope that in the very large majority of cases we could deal with our import problems by anticipating them, by providing adjustment assistance and escape clause relief where it is necessary.

I think it is not quite correct to characterize adjustment assistance as not satisfactory or not useful on the basis of the record under the law that now exists, because it is such a restrictive statute that very few have been able to qualify.

If it is possible under the new legislation we have proposed to liberalize the provisions of the law, so that difficulties with imports could be anticipated by escape clause actions that would permit tariffs to be increased or other relief to be granted, if adjustment assistance could be given at a stage earlier than the complete collapse of a company to permit it to spend more money in research, to improve its products, to diversify its lines, it may very well be that we could eliminate a considerable number of the import problems.

After you get to that point, there will still be some cases where the size of the industry will be so great that adjustment assistance and escape clause relief may not be the answer.

The textile industry is before us now because it is such a large industry, among other things. It employs 2,400,000 people, approximately one out of every eight who are employed in manufacturing are being employed in textiles and apparel.

I can't conceive of any process by which adjustment assistance or escape clause action would make it possible to deal with the millions of problems that would exist for individuals and for companies.

In this case, quota legislation, followed by negotiated agreements, is the right solution.

In the case of shoes, the administration the other day released the results of an interagency study that was made in the Government, and also conclusions by the administration as to what ought to be done.

The administration hopes that we can solve the shoe problem by a liberalized adjustment assistance program and by escape clause relief, by the use of resources of the Government in manpower training, unemployment insurance, economic development, and so forth, to help these industries.

If that isn't adequate, we may have to look for other measures.

Getting finally to the point that you made as to whether or not we should have a formula that triggers in quotas of some type or other, the only comment I can make on this is that it has been discussed a great many times and no one has yet come up with a formula that seems to be satisfactory or workable to all concerned. Possibly such a formula could be devised that would be equitable and that would not involve us in sensitive trade difficulties with other countries.

I have nothing to suggest along that line at this time. I would be glad to review any proposals that were made by others to indicate their strengths and weaknesses, and whether or not they would be of value.

Mr. BYRNES. Thank you, Mr. Secretary.

The CHAIRMAN. Mr. Secretary, the committee has heard over the weeks, several weeks, over 371 witnesses in addition to you. We have received many, many pages of testimony. We have been almost innundated with memoranda, documents, statements, and what I refer to as just plain pleas for help.

We appreciate you coming back to us this morning and bringing us up to date with regard to the textile problem and referring to some of the other problems and matters that you have alluded to.

We will get back to the textile problem and some questions in just a moment.

I believe you can help us also, if you will, as the committee tries, as best it can, to put at least some of our problems in perspective.

You and I have discussed these trade problems from time to time. I know we have a mutual admiration for the economic miracle that our trading partners and friends have brought about in the last several years, including the Japanese.

Would you say that a country that can increase its GNP from $29 billion to $142 billion in the course of 10 years, from 1958 through 1968, must be doing something right?

I am talking about Japan.

Secretary STANS. I certainly would, Mr. Chairman. There is no question about it.

The CHAIRMAN. Would you not agree that a review of some of the elements that have gone into this success story would be helpful in seeking solutions to some of our own trade problems?

Secretary STANS. I not only would agree on that, but I can tell you that we are engaged in pretty detailed studies of the Japanese economy, Japanese trade activities, Japanese financing, and all of its other activities because we want not only to study those measures but to determine how we in the United States can compete.

The CHAIRMAN. It is excellent that you are making these studies. Let us look at the labor force of Japan, for example.

The Japanese are an energetic, very hard-working people. I am informed that generally speaking, an industrial worker when employed is employed for life. Apparently they do not depend on such programs as unemployment compensation, welfare, and others.

When a reduction in economic activity comes along, the employee remains on the payroll, I am advised.

Is that your information?

Secretary STANS. That is generally my information; yes.

The CHAIRMAN. Would you agree that under these circumstances labor tends to become a fixed manufacturing cost?

Secretary STANS. That would be very largely the case; yes.

The CHAIRMAN. Under such circumstances, would there be extreme pressure to continue to operate plants at full capacity?

Secretary STANS. Certainly management would not be very competent if it didn't utilize these employees to the fullest when they are a fixed cost.

The CHAIRMAN. When the industry is engaged in exporting products, would not such pressures result in the pricing of exports to penetrate markets abroad?

Secretary STANS. I think that would be a natural result, and I think there may be more cases than we are aware of in which some type of price-cutting would come under the antidumping laws of the United States.

The CHAIRMAN. Do you have some examples in mind of where this has happened?

Secretary STANS. No. I have had some correspondence recently about a number of them. One of them involved the Timken Corp. There are others that I can't recall at the moment.

The difficulty in bringing these things to light, however, is that most American companies are reluctant to file antidumping complaints for a number of reasons.

The result is that not many cases do come before the Treasury Department, which administers the antidumping law.

I think we may have to find another way to try to analyze their pricing system in general rather than with relation to specific complaint actions because there aren't enough complaint actions.

The CHAIRMAN. I think it is appropriate, and I am sure you agree, to observe here that marginal pricing for exports is not limited to Japanese industry but takes place in other countries, even including the United States.

Secretary STANS. Yes, I think it does. There is no question about it. I wouldn't presume that all of the things that Japan does with respect to lifetime employment and so forth would be acceptable or effectively used in the United States, either.

The CHAIRMAN. The point I am bringing out, or trying to bring out, is one that I think constitutes an even degree of pressure on the structure of Japan because of labor costs and things of that matter to operate at full capacity to the extent of is ability, and the selling of exports at prices below what the domestic market in Japan could sustain must, on many occasions, follow in order to maintain that full utilization.

Secretary STANS. I think that is quite logical; yes.

The CHAIRMAN. There is a second aspect of the great growth in the Japanese economy that I would like to ask you about. That is the availability of long term and short term financing of industries supported to a large degree by the Government.

Do you know what the debt to equity ratio is for most companies in Japan?

Secretary STANS. Well, of course, it varies a great deal, but there isn't any doubt that debt is used to a much higher proportion than it is in the United States.

I am told that the average debt to equity ratio in Japan is close to 3 to 1, or even 4 to 1, whereas in the United States, debt to equity is more likely to be 1 to1 or less than that.

The CHAIRMAN. In many instances, it runs 80–20 in exporting industries, 80 percent debt and 20 percent equity.

Secretary STANS. Yes. That would be 4 to 1.

The CHAIRMAN. With a portion of the equity owned by the bank that is extending the credit.

Secretary STANS. I understand that is the case; yes.

The CHAIRMAN. What are the advantages that bank financing, as compared with equity financing, have for an industry?

Secretary STANS. Well, I think in Japan the answer to that would be a little different than in the United States. In the United States the advantage of debt financing is the tax deductibility of the interest.

I am not sure that that exists in Japan. I think the answer in Japan primarily is that debt financing is much easier to arrange than equity financing.

The CHAIRMAN. Isn't there a purpose, though, in such a situation? Doesn't the fact that debt is used to the extent of, say, 60 percent, 75 percent, 80 percent in relation to 40 percent or 25 percent or 20 percent equity mean that the company is in complete domination so far as growth or lack of growth is concerned by the creditor—the bank?

Secretary STANS. I think that would be a consequence, certainly. Whether it is deliberate or not, I wouldn't know.

The CHAIRMAN. I wonder whether or not it is a planned arrangement, whether there is any advantage in it or not, whether it is planned in order that there can be some supervision, some control placed, some directive by Government or the central bank as to what industries will grow and what industries will export.

Secretary STANS. There isn't any doubt but what this mechanism gives the Government a great influence over business and the relationship between business and Government is quite different from what it is in the United States.

The Central Bank of Japan provides the rediscount facilities to the commercial banks which, in turn, provide the heavy debt financing to Japanese industry. So by the focus of all of this within the Central Bank of Japan, I am sure that the Government can exercise tremendous authority over the actions of industry, over its expansion programs, its export programs, and so forth.

On the other hand, industry seems to have a much greater influence on Government in Japan than it does in the United States.

One of the reasons why the textile negotiations failed was that the

Japanese Government had committed itself to the textile industry in Japan not to work out an agreement which was unacceptable to the industry.

The CHAIRMAN. And they came here to see that it was not violated? Were there any representatives of the textile industry in the United States while you and your counterpart were negotiating?

Secretary STANS. I was told that there were 40 representatives of the Japanese textile industry in Washington.

The CHAIRMAN. They were here not on business but on a vacation, presumably.

Secretary STANS. I think they were here to advise the Japanese Minister on his negotiations.

The CHAIRMAN. I see.

In addition to this matter of control that we have just discussed by government over industry, it seems to me that a Japanese company financed by banks has 50 percent more retained earnings to reinvest or to finance price decrease with than a company financed through sales of stock, such as we have here in the United States.

Secretary STANS. Yes; that would be true because of the tax effect in the United States.

The CHAIRMAN. That is right.

Speaking of capital and financing, Mr. Secretary, is it true that Japan is the only so-called capitalistic country with no significant foreign ownership of industry?

You discussed this with Mr. Boggs.

Secretary STANS. I don't have any specific statistics at hand as to the percentage of ownership in countries, but it is true that Japan would be very low in the scale of foreign ownership of industry.

The CHAIRMAN. We have some degree of this existing in South America, do we not, where an American company may invest but it must have a native of that country as a partner, either an individual or corporation?

Secretary STANS. In some of the South American countries, although there are many that permit foreign investment on a 100-percent basis.

The CHAIRMAN. But there is no counterpart of this in any part of the Western European area, is there? We don't have any restrictions in the Common Market or in the area around the Common Market, Great Britain, and the Scandanavian countries, and so on?

Secretary STANS. Yes; there are administrative restrictions on investment in some of these countries, particularly when it involves the takeover of a large venture.

The governments exercise the right to approve or disapprove such matters.

The CHAIRMAN. We don't have any comparable arrangement here?

Secretary STANS. Only insofar as it is affected by our antitrust laws.

The CHAIRMAN. I understand that. But how do they accomplish this objective of limiting finance coming into a country from the United States, Japan, or any other area?

Secretary STANS. In Japan, it is done entirely by restrictions on foreign investment.

The CHAIRMAN. Through licensing or some such arrangement?

Secretary STANS. Through a system of permits. The fact is that the recent study by MITI, the Ministry of International Trade and Industry, shows that the sales by foreign affiliated firms in Japan are only about 1½ percent of the total sales of all Japanese firms.

It is quite evident that the foreign investment in Japan is extremely low relative to other countries.

The CHAIRMAN. Have you looked into the question of whether or not Japanese investment restrictions are in violation of agreements of the OECD and article VIII of the International Monetary Fund Agreement?

Secretary STANS. Article VIII of the International Monetary Fund applies only to current accounts, short-term credit, and not to capital flow.

So I wouldn't think there was any violation there.

The CHAIRMAN. How about OECD?

Secretary STANS. The OECD codes do call on member countries to allow direct investments to be made on a free basis across the borders of countries, but they are not binding on the members. There is no compulsion or enforcement of them. As a matter of fact, Japan as a country has taken a reservation on that particular code so it is not bound by it in any event.

The CHAIRMAN. Japan has reserved on that point?

Secretary STANS. Japan has reserved on the OECD codes on investment.

The CHAIRMAN. Let us look into the question of how import restrictions work in Japan. Would you explain to the committee the difference between import quota items and how imports are handled on the automatic import quota system and the automatic approval system?

Secretary STANS. Mr. Chairman, this is all very complicated. I have a statement on it. I think I would best read that for the record.

The CHAIRMAN. You may omit parts of it with the understanding that the full statement will appear in the record.

I think we need to get the entire picture. That is what I am trying to say.

Secretary STANS. All commercial imports into Japan require an import license. Imports are licensed under three different licensing systems. One is called the import quota system, or IQ.

The second is called the automatic import quota system, or AIQ.

The third is the automatic approval system, or AA.

Of these, the most restrictive is the IQ system which applies to commodities on their negative list. For these items, an importer must obtain an import quota allocation certificate from the Ministry of International Trade and Industry. They don't publish the amount of quotas, and they limit the allocation period as well as the period for converting allocations into licenses for importation.

By this process the Japanese Government creates a very uncertain situation for exporters to Japan which makes it impossible to arrange long-term marketing plans.

If the importer receives an import quota allocation certificate under this IQ system, he is then entitled to receive an import license, which is issued automatically by a bank upon application.

Going from there to the other systems, under the automatic import quota system, the AIQ, an import quota allocation certificate is also required for imports. These certificates are usually granted automatically upon application, but U.S. exporters and their importing agents in Japan report that licenses are sometimes delayed for months.

During that time, they tell us there is pressure brought to bear on the importer not to import the item but to purchase Japanese products in place of the foreign-made product.

Then under the third procedure, which is the least restrictive, the automatic approval system, licenses are freely issued, but an application for a license must be made to an authorized bank prior to any importation of goods into the country.

Under the IQ and AIQ systems, imports require the prior approval of the Ministry of MITI. With respect to the IQ systems and perhaps even some of the AIQ items, MITI presumably makes a determination whether or not the importation of the item in question will adversely affect Japanese products that would compete.

Where agricultural and fishery products are involved, MITI consults with the Ministry of Agriculture and Forestry.

So in this process there is a very close surveillance and control over all imports into the country.

The CHAIRMAN. How can this be done? This is a complete licensing system. Nothing can go into Japan unless a license is issued, apparently. There are varying degrees of time consumed in the issuance of of the licenses. There are varying degrees of pressure not to import.

How does Japan get by with such an arrangement under GATT?

Secretary STANS. As I said earlier, Japan is in violation under the GATT arrangements with respect to a very large list of items.

The CHAIRMAN. What have we done? Just discussed it with them?

Secretary STANS. We have discussed it with them, we have met with them, we have insisted on adjustment, we have tried to negotiate timetables for elimination of these restrictions.

They have promised withdrawal of them over a period of years. That process is proceeding, but by an extremely slow pace.

The CHAIRMAN. But we have not retaliated, have we?

Secretary STANS. We have not retaliated. We have not taken any formal action yet.

The CHAIRMAN. We have not asked for the equivalent dollar of exports in some other area, as we are precluded in one area?

Secretary STANS. We have not taken any such action.

The CHAIRMAN. Do you think it would be helpful if we had conversations with them to the extent of reminding them that they are in violation, as this legislation is considered and as it becomes the law?

Secretary STANS. Those conversations have taken place regularly. I discussed it in Japan last year in May, again in August, and have had discussions here with industry, with Government representatives of Japan.

There is an acknowledgement of the violations. There is a promise to remove them. The problem is that the action is so extremely slow.

The Minister again this week promised me that action would be accelerated, and hopes that he and I can talk about acceleration in a few months from now.

The CHAIRMAN. In a limited way?

Secretary STANS. It is a very frustrating procedure.

The CHAIRMAN. You don't know whether it is on a general basis or a very limited approach?

Secretary STANS. I have no idea what he is going to propose the next time we are together.

The CHAIRMAN. What is the standard method of settlement requirement on imports in Japan? Do you have any information on that?

In order not to delay, I am sure you can get this information for the the record.

Secretary STANS. This is not a complicated matter. It is just a requirement that payment for goods must be made within a specific period of time, usually 120 days or less. There can be no credit terms longer than those permitted by the regulations.

The CHAIRMAN. So the importer of an American article in Japan may get credit but not for longer than 120 days?

Secretary STANS. That is correct.

The CHAIRMAN. And the entire amount of the import has to be paid within that period of time?

Secretary STANS. It has to be paid within the specified period of time.

The CHAIRMAN. Is that not some degree of handicap to anyone desiring to import from an outside country?

Secretary STANS. Certainly it is, because a great deal of exports from the United States take place under much longer credit terms than that.

I will give you a statement for the record on this which will spell it out in full detail.

(The information referred to follows:)

STANDARD METHOD OF SETTLEMENT FOR IMPORTS INTO JAPAN

Payments for all imports must be made in accordance with Standard Methods specified by the Government of Japan.[1] Importers who wish to settle import transactions on different terms or by different methods must obtain Ministry of International Trade and Industry (MITI) approval, regardless of the system under which the particular import transaction is processed, i.e., Import Quota (IQ), Automatic Import Quota (AIQ), or Automatic Approval (AA). Standard Methods of Settlement for imports exclude:[2]

1. Any payment in advance of receipt of shipping documents;
2. Payment later than four months after customs clearance;
3. Partial payment within the permitted period, e.g. one made in order to obtain discounts. Payments, when made, must be made in full.

The requirement that these standards be met can place the potential import at a disadvantage vis-a-vis competing domestic items:

1. Advance payments, or progress payments on large special orders, may be essential for the production and purchase of foreign *or* domestic goods. However, such payments may not be made to foreign suppliers without MITI approval;
2. Without MITI approval of longer terms, the purchaser must pay for imports within four months, whereas competing domestic products may be available on much more favorable payment terms.

Such requirements are discriminatory and trade restrictive. In all cases involving non-standard methods, even under the AA system, the Government thus has the ability to deny methods of import settlement which may be necessary to make the competing import a reasonable alternative to the domestic product, although the "Non-Standard Method" may be no more favorable to the

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[1] Ministry of Finance Ordinance No. 62, Oct. 31, 1962.

[2] Exceptions:

(*a*) Advance payment for up to one-half (not to exceed $5,000) of value of imported machinery; imports costing not more than $5,000; imports of books and periodicals;

(*b*) Deferred payment for agricultural imports from the United States under U.S. Export-Import Bank 12-month credits.

purchaser than financing terms available for the domestic product. In addition, under every application for Non-Standard Settlement, the authorities continue to require the name of the end-user, affording interested agencies the opportunity to exercise administrative guidance to influence the potential importer to purchase the domestic product.

The CHAIRMAN. Where does the Ministry of International Trade and Investment and the other ministries and banks fit into the import licensing system in Japan?

Secretary STANS. I think I have already covered that.

The CHAIRMAN. I am sure if you had anything to do with it, it would. I am convinced of that. I think you would make a good trader.

I have asked about the incentive to export on the part of Japanese industry.

Are you familiar with the accelerated depreciation allowance given companies which increase their exports over a past fiscal year and the additional accelerated depreciation granted when the ratio of export sales to domestic sales is increased?

Secretary STANS. Yes. Japan has special statutes allowing accelerated depreciation allowances to companies that have important export performances.

As I understand it, any company that shows a 1 percent annual growth in revenue from overseas transactions can increase its allowable special depreciation by 30 percent.

Also, if the ratio of revenue from overseas transactions to total revenue doesn't decline, an additional 30 percent increase in the allowance for special depreciation is available.

In other words, there is an incentive to exporting that is a very substantial one in allowing extra depreciation for tax purposes.

It is something that we do not have and, therefore, we can't compete. It is not a forgiveness of taxes, however. It results in a deferral of taxes, as is the case in all cases of accelerated depreciation.

But it does give them the cash flow benefit which is important.

The CHAIRMAN. Tremendously. Are you familiar with the special export incentive plan that Japan has for electronics which has been mentioned in the hearings of a few days ago?

Secretary STANS. I have looked into that. I am not aware of any export incentive specially for electronics.

The question seems to refer to what is called the temporary measures law for the development of the electronics industry, but that is a law that was intended to promote the development of their manufacturing techniques and strengthen the competitive position of Japanese manufacturers of electronic computers and devices of that type, and magnetic tape.

It calls for the establishment of an electronics industry council to bring together Government officials and scientists and so forth in the electronics industry to advise MITI on how to achieve the objectives of the law.

But although they have adopted some principles for guiding the development of the industry, such as product specialization and adequate financing, priority training of technicians, and standardization of programs, there is no evidence of special export incentives beyond the Government help in those lines.

The CHAIRMAN. Do they have any other type of incentives other than the accelerated depreciation matter we have talked about?

I understand they do have.

Secretary STANS. I am informed that there are some additional provisions in the tax laws that provide incentives. We don't have the details here. I will submit a statement on that for the record.

The CHAIRMAN. That will be fine.

(The information referred to follows:)

DIRECT EXPORT INCENTIVE FOR TAX PURPOSES IN JAPAN

The direct incentives fall under five general categories, as follows:

1. Accelerated depreciation;
2. Reserve for development of overseas market;
3. Reserve for overseas investment losses;
4. Export allowances; and
5. Entertainment expenses.

ACCELERATED DEPRECIATION IN CASE OF EXPORT SALES

A. A corporation is allowed a tax deduction for accelerated depreciation based on export sales made in the immediately preceding year. The amount of additional depreciation is computed by applying the ratio of export sales over total sales to maximum ordinary depreciation available. In other words, if export sales are 30% of total sales, ordinary depreciation is increased by 30%. Ordinary depreciation is at rather generous rates in the first place.

B. The aforementioned increase in ordinary depreciation is further increased by 80% if the company is recognized as a type "A" export contributing corporation or 30% if a corporation is recognized as a type "B" export contributing corporation.

If a corporation satisfies both of the following two conditions, such a corporation will be recognized as an "A" export contributing corporation; if condition (1) is satisfied, but (2) is not, the corporation will be recognized as a "B" export contributing corporation:

(1) The first condition is that export sales for the immediately preceding year increased 1% or more over export sales for the year immediately prior to that year.

(2) The second condition is that the ratio of export sales to total revenue for the immediately preceding year exceeds such ratio for the year immediately prior to that year, or the increase in exports as a percentage exceeds ⅔ of the nation's increase in exports, also stated as a percentage.

B. The reserve is required to be restored to income, for tax purposes, at the rate of 20% of the amount originally provided, in each of the next succeeding five years. Thus, again—this is a tax deferral mechanism although this reserve is not deductible for enterprise tax purposes.

RESERVE FOR OVERSEAS INVESTMENT LOSSES

A. A corporation is allowed a tax deduction for a reserve for overseas investment losses to the extent of up to 50% of the acquisition cost of shares invested in a designated corporation (either *a new development area corporation or an overseas investment corporation*).

The shares must represent 10% or more of the total shares issued by a new development area corporation, or one percent or more of the total shares in the case of an overseas investment corporation.

B. *A new development area corporation* means a corporation with its legal head office in a designated area and whose stated purpose is principally the active conduct of business in a designated area.

The areas that qualify currently as designated areas are: (a) Iceland, Spain, Portugal, Greece and Turkey within the European area, and (b) all other areas outside of Europe except Japan, U.S.A. and its territories, Canada, U.S.S.R. and the Republic of South Africa. In the case of development of petroleum resources, the State of Alaska and areas in Canada are also classified as designated areas.

An overseas investment corporation means a domestic corporation whose stock is not listed on the stock exchange and whose principal purpose is investing in shares or long term loans of new development area corporations.

At present, there are ten corporations validated by MOF and MITI as overseas investment corporations:

(1) Kalimantan Forest Development Corporation Limited;
(2) Japan Indonesia Sugar Development Company Limited;
(3) Japex Indonesia Limited;
(4) Nippon Usiminas Co., Limited;
(5) Mitsui Overseas' Forestry Development Company Limited;
(6) Kyushu Oil Development Company Limited;
(7) Cambodia Kaihatsu Company Limited;
(8) Overseas' Mineral Resources Development Company Limited;
(9) Compagnie de Developpmemp Minier du Dongo (Copper); and
(10) Companlia Japonesa de Inversion Para Caicisa.

C. The reserve is required to be restored to income for tax purposes, at the rate of 20% of the amount originally provided, from the sixth year to the tenth following a five-year grace period.

This reserve is not deductible for enterprise tax purposes.

EXPORT ALLOWANCE

A corporation may take an income deduction to the extent of the amount computed by applying various percentages to certain consideration *earned in foreign currency* during each qualified current accounting period. In most cases, the maximum deduction is 50% of taxable income for the period.

A. 20% of the consideration for rendering services regarding survey, and/or research, planning, advice, drawings, supervision or inspection for construction of manufacturing facilities, etc., which require scientific technical knowledge.

B. 30% of the consideration for transfer of motion picture films, copyrights and 30% of motion picture distribution revenue earned abroad.

C. 70% of the consideration for transfer and/or supplying of industrial technology, know-how, etc., created by a corporation.

D. 3% of the consideration for freight revenue on certain overseas export ship operations and repairing, processing or construction services.

Although deduction is not allowed for enterprise tax purposes, it should be noted that this item represents a permanent tax savings.

In other words, the factor used to establish whether or not a company is entitled to the extra depreciation over and above that provided by merely having exports includes consideration for both the amount of the increase in exports and the ratio of exports to total sales.

Possibly an example, in dollars and cents, would be of assistance at this point.

Assuring a percentage of export sales against total revenue of the preceding year—of (say) 80%.

	Rank of corporation		
	(A)	(B)	Other
Maximum ordinary depreciation	100,000	100,000	100,000
Rate of accelerated depreciation ... percent	128	104	80
Accelerated depreciation	[1] 128,000	[2] 104,000	80,000
Total	228,000	204,000	180,000

[1] 80 times 160 percent.
[2] 80 times 130 percent.

The "special depreciation reserve" must be restored to taxable income in each of the next succeeding ten years at a minimum rate of 10% of the amount credited to the reserve. Thus, the relief is a deferral of taxes and increased cash flow—a very important point for undercapitalized Japanese companies.

RESERVE FOR DEVELOPMENT OF OVERSEAS MARKETS

A. A corporation is allowed a tax deduction for a reserve for development of overseas markets to the extent of 1.5% (in case export of goods purchased from others, 1.1% if capital is more than ¥100 million) of export sales in the immediately preceding year.

The rates are increased from 1.5% to 2.4% for a type "A" export contributing corporation, and to 1.95% for a type "B". The same conditions as those mentioned previously govern the type "A" or "B" classification.

There is a decrease in these rates if the export is of goods purchased from others and an increase if the corporation is capitalized at less than ¥100 million.

ENTERTAINMENT EXPENSES

Not that it is noticeable but there is a rather severe limitation on the deductibility of entertainment expenses for tax purposes in Japan. Generally speaking, a full deduction is limited to about $11,000 per corporation plus one-fourth of 1% of capital. The deduction for entertainment expenses in excess of this is limited to 40% of the expenditure. However, a reasonable amount of overseas and/or domestic travel and hotel expenses in Japan paid for non-resident visitors and entertainment expenses incurred abroad *in connection with export transactions* are not treated as entertainment expenses for purposes of determining the deductible amount of entertainment expenses, and are fully deductible for corporate income tax purposes.

The CHAIRMAN. You and I have seen for some time a pattern that exists and is explained in all that we have talked about.

I hope that others will recognize just how industrious and ingenious our friends in Japan are, and can better understand, as a result of this colloquy, just how they have become such successful traders with the rest of the world.

Secretary STANS. I would like to add a couple of other elements to that, if I may. I think that one of the reasons that Japan has become such a successful industrial nation is that it has had practically no defense expenditures.

The CHAIRMAN. That is true.

Secretary STANS. That is, compared to those which we have in this country. This makes it possible for them to put all of their productive capability into civilian channels.

The CHAIRMAN. That is true of all the countries of the world. We are the great protector of all of the world from any change in its governmental operation. It is not just Japan that we have a treaty to protect, but we have that, I guess, with every country in the world, in the Western world.

That is why our expenditures for military and economic aid are so great.

But it is time, in my opinion, that some of the countries that are equally able to protect the world from the encroachments of communism wake up to the fact that we can't go on forever doing it. It seems a little hard to get over.

Secretary STANS. Japan is increasing its economic assistance to other countries, but most of it is in the form of credit rather than outright gifts or grants.

The CHAIRMAN. There are no outright gifts to any appreciable extent.

Secretary STANS. Not to my knowledge. There are other factors in the Japanese economy. The savings rate among the people of Japan is much higher than it is in the United States. This helps capital accumulation.

I have seen figures which indicate that the savings rate in Japan is something like 23 percent. It is about 7 percent in the United States. So capital can be accumulated easier there.

Another element which contributes to their growth factor is that they are not devoting as high a proportion of their national budget to the social improvements that we are spending so much money on.

That includes everything from highways and sewage disposal, water systems, education, and all the rest. So they are able to concentrate their entire energies and national activities on building a competitive economic system far more efficient than we can when we devote so much of our expenditures to military purposes, to national welfare, and to personal satisfactions.

The CHAIRMAN. Mr. Secretary, it is my understanding that some section of each ministry in the Japanese Government is responsible for assuring that every industry conforms to policies which are compatible with the overall economic goals in Japan. Is that right?

Secretary STANS. I am not aware of it, as a matter of fact. I have no doubt that it exists because that is typical of the Japanese Government relationship with business.

The CHAIRMAN. We have no import licensing system; do we? Well, sugar and coffee.

Secretary STANS. Sugar and coffee and some agricultural commodities.

The CHAIRMAN. We do that not to protect ourselves but to try to stabilize the economy of other countries, they tell us.

Secretary STANS. In many cases that is true.

The CHAIRMAN. We do have restrictions and licensing, I guess, with respect to the importation of oil.

Secretary STANS. Oil is another one; yes.

The CHAIRMAN. But they are very limited, those that we do have.

We do have licenses for exports; do we not?

Secretary STANS. We have an export control system for certain types of goods and equipment which relate to our military security.

The CHAIRMAN. I understand. That is all; isn't it?

Secretary STANS. And which relate to shipments to the Communist countries in general.

The CHAIRMAN. Beyond that; do we have any?

Secretary STANS. We have also provisions which permit us to impose temporary controls over goods which are in extremely short supply, like copper, nickel, and things like that, from time to time.

But we don't have a general system of licensing.

The CHAIRMAN. In a case where we do have, how long does it take an application for the export of an article about which there is some commercial question in its identification with respect to export control requirements—how long does it take to process it?

Secretary STANS. I would have to ask the people in my department who are more familiar with the flow of that.

The CHAIRMAN. It is done expeditiously, I know, since it is done in your department.

Secretary STANS. We try to do it expeditiously. I will submit a better answer for the record on the basis of some statistics.

(The information referred to follows:)

STATEMENT ON PROCESSING OF EXPORT LICENSES

The Office of Export Control receives approximately 500 applications per day. Based on a study conducted in December 1969, a little over 11% are processed within two working days, 77% in five working days and 96% in ten working days.

Cases not processed within ten working days generally are those which raise policy problems involving sensitive commodities or destinations.

Below is a table which indicates cumulative percentage of cases processed within time periods of up to three weeks:

Percentage of Cases Processed (Cumulative):	Number of working days
11.2	2
43.4	3
65.2	4
77.3	5
85	6
88.8	7
91.2	8
92.9	9
96.3	10
98.5	15

Source: Prepared by Operations Division, Office of Export Control, Bureau of International Commerce.

The CHAIRMAN. Do you feel that in certain product areas that an import licensing system similar to those imposed by other countries would be helpful in getting better statistical information for the Department of Commerce?

Secretary STANS. I don't think we need export controls in order to get better statistical information.

The CHAIRMAN. Import is what I am talking about, import licensing.

Secretary STANS. Import licensing?

The CHAIRMAN. For purposes of you getting better statistics.

Secretary STANS. I think we have no need for that if the sole purpose is to provide better statistics.

The CHAIRMAN. That would be the stated purpose, but there might be some other purpose.

Secretary STANS. I would hesitate to see any advantage for the United States in going into an import licensing system. I think we should do everything we can to maintain the free market, to deal with the highly unusual problems as they come up within the framework of the kinds of legislation we are talking about.

The CHAIRMAN. Mr. Secretary, I would agree with you completely, except for a great concern that I have, that under the operation of the so-called reciprocal trade agreements program, we have become the really only open market in the world.

We can be the target for any increase in growth in gross national product through export desired by any country through the devices that are used in some of the other countries.

Whether or not we should or not, we have no real protection. We can't have, except that we legislate additional provisions of law.

How long can we survive in this world as an industrial nation, in your opinion, being the only open market with everyone else who violates GATT in any instance, or who is shipping to us in amounts that are greater than they should be, taking into consideration our own manufacturing and production?

How long can we survive under such arrangements if all we are going to do is just pat somebody's hand a little bit and take no action with respect to it?

Do you foresee any real danger in the situation that we are now in? That is what I am getting at.

Secretary STANS. I think your question almost answers itself. Yes, I do, I see a lot of danger. I see a great deal of concern. We are the most open market in the world.

The CHAIRMAN. The most vulnerable.

Secretary STANS. Except, of course, for Hong Kong, which is the total and only free trade operation in the whole world.

That is merely a colony of Great Britain. But every day I read about additional restrictions that are taking place. Just yesterday, I read a report that Belgium has divided up the computer market in that country. Apparently, it is going to exclude almost completely the American firms from competition in Belgium, or whatever participation they have will be relatively small.

The more this takes place, the more difficult it is for U.S. business to compete in world markets, the more difficult it is to restore a balance of trade of a dimension that we absolutely need in order to maintain an adequate position in our balance of payments.

This is a subject of extremely great concern in our Department. We are studying it from a great many angles. We are developing lists and information as to all of these things so that we can use them effectively within the Government and in our negotiations with other countries.

It is a very broad subject because, of course, it can't be dealt with solely in terms of trade and commercial matters. It involves the entire field of international diplomacy. It involves relationships with many friendly countries. But I can't help get over the feeling that in a great many respects we have been Uncle "Sucker" to the rest of the world, and that the time has come when we have to put all of our information together, all of our weapons together, and sit down and say to other countries, "Let's play fair from now on, let's put everything on the table and let's work reciprocally."

One of the items that I did not mention earlier when you or Mr. Boggs asked for restrictions in Europe were those dealing with Government procurement.

We in the United States have a policy, enacted into law in the Buy America Act, a 6-percent differential in pricing to determine whether we buy domestically or from foreign countries.

TVA, for example, buys a lot of foreign equipment. The American companies that make generating equipment and expensive, high-cost items of that type have great difficulties in selling their products to the subsidiaries and business entities owned by European countries because they do it administratively in processes which our companies in many cases can't even divine.

The answer to that is reciprocity, in my opinion. If they adopted the Buy America Act in those terms and did it openly and administered it as openly as we did in the United States, we couldn't complain, because that would be equal treatment.

But as long as we put our cards into the open and the other countries operate under administrative procedures that make it impossible for us to compete, in many cases not even knowing when bidding takes place, in many cases faced with preferential lists of bidders, there is not equality and there is not reciprocity.

This, I think, the United States has a right to demand from the other countries of the world.

The CHAIRMAN. Thank you very much, Mr. Stans. We appreciate your responses to our questions. I apologize for taking too much time.

Mr. Betts?

Mr. Schneebeli?

Mr. SCHNEEBELI. Mr. Secretary, I tend to agree with Congressman Byrnes, that I think it is incumbent upon this committee to approach this in a matter of general legislation, not specific as to any industry, requiring mandatory action at some triggering point when the domestic industry becomes harmed by imports.

I think this is the only fair way to approach this problem because there are so many small industries that are going by the board.

We had so many instances here such as the small ball bearing manufacturer, the umbrella frame people, mink ranchers and so forth.

We had so much testimony on this problem and, as Congressman Byrnes observed, many of these industries don't have the political muscle to call to our attention their plight.

So I think the approach along the lines of general legislation is certainly meritorious, and I think our committee, together with your counsel in executive sessions, ought to explore this area.

On the specific legislation, H.R. 16920, as introduced, was supposed to cover two large industries, textiles and shoes. Generally, both of them are in the same position in that their consumption growth in the last 5 years has been absorbed by imports.

The domestic industry has been sort of atrophied. It has not been able to expand. But you come in to tell us that on textiles we should have import quotas while on shoes we should have a different approach.

Somebody else asked you this question of why we shouldn't have an evenhanded approach on these two industries. You gave an explanation, but I don't understand it. What is it?

Secretary STANS. I think the best explanation is the one which appears in the release from the White House yesterday. This is a different kind of industry. It is a smaller industry.

Mr. SCHNEEBELI. Does it depend on the size of the industry as to how we are going to treat them?

Secretary STANS. Certainly as a national problem, I think the size of the industry has a great deal to do with it.

Mr. SCHNEEBELI. That goes to my preamble, we take care of the big fellows but not the little ones.

Secretary STANS. If we are concerned about the effect on employment, then textiles is 2,400,000 people. Shoes constitute a much smaller industry.

I cite that not to indicate a difference in degree of sympathy for the shoe industry as against textiles, but with the suggestion that it is possible to deal with the smaller industry by different measures than one as large as textiles.

This is why the administration has concluded that the ways in the present law under the Trade Expansion Act and the ways that we have proposed in our legislation to liberalize escape clause action, to liberalize adjustment assistance, may resolve the problem of the shoe industry, and we think we should approach it from that standpoint first to see what can be done to be helpful to that industry.

The textile industry is too big to be manageable under those procedures. The shoe industry could be managed under those procedures, we think.

Mr. SCHNEEBELI. Mr. Secretary, I appreciate your statement. I realize you are in a difficult position.

As I said before, I hear you but I don't understand you. I hope I get a better understanding when we meet in executive session.

Secretary STANS. May I in the meantime submit for the record the White House press release on footwear?

The CHAIRMAN. I think it would be well for not only that but for the document referred to in that to also be included in the record.

Secretary STANS. That is the report of the task force.

The CHAIRMAN. I think it should be in the record at this point if there is no objection.

Mr. BURKE. Mr. Chairman, reserving the right to object, I was wondering whether this task force report is really worth the taxpayers' expense of putting it into the record.

The CHAIRMAN. It reflects a viewpoint. We have always allowed varying viewpoints to be included in our record. Is there any objection? None is heard.

Mr. GIBBONS. Mr. Chairman, reserving the right to object, I wonder if we can get a copy of it? It may be months before the record will be printed. I would like to read a copy of it.

The CHAIRMAN. He will see that all of us get copies of it today.

Secretary STANS. We will do that.

The CHAIRMAN. And the other material, that pink booklet, you referred to that. Do you think that should be in the record, Mr. Secretary, or do you wish to merely present it to us?

Secretary STANS. I think we might indicate to you a summary portion of it that might go into the record.

The CHAIRMAN. Without objection, that will go into the record at the point at which you referred to it.

(The White House press release and the task force report referred to follow:)

[Office of the White House Press Secretary, June 24, 1970.]

THE WHITE HOUSE

The President today announced a program of assistance to non-rubber footyear firms and workers in the United States. The program has three major components:

Initiation by the President of an investigation by the Tariff Commission, under the escape clause provision of the Trade Expansion Act, of the impact of increased imports on the men's and women's leather footwear industry.

A series of domestic Government measures to deal directly with the various problems faced by some footwear firms and workers.

Authority for the Secretary of Labor and the Secretary of Commerce to proceed on each of the six adjustment assistance cases on which the Tariff Commission recently completed investigations.

The President's program was developed from the findings of an inter-agency task force organized to make an extensive study of the footwear problem with particular attention to the impact of import competition. The study is being released today.

This study concludes that many producers are able to meet competition but that some face problems from a number of sources. One of these has been the recent, rising volume of imported footwear. Other problems were found to include technological, organizational and marketing changes, shifts in the location of production away from traditional manufacturing areas, and rapid changes in the demand for footwear, with increasing emphasis upon style.

Some firms, the task force found, now need to modernize, rationalize their production, possibly change their product lines, and otherwise improve their competitive ability. It reported that such firms would be in difficulty from existing domestic competition regardless of the level of imports.

The task force reported that the facts and information available to it did not demonstrate a case of overall import injury. However, the task force also noted its concern that, if all the necessary information were available, there might well be injury to the men's and women's leather footwear industry which has experienced a sharp increase in import competition. It pointed out that an investigation such as the Tariff Commission is authorized to conduct—with powers of subpoena, access to confidential business data, and public hearings—would provide a more comprehensive basis for judgment than was available to the task force.

On the basis of the findings of the task force, the President has decided that import restraints are not the answer to the footwear problem. The Administration has therefore opposed legislated quotas on shoe imports. However, an investigation by the Tariff Commission under section 301(b) of the Trade Expansion Act of 1962 could provide a more comprehensive basis for judging the extent of any injury. The President is therefore requesting that the Commission investigate whether imports are causing or threatening to cause serious injury to the domestic men's and women's leather footwear industry. He hopes that the Tariff Commission, in light of the information assembled by the task force and its own two earlier section 332 investigations of non-rubber footwear, will expedite its report with a view to an early finding.

This is the first occasion on which any President has asked for an escape clause investigation since the beginning of the trade agreements program in 1934. An affirmative finding under section 301 could make available to men's and women's leather footwear industry, its firms, and its workers the variety of forms of relief and assistance prescribed by the Congress in the 1962 Act. If the President's proposed Trade Bill of 1969 is enacted by the Congress during the Tariff's Commission's investigation, its more liberal escape clause and adjustment assistance criteria will apply in this instance.

The President also concluded that, notwithstanding the Tariff Commission investigation, Government measures are necessary to help certain footwear producers and workers, and the communities where footwear is an important source of income and employment. The President has accordingly directed the Secretary of Commerce to assume responsibility for a footwear program, in coordination with the other Cabinet officers who are members of the Adjustment Assistance Advisory Board or whose departments will be involved in this program.

The President has directed that these federal agencies take action to improve the employability of footwear workers, to develop jobs for those displaced by the many changes now occurring within the domestic industry, to assist in the revitalization of the communities adversely affected, and to provide special assistance for affected firms. Among the programs to be undertaken will be the following:

1. The Department of Labor and the Department of Health, Education, and Welfare will develop and provide special footwear programs within the framework of existing manpower retraining and development legislation, and will urge the individual States concerned to provide special attention in their own manpower programs. These efforts will seek to meet the special problems of footwear workers, taking into account the composition of the labor force in terms of age, sex, skill levels, and mobility. In areas where the problem is primarily one of shortages of skilled footwear workers, the objective will be to provide additional training opportunities; where unemployment is the primary problem, the objective will be retraining and adjustment to other jobs.

2. The Economic Development Administration of the Department of Commerce will develop programs to attract other industries to the communities heavily dependent upon shoe production. These programs will be developed in cooperation with the affected communities. The Economic Development Administration will also give consideration to requests for financing necessary public services to support new or expanding industries and to make loans directly to new businesses in these areas.

3. The Department of Transportation, when local authorities request its assistance, will provide financial assistance in establishing the commuter facilities authorized by the urban mass transportation program to provide or improve transportation facilities between areas of substantial unemployment and neighboring areas where job opportunities exist.

4. The Small Business Administration will expedite consideration of loan and other assistance requests from small shoe firms to help them in their adjustment problems.

5. The Secretary of Commerce, with the assistance of other members of the Adjustment Assistance Advisory Board, will undertake consultations with the footwear industry to develop any further measures of assistance found to be necessary.

On the advice of the Department of Justice, the President has also concluded that he has the authority in the case of split decisions by the Tariff Commission in adjusment assistance cases to act on the findings of either group of Commissioners. He is, therefore, informing the Secretaries of Labor and Commerce that the decisions of the Tariff Commission in six recent cases are affirmative findings and that the Secretaries are authorized to consider certifications of the firms and workers involved under the terms of section 302(c) of the Trade Expansion Act of 1962.

REPORT OF THE TASK FORCE ON NONRUBBER FOOTWEAR, JUNE 1, 1970

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SUMMARY OF TASK FORCE FINDINGS

The assignment of the Task Force was to examine conditions in the nonrubber footwear industry.[1/] It initally adopted as its more specific terms of reference the product definition employed by the Tariff Commission in its earlier, section 332 investigation of this industry. This definition proved to include an extremely wide range of footcoverings, an even wider range of manufacturing, retailing, and importing operations, and many possible combinations of business activities and situations.

It quickly became apparent, given all the diversities involved, that few sweeping generalizations would be possible for so broad a range of activity. It also became obvious that the existing sources of information leave much to be desired and, in the end, do not permit an unequivocal degree of identification of causal relations between the many dynamic processes at work and present sources of change and pressure, including imports, upon the well-being and future prospects of the many firms and workers now producing footwear.

Domestic Considerations

While it is clear both that the footwear market is in a state of rapid change and that some firms and workers have been and are in trouble, it proved extremely difficult to sort out the many separate, possible causes. With the evolution of much of the industry into a fashion-oriented business, wherein style and merchandizing have come to play a very significant role, and with the distribution and retail end of the business rapidly becoming consolidated into large, aggressive units, the problems of analysis were further compounded.

The Task Force found many other sources of change and intensifying competition in this industry -- in the very nature of footwear American consumers are buying, in types of materials used, in the consolidation of the industry

1/ Task Force members included representatives of the Departments of Commerce, Labor, Treasury, and State under the chairmanship of the Office of the Special Representative for Trade Negotiations.

into fewer units often vertically integrated, in the stringencies of a tightening labor market and increasing difficulties in footwear in bidding for labor and paying competitive wages, in regional shifts within the United States toward States and areas of lower wage costs, and in credit conditions -- to name but some of the forces currently at work.

Import Considerations

Setting all of these domestic forces aside to the extent possible and focusing as best it could on the import problem, the Task Force found both rapid recent growth and notable penetration of the domestic market in some lines of footwear.

While imports rose steadily during the 1960s, only by 1969 could it be argued that they began to pose a threat -- though this industry has long protested that it could not meet competition and has long sought greater protection. In fact, it proved to have done well throughout the earlier years. The evidence also suggests that market penetration in 1969 was probably not of the sporadic variety, but that foreign suppliers have achieved a degree of efficiency, have established a position in this market, and give every indication of being capable to continuing to offer strong competition.

The effects thus far of this rising competition are not as easily summarized. The facts and information available to the Task Force do not in its judgment constitute a case of injury to the overall footwear industry. If all necessary information were at hand, there may well be injury to some segments of it, or there may well be a threat of injury in the future. But an investigation such as the one the Task Force could conduct -- without the powers of subpoena, or access to business confidential data, or public hearings with the opportunity to take sworn testimony and to cross-examine -- necessarily must rely on less comprehensive information, essentially that available to the public and that which was volunteered to it by the interested parties.

The Criteria of Injury

While the analogy exists, the Task Force did not construe its assignment as in any way supplanting a Tariff Commission investigation under section 301. Indeed, it could not hope with its resources and limitations to duplicate that type of study. Nevertheless, since section 301 incorporates the only criteria of injury established by the Congress, these guidelines were kept in mind during its work. Section 301, it will be recalled, directs the Commission in conducting an investigation into alleged injury or threat of injury from imports to examine evidence of idle capacity, inability to operate at a reasonable profit, unemployment or underemployment, and other "relevant factors."

Idle Capacity?

Capacity and the extent to which it is being utilized is a measure of somewhat dubious relevancy to the footwear industry. Its extraordinary ease of entry based on low equity requirements and leasing of major equipment permits capacity to fluctuate rapidly. Moreover, there are no known estimates of capacity and, if they existed, they would necessarily depend on the product mix, availability of labor, and other factors at the time of estimation.

In the end, the Task Force could make no judgment on this criteria except to note that while footwear plants closed in 1969 at a rate which does not seem particularly high in relation to the industry's historical trend, other plants continued to open, some on the same sites, others at new sites, and, together, probably at a lesser rate than in the past in terms of new establishments. How this productive capacity actually compared with that of the closed plants is not known. On balance, the newer plants tend to be more modern and efficient, but no comprehensive information is available on them or their capacities.

Inadequate Profits?

Regarding profitability, the Task Force found that clearly through 1967 and almost without a doubt through 1968 (though evidence for that year is still less comprehensive), the footwear industry enjoyed quite satisfactory profits, indeed, steadily rising profits. Not all firms shared in this trend, of course, as might be expected under most circumstances in any industry, but overall and throughout the industry without regard to the size of the firm, profits on the average were ample. In 1969, however, average profits deteriorated.

The smaller footwear firms tended to report less net income, but allowing for the compensation paid their officers, the return on equity involved even in the small firms has compared well with both that of the larger footwear producers and with other industries. By the alternative measure of return earned on sales, in keeping with the traditional performance of many retail oriented businesses with relatively rapid turnovers, the industry has performed somewhat below average. But, by this measure, too, the trend through 1968 was upward. Moreover, during this period there was a sharp decline in business failures among shoe firms.

Unemployment?

The employment picture, however, proved to be different. Footwear employment has been declining slowly and irregularly for several decades. Through 1968, on the other hand, recent evidence of unemployment was meager and labor shortages were generally a more pressing problem. With the downturn in production in 1969, however, unemployment apparently rose to above the national average, with particular concentrations in certain communities in New England. Again, it proved difficult on the basis of the evidence available to the Task Force to separate unemployment due to imports from that due, for example, to the continuing shift of the industry to other areas, including to newer shoe-producing centers within New England.

Other Relevant Factors?

Regarding other "relevant factors" the Congress provided should be examined in appraising injury, the Task Force found the following:

... Even taking into account the necessary qualifications in making any interindustry comparisions, the investment record of this industry still appears decidedly on the low side, notwithstanding its recent profitability. Its research and development effort also appears to be minimal and sorely in need of greater attention. Many small and medium size firms also appear undercapitalized and vulnerable to conditions in credit and financial markets.

... On the other hand, the continuing trend toward larger units and closer ties with retailing appears to be gradually strengthening the industry.

... Import competition has not prevented the industry from raising footwear prices, raising them, in fact, at a faster rate than most components of the price indexes. Moreover, the period of greatest acceleration in price increases was accompanied by the most rapid growth of imports.

... There seems little doubt that the larger and more efficient units of the domestic industry can meet foreign competition in the volume, staple lines and in the high-fashion, high-priced quality lines. The larger firms in the past have tended to concentrate on the volume lines, leaving the field for fashion, especially women's, to the smaller firms. Both appear harder pressed to meet the new foreign competition in fashion lines at moderate prices, or at the very low end of the price scale.

... Much of the growth and the absolute volume of recent imports had been in the very low-priced shoes. A very large portion of these, however, are of types and sell at prices that cannot be considered to be competitive with domestic leather footwear. Allowing for these noncompetitive areas, the degree of total import competition and of penetration has been seriously overstated. The figures normally cited on total import impact cannot be considered a valid basis for any judgment on the problems of the industry or of the need for public assistance.

... The overall record of the industry suggests that unless it makes major efforts, even absent any further increase in foreign competition, it will have difficulties in paying competitive wages, or in attracting young workers, capital, or managerial and technical talent. Although some allowance must be made for the special circumstances involved in working with leather, given its existing technology the industry's productivity record is among the very lowest of all U.S. manufacturing industries. Its wages are among the lowest, moreover, as is its value added per employee, and its unit labor costs are steadily rising. Overall, it faces a difficult prospect in attracting and keeping a labor force at its wage levels, yet those levels in relation to its present technology are still inadequate to keep its costs and output reasonably competitive with the productivity of much of the rest of the U.S. economy.

... Faced with this situation, an apparently dominant portion of the industry (though not all) has long and aggressively sought protection from imports. On the other hand, the Task Force was unable to find any clear evidences of resolute self-help efforts during recent years. In 1957 the industry itself financed a study by the Harvard Business School of efforts it could make, but appears to have pursued few if any of the recommendations, many of which still appear equally valid in 1970. In 1965, the Department of Commerce financed a somewhat similar study on behalf of the industry by the Battelle Institute, and again, little if anything appears to have come from the effort. Many of the larger, faster growing companies, of course, have adopted some of the individual measures recommended in these studies as part of modern management techniques. For many of the smaller firms, however, individual efforts to adopt these techniques or to make requisite capital expenditures appear out of question. On the other hand, industry-wide efforts in areas where cooperative efforts would seem appropriate appear to have languished despite the recommendations in both studies that they were essential.

... In particular, more and better research appears to be absolutely essential to this industry to improve its domestic position vis-a-vis other U.S. industries. It is faced with difficult problems in materials development and testing and in adapting modern technology and techniques to both machinery and product development. The present shoe size-and-width system, for example, dates back to the Civil War and entails a multiplicity of shoes which, if standardized and reduced in number, could bring substantial savings in both costs of production and carrying of inventory. Much work has been done on "last grading," an effort to reduce the present mix of sizes and widths produced, but it has yet to be widely adopted or promoted. This effort seems particularly relevant since much of the import competition occurs in shoes available in a single or few widths and have proven to be acceptable to American consumers. New techniques, such as heat-setting, and new production systems, such as conveyorization, are already known and used, but not widely. Like other innovations, they cost money and pay-off with volume. With more rapid changes in styles, moreover, building up volume for the small firm specializing in current fashions becomes even more difficult.

... Assessing the future at this particular jucture is difficult since it comes at the bottom of a turn of the fashion cycle. Recent experience has to be discounted both for the favorable effects of the dramatically successful styles introduced in 1968 and the comparably unsuccessful fashion record of last year, especially in women's shoes which account for half of the industry's volume and are particularly the speciality of New England firms. 1969 was further affected by anti-inflationary policies beginning to restrain consumer demand and by tight money policies which bore heavily upon shoe producers relying heavily upon credit. Factoring of accounts, a practice resorted to in the face of adversity, became a particularly expensive alternative and presumably accelerated the demise of some of the firms closing last year.

... The import mix is such that certain lines have clearly established a position in this market, particularly at the two extremes of the price range. Restraining future growth in these areas would not appear necessarily to cause a comparable increase in alternative, domestic production, certainly not in the low end of the range.

... Foreign suppliers, present and prospective, appear to have found the key to successful penetration of this market. In some lines, this is founded on style and quality, in others on price. Other countries have experienced the same situation. Imports now account for a very substantial share of total consumption in, for example, Canada, Germany, and Sweden.

Several of these points require particular elaboration.

Technology

The Task Force felt it did not command the expertise to probe deeply into the technology of the industry or into its potential, nor was it equipped to make either quantitative or qualitative evaluations of existing production techniques and methods, or recommend changes. From what it learned during its investigation, however, certain observations seemed valid. A major challenge ahead is the industry's ability to develop the technology which will permit it to overcome any inherent disadvantages in working with leather or in the diversity of human feet or of preferences for shoes. Compared to other domestic industries, it has not yet developed a technology to combine with its labor force to achieve comparable productivity, yet to survive domestically it must attempt to attract and hold workers and capital at something approaching the going rates of return.

One problem it faces is that some known, technological improvements require long production runs to be profitable, too long for some producers given the present diversity of their production and the fashion emphasis in much of their output. Shoe production can be scheduled and run by linear programming techniques and with extensive use of computers. But mass production, automated processes have limited potentials so long as the product mix remains as it is today, nor can such advances reasonably be expected to be employed by many of the small firms still producing shoes.

On the other hand, the industry's past efforts to standardize shoes and their component parts or to simplify size-and-width combinations have made little visible progress. While Americans are satisfied with standardized, limited ranges of choices among other products, the footwear industry holds that it must continue to satisfy both retailers and final consumers with what has been, in effect, a steadily expanding diversity of products. Others believe that the American consumer can be satisfied with something less than what is presently offered.

Another point of view is that there is still much to be developed in both machinery and materials technology which would reduce the present labor content of a pair of shoes. While complex machinery is used today, little automation has been introduced and many, separate operations are still essentially handwork. The Task Force could make no judgment here, other than the obvious one that unless a major effort is made the industry will find it difficult to compete at home, let alone abroad.

The Future of Small Shoe Producers

Given the recent changes in both the structure of the manufacturing end of the industry and in its distribution and retailing channels, the future of the many hundred small firms, especially those with less than 100 employees or so, may be a matter of concern -- irregardless of foreign competition. Many small firms, of course, survive because of their close relations with larger units and play a valuable role in providing the flexibility and smaller runs the larger unit needs. For the others, the increasingly severe competition from larger, integrated units and retail chains may well portend eventual elimination or consolidation under any circumstances.

Close relations with, or better, control of final market outlets has become a key to success in footwear. Except through branding or highly specialized production, the small firm can seldom aspire to independence and self-determination. Operating as a brand-name, "in-stock" house selling to larger units or specializing in lines not made by larger firms (or foreign suppliers) or in staple lines with steady, small markets not large enough for attention from larger competitors are the basic possibilities left to the small firm. More risky is the traditional alternative of seeking to anticipate style changes and to "lead the pack." Even then, close control over costs and aggressive, alert management with adequate financial resources are essential.

The larger firms, in turn, often have both close connections with the consumer and the greater diversification possibilities. Further, as do other larger companies, they usually have the greater access to technical, financial and managerial resources, the ability to promote and to market, and to carry and spread the expense of research and development through the range of their business activities. They can also pick and choose between and play one smaller supplier against another.

This is not to say, however, that there is no future role for smaller footwear producers. While most of those who have recently closed have, indeed, been small, and typically did not have their own retail outlets and made unbranded, "make-up" shoes, there are also a substantial number of recent success stories. Other relatively small firms have grown rapidly, are unable to supply all orders, employ the latest machinery and methods, are alert to consumer preferences and respond quickly to changes at retail, and generally exhibit greater flexibility and control than is possible in a larger operation.

Long Term Prospects

Shoe manufacturing will probably remain a relatively labor-intensive industry because of the importance of style, the variety of product, the variety of materials, and the vagaries of demand. It need not, and from a competitive point of view, cannot remain as labor-intensive as it now is, however. With surplus labor in rural areas shrinking, and a problem of inter-industry labor competition in the cities, the shoe industry cannot hope to avoid a steady rise in its wages relative to manufacturing in general. Even if foreign wages increase faster than American wages, the difference in present wage levels is so great that the difference in labor cost per pair of shoes could well increase in absolute amounts, e.g., in cents per pair of shoes.

Over the long term, the domestic industry will have to find ways of offsetting the labor cost handicap by accelerating its adoption of the most efficient materials,methods of manufacturing, and marketing. The most dramatic possibilities appear to lie in development of new synthetics to substitute for leather, of injection-molding and similar mass production techniques, and of improved inventory and production management. Of course, these techniques are also available to foreign competitors, but the incentives and potentials for their most effective application should be greater in the U.S. than elsewhere.

The U.S. footwear industry, however, does not appear to have committed itself fully to the greatest possible adoption or development of all possible new techniques. The advent of computers, the development of systems analysis, conveyorization research, developments in the machinery and chemical industries, and related efforts will make available to the large and medium size shoe producer the means needed to do the job. The growing size and sophistication of the distribution system will further encourage these changes.

Short Term Prospects

Over the next several years the relatively large firms, which now control half of the market, will probably continue to increase their share of the market. The very large number of small firms will continue to decline, as it has in the past, and the average size will tend to grow somewhat. The changes will not be dramatic but should involve an upgrading in the quality of management through an accelerated weeding out of the less effective entrepreneurs by acquisition, consolidation of inefficient operations, business failures, and retirement.

The largest firms have embarked upon a vigorous program of diversification into related apparel and retail operations. They have also moved into foreign shoe operations. The medium sized shoe manufacturers may increase the breadth of their product lines within the industry. These trends, however, should not bring any dramatic change in the relative position of the shoe industry or in the character of the relatively healthy core of the industry.

Only time will tell how many of the 500 very small firms, producing less than 1 million pairs each, will be absorbed or eliminated because their managerial resources are inadequate or can be better used in other economic activities. Many of them could survive. They can lease modern machinery and work in close cooperation with large retail chains to adapt to modern styles and to provide outlets for their production. Many of them, if they remain efficient, can continue to supply specialized lines giving good value in shoes for which there will always be a steady market. Others will adapt to the new lines, but this will be highly competitive and risky for the very small producers because of both import competition and the vagaries of the style market.

The negative aspects of the shoe industry should not be exaggerated however. Most U.S. producers appear to have adapted to the more rapid changes in style, color, type, materials and design, and to a very large increase in imports. The initial successes of imports is not surprising since much of the U.S. industry was probably unprepared for rapid change. Considering its long history of relative freedom from imports, of modest styling changes, of only piecemeal improvements in technology, the industry was not prepared for a sudden increase in competition.

The Immediate Prospect

The problem of the shoe industry today is a major problem in certain communities heavily dependent upon it and where failures have occurred, where plants have been shifted elsewhere, or where imports have offered strong competition to the types of shoes formerly made there. On the other hand, it nationally is a relatively small problem in terms of adverse impact on an entire industry, upon employment, or upon the national well-being.

Given the information available to the Task Force, no case appears sustainable that the entire industry has been so adversely affected or is so threatened as to require extraordinary measures. The specific areas and individuals who have been affected do require attention and assistance. Other areas and other individuals in firms still in business may well be threatened unless efforts are begun now to improve their competitive abilities. But the problems that loom ahead of them are not solely due to imports and the solutions must be found in a variety of directions.

Chapter I

THE CASE FOR PROTECTION

The case made by the nonrubber footwear industry for greater protection rests essentially on five propositions:1/

1. Imported footwear is alleged to have a pervasive price advantage over domestic footwear due primarily to lower foreign wage costs. There appears to be no possible action short of government control of imports which, in its judgment, would enable the industry to offset this handicap.

2. Foreign footwear is already well established in the U.S. market. Moreover, imports have been rising faster than domestic production. U.S. ourput actually turned down in 1969. The high growth rate in and of itself has disrupted the U.S. market. There are reasons, moreover, to believe the recent rate of increasing import penetration will continue. If this is long maintained, imports could eventually account for the bulk of U.S. footwear consumption, it is alleged.

1/ The nonrubber footwear industry for purposes of this report includes producers of dress, casual, work and athletic shoes, as well as sandals, slippers, slipper socks, mocassins, and boots made primarily from leather or plastics. It excludes protective footwear, footwear having fiber uppers and rubber or vinyl soles, knitted footwear, and thonged sandals of rubber or plastic known as zories. Producers of the products included will be referred to in this report as the "footwear" or "shoe" industry for purposes of simplification. Its data will refer to their activities except where, as in the case of financial data, other activities such as retailing cannot always be segregated. In other cases, such as unemployment statistics, data are not available for "footwear" only as defined here, and the next higher aggregate will be cited, e.g., the "leather products" industry, about two-thirds of which consists of footwear.

3. The U.S. footwear industry is a highly competitive one, with many small, vulnerable firms and a generally low rate of profitability. Overall, it alleges that it is not in a sufficiently strong position to take the measures necessary to adjust to import competition of the magnitude now being experienced.

4. Moreover, the industry asserts that its possibilities for adjustment are limited. The heterogeneous nature of its many products, the vagaries of consumer preferences, and the innate problems of working with leather limit possibilities for further mechanization, or for achieving the greater economies of larger scale. While productivity is higher here than abroad, possibly 25% to 35% greater, since labor costs can range between 25% and possibly as much as 40% of production costs, U.S. firms do not believe they can offset the present cost disadvantage.

5. Given the present import penetration and likely future trends, industry spokesmen assert that shoe producers cannot be expected to continue to invest in new or improved facilities or make other efforts to meet foreign competition. The consequences, they believe, will be further plant closings with adverse effects on many small towns, further loss of jobs and failure to create new jobs suitable for unskilled workers, and a shift of new investment in manufacturing facilities to foreign sites.

The Factual Case

The facts and arguments which have been offered in support of these broad contentions will be treated in detail in this report. By way of introduction the industry's factual case in support of the general propositions can be summarized briefly as follows:

...Total imports of all types of footwear now account for 26% of U.S. consumption in terms of total pairs and 13% in terms of value. In pairs, total imports grew 31% in 1967, 36% in 1968, and about 12% in 1969. In terms of pairs, imports in recent years have captured virtually all the growth in U.S. footwear consumption.

...Some 25,000-30,000 persons have lost their jobs in this industry in the last year or so, it is alleged, while the recent increase in imports has meant the loss of 74,000 jobs or job opportunities that otherwise would have been created.

...One-third of shoe producers typically earn no profit. While the retail-oriented firms are doing well, a representative group of small and medium sized firms typically earns only 2% to 3% on sales, according to an industry compilation.

...While its case demonstrating an adverse impact from imports is usually presented in terms of total production and total import volumes, the industry does not believe any, more precise examination -- by types of shoes produced and imported or by price or value brackets -- could alter the nature and scope of the problem. A vinyl shoe or sandal, it implies, is inherently a substitute for a leather shoe, and a $3 imported pair can affect the producer of a $6 domestic pair, it maintains.

...The recent record of shoe factory closings is alleged to be proof of adverse impact from imports. Although conceding that more than 500 firms have gone out of business over the past decade, the industry claims that the plants closings in 1969 are evidence of the growing serious import impact -- and represent the beginning of a trend of demonstrable injury to both firms and workers.

...Further plant closings will create a grave social problem. The industry now provides job opportunities for unskilled workers. With better prospects for future growth, it would constitute one of the more promising areas for creating jobs for the unskilled in the future.

In summary, the case for further protection from imports is based primarily upon a forecast of rapidly increasing competition. This competition began to affect employment in 1969, and began, as well, to influence investment and other management decisions. Other than citing the fact of the closing of certain plants in 1969, allegedly because of imports, no further, more specific details of actual injury are cited. Emphasis is also given to declining profits in 1969, though it is conceded that the comparison is with 1968 -- a banner year for most of the industry.

Plan of Analysis

The case as outlined above is the subject of this report. Overall, its purpose will be to examine the problems created by imports -- in terms of impact and possible injury or threat of injury to firms, workers, and on the communities heavily dependent upon the footwear industry. Its analysis will begin with a brief review of current trends. Following will be an analysis of the dynamic factors, both domestic and foreign, which are and will be creating change and adjustment in this industry. The report will then examine the industry and its firms in terms of structure, geographic distribution, investment, turnover of firms, and profits and related data.

A separate chapter will be devoted to one of the major factors creating change and adjustment for footwear producers -- the new patterns and environment in the distribution, marketing, and retailing of footwear. Next will come an analysis of the labor force producing shoes, its characteristics, earnings, productivity, and prospects.

The impact of imports will be examined to the extent available data permit, followed by an analysis of price trends in this industry and the interests of the consumer. The record of factory closings in 1969 is the subject of a separate chapter.

One conclusion reached early in the work of the Task Force should be stated in advance of the analytical portions of its report. It soon became apparent that what was being studied was not one industry but a whole series of industries, with some elements in common but with many essential differences. Footwear products range widely in terms of sex and age of user, style, size and width, materials used, price ranges and brand names, as well as by type of production process and techniques of manufacture, method of distribution and selling, financing, and a variety of other relevant factors.

Since the Task Force was assigned the job of examining the entire range of this industry's condition and experience, and since time and resources did not permit an exhaustive examination of every separate segment, it proved to be difficult to arrive at generalizations valid in all circumstances. This report deals, in fact, with many highly differentiated products and producer situations for which broad generalizations are not always possible.

There are in effect many segments, combinations, and possible permutations of manufacturing and marketing strategies in this industry. At any one point in time, under these circumstances, parts of the footwear complex may be doing well while others may be in difficulty. These roles, moreover, can quickly be reversed due to rapid shifts in consumer demand, style creation or other factors.1/

1/ A further compilation which might also be noted in advance is that the categories used for compiling most footwear data are seldom satisfactory for purposes of a report such as this. Production and import statistics are seldom entirely comparable and both intermingle the different types of shoes which for analytical purposes should be separately distinguished, e.g., dress shoes from casuals.

Chapter II

WHAT'S HAPPENING IN FOOTWEAR

In overall statistical terms, the assertion of accelerating and broadening import penetration in the U.S. market as made by the footwear industry is accurate. Since 1963 imports have increased from 10 percent (pairage) of new supply and 4 percent (value) to 26 percent (pairage) and 13 percent (value) in 1969. Over the same period, the absolute volume of imports rose by 135 million pairs, valued at $345 million. Both the rate of increase and the absolute amount rose more rapidly in 1968, but, with a small decline of the domestic market in 1969, tapered off to rates of increase of 12 percent (pairage) and 31 percent (value), and to an absolute increase of 21 million pairs (Tables 1 and 2).

Domestic production over this same period rose from 604 million pairs in 1963 to 642 million in 1968. It declined to 581 million in 1969, a 10 percent decline compared to the 7 percent increase of 1968. Consumption last year declined sharply from its 821 million pairs of 1968, to 781 million pairs, with the decline wholly reflected in domestic production -- largely in women's and misses' shoes, and much less in men's and boys' and children's and infants'. Imports last year continued to increase, though the 12 percent increase over 1968 represented a considerably diminished growth rate. In value terms, domestic shipments in 1969 totalled $2.9 billion, while imports were $436 million (Table 3).

The 16 percent decline in U.S. production of women's and misses' shoes in 1969 is attributed both to the poor acceptance of the styles offered that year, and, from the point of view of current production, to some carryover of inventory from 1968. The effect of this easing on the industry as a whole was offset in part by sustained demand for men's and boys' shoes. However, since, as will be seen later, many small firms specialize only in women's shoes, the impact varied widely within the overall industry (Table 4).

Viewed over the longer terms, domestic production increased fairly steadily during the earlier years of the past decade, faltering only in 1967 when rapid and wide acceptance of a new style in women's and misses' shoes, among other factors, caused expensive retooling and production delays. The wide acceptance of these dramatic new styles led to a substantial increase in production in 1968. By contrast, the styles introduced in 1969 failed to achieve any comparable success, and inventory losses had to be taken on 1968 lines as well.

Since women's and misses' shoes typically account for half or better of total domestic production, these wide swings in style acceptance were necessarily translated into substantial effects on factory output. The 1969 buyers' market affected, in particular, makers of women's shoes and, within this group, particularly those small manufacturers dependent upon contracts with a few distributors or deeply committed to the previous year's or even earlier styles.

The role of imports has increased steadily in recent years. Before the mid-1950's they were negligible. By the early 1960's, however, they had increased to about 9 percent (pairage) of consumption. Since, then, the rate of increase has steadily exceeded that of domestic production. Hence, import penetration of the domestic market has risen regularly. Import growth accelerated beginning with 1966. The average annual rate of increase in the period 1966-1968 was 35 percent (pairage), compared to a growth rate of 6 percent for 1965-1966. Exports of nonrubber footwear have been insignificant, averaging about 2 million pairs in recent years. As a result there has traditionally been a substantial and increasing trade deficit in this industry.

Three countries supply about 75 percent of U.S. imports of nonrubber footwear in both value and number of pairs. In 1969 60 million pairs valued at $196 million were imported from Italy, 21 million pairs valued at about $73 million came from Spain, and 63 million pairs valued at about $55 million were supplied by Japan. Imports from Italy and Spain were predominately of leather with an average foreign unit value of $3.23 and $3.55 respectively whereas those from Japan were of vinyl with an average foreign unit value of $.87. Eight other countries export more than $5 million of nonrubber footwear to the United States, including the United Kingdom, Canada, France, Switzerland, Mexico, Czechoslovakia, Taiwan, and West Germany. Table 40 shows the rates of duty applicable to each type of footwear imported.

These summary figures are, of course, entirely in terms of aggregate consumption, production and imports. They tell little of the type of shoes imported or the consequences for competitive, domestic production, geographic impact, or of any dynamic changes involving style, foreign sources, pricing and price brackets, or other significant elements of competition. These aggregates are noted here in order to set the stage. Their details will be examined later.

Chapter III

CHANGING NATURE OF THE BUSINESS

While the recent import penetration of the U.S. footwear market has been dramatic in both magnitude and scope, it has been but one of a series of fundamental changes which has recently affected this industry. The nature and extent of these changes have, in turn, altered traditional methods of doing business, changed traditional business relationships, brought hardships while creating new opportunities, and introduced basic new factors affecting the demand, the supply, and the distribution of shoes -- all quite apart from the impact of foreign competition. An understanding of the competitive problems and the future of this industry requires attention to the nature of these changes as well.

Long before imports posed a problem, nonrubber footwear found itself competing for a declining share of the total U.S. domestic footwear market. In the decade between the mid-1950's and the mid-1960's, demand for canvas-rubber types of footwear virtually exploded. Domestic production tripled while imports rose even more dramatically.

Both domestic and imported canvas-rubber footwear were typically priced at brackets below the customary levels for most nonrubber footwear then available. Later on, as prices for canvas-rubber footwear rose rather sharply, the market for still lower priced nonrubber types of footcovering became more attractive. Newer types and styles were developed both here and abroad to compete, in the first instance, with canvas, but indirectly also with traditional types of leather shoes (Tables 5 and 6).

This change was paralleled by a pervasive new trend toward more casual living. The traditional wardrobe of dress, protective, and work shoes was steadily enlarged to include specialized shoes more suitable for outdoor living, leisure time activities, and for more informality. Rising consumer incomes made possible new demands for a wide variety of additional types of footwear.

With this enlargement in the types of shoes wanted and produced for American consumers came a further expansion in the available price ranges and greater price competition from and between the many, newly available types of footwear -- at first at the low-price end of the range, later extending into other price brackets. Concurrently, with a rising U.S. cost-price structure, moreover, new opportunities also opened up for imported footwear, first in the canvas-rubber lines, then in women's and misses' nonrubber footwear, and, more recently, in other areas.

The Style Revolution

Changing availabilities and changing consumer preferences for footwear, enhanced by rising incomes, also culminated in a new era of greater emphasis upon fashion and styling. Styles began to undergo, by previous standards, fairly revolutionary and often rapid changes, first in women's shoes but later extending to other categories, all quite apart from trends toward more specialized footwear noted above. A pronounced fashion cycle developed, with new "lines" being introduced regularly. Today, many firms introduce new "lines" as frequently as four and five times a year.

One important result has been an increase in demand and the purchase of more shoes per person. Consumption of women's and misses' shoes rose in particular. Some trade estimates indicate, for example, that if fashion were no longer a consideration in consumer buying, total U.S. consumption might be little more than half its present level. The divergent acceptance between the styles introduced in 1968 and those of 1969, testify to the force of this proposition.

Another consequence has been the greater risk typically associated with style merchandising. Decisions on which styles to introduce, on the amount of production and inventory of each, and on promotional efforts have become more crucial than when standard models were produced and carried relatively unchanged from year to year. Another consequence has been reduction in length of production runs, and more frequent model, pattern, die, and last changes, with resulting higher costs of production. A premium has developed for manufacturers with flexibility, ability to develop new products, and to anticipate and follow consumer tastes closely. Long production runs of standard models have declined in significance.

Changes in Distribution

During recent years, a parallel revolution has also occurred in the distribution and marketing of footwear. Shoes have become standard items in discount houses, drug-stores, supermarkets, and, increasingly, are channelled to the consumer through chain store outlets of various types instead of through independent stores primarily engaged in selling footwear. Greater promotional activity and a new emphasis upon marketing and merchandising abilities have developed. Withal, the larger firms with the financial and other resources enabling them to adjust and to weather periods of fundamental change have been in a better position to capitalize on the trends. The significance of these basic developments in distribution will be discussed in detail in Chapter V.

Other fundamental changes were taking place in materials used in footwear. Following the earlier rapid acceptance of canvas-rubber combinations came the development of vinyl and vinyl-supported footwear, poromerics, and other materials. With the use of new materials necessarily came certain changes in production processes and techniques, and in types of shoe construction. Footwear (excluding canvas-rubber types) made of other than leather rose from 20% of total domestic production in 1965 to about 30% in 1969. The use of leather soles, in particular, declined.

Changes in the Industry

The structure of the industry itself was also being transformed. The need to develop larger and more efficient units capable of product development and promotion, and of sharing or reducing inventory and other costs, led to both merger and acquisition of producing units and to abandonment of the less efficient establishments. It led dramatically, too, to both forward and backward vertical integration movements, combining manufacture and distribution within the same corporate shell. More will be said of this development and its implications in Chapter IV.

In response both to demographic and marketing changes, as well as to labor availabilities, the geographic pattern of footwear manufacture was also changing -- away from the traditional areas toward both major market areas and to new areas with a potential labor supply, often available at lower wage rates. (Table 7).

These changes, of course, were not taking place in a vacuum. The American manufacturing economy was rapidly becoming automated and mechanized. Productivity was rising, new labor skills were being developed, and wages and real earnings were rising. The footwear industry, with its traditionally lower level of mechanization and relatively simpler technology, began to meet intense competition from higher wage industries in an expanding, full employment economy.

Finally, as the decade of the 1960's closed under stringent credit conditions and rising interest rates, an industry such as footwear which traditionally existed on relatively little capital, relying heavily upon finance from its banks, customers, and suppliers, necessarily encountered new difficulties in doing business. The under-capitalized footwear manufacturer, heavily dependent on credit, came under new pressures.

The result of these forces has been rapid change in many parts of the footwear industry -- in new corporate organizations, new types of products and methods of producing, new affiliations with former customers and distributors, and a new era of growth. Not all participated in the transformation, however. Some continued to follow traditional business methods and policies or were otherwise unable to adjust. For them the past decade has meant a more precarious existence in an industry that always, at the margin, was a precarious way of life. Overall, this broad series of changes brought a widening disparity between the large and small firms and a period of rapid, often fundamental re-adjustment and challenge.

Chapter IV

THE INDUSTRY

The nonrubber footwear industry is composed of some 750 companies operating about 1,100 separate establishments in 38 states. Since the mid-1950's the number of plants has declined by about 20 percent, a steady trend long underway before import competition became a factor to consider.

While nearly all of the recent decline in establishments is accounted for by those employing fewer than 250 workers, the industry still includes a substantial number of relatively small units. More than one-fifth of all shoe producing establishments, for example, employ fewer than 20 people, while more than two-fifths have less than 100 workers each. At the other end of the scale, the four largest firms produce a fourth of all shoes; 8 firms account for over a third of domestic output, and 50 account for more than one half (Tables 8 and 9).

The large number of small firms, often very small, and the industry's traditionally high turnover rate result, in large part, from its relatively unique characteristics. Very wide-spread -- and once obligatory -- leasing of necessary machinery has tended to put the small firm on a par with the larger operation and permitted easy entry with a minimum of capital. Small units traditionally also operated in rented premises, engaged in little or no advertising, promotion, or product research or development activities, and depended upon commission salesmen for sales efforts. A large proportion do not make their own, branded line of shoes but manufacture for others who affix their own brands.

The location of the industry in 38 states would appear to represent wide geographic dispersion. Traditionally, however, the industry has been heavily concentrated in New England, with a large representation also in the Middle Atlantic and North Central states. Massachusetts, Maine, New York, Pennsylvania, and Missouri rank as the major producing areas with more than 50 million pairs each (Table 10).

Since 1958 there has been a gradual shift away from the more traditional, higher wage areas, partly to the neighboring states, such as Maine and New Hampshire, but significantly also to the South and West, particularly to Missouri, Tennessee, and Arkansas. Within the overall shift, moreover, there has also been a steady relocation within major producing states, away from the larger, higher-wage, more competitive labor markets of the cities to the less populated, lower-wage rural communities. About 40 percent of shoe production now originates in communities with populations of 25,000 or less, some of which are adjacent to or part of larger, metropolitan areas, but many of which are essentially rural communities in which shoe employment can be a major source of income.

Typical Business Patterns

Beyond such summary statistics as these it is difficult to characterize the industry in any relatively brief terms. The range and nature of company and establishment activity is very large. Product and other characteristics stretch across a wide spectrum of combinations and possibilities. With highly differentiated products, varying between sex and age of user, as well as equally wide variations in style, price, distribution methods, production methods, and other variables, firms can be found to fill almost any possible description.

Many firms specialize in certain lines, price ranges, or types of footwear, while others have a broader range of activities, and still others follow no consistent pattern but seek evolving or spot opportunities. Thus, the possible competitive groupings within the domestic industry are numerous, can be constantly changing, and often involve combinations of firms of all sizes. The production and marketing strategies are innumerable and, if the firm is to maintain its position, usually in flux.

Very roughly speaking, certain general categories of shoe producers can be distinguished. The very largest firms produce and distribute nationally advertised brands, using independent retailers, leased departments, owned chain outlets, or selling to other chain outlets. Some are highly diversified outside of footwear, while others are predominately shoe manufacturers. For some, the retail end of the process is of greater importance. Some manufacture abroad and some are major importers.

A second general category consists of medium sized firms. This group is probably somewhat less diversified, and more dependent upon the actual manufacture of footwear. Its companies also frequently produce nationally advertised lines and depend upon a variety of distribution channels for final sales. Not all, however, maintain national brands or promote their own lines. Some produce unbranded lines for sale to both independent and chain outlets under other brand names, manufacturing often only on the basis of orders or contracts and not carrying inventories. Some both "make-up" for others and produce their own "in-stock" brands. Many in this category also depend on foreign suppliers for certain lines of shoes.

A very sizable segment of the industry further specializes in shoes for the highly competitive chain store market, often devoting most or even all resources to a single or several large accounts. By its nature, this tends to be a highly competitive category of business wherein changes in style, merchandizing, or other policies of an important buyer can cause abrupt loss of a major portion of the producing firm's sales.

A further, overlapping group which can be distinguished is the group of small firms, many very small, which concentrate on novelty and current fashion items, primarily women's wear. Until recently, at least, men's footwear tended to involve the more staple lines generally produced in larger volumes than is usually possible in most small plants.

Firms in the novelty and fashion business are, by definition, more heavily dependent upon the vagaries of taste and style, and more so if, as is typical for many, the product is unbranded and done on what amounts to consignment for a single or a few distributors. Such firms, further, tend by the scale of their operations to produce limited lines in narrow price ranges and to have neither advertising, promotion, nor retailing activities. It would appear that many of the recently closed plants have been in this group, a subject discussed in detail later in Chapter IX. A final group concentrates on specialty lines such as work shoes, various types of athletic shoes, or certain leisure footwear.

Traditionally, the small-firm end of the industry supplied either wholesalers or independent stores. Orders and re-orders were based on close business associations of long standing, and on established reputations for quality and service. With the declining role of the independent wholesaler, and by the same token the independent retailer, such firms were faced with adjustment or abandonment of operations.

Other Aspects of Competition Between Domestic Firms

Most producers compete directly with a number of other firms producing similar shoes in the same price brackets, and indirectly with shoes in adjacent price brackets. Those producing primarily for chain distribution tend to take a price bracket as given and try to manufacture a product competitive in quality and appearance with other shoes offered in that price bracket. The price bracket and type of shoe are chosen according to ability to concentrate there on a competitive basis. Within certain limits, production can be shifted between alternate styles and prices. Producers of branded merchandise, on the other hand, can either follow this general practice or seek to protect or expand markets through style changes, producing for higher price brackets, through greater advertising and promotional activity, or through expanding operations to include owned retail outlets.

The existence of larger, multiplant firms with owned-retail outlets does not necessarily, however, create "captive" plants sheltered from competition. The larger, integrated firms often buy from each other as well as from smaller firms, affixing their own brand names before retailing. The small firms selling most of their output to these or other large retailers necessarily compete intensely for such business. To the extent that brand loyalty influences final consumer demand for footwear, the producer of an unbranded line is clearly dependent for his sales upon forces beyond his control, e.g., the promotional and merchandizing efforts of the eventual brander and seller of his shoe.

Investment in Footwear

While the number of footwear firms has declined over the last two decades, productive capacity overall does not appear to have appreciably changed. Moreover, while plants have steadily been shut down in some areas, new ones have been established or expanded in others.[1] Under the traditional practice of leasing machinery, moreover, capacity is readily alterable and relatively flexible.

The circumstances attendant upon footwear investment, however, make it difficult to appraise the record of performance in the past or to gain many useful insights for the future. Much too, depends upon types of products and manufacturing processes involved, since investment needs necessarily vary according to the choices made. Greater stress upon vulcanized or injection-molded footwear, for example, necessarily requires heavier capital requirements.

While qualitative judgments and inter-industry comparisons of footwear with other types of manufacturing can be imperfect at best, certain facts can be ascertained. Capital expenditures by footwear producers have trended steadily upward, rising from $19.6 million in 1963 to $24.3 million in 1967. The performance, however, falls far short on almost any relative basis in comparison to that of most other manufacturing industries (Table 12).

Capital outlays by footwear firms in 1967 were actually among the lowest proportionally among all major U.S. industries. In footwear they were equivalent to only 1.5 percent of value added in manufacturing, whereas the comparable ratio for all manufacturing industries on the average was 7.8 percent.

1/ A substantial portion of new investment by U.S. firms of late has gone into new facilities in Puerto Rico. Some 43 establishments there are operated by U.S. firms and about $50 million of shipments are sent back to the U.S. market. In this report activities in Puerto Rico are excluded from the analysis and neither production there nor imports from there are covered in the data. For further details, see Table 11.

An alternative computation of relative effort -- expenditures per production worker -- shows much the same, below-average performance. New capital outlays per production worker by shoe firms were only $100 in 1967; the national average was $1,400.[2/] Outlays, moreover, are primarily accounted for by the large firms; the 16 largest in 1967 spent nearly half the industry total.

There is little evidence that expenditures on research and development have received any emphasis in the shoe industry. The tradition has long been for new machinery or other developments to originate in supplying industries, and, later as synthetic materials came into use, also in the chemical industry.

The large public corporations are known to do research, but not all necessarily in the development of newer processes or techniques for shoe manufacture. The smaller firms have traditionally done little, and many clearly do nothing at all, relying instead upon retail buyers to develop new styles and depending upon prospective customers for any technical assistance necessary to fulfill major contracts.

Turnover in the Industry

As noted, some of the fundamental characteristics of shoe operations have led to a long record of high rates of turnover of both firms and plants. With entry possible with relative little resources, and being subject to cycles in consumer preferences and buying habits, marginal firms have always existed in quantity. Not surprisingly, mortality has also been high.

2/ Some industry spokesmen would dispute any conclusion that their investment performance overall is below average. They point out that allowance should be taken of the facts that some shoe plants are financed locally by public authorities, or that patterns, dies, and lasts are expensed, not capitalized. Along with machinery leasing, these practices tend to reduce any measure of relative capital effort.

Like other forms of apparel, sales of the industry's products fluctuate with disposable income, styles, and even fads. Quick entry is possible in order to capitalize on a certain fashionable item or line. The high dependence upon distributors by many smaller firms accentuates their vulnerability, since success can be dependent upon factors beyond a manufacturer's control.

It is difficult consequently, to appraise the meaning of the recent record of closings which has been pointed to by some industry spokesmen as clear evidence of the adverse impact of imports. Company failures, as compiled regularly by Dun & Bradstreet, actually show a secular deceleration since the mid-1950's and, in the first 10 months of 1969 an even lower rate than in the immediately preceding years (Table 13).

The recent failure rate, however, does not appear to have been offset, as it frequently was in part in the past, by new businesses starting up. Whether the lack of this offset was due to import penetration, sagging demand in 1969 for footwear, or to the tight money conditions prevailing throughout last year remains an open question.

No data on plant closings, as distinguished from company failures, are available over any period of time. As noted, however, it is clear that a trend toward fewer separate establishments has been underway for several decades. Specific cases of recent plant closings have been cited by the industry as evidence of adverse import impact and will be discussed in Chapter IX.

<u>Profitability in Footwear</u>

A further major industry allegation is that its profit performance for years has been poor. As a consequence, spokesmen have claimed it is now unable to withstand the rising pressure of import competition. The Task Force, considering this to be one of the key points for investigation, undertook several separate lines of inquiry. It examined all publicly available data, including a profits survey recently compiled by the Tariff Commission. It also undertook a comprehensive inquiry into income tax return data compiled by the Internal Revenue Service.

The most readily available of public data -- the annual reports of public corporations, investment advisory compilations, and the regular corporate profits reports of the SEC-FTC -- uniformly record the same picture. The companies covered by these sources had steadily rising profits, absolutely and relative to both sales and equity, through 1968. In keeping with less exuberant sales in 1969, profits were either reasonably well maintained by some or, in other cases, declined depending on the divergent company experiences that year. Profits of manufacturers of women's footwear tended to decline more, consistent with the style problems encountered last year.

Leather and leather products profits have also compared well with the average experience of other manufacturing industries according to the SEC-FTC.3/ The return on sales, in line with the traditionally lower sales-dollar yield of soft goods with typically higher turnovers, or of retail operations in general, at 3.3 percent in 1968 was below the 5.3 percent for all nondurable goods, but above the comparable figures, for example, for textile mill products or apparel. The more significant ratio of earnings to net worth of 13 percent for leather and leather products compared with the return for all nondurable goods in 1968 of 11.9 percent, a textile mill ratio of 8.8 percent, and an apparel return of 12.9 percent. In keeping with general experience in 1969, however, all these ratios declined (Table 14). The decline in footwear in 1969 was relatively more severe, the return on sales dropping to 2.6 percent and on net worth to 9.3 percent. The returns for nondurable goods, by comparison, respectively decreased to 5 percent on sales and 11.5 percent on sales.

3/ It should be noted that the published SEC-FTC data are not available for only footwear producers; rather they cover the leather and leather products industry, two-thirds of which is accounted for by footwear. The extent to which the profits record of leather producers other than of footwear differ from those of footwear only is not known.

There are several defects in the usual type of public data on profits in footwear. They tend to be heavily weighted with the performance of the larger firms, firms often diversified into other interests and particularly, in the case of the vertically integrated operation, reflecting profits on distribution as well as production.

A case can be made that fundamental changes are occurring in this industry and that it will increasingly be, like some other industries, more vertically integrated. Moreover, it is probable that for tax purposes the focus of profits in a vertically integrated operation with multiple corporate entities is frequently at retail. Thus the argument can be sustained that the profits of integrated operations are relevant even though in many cases they also include profits made on distributing imported shoes as well. Nevertheless, the responsible approach for the Task Force seemed to be to explore further and, to the extent possible, examine the performance of firms primarily engaged in shoe manufacturing.

A further major defect of the generally available data is its typical lack of adequate coverage of the smaller shoe firms. Another is that the usual measures of profit performance fail to take into consideration the customary small business practice of taking out the bulk of, if not all, available earnings, in the form of proprietor salaries. To remedy this, adjustments were made where possible to include such payments as profits and compute investment returns on a composite basis.

Tariff Commission Evidence

In its Section 332 investigation of the industry, completed in early 1969, the Tariff Commission undertook to compile prime new data on profits. It assembled a stratified random sample of producers, obtained confidential financial data from them, and arrayed the results in six classes according to volume of production. In this way, it obtained coverage of smaller firms unlikely to have diversified or retail operations. The sampling procedures employed by the Commission appeared on further investigation to be sound, and the extrapolations from the sample were consistent with the universe of the entire industry.

The Commission's results also indicated both growing and reasonably adequate profits in recent years in footwear manufacturing. It found that net operating profits nearly doubled between 1963 and 1967, the last year covered by its investigation, and that the ratio of net operating profits to sales increased by 35 percent -- from nearly 5 percent in 1964 to 6.6 percent in 1967 (Table 15).

The Commission significantly also found that the improvement in profits was uniform throughout the range of different sizes of footwear firms -- each size group sharing in the overall improvement. The Commission also found, however, that the profit ratios for the larger companies were uniformly better than for the smaller firms and that the gap between them was fairly sizable. Companies producing less than 200,000 pairs, for example, had profits equivalent to 2.3 percent of sales in 1967, while companies producing 4 million or more pairs enjoyed a 7 percent return on sales.

Finally, the Commission found that a significant portion of footwear producers appeared to operate without profit. This conclusion is also borne out by income tax data which indicate that in 1967 32 percent of footwear corporations filing returns reported no net income. However, contrary to the allegation of some industry officials that this is a further manifestation of its weakness, the ratio is quite in line with typical experience. Nationwide, the comparable ratio in 1967 for all reporting corporations was 31 percent.

Income Tax Returns for Footwear

The Task Force undertook a further examination of the financial data on footwear operations compiled from income tax returns by the Internal Revenue Service (IRS). The examination here covered a longer period -- 1959 through 1967 -- and was based on a sample drawn by the IRS. This sample was also stratified by size categories, in this case, according to assets. The sampling variability, however appeared to be somewhat greater than in the case of the Tariff Commission's sample and, therefore, less informative on varying results by different size categories.

The IRS data confirmed that shoe profitability rose during most of the 1960's and compared favorably with the return on equity in other manufacturing. They also indicated, moreover, that it was actually higher at the end of the preceding decade than manufacturing generally, but declined early in the decade. By 1963 footwear profits began rising again. By 1966 the return on investment for footwear had reached 15.3 percent, while the average for all manufacturing stood at 18.8 percent. In 1967, the last year for which IRS data are available, and in which, it should be recalled, production fell back moderately, the return slipped to 15.2 percent.

Including Officers Compensation

The return on investment rises sharply in footwear when account is taken of compensation paid to officers. In 1961, for example, the composite rate of return of both profits and compensation for footwear was 18 percent, as compared with 16.4 percent in all manufacturing; by 1967 it was 19.2 percent, contrasting well with the 18 percent of all manufacturing (Table 16).

Inclusion of officers' compensation dramatically alters the profitability picture for the smaller firms. As Table 16 indicates, the smallest footwear producers as a group frequently report no net income or a deficit, but as a group the compensation paid to their officers consistently bears a very high ratio to equity -- in 1965 it attained 84 percent of equity.

Combining both net income and officers' compensation, the return on equity in footwear actually tended to be higher for the smaller and medium sized firms than for the larger footwear producers. Results such as these reflect both the smaller company practice of taking out a large portion of operating profits in salaries and also, in the footwear industry, a frequent heavy reliance upon debt, particularly short-term financing, and frequent undercapitalization.

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Return of Combined Net Income and
Officers Compensation as Percent of Equity

Year	All Footwear Corporations	Assets under $100,000	Assets $100,000 to $500,000
1961	18.0%	58.1%	18.5%
1963	16.1	29.9	23.2
1964	17.1	77.6	26.7
1965	18.9	95.2	32.6
1966	19.9	49.7	29.5
1967	19.2	-1.5	21.5

Source: Treasury Department

When profitability of different size groups is contrasted, any disparities between footwear firms and other manufacturers are found to diminish with size. In the lowest grouping -- under $100,000 of total assets, footwear earnings were consistently less than the national average. At the other end of the scale, in each of the three largest asset size grouping, footwear corporations compared well with the earnings both at the beginning and the end of the period examined.

Income tax data also provided an insight on another area of concern -- the typically low proportion of equity employed in footwear production. Comparison of equity-to-total assets ratios reveals substantial improvement among the smaller size corporations over the period covered, apparently reflecting the disappearance of many of the weaker companies. On the other hand, the same ratios for the larger companies declined, reflecting their growth, diversification, and resulting enhanced access to credit markets. Their levels were in line with the average of all manufacturing. These data strongly suggest that by the end of the period examined footwear firms in general were not as financially vulnerable as they had been a decade earlier.4/

4/ The above analysis of tax returns necessarily covers only incorporated footwear enterprises. Proprietor and partnership data are not reflected in tax returns. In 1963, when there were 920 firms known to produce footwear, 199 of these were unincorporated. They accounted, however, for a very small portion of the industry -- only 1 percent of employment and of total sales.

Studies such as these, of course, fall short of providing insights into current experience, a shortcoming particularly obvious in view of trends in 1969 (it seems reasonable to assume that the banner year enjoyed in 1968 presented few if any financial problems). For 1969 it is as yet possible to note only the public reports of the larger companies. The extent to which it can be presumed that they reflect experience of others cannot be known. The dollar sales of the 20 companies shown in Table 17 rose 7.5 percent in 1969, but their profits after tax declined 21 percent. Of the 20 firms, profits for ten were up in 1969, and ten were down. Tables 18 and 19 provide other recent financial data for the publicly-owned firms.

Chapter V

THE MARKETING SIDE

Footwear is sold in well over 110,000 retail outlets by some 80,000 different firms. Less than half of all sales in 1963 -- and today more than half -- was accounted for by retail chains. Many chains, in turn, were divisions or subsidiaries of firms which also manufacture footwear.

Since 1963 there can be little doubt that the distribution and marketing of footwear has altered drastically and become undoubtedly even more concentrated. These pervasive changes in footwear distribution and retailing -- which would inevitably influence the structure of any manufacturing industry -- are compounded of many elements.

The rapid development of media for economically reaching mass markets is one element. Another is the rapid rate of urbanization (and suburbanization) which has increased the density of the principal consumer markets. Working in the same direction have been the growing economies of scale in marketing and retailing generally. The growth of regional and national chains in such related areas as food, clothing, and in many consumer soft and hard goods lines alike is concrete evidence of this more general trend.

One consequence has been, clearly, the declining role and importance of the independent distributor and retailer (Table 20). Another is the increased hazards and uncertainties confronting the independent footwear manufacturer who seeks to sell to the independent retail market.

In footwear, as in other lines of consumer goods, the small or independent producer has come to face fewer and more powerful national distributors and, by the same token, more direct competition with other footwear producers -- many of whom are also potential suppliers to the same large distribution networks. Where once a successful small or medium sized shoe operator might logically aspire to moving from a solid production base into developing a secure, usually branded, distribution system for his output, today the outlets for his output are increasingly in the hands of often nationwide operators.

Recent changes in distribution and retailing involve still further consequences for independent shoe manufacturers. The older central city outlets were in large part independent stores with whom long associations had been maintained. The newer outlets, on the other hand, often are premium, volume sites for which the chains are better able to compete for space. The chains, in turn, are usually more attractive tenants to shopping-center and other lessors.

The greater financial resources of the chain outlet, together with aggressive merchandizing policies and often nationwide promotional efforts, are clearly assets to a shopping center complex. Much the same advantages accrue to the chain operator in obtaining leased departments in the larger retail stores.

Finally, it is virtually a truism that the economics of scale in advertising, sales promotion, distribution, inventory control, marketing research, and related areas -- essential elements in competitive success -- today require substantial volumes of production, usually larger volumes than are attainable in the typical small or even medium sized footwear operations.

A further type of producer-retailer relationship has developed which also places the smaller manufacturer at a disadvantage in obtaining markets for his product. In addition to having company-owned outlets, the larger producers now often operate their own retail development departments. The purpose is to "sponsor" independent retailers which, in turn, purchase a considerable portion of their requirements from the sponsoring company. The services offered range from site selection through construction, design, and fixtures to recommending operating and merchandising procedures.

Changes such as these can be documented by relatively few statistics. In the decade ending in 1968 sales by stores primarily engaged in retailing shoes rose 55 percent Footwear sales by department stores, on the other hand, including those with leased shoe departments, rose by more than 125 percent and sales by chain stores (defined as more than ten outlets) rose by 112 percent. Sales by firms composed of ten or fewer units, in contrast, increased by only 30 percent. In 1969, moreover, with its easing in overall sales tempo, while total footwear sales increased only 1.6 percent, sales by chains rose 4.5 percent over comparable 1968 levels (Table 21).

Other Retail Trends

Within the changing channels of footwear distribution are certain other notable trends. One involves the rapid development of so-called "scrambled merchandizing", the addition of non-conventional product lines in such outlets as supermarkets and drug stores. Footwear, for example, is one of the fastest growing, non-food items in supermarkets.

Another notable trend is that the fastest growing type of outlet in all of retailing today is the discount house, many of which now sell footwear. To obtain the volume and type of footwear required for their style of business, discounters have turned to imports to supplement supplies from domestic sources. They often also lease out their shoe departments to shoe chain-store operators.

A final, obvious development already noted which has significant implications is the rapidly rising role of the large shopping center. Developed in part in response to the shift to the suburbs, to a declining proportion of total retail sales in central city districts, the rise in automobile use, and to downtown traffic congestion, the shopping mall has brought both dramatic changes in location of outlets for footwear and frequently in the nature of the merchandise offered. Shopping malls cater to entire families, especially for weekend and evening shopping. The emphasis, consequently, is upon carrying family-wide shoe stocks, in contrast to older patterns of greater specialization in types of shoes carried. Withal, there has necessarily come elimination of shoe outlets in older, less profitable areas.

With the growth of chains has also come closer relations between manufacture and distribution. In 1968 it is estimated that a tenth of all shoe outlets were operated by 23 parent firms and four-fifths of these outlets were operated by companies which were also domestic manufacturers. Footwear producers have entered the retailing field and retailers have extended back into production.

Retail outlets operated by manufacturers, moreover, often buy from other manufacturing sources, both domestic and foreign. Estimates of the share of total shoe imports purchased by domestic shoe producers, for example, range from 15 percent to 30 percent, with the probability that the actual share is closer to the upper end of the range. Most large producers import, either from their own foreign factories or from suppliers with whom close working relationships have been developed. A growing number of medium and even small firms are similarly purchasing certain lines of footwear abroad.

The Retail Product Mix

These marked changes in footwear distribution have produced a variety of results. According to a recent Tariff Commission study of the impact of imports, footwear selling under $5 a pair is now generally available for all members of the family in discount stores -- by far the principal outlet for low-priced, imported shoes with supported vinyl uppers from the Far East. These shoes, principally women's, misses', and children's, regularly sell for $3 to $4 a pair. The retail outlets sometimes feature them at about $2 a pair to attract customers not only to the shoe department (which may also sell higher-priced footwear), but also to the store itself.

Imports such as these, for which retailers must often place orders many months in advance of delivery, tend to be relatively sturdy, leather-like shoes in styles that change very little from year to year. They provide a price line of footwear that has not been available from domestic production for low-income families and other consumers. Domestic nonrubber footwear currently retailing at less than $5 a pair consists primarily of types of slippers for house or leisure wear that are sold in or adjacent to hosiery departments in various types of stores.

The very lowest priced imports are principally sandals and slippers retailing at 49 cents to $1.99 a pair in limited-price variety stores, supermarkets, drugstores, and small stores in low-income neighborhoods. Footwear sold in such outlets consists almost entirely of imports, the Tariff Commission reported.

Imports selling at retail price lines of $5 a pair and over, the Commission found, consist principally of leather footwear from Italy and Spain. Although these imports also include sandals generally selling for less than $10 a pair and range up to shoes retailing at $40 to $50 a pair, the bulk are men's and women's dress shoes in the $10 - $20 retail range.

In recent years footwear retailing in the $5 to $10 price range has also included increasing quantities of slippers produced by domestic manufacturers, mostly for women and misses. Because of new patterns and styles and because of price (under $10 a pair), slipper sales have been increasing rapidly. At slipper counters, women today find a wide variety of leisure footwear in many fashions and styles.

The Higher Price Lines

As the retail price of footwear rises above $10 a pair, the Tariff Commission's findings continued, advertised brands of footwear, imported as well as domestic, are becoming increasingly important. Consumers of the more expensive shoes generally demand more exact sizing and fit than is often available from imports. A significant share of imports which retail at $10 or more, however, are believed to be produced to the specifications of the U.S. importer or retailer to meet the requirements of the American consumer.

In the $10 to $15 price range, the bulk of the imports consists of women's leather dress shoes and leather shoes for men and boys. Imported footwear retailing at more than $15 consists principally of leather shoes for men and boys, but with a significant quantity of women's dress shoes. The more expensive imported footwear generally affords a variety of styling and workmanship which may not be available from domestic sources. Such footwear, according to the Tariff Commission, generally contributes to additional footwear sales rather than to substitute for domestic products. The impact of imported footwear will be discussed in further detail in Chapter VII.

Future of Small Manufacturers

While the revolution in retailing has posed new problems for many shoe manufacturers, both of branded and unbranded lines, and has created new pressures and led to drastic changes in both methods of doing business and in the requirements of competitive success, it has by no means sounded the death-knell of all small firms. For example, many high fashion styles necessarily involve relatively small production runs, runs which would be uneconomic for a larger, more cumbersome operation with larger overheads.

Thus, chain store buyers continue to rely upon small operations for such merchandise, often taking the initiative in seeking out efficient producers for pre-determined styles and lines. In a fashion business, subject to often unpredictable surges (or collapses) of consumer acceptance, moreover, no buyer would rest easy with a 4 to 8 months lag in re-order time, or want to become heavily committed to volume deliveries from a distant supplier in advance of the seasonal buying period.

On the other end of the shoe scale, efficient producers of staple lines with dependable delivery performances, intimate knowledge of buyers' needs and of the market, and relatively quick turn-around times are also sought after by large distributors and retailers.

Overall, it seems clear that the inherent nature of the footwear business, particular the fashion-oriented end, is such that no large operation can prudently become too heavily dependent upon the vagaries of importation. Some large retailers, for example, told the Task Force that they intend to level off their dependence upon foreign sourcing at about 25 percent of their needs and are now turning their attention to development of efficient and reliable domestic sources, company-owned or independent, for the remainder. Other retailers clearly are continuing to increase their dependence upon foreign sourcing.

Chapter VI

THE LABOR FORCE

Total employment in the footwear industry averaged about 226,800 in 1969 — 2.5 percent lower than the 1968 average and the lowest level on record except for two years during World War II. Although production has been rising, the industry's manpower requirements have been contracting slowly and irregularly since 1950 apparently due primarily to increases in productivity and changes in the types of shoes produced (towards less labor intensive, simpler constructions). The decline in employment in 1969 was primarily the result of production cutbacks and plant consolidations and closings. (Table 22).

While total footwear output rose one-third between 1950 and 1968, total employment actually declined 8 percent. This trend contrasts with an increase of 30 percent in overall manufacturing employment during the same period. Employment dropped notably in 1967 with the easing in production that year, rose moderately with the 1968 boom, and fell back again in 1969. Currently jobs in the footwear industry make up about one percent of total manufacturing employment in the United States.

State-by-state trends have not necessarily followed the general production trends noted above. While some plants have been shut down, and periodic lay-offs have increased in some areas, in other areas shoe production has expanded, new plants have been opened or existing ones enlarged, and more jobs have been created.

Employment increased sharply in the 1958-68 decade, for example, in Maine and in some of the Western, Southern, and Border states, especially in Tennessee and Kentucky, but declined markedly in Massachusetts, New York, Missouri, and Illinois where, in each case, all manufacturing jobs were increasing. During the same period, it was stable in New Hampshire and rose moderately in Pennsylvania.

However, in 1969, with the exceptions of Kentucky where job totals remained stable and Ohio which noted a slight increase, footwear employment in all the major shoe producing states declined. Losses of over 1,000 or more workers were recorded in Maine, Massachusetts, Missouri, New Hampshire and Pennsylvania. (Table 23).

Unemployment in Footwear

The unemployment situation in footwear is not as easily measured. Unpublished data are available but only for the larger, "leather and leather products" industry of which about two-thirds is estimated to be footwear. Since 1967 unemployment for this broader group appears to have generally been above the corresponding level for all manufacturing workers, a disparity that appears to have increased in 1969 when total shoe output declined. Over the year, the unemployment rate increased steadily and was about 70 percent greater than that of total manufacturing.

Statistically, the closest relevant measure of these general trends is the data compiled on the insured unemployed whose last job was in leather or leather products factories. As Table 24 indicates, the total number trended irregularly downward from an average of 33,700 persons in 1960 to 14,600 by 1968. In 1969, however, the total rose sharply to an average of 21,800 where it accounted, nationwide, for 4.4 percent of the insured unemployment in all manufacturing industries. Thus, former workers from the leather products' industry make up a disproportionate share of the presently insured unemployed, since employment in the industry accounts for only about 2 percent of all manufacturing employment.

The data also show that the substantial increases during 1969 were fairly evenly spread over each of the major shoe producing states with the probable exception of Massachusetts where known employment apparently dropped sharply and unemployment undoubtedly rose correspondingly. Statistics on insured unemployed, it should be noted, do not include any persons who may have exhausted their unemployment rights, left the industry for other jobs, or have voluntarily withdrawn from the labor force and do not collect unemployment compensation. Thus, the loss of jobs in footwear last year is probably understated in the available data.

Characteristics of Footwear Employment

Eleven notable characteristics typify the nature of both the work force in footwear and the conditions of its work:

1. The Job. Production workers are by far the major element in total employment. At 87 percent of all footwear jobs, shoe production employees constitute one of the highest proportions in any industry. The average for all manufacturing is 73 percent.

2. Turnover. The turnover of employees is also among the highest in this industry and has risen substantially in the past decade. Between 1958 and 1968, the annual average quit rate doubled; while the layoff rate was cut in half. The voluntary-quit rate consistently exceeded that of all manufacturing, moreover, while the layoff rate was below the national average.

In 1969, however, the monthly layoff rate reached as high as 2.7 in some months and averaged 1.6 persons per hundred for the year. This was 50 percent higher than the average for 1968 and above the national average of 1.2 per hundred for the first time in the decade. Accession and separation rates for all manufacturing in 1969 were 4.7 and 4.9 per hundred employees, respectively, while in footwear the figures were 6.0 and 6.6. The voluntary-quit rate of footwear at 3.9 was nearly 50 percent greater than that for all manufacturing. (Table 25.)

This relatively poor employment stability record appears to be the combined result of ready availability of more attractive alternative jobs in higher wage industries during the past decade, and of the nature of employment in many footwear establishments. In many of them employment is characteristically irregular, depending on seasonal fluctuations and a sporadic flow of orders. In many of the older plants, moreover, working conditions compare unfavorably with alternative prospects, and the undertainty of stable employment is compounded in small plants by lack of pension systems and other benefits. Employment often partakes of a casual, part-time nature, and is often the source of a secondary family income.

3. Sex. Females make up a very substantially greater proportion of all footwear employees than in any other manufacturing industry except apparel. About two-thirds of all employees in 1969 were women, as compared to 28 percent in manufacturing and 39 percent in nondurable goods — a difference attributable in part to the very high concentration of semiskilled workers required in footwear manufacture under its present technology and techniques.

4. Race. Whites make up 91.6 percent of total leather industry employment, as compared to the 90.3 percent of manufacturing generally.

5. Age. Workers in the leather industry are heavily concentrated in either the under-25 years old or 60 years and older age brackets. Footwear has one of the lowest proportions of workers 30 to 50 years old of any industry. Its concentrations in both the 60-year and over bracket and in the under-20 bracket are both the highest in manufacturing industries. Both concentrations in large part derive from the importance of women in its work force. A typical work pattern involves leaving the factory at an early age and reentering the work force after families have been raised (Table 26).

6. Skills. The 73 percent of total employment consisting of semiskilled job classifications is unusually high, reflecting both the nature of the production processes and the types of occupations involved in constructing a shoe. For manufacturing generally, less than half of all employees are considered to be semiskilled operatives and kindred workers. The requirements for footwear

workers tend to vary from simple, repetitive jobs involving a relatively short period of training to higher skilled jobs involving cutting, sewing, lasting, and bottoming. Workers classified as "skilled" by Department of Labor criteria make up about 6 percent of the labor force in footwear, compared to about one-fifth in all manufacturing (Table 27).

7. Education. The average educational attainment level of footwear workers is also substantially below that of most manufacturing workers. In terms of years of schooling completed, in 1960 its work force averaged nearly two years below the manufacturing average. The high proportion of operatives in the industry clearly contributes to this low educational attainment, as does the comparatively small proportion of professional and technical workers.

8. Non-Urban Location. About 60 percent of all footwear employment is located outside of major metropolitan areas with many firms in rural towns of 25,000 or less.

9. Earnings. Earnings in footwear are traditionally among the lowest in manufacturing, and have become comparatively lower in recent years, whether measured on the basis of average hourly, weekly, or annual earnings. In 1969, for example, average weekly earnings were $85.24 -- more than $44 below the average for all manufacturing. The spread between footwear hourly earnings -- $2.31 in 1969 -- and those for all manufacturing workers -- $3.19 -- moreover, has widened from 75 cents an hour to 88 cents since 1963, despite the fact that over the last five years the rate of increase in hourly pay for shoe workers has been faster than the national manufacturing average. More than one-fourth of all workers in the footwear industry earn less than $1.65 per hour, barely exceeding the national minimum wage of $1.60. Median annual earnings in footwear also tend to be less than in any other manufacturing industry with the exception of apparel (Table 28 and 29).

10. Variations in Earnings. Workers in New England, where one-third of total employment is located, earn the highest wage -- averaging $2.24 an hour, compared, for example, to the $1.88 average for Border-State, footwear

employees. Earnings further tend to vary within States. Workers in metropolitan areas earn more than those in smaller communities where there is likely to be less alternative employment. They also vary with the size of the employer, being generally higher in the larger shoe plants.

11. Productivity. Consistent with its lower wages, productivity is not only significantly lower in footwear than in the rest of manufacturing activity, but has increased at a markedly slower rate than in the rest of the U.S. manufacturing economy. Moreover, the rate of annual productivity improvement has actually been decreasing in recent years, although some allowance should be made for the increasing labor content per pair of shoes involved in the growing emphasis upon style and upgrading of quality. As one measure of comparative productivity, for example, the value added per employee in 1967 was $7,500 in footwear compared to the $13,370 per-employee average in manufacturing generally.

In terms of growth, output per manhour in footwear rose annually between 1947 and 1967 an average of 1.8 percent, but during the latter 10 years at an average rate of only 1 percent. By contrast, for all manufacturing the same rates of improvement were 2.8 percent for the entire span and 3.4 percent for the most recent decade.

Since 1963, finally, the rate of increase in footwear productivity appears to have tapered even more, falling to an annual improvement factor of only 0.5 percent per year. In consequence, with its wages and other costs rising steadily throughout this period, the result has necessarily been translated into steadily higher unit costs in footwear production. A continuation of this trend -- of productivity rising more slowly than wages and other costs -- would increase any competitive disadvantage in footwear (Table 30).

Productivity in footwear manufacture varies widely between size of plant operations as well as with such standard variables as type of shoes made. Value added per employee ranges from less than $5,000 in the smallest plants to 50 percent more or higher in the very largest plants. For the entire industry, value added per employee is 57 percent of the average for all manufacturing industries.

The most efficient size group in terms of labor costs per dollar of value added is actually the intermediate group of footwear producers with 250-499 employees per plant. Small firms tend to have both the lowest wages and relative productivity, hence the highest unit labor costs. The largest shoe factories pay the highest wages, but have offsetting, higher productivity.

Improving Productivity

While the Task Force found it difficult, if not impossible, to obtain sufficient data to reach an opinion on the possible economies of scale in footwear operations, data such as those noted above appear to indicate that the smaller firms tend to be somewhat less efficient and that the trend toward consolidation and larger units of operations is necessarily a move in the direction of strengthening this industry. Due to the nature of leather-product production processes, which deal with variable raw materials and are serial and relatively numerous, the industry tends to be labor intensive -- intensive in the sense of requiring under its present and recent technology a large number of separate operations and a larger amount of labor skills which are below average in today's manufacturing.

Many individual steps and processes are still required to make a shoe. This suggests that, until new techniques can be developed and ways found to automate or to simplify further, there may be little to be gained from larger scales of operations. The present normal production mix, consisting of many styles, types of shoes, colors, sizes, widths, etc., further compounds the problem of improving efficiency.

On the other hand, there are clearly common advantages in larger operations, quite apart from those noted earlier -- in management methods and skills, inventory controls and policies, standardization, product development, marketing, finance, risk hedging and the other major considerations in modern business methods. In the end, though it was one of the first American industries to adopt power-driven equipment, the footwear industry today remains among the least automated U.S. industries, one still operating with a large number of both production steps and of production units, and with one of the lowest levels of output per manhour -- and, hence, with a lower ability to pay going wages and to compete for labor.

The Role of Labor Costs

A closely related area in which the Task Force also found data most difficult to obtain is that relating to the role of labor costs in shoe production, an issue stressed heavily by those urging greater protection. Depending upon the measure used, labor costs appear to be either modestly or notably greater-than-average importance in the cost of manufacturing a shoe. Whether they are sufficiently more so as to make it impossible to compete in any line of footwear, given present differentials between U.S. and foreign wage costs, remains a debatable question on the basis of the evidence available to the Task Force.

Foreign wage rates are lower, in many cases much lower than even the relatively low U.S. wages paid by shoe producers. Table 31 provides some very rough estimates of typical differences, including estimates of fringe costs. What is less obvious is how critical these wage differentials are in the final, delivered price of a pair of shoes to the consumer, or whether and to what extent other elements of cost could or may offset the wage differential. Materials, for example, are said to be 50 percent of the production cost of many types of shoes.

The relative importance of wage costs clearly varies with many factors, especially with the type, style, and construction of different pairs of shoes. Shoes made of very inexpensive materials, requiring little or no shaping and having no size variations (as is the case with many foreign-made models) and involving a relatively simple assembly operation and little skills can contain a relatively low portion of labor in total unit costs. On the other hand, high style shoes requiring a great deal of hand work or custom finishing can involve a relatively high ratio of labor costs. In between, especially for shoes produced in volume by relatively mechanized processes, labor can be relatively unimportant.

The price of a shoe, moreover, has many components other than labor. It depends, of course, on materials used, plant fixed charges, advertising and promotion costs, profit margins, and can vary sharply between different types of footwear. Costs of imported shoes, moreover, necessarily include

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transportation, importers' margins, and duties -- a combined total of as much as 25 percent or more over the foreign wholesale cost. Their effective cost, moreover, should probably include an added element to cover the uncertainties inherently involved in importation. Finally, straight comparisons of labor rates between countries reveal in themselves little of the competitive outcome; differences in productivity must also be taken into account.

The extent to which these -- and other factors -- necessarily affect comparative costs in shoes is simply and graphically demonstrated by comparisons of hourly labor costs and available measurements of unit costs. The average labor cost, including fringes, in the Italian footwear industry is in the neighborhood of $1 per hour, while the average value of shoe imports from Italy in 1968 was $3.22 per pair. By comparison, the average labor cost in the U.S. was better than $2.50 per hour and the average factory value of footwear produced was $5.00; clearly more than mere wage rate differentials were involved.

Other Measures of Labor Costs

The efforts of the Task Force to obtain a better, more factual understanding of any labor costs handicap borne by the U.S. industry had to be limited to an examination of only two available, very general measures. Comprehensive and fully satisfactory data on this key issue could not be obtained from any source, private or public, and, if they had been, would have clearly varied depending on types of shoes, differences in methods of production, and other factors.

From Census data, in the first instance, it is possible to obtain certain measures of the relative importance of labor costs in footwear as compared to all U.S. manufacturing through two comparisons -- payroll costs as a percent of value added and as a percent of the value of product shipments. In both cases, payroll costs for footwear producers are relatively higher than in the typical U.S. manufacturing activity as Table 32 indicates. In footwear, wages and salaries are 54 percent of value added, a ratio not far out of line from the comparable 51 percent for all manufacturing. The disparity between footwear and other manufacturing in terms of value of shipments, on the other hand, is larger, payrolls being 31 percent of shipments in footwear as contrasted with only 24 percent in manufacturing generally.

A perhaps more customary measure of the general importance of labor costs is the comparison between it and total costs on a unit or similar basis. Industry data are, however, not assembled on any aggregate basis to permit such a comparison and, if they were, would necessarily conceal wide variations between styles and operations.

Both industry and labor spokesmen, however, have variously estimated that labor costs range from 25 percent to 40 percent of total footwear production costs. Similar measures which can be derived from income statements of publicly owned shoe companies suggest an average nearer the lower rather than the upper end of this range.

Thus, the Standard & Poor's labor cost index, though derived from a very small sample, would indicate that labor costs were about 30 percent of total costs in the footwear operations it sampled in 1968, as compared to a 28 percent ratio for all manufacturing. In the case of both, Census data and the Standard & Poor's index, the differences between footwear and other manufacturing have been narrowing in recent years as the trend in shoe manufacture moves away from more labor intensive constructions and fabricating methods.

From the broader point of view, labor is of course, a larger element in total cost than measures of its direct cost would suggest. Since the materials entering into shoe manufacture all have a labor cost component, this labor cost also enters indirectly into the total cost of the shoe. Thus, labor costs and labor productivity in the supplying industries and trends in these factors are also relevant. Again, data proved to be not obtainable.

Regional Differences in Employment Trends and Impact

Given the dynamic nature of present trends in the footwear industry and its markets and marketing patterns, it could reasonably be assumed that there might be pronounced differences in impact on the labor force between areas. In addition to a survey of the labor situation in the plants which have closed recently and in the communities concerned, which is discussed in Chapter IX, the Task Force also undertook a study of recent trends in the major centers of footwear employment.

This survey involved a study of 22 labor areas -- those metropolitan areas where leather and shoe manufacturing provides a significant source of total employment. These 22 areas together account for 40 percent of all leather and leather products workers, the remaining 60 percent being widely scattered throughout other areas for which labor force data on footwear are not normally assembled. Information on these communities could only be obtained on the site from local sources, a project beyond the capabilities of the Task Force.

This survey of 22 areas found, in particular, that the rising trend of total employment and the declining trend of unemployment in them since 1965 has overshadowed the gradual decline in their leather and leather products employment. Many of the 22, in fact, have through 1969 been or are currently experiencing relatively tight labor conditions. None is considered an area of substantial or persistent unemployment (Table 33).

However, some of the areas, including those in Massachusetts where the shoe industry has traditionally been a major source of job opportunities and some of the formerly depressed areas of Pennsylvania, have been or continue to record unemployment rates above the national average. Areas experiencing above average rates in at least 4 of the last 5 years, 1965-1969, include Brockton, Lawrence-Haverhill, Lowell and Worchester in Massachusetts; Newark and Patterson-Clifton-Passaic in New Jersey; Utica-Rome in New York; and Altoona, Scranton and Wilkes-Barre-Hazelton in Pennsylvania.

In most of the 22 urban areas, however, job prospects have been and continue to be plentiful for laid-off shoe workers due to the over-all labor shortage in the industry and to the generally high level of economic activity. However, the cumulative effect of the long-term decline in employment as well as the accelerated layoff rate in 1969 has recently begun to cause problems in such areas as Haverhill and Lynn, Massachusetts, and such smaller areas as Claremont and Rayburn, New Hampshire.1/

In the period 1965 through 1968, employment in the leather and leather products industry in the 22 major areas surveyed declined and shifted away from these centers. In 1965, 41 percent of leather workers -- 144,600 out of 352,900 -- were concentrated in the 22 areas. By 1968, employment declined by 4.6 percent to 137,000, and represented only 39.2 percent of all leather workers. The shift away from these metropolitan centers accelerated in 1969. In that year, leather employment in these areas averaged 131,100 (down 4.9 percent from 1968), representing only 37.9 percent of the industry total, and reflecting in part the shift to newer production sites as well as declining production.

The drop in employment between 1965 and 1968 spread through many but not all of the major production centers. Only 4 areas -- Milwaukee, Nashville, Altoona and New York -- experienced employment increases of 200 or more during the period, and in five areas employment was virtually unchanged -- rising or falling by about 100 persons over the period. However, in 1969 employment in the leather industry declined in all of the 22 areas except Nashville which recorded a slight increase.

Many of the traditional shoe producing centers experienced greater than average employment losses. In Massachusetts footwear employment in Boston dropped 10.6 percent from 18,000 in 1965 to 16,100 in 1968 and another 7.5 percent in 1969 to 14,900. Brockton leather employment fell from 5,800 in 1965 to 5,400 in 1968 to 5,000 in 1969. Lawrence-Haverhill, which recorded relatively stable footwear employment at 8,700 through 1968, noted a sharp loss to an average of 8,000 in 1969. In Manchester, New Hampshire, another traditional New England footwear area, leather employment declined relatively moderately from 1965 to 1968 -- 5,800 to 5,400, but dropped sharply in 1969 to 4,700.

1/ Other small areas may be experiencing similar problems but specific information was not available. The information on employment problems for these two areas was obtained from the reports of plant closings and other sources.

Other centers in which significant declines occurred include Binghampton, New York, where footwear employment declined steadily over the five-year period from 9,600 to 6,100; Chicago where job totals dropped from 9,500 in 1965 to 8,200 in 1968, but remained at that level in 1969; and St. Louis where between 1966 and 1969 leather employment declined from 11,400 to 10,000. Further declines were also recorded in three areas of Pennsylvania -- York and Philadelphia each recorded a loss of over 1,000 leather jobs in the 1965-1969 period, while in Harrisburg job totals in the leather industry fell from 3,600 to 3,100.

Accompanying the recent decline in shoe employment has been an increase in the unemployment rate in Brockton and Lawrence-Haverhill, Massachusetts -- two areas already having unemployment rates above the national average -- and in Manchester, New Hampshire, where unemployment is still below average, but has increased from 2.2 percent to 2.7 percent.

As indicated by the absolute decline in leather employment noted earlier, the industry has also become less important to the economies of most of the 22 areas. In total, the leather industry in these 22 areas shrank from 3.3 percent of all manufacturing employment to 2.9 percent. However, the importance of the footwear industry to individual areas varies greatly.

In Lawrence-Haverhill, Brockton and Manchester, over 20 percent of all factory workers were employed in the leather and leather products industry in 1969. Other cities with proportionately large dependence on the leather industry include Lowell, Massachusetts (8.8 percent of manufacturing employment), Altoona (8.4 percent) and Nashville (9.9 percent). In Boston and New York, where the largest absolute numbers of leather workers are found (14,900 and 33,700, respectively) the leather industry accounted for but 4.9 and 3.1 percent of manufacturing employment, respectively.

Despite the downward trend in employment in 1969, however, many of these areas were at the same time also experiencing a shortage of workers for shoe factories.

Local employment analysts contacted by the Task Force often cited the low wages and poor working conditions as the reasons for the industry's failure to attract or keep its work force. Shortages existed last year even in such labor surplus areas as Lowell, Massachusetts, and Altoona, and Wilkes-Barre-Hazelton, Pennsylvania. In the latter area, MDTA training courses were given for over 200 trainees in 1969 in an effort to increase the supply of skilled shoe workers.

The increasing number of recent layoffs in the shoe industry has had the effect at easing the shortage of workers in some areas. But in a few cases it would appear that layoffs have been so extensive that former shoe workers are beginning to have difficulties in finding work. In the Lynn area of Boston, for example, the David Shoe Company closed earlier in 1969, reportedly because of both foreign competition and the scarcity of skilled help. By October, however, the Lynn office of the Employment Service reported that, with the exception of stitchers, there was no local demand for laid-off shoe workers.

In Haverhill, the successive re-employment experiences of workers laid off in January, June and November of last year indicates the cumulative effect of recent layoffs. According to the local Employment Service, workers terminated in January, 1969, had little trouble finding new jobs since it was the peak season for the shoe industry. By June, a normally slow period for the industry, coupled with the "deteriorating shoe business in the area," made re-employment in the industry more difficult except for stitchers. Still later in the year, layoff reports noted that opportunities for re-employment locally for all groups except stitchers would be limited. All reports indicated that job prospects were probably more favorable in outlying areas or in Lawrence, but that lack of transportation from Haverhill was a problem for many workers.

Broad trends and indications such as these do not, of course, reveal the specific underlying reasons. Apart from the details on the plants closing in 1969 which are discussed in Chapter IX, little specific information is available. Clearly, one element in the growing unemployment in some areas is the movement of plant sites away from higher labor cost, often unionized areas -- a cause often cited in connection with the decline in manufacturing activity, for example, in Massachusetts.

Since it normally requires relatively little time to train many of the operatives in a modern shoe factory, the availability of a supply of unskilled, lower wage labor in other communities or regions increases the mobility of shoe establishments. Most known, newly established shoe factories, for example, are being located in rural areas, often without any previous experience in shoe manufacturing but with a supply of labor available for training. Another element in the unemployment picture is undoubtedly a reflection of the increased manufacturing and buying activities of U.S. firms abroad. A third factor in 1969 was obviously the decline in domestic production.

In summary, the Task Force's examination of available labor data, total and by local area, indicated that the recent acceleration in rate of employment decline, coupled with the characteristics of the footwear labor force and the geographical spread of the industry outside of metropolitan areas, began in 1969 to create an increasing problem for a relatively small number of laid-off shoe workers -- particularly those in New England and in certain small towns where the shoe industry has been a major source of employment. Although there has been a chronic shortage of workers in this industry -- a shortage still acute in many areas -- due primarily to its inability to attract new people and to its relatively low wage scale, the number of recent layoffs has made it difficult for some unskilled displaced workers in particular to find comparable jobs.

Over-all, while this recent development has involved a relatively very small portion of total manufacturing employment and even a relatively small portion of shoe employment, it often has been concentrated in States or areas where the industry provides a very substantial portion of the job totals and has, thus, brought hardships. It has often involved older workers with limited occupational or geographical mobility; the younger workers and those with occupational skills have found jobs in other industries or moved to the expanding areas of shoe employment.

The available evidence also indicates that the work force of this industry in large part consists of the marginally employable whose level of educational and occupational achievement is considerably below the average in today's manufacturing economy. It draws heavily upon the very young workers who can adjust to other employment, or upon older women whose re-employment is hampered by their lack of skill or their immobility as secondary wage earners in a family.

In addition to the employment problems accruing from the characteristics of the work force, the geographic location of the industry away from major metropolitan centers sometimes tends to inhibit re-employment prospects. In many of the small communities the local shoe factory may be an important source of earnings for a sizable share of the work force, with few alternative employment sources. Lack of transportation between areas often also presents a serious barrier to re-employment.

In the future, any further extensive layoffs by the shoe industry in such areas are likely to create unemployment problems. The impact of any further plant closings could not only adversely affect workers in areas economically dependent on footwear, as has been the case primarily in the past, but it might also begin to affect workers in more industrially diversified areas. Older workers, women with limited mobility, and younger workers with little education or few marketable skills might then find it increasingly difficult to secure suitable employment.

Chapter VII

THE IMPACT OF IMPORTS

This report has thus far dealt with imported footwear in terms of broad aggregates -- in total numbers of pairs imported, for example, or with all women's shoes. The industry's case in support of additional protection has similarly dealt with recent import trends, their present effects, and future potentials largely in terms of total numbers of pairs imported, the total market share, the total rate of growth, and comparable measures.

A most important consideration is the extent to which imports are now or will be directly competitive with domestic manufacture. Given the great heterogeneity in footwear, together with evidence that a very large share of imports is sold at price ranges so far below most domestic shoes as to seem to constitute a supplement to rather than a substitute for existing production, the Task Force believed little insight could be gained by limiting its study to comparison or examination of only aggregate domestic and foreign data.

While useful for portraying very broad trends, such aggregates necessarily cannot provide much illumination of specific causes and effects. Nor is it proper, in the Task Force's judgment, to make the implicit assumption, involved in such treatment, that every imported shoe is by definition a competitive substitute for a domestic-made shoe -- that a 50¢ line of footwear can be a meaningful competitor to a $10 line, or that, among imports, each type has a similar impact upon the domestic market. It is also essential that such assumptions be examined carefully in light of the stress which has been placed on the argument that recent import increases have "captured" the U.S. footwear industry's "natural" growth.

Statistical Limitations

The Task Force quickly found that a major handicap in proceeding to more meaningful levels of examination lies in the nature of the data routinely assembled by both public and private sources. They are, in short, nowhere near specific or varied enough to permit any detailed examination of the major thrusts of import competition nor of their effects except in the broadest of terms. Production and imports of different types of shoes are separately tabulated for only very broad groups -- broad in comparison to the many different types, constructions, and qualities of shoes available today.

In particular, U.S. production data are not assembled in sufficient detail by kinds of shoe, construction, or materials to permit all the analyses desirable. Nor are such significant distinctions made as between formal or "dress" shoes or the many types of casual and special-purpose types of shoes.

A major handicap, for example, is the lack of information on domestic production of non-leather, typically vinyl shoes -- a shortcoming of serious dimensions since half of all imports are vinyls. Better data would greatly facilitate a more precise understanding of what import competes with what U.S. production. The Task Force was able, however, to assemble reasonably comparable data to permit some comparisons of certain significant categories of footwear, primarily by wholesale price ranges, and to a certain extent by type of material, and by age and sex group.

The Import Pattern

In 1969 about 70% of imported footwear was footwear for women and misses, 17% was for men and boys, and 5% for infants and children. By way of contrast to the heavy emphasis in the import pattern upon women's and misses' shoes, only about half of domestic output typically falls in this category. Men's and boys' footwear is about 25% of all domestic production, children's and infants' 10%, and slippers about 15%. About half of all domestic production and perhaps one-third of all imports would probably be considered to be "dress" shoes. Domestic production of sandals, which accounts for two-fifths of the import volume, is only known to be small and is not separately counted.

The degree of import penetration varies between these major categories of shoes. While the total penetration (in pairs) in 1969 was 26%, for men's and boys' shoes it was 19%. By comparison, the import ratio for women's and misses' shoes was 25%, and for children's and infants', 27%.

For the separate grouping of sandals and slippers, in light of the virtual absence of sizable U.S. sandal production, the same ratio reached 38% by 1969.

In terms of braod types of footwear, about half of all pairs imported in 1969 was vinyl, about a fifth was leather sandals, and most of the remainder was leather shoes. As the table below indicates, the greatest percentage increase in imports in recent years was accounted for by the leather category, but with equal growth in absolute terms also evidenced by vinyl.

Type	1967	1968	1969
	(millions of pairs)		
Footwear having uppers of vinyl ...	67	90	100
Leather sandals	31	35	35
Footwear (other than sandals) having uppers of leather	30	51	65
Other nonrubber footwear	5	5	8
Total	133	181	208

Source: Estimated by the U.S. Tariff Commission. 1969 data are based on the first nine months.

Import penetration within the broad types of leather and vinyl varies markedly by sex and age group. Only a fourth of men's shoe imports is vinyl, while nearly 60% (in pairs) of women's and misses' is vinyl, and 45% of children's and infants'. Sandal and slipper imports are fairly evenly divided between leather and vinyl.

While each of the principal broad types of shoe imports -- vinyl, sandals, leather, and other (principally fiber) have countless differences within each of them, and for which details are lacking, certain generalizations can be made about each.

Vinyl Footwear

About one-half of the total pairage and 20% of the value of imported nonrubber footwear in recent years has consisted of vinyls, predominately shoes with supported vinyl uppers. The 100 million pairs of vinyl footwear imported in 1969 represented an increase of about 50% from

66 million pairs imported in 1967 and an 80% increase since 1965. Imports come almost entirely from Japan and Taiwan and are usually available only in one width in basic styles changing little from year to year. They are primarily sold on a self-service, self-fitting basis in variety stores, department store basements, discount stores, supermarkets, drug stores, and in small independent stores in low-income neighborhoods.

Imported vinyls are almost entirely low-end merchandise, typically priced well below available U.S. production. They had an average unit value in 1969 of about 82¢, f.o.b. foreign port, and sold on the average wholesale in the United States for about $1. Fully one-third was slippers and sandals with a dutiable value of between 25¢ and 50¢, selling at retail for probably less than $1. The remainder consisted of street shoes in styles resembling leather shoes, 90% of which sold wholesale for $2.40 per pair or less. Three-fourths of the total pairage were women's and misses', though much of the recent growth has come in men's and boys' vinyl shoes.

Type	Quantity (millions of pairs) 1968	Quantity 1969 1/	Value ($ millions) 1968	Value 1969 1/	Unit Value 1968	Unit Value 1969
Total, all vinyl imports	90	100	$63	$82	$0.70	$0.82
Shoes 2/	61	69	55	72	0.90	1.05
Men's and boys'..	8	9	8	11	1.05	1.17
Women's and misses'........	47	51	43	55	0.92	1.09
Children's and infants'	7	9	4	6	0.65	0.69
Sandals and slippers 2/	28	31	8	9	0.27	0.30

1/ Estimated on the basis of the first nine months.
2/ Soft-sole footwear and men's and women's other vinyl footwear valued at less than 50¢ a pair included as sandals and slippers.

Source: U.S. Tariff Commission.

There are, unfortunately, no figures assembled on the U.S. production of similar, vinyl footwear. While the bulk of this type of import do not appear to compete directly with U.S. footwear, there is U.S. production of vinyls. The fragmentary evidence which exists strongly indicates that it is both substantial and growing rapidly, import competition notwithstanding.

For example, the only available data on all, non-leather production indicate a 36% increase in output between 1965 and 1969. The 1969 volume of 172 million pairs for this category was nearly 30% of all U.S. volume, compared to a comparable share of only 20% in 1965. This "all other" category includes not only vinyl, supported vinyl, and shoes with poromeric uppers, but also slippers and shoes made by the injection-molding and direct-mold, vulcanizing processes. Production by the last two methods has risen steadily in recent years, as has that of shoes with poromeric uppers.

Moreover, some of the smaller and medium sized plants with the best recent growth records are known to specialize in vinyls, and new plants for vinyls have recently gone into production. Some retailers have indicated that they traditionally supply 75% of their total inventory needs for vinyls from established domestic sources, preferring not to rely on import sources for more than a one-quarter share. Finally, less concern has been reflected in public statements of industry spokesmen over vinyl imports. Thus, it would appear that this category of imports does not clearly provide a direct competitive threat, certainly not to the bulk of U.S. leather footwear production.

The landed values of all vinyl imports, after duty and other costs, as estimated by the Tariff Commission, was $1.40 a pair for men's, $1.30 for women's, and 85¢ for children's in 1969. A 1967 survey by the Tariff Commission found that virtually all imports of non-leather men's and boys' shoes had U.S. wholesale prices of less than $2.40 and usually retail from $2.99 to $4.99 per pair. Only a negligible proportion of domestic production of shoes of any materials was available for under that price, and only 1.4% wholesaled for less than $3.

Similarly, with the exception of sandals, over 99% of non-leather imports of women's and misses' sold at wholesale here for less than $1.80 per pair (retail, $1.99 and $3.99), whereas about 5% of domestic output eventually sold in that range. The great bulk of imported children's and infants' vinyl footwear, again, wholesaled (retailed at $2.99 or less) at prices below those where the bulk of U.S. production is sold.

Combining all vinyls together, the average landed unit value of less than $1 per pair is also substantially below both the average unit value of domestically-made U.S. slippers, $1.97, and of domestic canvas-rubber footwear, $1.85. With very few, if any, leather shoes of domestic origin retailing for less than $6 a pair, the indications appear strong that a large proportion of imported vinyls compete, in effect, either with the lower priced U.S. vinyls or with other types of footwear, such as sneakers, rather than directly with domestic leather footwear.

Imported Leather Sandals

Although sandals have been popular for a number of years, there is little U.S. production and no separate statistics on them. Some industry sources have stated that sandals were formerly produced here, but that it also is no longer possible to compete with the strong and established competition from abroad, principally from Italy. On the other hand, the trade press has also reported that several U.S. firms have recently begun production of sandals. The pattern of imports in 1969 is estimated as follows:

Type	Quantity (millions of pairs)	Value ($ million)	Value (per pair)
Leather sandals, total..............	35	$61	$1.75
Men's and boys'....	4	7	1.85
Women's and misses'	30	53	1.75
Infants' and children's.......	1	1	1.50

Source: U.S. Tariff Commission, based on the first nine months.

Leather sandals accounted for about 17% of the quantity and 15% of the value of all footwear imports in 1969. In the women's and misses' category above, however, they accounted for one in every four pairs of shoes imported. They generally are made in relatively few sizes and are designed for sale on self-service counters in discount stores, conventional shoe stores, and other outlets. Their average landed, duty paid cost is about $2.20 per pair.

The Tariff Commission survey referred to earlier found that "nearly all imported leather sandals were sold at wholesale in the United States at less than $4.20 per pair. Three-fifths of the leather sandals for men, youths, and boys, as well as three-fifths of those for women and misses, were wholesaled at prices between $1.21 and $2.40 per pair. Nine-tenths of the sandals for children and infants were wholesaled at $1.80 or less per pair." Sandals generally sell at retail from about $1.99 to about $6.99. Few leather shoes are made in the United States at prices with which imported sandals would directly compete.

While there is yet little domestic sandal production, it would appear that imported sandals, where style is not the dominant consideration, tend to compete with the vinyls selling in their price ranges or with canvas-rubber footwear. To some extent, they also compete with women's leather shoes available in the medium and higher price ranges. In either event, imported sandals are important both in the total import pattern and particularly in the women's leather shoe market where they now account for nearly 10% of all retail sales. Virtually all sandals are now imported from Italy.

Imported Leather Footwear (Except sandals)

This category is exceedingly broad and diverse, including a wide range of styles and prices for both domestic and imported shoes. Leather footwear also varies in type from highly utilitarian shoes designed for mass retailing and self-service to much higher-priced lines where quality, style, brand name and fit are important and may command substantial permiums. Overall, imports have doubled from the 30 million pairs of 1967 to an estimated 65 million in 1969. They were distributed by sex groups as follows:

Type	Quantity 1968 (millions of pairs)	Quantity 1969 (millions of pairs)	Value 1968 ($ millions)	Value 1969 ($ millions)	Unit Value 1968 (per pair)	Unit Value 1969 (per pair)
Footwear (other than leather sandals) having uppers of leather, total.............	51	65	$204	$282	$3.96	$4.33
Men's and boys'...	21	27	96	130	4.67	4.81
Women's & misses'.	27	32	103	143	3.78	4.47
Infants' & children's.........	4	6	5	9	1.31	1.47

Source: U.S. Tariff Commission. 1969 data are based on the first nine months.

Leather imports, which come primarily from Italy and Spain, accounted for about one-third of the quantity and two-thirds of the value of all 1969 imports. They are clearly the most significant of the principal types of imports in terms of potential impact. While their competitive effect tends to be spread widely over the range of domestic production and over most wholesale price ranges, the relative significance varies.

Imports of men's and boys' leather shoes of 27 million pairs were about 14% of total consumption, with an average landed value of about $5 per pair. They were distributed fairly evenly over the wholesale price ranges of more than $3.00 per pair. Consumption data here and elsewhere in this report necessarily include non-leather footwear since, it will be recalled, vinyl footwear cannot be separated from leather in the domestic statistics presently assembled, though they are separated in import data.

While such broad averages necessarily conceal wide ranges of values among different types and prices of leather imports, they can provide some insights. Average import values for imported men's leather shoes tend to be substantially less, about 30 percent, according to the Tariff Commission, than the U.S. industry's average factory price. On the other hand, women's imported shoes appear to average only 10 percent less, again, reflecting the greater fashion element. Allowing for importer commissions and similar charges, imports of women's leather shoes would appear roughly equivalent on the average to the typical wholesale price of U.S. output. It is also clear that women's imports compete with domestic shoes in many price brackets, with a somewhat greater proportion of imports being sold in both the very lowest and the higher wholesale price ranges.

Other Nonrubber Footwear Imports

In addition to vinyl and leather shoes and sandals, another 8 million pairs of 1969 imports involved other materials, largely infants' footwear with woven fabric uppers. Most came from Japan and had an average dutiable value of $.25 and wholesaled at $1.20 per pair or less. Little is known of their competitive impact or the domestic shoes which might be affected.

Imported Slippers

A final major category of potential competition could well involve slippers, although the available data for them are too imperfect to permit any detailed examination. Such statistics as are available would indicate, however, that since 1965 U.S. domestic production has increased steadily, from 90 million pairs to 109 million pairs by 1968, and continued to rise in 1969. Imports, on the other hand, appear to have fallen sharply from their 1965 level and in recent years have fluctuated around 1 or 2 percent of U.S. consumption.

The above data, summarized by sex groups and broken down where possible into leather and vinyl shoes, are summarized in Table 34 for the 1965-1969 period. The percent distributions among the groups and the degree of import penetration in each for the period 1967-1969 are summarized in Table 35.

An Appraisal of Import Penetration

While a person can wear only one pair of footwear at a time, his or her demand for footwear is logically dependent -- whether it be for fashion-oriented or basic footwear -- on many significant variables. Even in the lines which could be considered as basic foot covering the elements of style, quality, and brand name can be influential. Price is an obvious factor, except perhaps at the upper end of the high-fashion, superior-quality footwear. Futher differences in demand exist between the various age and sex groups where consumer attitudes toward footwear clearly vary. A proper understanding of competition in footwear requires an effort to sort these various factors out -- to separate the effect of imports from other forces exerting pressure on U.S. producers, and within the import sector to appraise the various influences such as competition based on fashion from competition based on price.

Import Competition by Price Bracket

The most detailed available data for the purpose of analyzing import impact, are those on imports by price-brackets compiled in a special analysis by the Tariff Commission for the year 1967. The Tariff Commission also compiled roughly comparable information on 1968 domestic production by wholesale price ranges. Applying the percentage distributions of the 1967 data to 1968 import data provides a rough comparison between imports and domestic production and, further, a picture of import penetration by price ranges for 1968. This picture, of course, is limited to the situation as of one period of time and as such reveals little of the dynamic process or the dynamic effects of import growth and penetration. Similar data over a period of time, however, are unfortunately not available. What follows below, therefore, is necessarily a somewhat static analysis, though of a relatively recent period.

One clear result of this analysis, the results of which appear in Tables 36 and 37, is that import concentration and penetration varies substantially by price. About one-half of total U.S. production is wholesaled at less than $4 per pair, as compared to roughly four-fifths of all imports. Imports supply about 30% of total consumption in this range. In the wholesale price range over $4, on the other hand, total import penetration is only about 10%.

About 20% of domestic production, 10% if slippers are excluded, is low-priced footwear wholesaled under $2.40, as opposed to about two-thirds of all imports. With few if any domestic leather shoes retailing at less than $6, per pair, domestic production at this price range essentially consists of either vinyl footwear or of slippers.

On the other hand, import penetration is about 10% in the wholesale price ranges over $2.40 which consitute about 70% of total consumption, and 80% if sandals and slippers are excluded. The bulk of domestic output, about 80% or over 90% if slippers are excluded, is concentrated in the price brackets over $2.40, compared to about one-third of imports (Table 38).

The greatest concentration of domestic pairage and of total sales of nonrubber footwear -- about 40% -- is in the $3-$6 wholesale price range. Less than 15% of all imports, and about 30% of the leather imports, sell in this medium-price range; import penetration here is about nine percent. The greatest penetration of imports in the medium and higher price ranges -- about 14% -- is in the very highest priced shoes, wholesaling for over $10, where style, quality, and brand name can be overriding considerations. Shoes at this price, however, constitute less than 10% of total consumption.

Of all major categories, women's and misses' footwear has allegedly experienced the most substantial pressure from imports; 70% of all imports, it will be recalled, come in this area. Here again, import penetration varies significantly by price level. About half of domestic production of women's and misses' shoes wholesales for under $4, compared to three-fourths of imported shoes and 95% of all sandals. Imports account for about 40% of sales under $4, a bracket which accounts for 60% of all women's and misses' footwear consumed. On the other hand, in the price ranges over $4 in which about 60% of the imports of women's and misses' leather shoes are concentrated, import penetration is only about ten percent.

While domestic production of women's and misses' footwear is distributed throughout all wholesale price ranges above $1, less than 10% wholesales for less than $2.40, compared to about 70% of imports. One-half of shoe imports and close to 80% of the sandals are vinyls priced under $1.20; and there is virtually no domestic production at this price level. Imports, in fact, supply 65% of the sales of shoes priced under $2.40 (over 75% if sandals are included).

Conversely, over 90% of domestic production of women's and misses' shoes wholesales for over $2.40, as compared to about 30% of the imported footwear. About 85% of imported leather shoes, however, and 40% of the leather sandals sell in the medium and high price brackets. But in these ranges, which account for about 80% of total consumption, the import penetration is only about 7%, 11% including sandals. The greatest single concentration of domestic output, one-third of the total, is in the $3-$4 range. Imports constitute about 5%, 8% if sandals are included, of total sales in this range.

In short, price data indicate that the concentration in pairage and the penetration of imports has, thus far at least, been among the lowest, certainly lower than the overall import ratios indicate, in medium-priced footwear where the bulk of domestic production is concentrated, including medium-priced women's and misses' footwear.

Upgrading Product Lines

Looking over a longer term, it would appear that domestic producers have been gradually upgrading their product mix, particularly in the half of their total output worn by women. They have moved into the higher price brackets clearly in response to heightened interest in style and high-fashion by consumers, to higher disposable incomes, and, to an unknown extent, in response to greater pressures from imports in the lower price ranges. The average unit value of domestic shipments of women's and misses' footwear, for example, rose 41% between 1960 and 1968, a faster rate than the corresponding increase in the BLS price index for this category, which endeavors to measure prices of the same shoes over time. As offsets, production costs have been lowered by shifts to simpler constructions, such as the cement process, to vinyls, and to less labor-intensive types of shoes.

Much of this upgrading took place in the more recent years of the past decade, especially since 1965. At the same time, it should also be noted, the average per pair value of imported women's and misses' shoes was also rising, and at an even more rapid rate, reflecting in all likelihood both increases in average prices and some upgrading in the product mix. In 1969, for example, imports rose 15% in terms of pairs, but in terms of value the increase over 1968 was no less than 33%.

Other Considerations

Any appraisal of import impact would not be complete without taking note of certain relevant, non-statistical considerations. The above comparisons of available price data, for example, should objectively include some further allowance for other factors inherently involved in importing products such as shoes.

Purchases of imported merchandise, especially of buyer-specified or fashion-oriented goods, for example, necessarily involve long lead-times -- as much as four to six months in leather footwear. For lines dependent upon unpredictable consumer acceptance or upon seasonal buying patterns, this lag time necessarily introduces a large element of risk and uncertainty in importation.

The re-order problem in retailing can become acute under such limitations, and price margins should properly be adjusted accordingly to reflect a more realistic range of the effective choices facing the buyer. Delays in shipping and unloading add to this equation, as does the general practice of little if any warehousing of imported lines and that of providing financing with the placing of a foreign order or well in advance of delivery, a problem intensified under tight money conditions. Another handicap is the customary foreign practice of making shoes in fewer sizes and widths than the American consumer is accustomed to having available, although the practice of providing American lasts and specifications to foreign producers, including subsidiaries, is growing.

Prospects for Vinyl Footwear

Another broad consideration equally difficult to include in any overall appraisal is not only the present impact of imported vinyl footwear, but also the future prospects. Vinyl footwear necessarily involves more mechanized production processes, greater capital and technological inputs, and certain, not readily measurable labor economies.

It is a fast growing, but still relatively new area where some U.S. firms appear to be effectively competing and where consumer acceptance appears to be growing, both in low-end merchandise and in the more expensive poromerics. The extent to which consumers will adjust their buying and wearing habits further in the direction of this type of shoe cannot be predicted, nor can the technological advances which may further reduce manufacturing costs or improve the product. Such advances would create still further incentives for U.S. firms to enter production in an area where U.S. manufacturing would generally appear to have a fairly good competitive posture. Vinyl footwear for women and for children appears to have made substantial inroads in the consumer market, a trend that importers have capitalized quickly upon.

Preferences for Imports

Finally, imports can increase because of an absolute consumer preference for the types of products made abroad, for example, because of superior or preferred style or quality factors -- causes particularly relevant in a fashion-oriented industry. Imports can also increase because domestic production may be inadequate or unable to satisfy demand -- again, ability to capitalize quickly on consumer trends is important in an industry affected by changing tastes.1/ The Task Force could make no judgment on the

1/ It was frequently pointed out to the Task Force that there was an abrupt change in women's and misses' fashions in 1968 and, allegedly, an important cause of the sharp upswing in imports that year was the quicker, more general availability of these new styles from foreign suppliers. Statistical or factual evidence to permit a judgment of this contention was not available. In any event, it would appear that U.S. firms did eventually adjust, though not necessarily all of them, and in fact, many were left with heavy inventories when the style cycle moved on into another phase.

extent to which consumer preferences for imports, preferences which could not be satisfied domestically, have been involved in recent import trends. It is a highly subjective issue on which opinions vary widely.

Imports can further increase because new types of shoes are developed in product categories and price ranges which have no effective domestic counterpart -- or, put another way, a new consumer market can be developed which may or may not impinge upon markets formerly satisfied by local producers. Clearly, price differentials can also affect import trends, either through absolute differences or through domestic prices rising relatively faster and widening the gap.

The Broad Conclusions

These are the broad lines of the available statistical and related evidence of the impact of footwear imports. Given the many hundreds of both U.S. producing units and types of highly differentiated products, as well as the dynamic nature of the industry and its technical ability to alter its product mix, the Task Force was unable -- and believes it not feasible -- to proceed far with the next logical issue -- relating the impact of imports to any difficulties of specific firms or factories. Such an examination would require not only far more data and time than available, but, in the end, could properly be done only by a searching examination of the facts for each establishment and in the consumer markets for the types of shoes it made. These facts would necessarily also have to range far beyond the nature and prices of its products and those of its import competition, for import pressures are but one of the competitive forces affecting operations and would require separate identification.

A fully satisfactory basis for conclusions would also require far more information than is available on the competitive situation over a period of time and particularly at the retail level. A comparative price analysis, such as that reported above, necessarily treats two pairs of shoes with similar prices as being directly competitive when, in fact, they may differ in purpose, style, quality, durability or other factors. From the consumer point of view, shoes in different price ranges can be potential substitutes for each other and the market for each cannot be neatly segregated solely on the basis of price, materials, or other purely quantitive measures.

The degree of substitutability, and hence the full measure of competitive impact, cannot be fully appreciated without far more understanding of consumer decisions than is now available. A higher priced pair of vinyl footwear, for example, may in fact be a substitute for a medium priced pair of leather shoes, or may become more competitive over time as prices generally rise or as consumer buying habits shift.

The available facts, on balance, would suggest the following broad conclusions on import impact:

...Imports have risen rapidly, doubling since 1966, while domestic production has trended upward, but at much slower pace.

...The heavily fashion-oriented women's and misses' sector has experienced the greatest import pressure, though, given the concentration in it of both imports of sandals and vinyls, it is questionable whether all of the recent increase represents direct competition or consists of pairs of shoes which have actually displaced domestic production.

...Although imports are relatively among the highest, the children's market has experienced somewhat less pressure and does not appear to have been adversely affected. Rather a new range of lower priced shoes has become available from foreign sources.

...The men's and boys' market has been less affected in both absolute and relative terms, though on both scores imports are making steadily greater inroads. However, there is as yet little evidence of adverse impact.

...The availability of low-end, basic footwear has grown enormously in recent years due primarily to imports. Little if any domestic production of leather shoes is available in the competitive price ranges now filled by these imports and which low and medium income families could choose as alternatives.

...A reasonable assumption appears to be that most vinyl imports have little direct competitive effect on leather production. Rather, except at the very top of their price range, they have opened up a new alternative -- new types of footwear, new styles and uses in price ranges where low income families can now afford to buy more shoes than they could before, or could now, absent vinyls. Moreover, by providing some fashion styling at lower prices, such imports appear to have encouraged the development of new consumer markets, formerly served only by simple, basic shoes or by other, nonleather types of footwear.

...With somewhat less certain plausibility, it could also be concluded that the impact of much of imported sandals is not as directly competitive with U.S. production as often alleged. A low priced sandal provides an opportunity to add an additional footwear item in the closet; a high priced sandal, conversely, is a fashion item not generally available from domestic sources. While both might be worn at times instead of a domestic shoe, they tend to be worn for different occasions and activities and might not normally completely supplant other footwear.

...At the high end of the price range, particularly for women's shoes, a substantial volume of imports arrives at unit values above the average of domestic shipments, indicating that styles and quality of certain lines of imports -- from Italy and Spain in particular and to a lesser extent from other European countries -- are such as to attract purchasers for reasons other than comparative prices.

...The thrust of import pressure in the middle ground -- in popularly priced women's leather shoes and increasingly in men's shoes -- does not yet appear to have made substantial inroads in volume terms. It is, however, an area of growing competition and penetration and of pressure on domestic price scales. This was in some evidence prior to 1969 when the fashion market deteriorated, and appears to have grown since then. Imports from Italy and Spain, in particular, have been concentrated of late in this medium-priced, leather footwear area. Both domestic output and the import mix here have been upgraded over recent years, with some domestic producers abandoning whatever position, if any, they had in the low-end, and importers expanding from their position there upward into the higher price ranges.

...Estimating the real impact in any specific terms is probably not possible, given the nature of the data and the complexities of footwear. As very rough measures, it would seem clear that the largest import penetration appears to be in the women's and misses' domestic markets. However, if vinyls, which are a growing share of domestic production, are excluded the import inroad is less and if sandals are excluded, the penetration then becomes much less. Allowing, crudely, for possible substitutions between these different types of footwear, the import share directly competing with U.S. production is probably somewhere in the range of 10 percent to possibly as much as 15 percent in terms of pairs, and substantially less in value terms. Leather footwear, which appears to be the cause of greatest concern, is a minor share of women's and misses' imports. The bulk of imports here are still very low priced slippers, sandals, and vinyls.

...A major issue in appraising future impact is the judgment of whether recent trends will continue and with what effects. While price is clearly only one of the factors influencing import volumes and trends, imports of both rubber and leather footwear are clearly also responsive to price trends in the U.S. market. More will be said of this in Chapter VIII.

...Overall, foreign producers have become strong competitors in important segments of the U.S. footwear market. They have capitalized on the rapid growth in the women's and misses' segment by concentrating here to a greater extent than have domestic firms, first taking over a large share in the lower priced lines and, more recently, expanding into medium and higher priced footwear. They also show capabilities of similar performances in other categories.

Chapter VIII

SHOE PRICES AND THE CONSUMER

The clear lesson revealed in an examination of price statistics is that shoe prices have risen sharply in recent years and at a rate considerably faster than prices of most other products. Between 1960 and 1969, for example, wholesale prices for leather footwear rose about 24 percent; at retail the average was up about 31 percent. By comparison, the overall wholesale price index for all consumer finished goods excluding food during the same period rose about 8 percent and the consumer price index, excluding food, was up 16 percent (Table 39).

Within this period there was also an acceleration in footwear prices, starting about 1965. This was, it will be recalled, approximately the same time when the penetration of imports also accelerated. From 1960 to 1964, wholesale prices for footwear were virtually unchanged; since then the annual rise has averaged about 5 percent. Between 1964 and 1969 wholesale prices for leather footwear rose about 23 percent, while retail prices increased 26 percent.

There were divergent price patterns by type of shoe. Mens' and boys' leather footwear, where import penetration overall appears to have been the least, has experienced a rise in domestic prices in recent years close to the average for all footwear of 23 percent at wholesale. Women's and misses' shoes, on the other hand, experienced about the same rate of wholesale price rise, 22 percent, while imports were penetrating more deeply. The price increase in children's footwear was the most significant, about 29 percent at wholesale.

Causes of Higher Prices

The causes of these rapid price increases are not hard to find. This report found in Chapter VI that productivity in the footwear industry is below the average for all manufacturing and has been rising more slowly than average, that its hourly wages have been rising faster than average, and that the result has necessarily been a steady increase in unit production costs.

Another principal component of footwear costs -- hides, skins, and leather -- has also contributed substantially to the rise in shoe prices. During the last nine years, prices for hides and skins rose 17 percent and leather prices 15.8 percent.

The cost impact on footwear, however, varied widely within this period. With a reduced world supply and a sharp, abnormal increase in U.S. exports between 1964 and mid-1966, prices for hides and skins rose 80 percent, and actually led to export controls at one point. However, although prices returned to a more normal pattern after mid-1966 and fell back substantially in 1967, footwear prices continued to rise. Since then, steady increases in exports of hides and skins have kept domestic prices at high and rising levels.

Other Cost Increases

Price increases have also been pervasive in the other materials and components needed for footwear manufacture, though not as dramatic as in those for hides, skins, and leather. With the increasing emphasis upon style and rapid style changes, moreover, costs of lasts, dies, and patterns have also risen, if only because they have to be changed more frequently. Such higher costs, too, would have to be offset by higher efficiency and productivity in order to restrain unit-cost and wholesale-price increases.

At the same time retailers have been raising shoe prices to cover both their higher wholesale costs of shoes and the rising costs of retailing, again, with the bulk of the increase occurring in the period since 1964. From 1960 to 1964, retail prices rose 1 percent per year; since then the rate of increase has also been about 5 percent per year. Wholesalers announced major price increases at the introduction of new seasonal lines each year between 1965 and 1968.

With strong demand and little effective consumer resistance to higher prices, retailers were able to pass their increased costs on, along with higher markups to offset their own higher operating costs. Until recently, at least, it would appear from its steady, substantially above-average price trend that the footwear industry has had little difficulty in passing its higher prices on to the consumer. As was apparent in the evidence presented in Chapter IV, it was thereby able to achieve a generally satisfactory and even rising level of profit, notwithstanding the concurrent rise in imports.

In any event, through 1969, it is clear that footwear prices rose at a very rapid rate even though imports were also rising. In this instance, substantial price increases appear to have been accompanied by increases in imports, rather than having been restrained by, for example, the competitive pressure of growing import competition. As domestic prices rose at wholesale, retailers and consumers clearly turned increasingly to imported footwear at a time when foreign sources were also able to meet a rapidly expanding demand for their products in the United States. The extent to which demand for imports was, in fact, stimulated by the rapid rise in domestic price cannot be separately determined merely by statistical analysis.

Markup Practices

A major allegation of the domestic industry is that specific evidence of import competition -- and displacement -- is not easily found because of a retail practice of taking a larger markup on the cheaper, imported shoe, and selling it at the same price point or range as its domestic counterpart. The Task Force was unable to find specific evidence on this claim, either way.

It was frequently told, for example, that markup practices necessarily vary with the type of shoe sold. A style item necessarily carries a higher markup to compensate for the risk involved in stocking it. For items in good current demand, higher markups also obtain profits to offset performance on less successful lines. The Tariff Commission found, moreover, that the retailers it contacted reported they generally follow a uniform markup practice for each types of footwear regardless of source, increasing it somewhat for high-fashion items subject to rapid obsolescence, and reducing it for promotional items.

The Consumer and Imports

Consumer purchases of footwear can be roughly divided into three major types of sometimes interacting responses. Buying habits clearly vary with age and sex so that the age composition of the population, in particular, can influence shoe purchases. Secondly, there are demands for what might be termed basic footwear versus demands for what could be considered marginally-needed foot coverings. The discretionary area, in turn, is also highly influenced by differences in style, appearance, make or brand, quality, and price.

As for most products where style, fashion, and taste play an important role, it is difficult, if not impossible analytically to separate the purchases made on more discretionary grounds or to quantify them, certainly not without greater knowledge of consumer motivation than is available today in footwear. Clearly, the consumer gains from having a greater set of choices. More certainly, he gains from having greater competition and whatever price pressure it may exert. It would be highly conjectural, but nonetheless relevant, to be able to estimate how much greater the 5 percent per year rise in the price of shoes might have been had not imports also been rising rapidly during that period, or, conversely, how many domestic shoes would have been sold had prices not risen as much as they did.

Finally, from the consumer point of view, the evidence of earlier chapters of this report clearly indicates that imports have opened up important new options. The extremely low-priced imports, priced often far below any comparable domestic footwear except canvas-upper, rubber-soled footwear, have provided entire new lines of basic foot coverings. At the other end, there can be little doubt that styles developed abroad in the higher price ranges have also provided new consumer choices.

By much the same token, imports of medium-priced footwear incorporating fashion styling have often provided low and medium-income families with styling at prices within their income potentials. The handicap of the type of data presented in Chapter VII -- comparing imports and domestic shoes in the same price ranges -- is that little account can be taken of differences in the style, quality, and other non-price characteristics of the shoes being compared. It seems clear, however, that in many instances the shoes being compared statistically are not the same, and that some imports are able to provide a fashion orientation or other features which the consumer cannot obtain from domestic sources in the same low or moderate price ranges.

Chapter IX

RECENT SHOE FACTORY CLOSINGS

Individual manufacturing plants can close operations for a variety of reasons. It is seldom easy to identify the single most important reason for doing so. The Task Force attempted, however, to give special attention to the shoe establishments which closed in 1969 since their action has been pointed to as strong, if not convincing evidence, of the adverse impact of import trends. The number of closings, it has also been alleged, has risen sharply since imports began to rise more rapidly.

When the Task Force began its work in September, 1969, the commonly cited record was of 32 plant closings in the previous year or so. It, therefore, sought information on them through the Department of Commerce Field Offices, the State Employment Services, the industry's trade association, the trade press, financial sources, and, finally, through the Treasury Department from an analysis of the tax records of the Internal Revenue Service. Subsequently, by the end of 1969 an additional 37 plants were reported to have closed. Time did not permit as thorough an investigation of these. The available information is attached as an appendix to this report.

As is frequently the case, especially in dealing with small firms, it was not always possible to obtain verifiable information once a firm had ceased operations or an individual plant shut down. Specific information on many small businesses is not available in the usual private and public information sources. Once out of business, moreover, it is often hard even to trace the former owners to pursue any inquiry.

Reasons for Closing

Such data as the Task Force could obtain often left it indeterminate whether a separate plant closing or the failure of a firm was, in fact, due to any of the traditional problems of small business such as working capital shortages, high cost

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of credit, noncompetitive costs compared to those of domestic rivals, excessive inventories, inadequate marketing outlets or marketing efforts, labor shortages or other labor problems, loss of owner interest, lack of demand for the product or inferior style and quality, managerial performance, or, alternatively due directly to overwhelming competition from abroad. The following is a summary of the information which was obtained.

In the first place, it should be recalled that the shoe industry has long been characterized by a relatively high rate of turnover. Entry into shoe manufacture has been facilitated by availability of rented machinery, the ease with which the necessary skills can be developed in a local work force, and the relatively small amount of capital often considered adequate to start operations. A sales contract and a line of bank credit can be sufficient to start a new business and to open up in a rented loft or factory. For tax and other purposes shoe operations have also been known to close down, only to re-open even at the same site with the same workers under another name, possibly with the same management or under new control.

On the other hand, many establishments today belong to larger corporate or unincorporated enterprises, and are thereby subject to management decisions on allocation of production lines between different plants, and to reorganizations and consolidations of individual plants within the parent umbrella. Finally, it is not uncommon to have groups of affiliated companies with interlocking financial and managerial interests which shift production among the factories under their control.

For these and similar reasons, the closing of an individual shoe producing operation can be the result of many, often interrelated considerations. The inquiry made by the Task Force focused on closings involving small, relatively independent establishments. It was not possible to obtain or appraise documented reasons for recent closings of plants belonging to larger, multi-plant operations, though it appeared that some were of the nature of consolidations of operations, including the shifting of production to newer, more efficient plants, or similar types of management decisions. Under the circumstances the role of imports could not be isolated with the resources available.

Failure versus Closing

What was clear was that the record of business failures -- as distinguished from individual plant closings -- has actually declined in recent years. According to the compilations of such data by Dun & Bradstreet, 41 firms failed in 1954 and the same number in 1958. By the 1960-1964 period the number per year had declined to an average of 29 and, by 1965-1968 to an average of 12. In the first ten months of last year, 9 firms failed, compared to 10 in the same period of the year before. The same source indicates that the total liabilities of firms filing bankruptcy petitions has recently averaged about $3 million a year, approximately 0.1 percent of the value of the industry's domestic shipments (Table 13).

Firms leave the industry or plants close, of course, without involving actual failure or formally going into bankruptcy. The overall picture of closings of all types, however, lacks any valid statistics to permit measurement of trends over a period of time. Until 1963, the footwear industry's trade association did compile annual figures on entries and exits. In the decade ending with 1963, its figures indicate that new firms entered the industry at a rate of from 35 to 40 per year, while slightly more, 45 to 47 firms, left each year.

Although the possibilities of changes in name or corporate shell obscure such measurements, they are consistent with the Census data noted in Chapter III which indicate a long term trend toward relatively greater importance of larger firms and both an absolute and relative decline in the number of smaller establishments -- a trend in evidence since the mid-1950's. It will also be recalled that, according to the Bureau of the Census, virtually all of the shrinkage in number of establishments has been among those employing less than 250 persons, while those employing more have actually increased.

The 1969 Closings

The 69 plants reported to the Task Force as having closed during 1969 proved upon closer examination to include a variety of situations. Twelve of the 69 turned out not to have permanently closed at all. Of these 12, one had experienced cutbacks in production, but was still in business. One had closed its retail operations and another discontinued its slipper production, but both continued to manufacture shoes. One closed temporarily due to fire but soon resumed full operations in a new plant at the same location. Another continues to make component parts for shoes, having transferred shoe manufacture to a new plant in the same town. The other seven merely changed management and are currently operating at the same locations. Another two of the 69 had substantially cut back operations but it is uncertain whether they actually closed. Another closed temporarily and planned to resume operations this year.

Of the 54 plants which definitely closed, nine ceased operations prior to 1969. Eighteen appeared on investigation to have been closings of separate plants of larger multiplant firms, apparently consolidations of activity into other locations. One of these plants was an experimental operation. One firm of the 54 cases had been in operation for only 90 days when it closed. In at least three of the 54 cases new shoe firms subsequently began operations in the same premises, and in another three instances the same management of the closed firms shifted production to new plants in other areas.

It proved difficult to get exact information on the types of shoes produced by the 54 plants. It was only possible to learn that 34 of them had produced women's and misses' shoes, 10 produced only slippers, sandals or moccasins, 6 made men's and boys' shoes, 2 made children's shoes, and one made Western style boots. Twenty-three of the 33 women's shoe plants were reported to have claimed that imports were among the causes or the principal cause of closing. Their former output appeared to have been spread across the spectrum from low-priced casual and novelty shoes to high-fashion shoes. Five plants also manufactured slippers or sandals.

The Employment Effects

Employment data was obtained by local employment offices on 50 of the 54 closed plants. They indicated that the known peak employment in each, when aggregated, totaled about 9,000 workers. Pre-layoff employment totaled about 6,000. Twenty-six of the 54 plants were located in New England, with 22 in Massachusetts and New Hampshire. About 7,200 of the peak and 4,800 of the pre-layoff employment was accounted for by these 26 New England plants. According to the same sources, when asked about post-layoff prospects of the workers in the 50 plants, about 2,900 were estimated to have either already been definitely reemployed, migrated, or withdrawn from the local labor market. Local officials stated that, based on current conditions, another 1,200 had good prospects for reemployment, while about another 1,200 had poor prospects. The prospects of about 700 were not known.

In terms of size, the closed plants were clearly among the smallest in the industry. Peak employment for 20 of the 54 was less than 100 workers; 9 employed from 100 to 198; and 8 were in the 200-299 employee category. The size ranged from 3 to 400 employees at the time of closing.

Local employment services were also requested to report on available information on the local impact of the 54 cases. They reported that in 19 cases, predominantly in Massachusetts and New Hampshire, the firms themselves gave foreign competition as a reason for closing. Other reasons cited frequently were financial stringency, bankruptcy, poor management, shortage of skilled help, consolidation of company operations, and lack of orders.

By and large, local employment offices reported a generally negligible impact from the closings due either to the small size of the factory involved in relation to the area's total labor market, or to the fact that reemployment both in other shoe plants or other industries was readily available in the area. A few areas reported an actual shortage of workers with the skills of those laid off. Two areas in New Hampshire, however, reported a serious impact -- one because of the generally declining level of local employment and the other because the firm was the area's major employer. Haverhill, Massachusetts, was also reported to be adversely affected, although jobs were available in nearby Lawrence.

Although most of the reports indicated a generally favorable labor situation and good prospects for the workers involved, particularly for stitchers, there were serious barriers to reemployment for a sizable number. The older workers with limited skills, residing in smaller towns or more isolated areas, again particularly in New Hampshire and Massachusetts, would appear to have greater difficulties, including the lack of transportation to nearby towns or, even within the geographical limits of their own metropolitan area, to existing job vacancies. Although Boston as a whole has a tight labor market, the Lynn office reported re-employment difficulties for workers due to the large volume of recent layoffs there.

Financial Conditions of the Closed Firms

The further possibility exists that firms which closed may have been in a weak condition and unable to compete with other domestic firms. Added competition from imports may have been sufficient, though not dominant enough by itself, to bring on the closings. This possibility appears to be a probability in many of the cases examined, according to the findings of a Treasury Department examination of the recent tax returns of certain companies recently closed.

While financial records, at best, can only provide a very general picture of the outcome of many elements in a firm's success or failure, including factors beyond management's control in some instances, the evidence developed strongly suggests that the not unusual small business problem of undercapitalization contributed heavily to the 1969 record of shoe factory closings.

When the Task Force began its work, it was aware of 26 firms presumed to have closed. Of these in the time available for an inquiry the Internal Revenue Service located returns for one or more of the years 1965-1968 for 15 of the firms involved (unincorporated firms' returns could not be examined since they are not filed as such). Of the 15 firms, 10 had assets under $500,000. Four were between $500,000 and $1 million, and one was over $1 million.[1/]

Of the 10 smallest, the average assets size in 1966 was $191,000 and the average equity $68,000. The equity-asset ratio, therefore, was 36 percent, well below the

1/ The remaining time also did not permit examination of the records of closings subsequently notified to the Task Force.

average of all footwear firms in this size category. Over the four years studied, the firms which became defunct in 1969 consistently appeared to have been undercapitalized. Similarly, their business receipts were also well below average in relation to assets for even the same size category in this industry. Finally, they showed substantial deficits throughout the period, both before and after inclusion of officers' compensation.

The same pattern of undercapitalization and low earnings performance relative to other footwear firms of the same size was also manifest in the available records of the four corporations in the $500,000 to $1 million assets category which also closed in 1969. In three of the four years covered, they actually averaged a negative equity and in 1968, when they produced a positive equity, their ratio of equity to assets barely exceeded 5 percent. Normally, footwear corporations of this size report equity-asset ratios of about 50 percent.

Although this group of four firms had relatively high asset-turnover ratios, their operating results were extremely poor. Before deducting officers' compensation, they earned less than 5 percent on their total assets, less than half the average for this size group of other footwear companies.

The single firm with assets in excess of $1 million ceasing business in 1969 was also gravely undercapitalized. Its equity-asset ratio reached a peak of 27 percent in 1967. It did produce a substantial receipts-assets ratio and its earnings before deduction of officers' compensation were high, but turned into a sharp loss in 1968. A liquidation was apparently planned, however, in this case for virtually all of the 1967 equity was withdrawn in 1968, while liabilities were increased by more than the withdrawal.

In short, the record of these 15 companies does not suggest that events took a sharp turn for the worse, for example, in 1968 when imports hit a new peak. By most standards they would be judged to have been in poor economic health long before and vulnerable to any one of a number of new pressures -- a tightening of credit, death or retirement of a principal, rising costs, or loss of a significant customer to either a domestic or foreign competitor.

Given the sketchy nature of available information on the exact nature of their former product lines, a total lack of information on their former customers or why they ceased to buy from these firms, or any further details on managerial, financial, or production matters, it would be presumptuous to judge whether imports were a major factor in the demise of these firms or not.

About all that can clearly be said is that they represented a small portion of firms active in the industry, that they had apparently been on the brink of failure for some time, that they were highly vulnerable to credit conditions, that their size and numbers does not appear to be out of line with the turnover long experienced in this industry, and that with the intensification and changing nature of competition and marketing noted earlier in this report it is perhaps surprising that more firms were not involved. In some instances, no doubt, imports played a role, but by and large the Task Force could obtain little evidence in the recent record that they had either an unusual or pervasive effect on 1969 plant closings.

Table 1

NONRUBBER FOOTWEAR: U.S. PRODUCTION, IMPORTS, EXPORTS, AND CONSUMPTION, 1954-1969
(Thousands of pairs)

Period	Production	Imports 1/	Exports	Consumption	Imports as % of Consumption
					Percent
3-year average:					
1954-56-------	569,164	10,000	4,640	574,524	2%
1957-59-------	607,376	27,000	4,043	630,333	4
1960-62-------	608,729	57,000	3,049	662,680	9
Annual:					
1963----------	604,328	67,000	2,843	668,485	10
1964----------	612,790	80,661	2,835	690,616	12
1965----------	626,229	95,991	2,491	719,729	13
1966----------	641,696	101,746	2,737	740,705	14
1967----------	599,964	133,259	2,217	731,006	18
1968----------	642,427	181,344	2,417	821,354	22
1969----------	580,857	202,208	2,324	780,741	26

1/ Data for 1954-63 are partly estimated. Data on zoris have been excluded from the import figures.

Source: Department of Commerce and Tariff Commission.

Table 2

NONRUBBER FOOTWEAR: U.S. SHIPMENTS, IMPORTS, EXPORTS, CONSUMPTION, AND IMPORT-CONSUMPTION RATIO, 1960-1969
(Thousands of pairs)

	Shipments	Imports 1/	Exports	Consumption	Imports as % of Consumption
1960	595,284	32,276	3,244	624,316	5%
1961	594,881	40,723	3,007	632,597	6
1962	635,068	74,787	2,867	706,988	11
1963	600,813	67,000	2,843	664,970	10
1964	618,125	80,661	2,835	695,951	12
1965	636,336	95,991	2,491	729,836	13
1966	639,033	101,746	2,737	738,042	14
1967	608,100	133,259	2,217	739,142	18
1968	639,250	181,344	2,417	818,177	22
1969	572,984	202,208	2,324	772,868	26

1/ Excludes zoris.

Source: Department of Commerce.

Table 3

NONRUBBER FOOTWEAR: U.S. SHIPMENTS, IMPORTS, EXPORTS, CONSUMPTION, AND IMPORT-CONSUMPTION RATIO, 1960-1969
(Millions of dollars)

	Shipments	Imports 1/	Exports	Consumption	Imports as % of Consumption
1960	$ 2,332	$ 55	$ 9	$ 2,378	2%
1961	2,365	61	9	2,417	3
1962	2,446	93	9	2,530	4
1963	2,323	91	9	2,405	4
1964	2,465	105	9	2,562	4
1965	2,532	120	8	2,644	5
1966	2,743	156	9	2,891	5
1967	2,764	219	8	2,976	7
1968	3,011	332	8	3,335	10
1969	2,857	436	8	3,285	13

1/ Excludes zoris.

Source: Department of Commerce.

Table 4

NONRUBBER FOOTWEAR: U.S. PRODUCTION, IMPORTS, EXPORTS, AND CONSUMPTION, 1965-1969, BY KINDS OF FOOTWEAR
(Millions of pairs)

	Production	Imports	Exports	Consumption	Imports as % of Consumption
1965					
Nonrubber footwear	626.2	96.0	2.5	719.7	13.3%
Men's and boys'	143.8	17.3	.6	160.6	10.8
Women's and misses'	316.4	54.4	1.1	369.7	14.7
Children and infants	66.0	6.0	.2	71.9	8.3
Other footwear 1/	100.0	18.2	.7	117.6	15.5
1966					
Nonrubber footwear	641.7	101.7	2.8	740.7	13.6
Men's and boys'	151.5	18.2	.6	169.1	10.6
Women's and misses'	320.1	62.9	1.3	381.7	16.5
Children and infants	66.1	6.0	.1	72.0	8.3
Other footwear 1/	104.0	14.6	.7	117.9	12.4
1967					
Nonrubber footwear	600.0	133.3	2.2	731.0	18.2
Men's and boys'	154.6	22.7	.6	176.7	12.8
Women's and misses'	287.0	90.2	1.0	376.2	14.0
Children and infants	60.7	7.4	.1	68.1	10.9
Other footwear 1/	97.6	13.0	.5	110.1	14.0
1968					
Nonrubber footwear	642.4	181.3	2.4	821.3	22.1
Men's and boys'	156.5	30.5	.5	186.6	16.3
Women's and misses'	318.3	125.3	1.2	442.3	29.8
Children and infants	60.1	9.2	.2	69.2	13.4
Other footwear 1/	107.5	16.3	.5	123.2	13.2
1969					
Nonrubber footwear	580.9	202.2	2.3	780.7	25.7
Men's and boys'	150.0	38.1	.5	187.6	20.3
Women's and misses'	266.5	130.3	1.1	395.7	33.0
Children and infants	53.5	13.3	.1	66.7	20.0
Other footwear 1/	110.8	20.6	.6	130.8	15.7

1/ Consists of slippers and a small amount of footwear not classified by age or sex categories.

Source: Department of Commerce

Table 5

SELECTED TYPES OF FOOTWEAR: U.S. CONSUMPTION AND PERCENT DISTRIBUTION, 1954-1969

	Nonrubber Footwear	Zoris	Canvas-upper Rubber-soled Footwear	Total Footwear Named
	Total Apparent Consumption (thousands of pairs)			
3-year average:				
1954-56	574,524	3,600 1/	51,000 1/	629,124
1957-59	630,333	35,000 1/	81,026 1/	629,124
1960-62	662,680	42,000 1/	139,367	844,047
Annual:				
1963	668,485	31,702	181,655	881,842
1964	690,616	32,098	191,044	913,758
1965	719,729	33,699	199,190	952,618
1966	740,705	31,825	195,068	967,598
1967	731,006	27,004	197,454	955,464
1968	821,354	29,738	203,425	1,054,517
1969	780,741	24,772	176,503	982,016
	Percent of Total			
3-year average:				
1954-56	91.2%	0.7%	8.1%	100%
1957-59	84.4	4.7	10.9	100
1960-62	78.4	5.0	16.6	100
Annual:				
1963	75.8	3.6	20.6	100
1964	75.6	3.5	20.9	100
1965	75.5	3.5	21.0	100
1966	76.6	3.3	19.1	100
1967	76.5	2.8	20.7	100
1968	77.9	2.8	19.3	100
1969	79.5	2.5	18.0	100

1/ Estimated

Source: Department of Commerce and U.S. Tariff Commission

Table 6

RUBBER CANVAS FOOTWEAR:
U.S. SHIPMENTS AND IMPORTS, 1955-1969

	Shipments		Imports	
	Quantity (1,000 pairs)	Value ($1,000)	Quantity (1,000 pairs)	Foreign Value ($1,000)
1955	56,300	$ 73,000	115	$ 152
1956	59,600	86,500	434	344
1957	63,500	96,900	1,023	1,123
1958	70,000	113,900	3,248	2,429
1959	77,200	132,700	12,614	17,106
1960	89,700	160,500	30,337	37,581
1961	104,100	187,000	28,615	31,843
1962	134,000	242,200	29,225	18,791
1963	148,300	268,500	28,680	18,770
1964	162,200	294,200	29,060	17,180
1965	166,700	302,400	33,360	17,610
1966	164,000	297,500	35,060	19,010
1967	152,700	278,500	44,660	25,390
1968	158,451	N.A.	49,200	31,346
1969	141,024	N.A.	44,463	33,179

Source: Department of Commerce

Table 7

NUMBER OF NONRUBBER FOOTWEAR MANUFACTURING PLANTS BY STATE, 1951, 1962, 1967 and 1968

Geographic Division and State	1951	1962	1967	1968
United States	1,446	1,230	1,123	1,111
New England				
Maine	74	73	81	84
Massachusetts	313	208	152	146
New Hampshire	53	61	65	71
Middle Atlantic				
New Jersey	32	20	21	20
New York	295	232	182	172
Pennsylvania	135	145	135	123
East North Central				
Illinois	65	43	39	37
Indiana	11	7	7	7
Michigan	10	9	15	7
Ohio	34	24	24	22
Wisconsin	63	54	45	44
West North Central				
Minnesota	9	7	6	6
Missouri	113	89	92	91
South Atlantic				
Florida	8	12	15	21
Georgia	9	11	12	13
Maryland	14	16	13	12
Virginia	12	10	10	10
East South Central				
Kentucky	6	6	10	11
Mississippi	--	5	5	5
Tennessee	26	43	39	41
West South Central				
Arkansas	10	18	24	25
Texas	30	28	25	25
Pacific				
California	65	46	39	47
Other	59	63	67	71

Source: Department of Commerce

Table 8

U.S. COMPANIES PRODUCING NONRUBBER FOOTWEAR, TOTAL VALUE OF SHIPMENTS, AND PERCENT DISTRIBUTION BY SELECTED GROUPS, 1947-1963

Product and Year	Number of companies	Shipments 1/ Total Value	Percent of total accounted for by-- 4 largest companies	8 largest companies	20 largest companies	50 largest companies
		(Millions of dollars)				
Shoes, except rubber: 2/						
1947	1,077	$ 1,726	28%	35%	45%	3/
1954	970	1,790	30	36	45	3/
1958	871	2,026	27	34	43	55%
1963	785	2,249	25	32	43	57
1966	3/	2,650	26	34	3/	3/
House slippers: 4/						
1947	3/	67	3/	3/	3/	3/
1954	170	90	19	31	54	3/
1958	159	111	18	30	56	83
1963	149	123	20	34	58	84
1966	3/	162	18	31	3/	3/

1/ The value figures shown here for 1958, 1954, and 1947 were designated as "value of production;" however, the 1958, 1963 and 1966 figures (designated as "value of shipments") may differ slightly from the "value of shipments" figures shown elsewhere in this report.
2/ SIC Code No. 3141
3/ Not available
4/ SIC Code No. 3142

Source: Department of Commerce

Table 9

NONRUBBER FOOTWEAR: ESTABLISHMENTS BY NUMBER OF EMPLOYEES

	Total Establishments	Number of employees							
		1 to 3	4 to 7	8 to 19	20 to 49	50 to 99	100 to 249	250 to 499	500 or more
		Number of establishments							
1956----	1,393	144	81	125	183	181	313	278	88
1959----	1,250	112	64	112	136	142	307	296	81
1962----	1,230	115	69	95	123	146	302	300	80
1964----	1,137	107	50	102	133	123	263	283	76
1965----	1,132	104	55	99	127	121	256	289	81
1966----	1,118	94	45	116	121	113	248	283	98
1967----	1,123	101	44	124	105	132	245	286	86
1968----	1,111	93	53	98	119	108	257	299	84
		Percent of total							
1956----	100.0%	10.3%	5.8%	9.0%	13.1%	13.0%	22.5%	20.0%	6.3%
1959----	100.0	9.0	5.1	9.0	10.9	11.3	24.5	23.7	6.5
1962----	100.0	9.3	5.6	7.7	10.0	11.9	24.6	24.4	6.5
1964----	100.0	9.4	4.4	9.0	11.7	10.8	23.1	24.9	6.7
1965----	100.0	9.2	4.9	8.7	11.2	10.7	22.6	25.5	7.2
1966----	100.0	8.4	4.0	10.4	10.8	10.1	22.2	25.3	8.8
1967----	100.0	9.0	3.9	11.0	9.3	11.8	21.8	25.5	7.7
1968----	100.0	8.4	4.8	8.8	10.7	9.8	23.1	26.9	7.5

Source: Department of Commerce

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Table 10

NONRUBBER FOOTWEAR: U.S. PRODUCTION BY GEOGRAPHIC AREAS, 1965-69

Geographic Area and State	1965	1966	1967	1968	1969
	(Millions of pairs)				
United States, total	626	642	600	642	581
New England, total	201	203	189	198	164
Maine	62	63	57	58	50
Massachusetts	84	85	79	85	71
New Hampshire	45	46	45	46	36
Other	9	9	8	8	8
Middle Atlantic, total	178	179	163	178	162
New Jersey	16	16	17	16	17
New York	74	74	66	77	67
Pennsylvania	88	89	80	85	78
North Central, total	126	126	117	123	*
Illinois	24	23	19	19	21
Indiana	5	5	4	5	*
Michigan	9	8	7	8	*
Minnesota	2	2	2	3	*
Missouri	54	54	51	57	50
Ohio	19	20	19	17	17
Wisconsin	14	15	14	14	15
Other	---	---	---	---	---
South and West, total	122	133	130	143	*
Arkansas	20	22	21	21	20
California	5	5	6	6	*
Florida	2	3	3	1	*
Georgia	10	11	11	13	*
Kentucky	6	6	7	11	*
Maryland	8	8	9	10	*
Mississippi	10	11	10	12	*
Tennessee	38	42	40	41	37
Texas	4	5	5	5	*
Virginia	8	10	8	8	*
Other	10	10	10	14	*

* Not available.
Source: Department of Commerce

Table 11

NONRUBBER FOOTWEAR: SHIPMENTS FROM PUERTO RICO AND
TOTAL U.S. NEW SUPPLY 1/
(Millions of Dollars)

	Total New Supply 1/	Puerto Rico Shipments to U. S.	
		Total	Percent of New Supply
1965	$2,651	$26.6	1.0%
1966	2,897	31.2	1.1
1967	3,050	43.7	1.4
1968	3,339	53.0	1.6
1969 2/	3,287	47.9	1.5

1/ "New Supply" includes total U. S. shipments plus estimated landed value of imports and shipments from Puerto Rico.

2/ Estimated from data for January to September.

Source: Department of Commerce

Table 12

CAPITAL EXPENDITURE FOR PLANT AND EQUIPMENT
NONRUBBER FOOTWEAR AND SELECTED MANUFACTURING INDUSTRIES

Year	Nonrubber Footwear 1/		Ratio of Capital Expenditures to Value Added				
	Capital Expenditures	Value Added	NonRubber Footwear	All Manufacturing	Leather and Leather Products	Textile Mill Products	Apparel
	(Millions of dollars)						
1958	$15.1	$1,146	1.3%	6.7%	1.7%	4.4%	1.5%
1959	13.8	1,185	1.2	5.7	1.6	5.3	1.4
1960	15.2	1,161	1.3	6.2	1.7	5.8	1.3
1961	21.3	1,178	1.8	6.0	1.7	5.7	1.2
1962	17.7	1,216	1.5	5.8	1.7	6.2	1.4
1963	19.6	1,280	1.5	5.9	1.6	6.2	1.6
1964	21.6	1,393	1.5	6.4	1.7	7.5	1.5
1965	22.3	1,422	1.6	7.3	2.0	8.3	1.9
1966	28.7	1,533	1.9	8.1	2.5	11.1	2.2
1967	24.3	1,639	1.5	7.8	2.4	9.0	2.1

1/ Data for the years 1959 - 1962 do not include slippers.

Source: Department of Commerce.

Table 13

NONRUBBER FOOTWEAR: FAILURES AND LIABILITIES, 1947-69

	Failures (Number)	Liabilities (Thousands of dollars)
1947	33	$ 2,196
1954	41	4,248
1958	41	9,617
1960	36	10,182
1961	25	2,319
1962	34	9,473
1963	29	8,775
1964	22	5,630
1965	13	3,727
1966	14	4,798
1967	9	3,107
1968	11	3,253
Jan.-Oct. 1968 (10 mos.)	9	2,718
Jan.-Oct. 1969 (10 mos.)	10	3,203

Source: Dun & Bradstreet

Table 14

COMPARATIVE PROFIT RATES, SELECTED INDUSTRIES

Year	Nondurable Goods	Textile 1/ Mill Products	Apparel 2/ & Finished Products	Leather 3/ & Leather Products
	Net Profit After Taxes as Percent of Sales			
1960	4.8 %	2.5 %	1.4 %	1.6 %
1961	4.7	2.0	1.2	1.1
1962	4.7	2.5	1.6	1.7
1963	4.9	2.3	1.4	1.8
1964	5.3	3.1	2.1	2.6
1965	5.5	3.8	2.3	3.8
1966	5.6	3.6	2.4	3.0
1967	5.3	2.9	2.3	2.9
1968	5.3	3.1	2.4	3.3
1969	5.0	2.9	2.3	2.6
	Net Profit After Taxes as Percent of Net Worth			
1960	9.9	5.9	7.7	6.3
1961	9.6	5.0	7.1	4.4
1962	9.9	6.2	9.1	6.9
1963	10.4	6.0	7.7	6.9
1964	11.5	8.5	11.7	10.5
1965	12.2	10.8	12.6	11.6
1966	12.7	10.0	13.3	12.9
1967	11.8	7.5	11.9	11.8
1968	11.9	8.8	12.9	13.0
1969	11.5	7.9	11.9	9.3

1/ SIC Major Group 22.
2/ SIC Major Group 23.
3/ SIC Major Group 31, of which approximately two-thirds of the value added is from nonrubber footwear.

Source: Securities Exchange Commission-Federal Trade Commission

Table 15

NONRUBBER FOOTWEAR: FINANCIAL EXPERIENCE BY SIZE-OF-OUTPUT GROUPS, 1963-67

(Thousands of dollars)

Size-of-output Group and accounting year 1/	Sales	Gross profit 1/	Net operating profit 3/	Ratio, net operating profit to sales (percent)
Less than 200,000 pairs each:				
1963----------------------	$ 92,438	$ 17,731	$ 1,395	1.5%
1964----------------------	92,936	18,254	1,479	1.6
1965----------------------	101,394	19,868	2,195	2.2
1966----------------------	107,186	19,849	1,640	1.5
1967----------------------	105,197	20,029	2,376	2.3
200,000 to 499,999 pairs each:				
1963----------------------	275,511	52,694	8,394	3.0
1964----------------------	308,021	61,190	12,953	4.2
1965----------------------	322,882	63,002	13,373	4.1
1966----------------------	353,681	68,022	15,615	4.4
1967----------------------	359,339	74,732	19,966	5.6
500,000 to 999,000 pairs each:				
1963----------------------	269,807	41,805	9,597	3.6
1964----------------------	310,125	48,409	12,841	4.1
1965----------------------	307,923	49,560	12,091	3.9
1966----------------------	345,938	58,053	16,014	4.6
1967----------------------	362,202	68,845	24,323	6.7
1,000,000 to 1,999,999 pairs each:				
1963----------------------	332,017	59,167	10,615	3.2
1964----------------------	360,539	66,851	14,057	3.9
1965----------------------	417,010	74,885	14,745	3.5
1966----------------------	469,039	92,327	25,614	5.5
1967----------------------	513,329	102,223	30,391	5.9
2,000,000 to 3,999,999 pairs each:				
1963----------------------	307,714	56,532	22,091	7.2
1964----------------------	339,446	62,316	23,996	7.1
1965----------------------	357,887	66,803	25,908	7.2
1966----------------------	415,699	77,115	30,927	7.4
1967----------------------	426,285	78,408	32,867	7.7
4,000,000 pairs or more, each:				
1963----------------------	1,134,640	260,613	66,159	5.8
1964----------------------	1,218,412	291,731	77,346	6.3
1965----------------------	1,295,689	318,640	86,968	6.7
1966----------------------	1,469,151	362,821	100,330	6.8
1967----------------------	1,534,558	394,570	107,827	7.0
All producing groups:				
1963----------------------	2,412,127	488,542	118,251	4.9
1964----------------------	2,629,479	548,751	142,672	5.4
1965----------------------	2,802,785	592,758	155,280	5.5
1966----------------------	3,160,694	678,187	190,130	6.0
1967----------------------	3,300,910	738,807	217,750	6.6

1/ Domestic producing firms are grouped according to their output in 1967; accounting years end in the period from July 1 of the year shown to June 30 of the following year.
2/ Gross profit is equal to sales less cost of sales.
3/ Net operating profits equal to gross profit less selling and administrative expense.

Source: U.S. Tariff Commission

Table 16

NET INCOME AND COMPENSATION PAID OFFICERS, AS PERCENT OF EQUITY, FOOTWEAR MANUFACTURING AND ALL MANUFACTURING CORPORATIONS, BY SIZE OF TOTAL ASSETS, 1959-1967

Year	All sizes		Under $100,000		$100,000 - $500,000		$500,000 - $1,000,000		$1,000,000 - $10,000,000		$10,000,000 and over	
	Net Income	Officers comp.	Net income	Officers comp.	Net income	Officers comp.	Net income	Officers comp.	Net income	Officers comp.	Net income	Officers comp.
Footwear Corporations:												
1959	15.6%	5.3%	-117.2%	54.6%	11.4%	14.7%	16.7%	24.1%	17.1%	6.3%	16.0%	1.1%
1960	12.0	5.0	-8.5	82.5	1.1	25.8	11.3	13.3	12.7	6.1	12.7	1.1
1961	12.6	5.4	24.5	33.6	-3.0	21.5	10.6	13.2	13.3	6.3	14.1	1.1
1962 1/	..	..	..	..	..	..	..	..	..	..	..	..
1963	11.5	4.7	-20.1	50.0	3.3	19.9	9.0	12.5	13.8	6.9	11.3	1.1
1964	12.3	4.8	17.4	60.2	4.2	22.5	15.5	15.2	12.2	6.9	12.7	1.1
1965	13.7	5.2	11.2	84.0	6.8	25.8	14.6	13.8	15.1	6.9	13.3	1.3
1966	15.3	4.6	-2.6	52.3	12.6	16.9	17.5	11.2	16.9	8.1	14.5	1.4
1967	15.2	4.0	-39.4	37.9	11.3	10.2	8.5	11.1	18.2	8.3	14.7	1.4
All Manufacturing Corporations:												
1959	15.5	n.a.	6.3	n.a.	11.0	n.a.	13.5	n.a.	15.6	n.a.	15.8	n.a.
1960	13.0	2.6	-3.5	59.5	7.3	20.7	10.2	11.1	12.2	4.8	13.7	0.6
1961	13.8	2.6	22.2	60.9	15.4	21.2	15.9	11.8	14.6	5.0	13.5	0.6
1962 1/	..	..	..	..	..	..	..	..	..	..	..	..
1963	14.9	n.a.	10.9	n.a.	11.4	n.a.	14.0	n.a.	14.2	n.a.	15.2	n.a.
1964	15.8	2.7	6.0	67.3	12.9	22.7	14.5	13.9	16.4	5.6	16.0	0.6
1965	18.1	2.7	5.6	76.0	16.1	23.4	18.5	13.7	19.2	6.0	18.1	0.6
1966	18.8	2.7	6.3	76.1	17.9	25.9	20.6	14.6	20.8	6.3	18.5	0.7
1967	15.4	2.6	6.4	74.1	15.1	26.0	17.6	14.1	18.5	6.2	15.0	0.6

1/ Data are not available.

Source: Treasury Department

Table 17

SALES AND NET PROFITS OF PUBLICLY-OWNED FOOTWEAR MANUFACTURERS, 1968-69

	Net Sales		Net Profits After Taxes		Net Profits After Taxes	
	1968	1969	1968	1969	1968	1969
	(Millions of dollars)				(% of Sales)	
Genesco	$1,112.9	$1,185.6	$34.1	$30.3	3.7%	2.6%
Interco	669.5	706.1	25.1	25.4	3.8	3.6
Brown Shoe Co.	384.6	395.0	21.3	16.3	5.5	4.1
Melville Shoe	293.0	362.5	16.2	19.1	5.5	5.3
SCOA Industries	271.1	281.1	4.4	5.5	1.6	2.0
U.S. Shoe Corp.	244.6	275.7	10.8	11.1	4.4	4.0
Endicott Johnson 1/	110.1	119.5	1.8	(11.3) 2/	1.6	(9.5) 2/
Wolverine Worldwide	90.7	100.8	3.8	3.7	4.2	3.7
Craddock-Terry	57.8	63.0	2.2	2.4	3.8	3.8
Weyenberg Shoe	50.9	52.5	2.1	2.3	4.2	4.4
Green Shoe	43.5	43.4	3.5	2.8	8.0	6.5
Consolidated Natl.	32.4	29.7	1.0	(0.2)	3.1	(0.1)
Hanover Shoe	22.9	25.2	1.25	3.64 3/	5.5	14.4
Penobscot Shoe	22.2	22.5	1.38	1.0	6.2	4.4
R. G. Barry	19.8	25.3	0.81	0.70	4.1	2.8
Frier Industries	18.6	23.5	0.73	0.92	3.9	3.9
Shaer Shoe	11.9	9.18	0.83	0.27	7.0	2.9
Julian & Kokenge 1/	9.71	9.56	(0.04)	(0.31)	(0.0)	(3.2)
Caressa	9.01	8.98	0.59	(0.18)	6.5	(2.0)
Beck Industries	5.71	6.64	0.16	0.19	2.8	2.9
Total	3,480.9	3,745.7	132.0	113.8	3.8	3.0

1/ Nine months
2/ After a debit of $10.4 million for non-recurring costs.
3/ Includes special credit from anti-trust settlements.

Source: Compiled from public financial reports

Table 18

SALES AND NET PROFITS OF PUBLICLY-OWNED FOOTWEAR MANUFACTURERS, 1967 AND 1968

	Sales			Net Profit After Taxes			Net Profit as % of Sales		Stockholders' Equity		Net Profit as % of Stockholders' Equity	
	1968 ($000)	1967 ($000)	% Chg.	1968 ($000)	1967 ($000)	% Chg.	1968	1967	1968 ($000)	1967 ($000)	1968	1967
R.G. Barry	19,805	16,247	+21.9	813	686	+ 18.5	4.1	4.2	4,743	3,208	17.1	21.4
Brown	375,219	327,594	+14.5	20,880	19,050	+ 9.6	5.6	5.8	135,721	122,722	15.4	15.5
Caressa	9,006	6,504	+38.0	592	461	+ 28.4	6.6	7.1	3,234	2,701	18.3	17.1
Caribbean	11,602	7,749	+49.7	335	162	+106.8	2.9	2.1	2,524	1,180	13.3	13.7
Certified Creations	5,817	4,392	+32.4	551	193	+185.5	9.5	4.4	1,432	1,200	38.5	1/
Cons. Nat. A.	32,448	27,707	+17.1	985	(111)	2/	3.0	2/	7,636	6,651	12.9	2/
Craddock-Terry	53,861	45,404	+18.6	1,959	1,597	+ 22.6	3.6	3.5	16,377	14,933	11.9	10.7
Endicott Johnson	147,103	140,855	+ 4.4	2,410	2,479	- 2.8	8.6	0.5	58,628	59,389	2.2	1.2
Genesco	1,008,066	970,329	+ 3.9	32,005	30,005	+ 6.5	3.2	3.1	247,230	225,637	12.9	13.3
Green	43,522	40,461	+ 7.6	3,486	2,403	+ 45.1	8.0	5.9	19,584	19,084	17.8	12.6
Geo. E. Keith	17,522	16,780	+ 4.4	655	615	+ 6.5	3.7	3.7	4,016	3,361	16.3	18.3
Internatl. Seaway	19,012	19,067	- 0.2	926	1,221	- 24.2	4.9	6.4	6,344	4,669	14.6	26.2
Interco	669,456	617,760	+ 8.4	25,088	20,551	+ 22.1	3.7	3.3	196,852	179,965	12.7	11.4
Penobscot	22,184	18,108	+22.5	1,381	1,062	+ 30.0	6.2	5.9	9,731	8,898	14.2	11.9
Ramer	21,962	16,225	+35.4	351	144 3/	+143.8	1.6	0.9	3,789	2,112	9.3	6.8
Shaer	11,931	10,760	+10.9	839 4/	632	+ 32.8	7.0	5.9	4,505	3,986	18.6	15.9
U.S. Shoe	241,085	195,267	+23.5	10,700	8,531	+ 25.4	4.4	4.4	65,866	59,599	16.2	14.3
Walker BB	19,619	19,283	+ 1.7	721 4/	655	+ 10.1	3.7	3.4	4,188	3,721	17.2	17.6
Wellco	14,465	14,023	+ 3.2	600 4/	904 4/	- 33.6	4.1	6.4	3,677	2,769	16.3	32.6
Westminister	8,070	5,836	+38.3	682	607	+ 12.4	8.5	10.4	2,781	2,151	24.5	28.2
Weyenberg	30,925	31,911	+59.6	2,131	1,927	+ 10.6	4.2	6.0	14,726	13,477	14.5	14.3
Wolverine World Wide	61,220	54,839	+11.6	2,916	2,857	+ 2.0	4.8	5.2	22,323	20,916	13.1	13.7
Total or Average	2,863,900	2,607,101	+ 9.9	111,006	96,681	+ 14.8	3.9	3.7	835,907	762,329	13.3	12.7

Source: Footwear News

1/ Not available.
2/ Not applicable.
3/ Before extraordinary items.
4/ After extraordinary items added.

Table 19

SALES AND NET PROFITS OF PUBLICLY-OWNED FOOTWEAR RETAILERS, 1967 AND 1968

	Sales			Net Profit after Taxes			Net Profit as % of Sales		Stockholders' Equity		Net Profit as % of Stock-holders' Equity		Retail Units	
	1968 ($000)	1967 ($000)	% Chg.	1968 ($000)	1967 ($000)	% Chg.	1968	1967	1968 ($000)	1967 ($000)	1968	1967	1968 (No.)	1967 (No.)
Amer. Self-Service	9,940	8,602	+15.3	509	457	+11.4	5.1	5.3	3,043	2,681	16.7	17.0	69	60
Beck Industries	94,380	81,409	+15.9	3,272	2,819	+16.1	3.5	3.5	19,441	18,185	16.8	15.5	208	199
Butler	49,734	44,708	+11.2	2,990	2,264	+32.0	6.0	5.1	13,306	11,803	22.5	19.2	272	265
Cannon	17,328	15,070	+14.9	529	513 1/	+ 3.1	3.1	3.4	4,376	3,447	12.1	14.9	141	154
Edison Brothers	224,981	204,591	+19.7	10,845	10,083	+ 7.6	4.8	4.9	63,248	56,853	17.1	17.7	658	600
Epko	13,652	11,928	+14.5	890	861	+ 3.4	6.5	7.2	3,935	3,494	22.6	24.6	71	60
Felsway	19,332	15,973	+21.0	1,325	920	+44.0	6.9	5.7	6,028	4,865	21.9	18.9	47	47
Hanover Shoe Co.	22,873	21,078	+ 8.5	1,249	1,391	-10.2	5.5	6.6	14,768	14,018	8.4	9.9	121	116
Melville Shoe Co.	292,972	258,752	+13.2	16,228	14,370	+12.9	5.54	5.55	67,652	58,298	23.9	24.6	1474	1366
Morse	138,408	102,383	+35.2	6,975	5,859	+19.0	5.0	5.7	30,081	23,786	23.2	24.6	575	468
Morton's 6/	33,792	31,879	+ 6.0	1,012	702	+44.2	3.0	2.2	5,734	5,032	17.6	13.9	196	178
National	60,485	54,845	+10.3	1,098	542	+ 5.2	1.8	1.9	12,882	11,651	8.5	8.9	298	296
Simco 7/	10,226	9,505	+ 7.6	708	551	+28.5	6.9	5.8	3/	3/	3/	3/	31	30 4/
Scoa Industries	271,083	264,143	+ 2.6	4.441	3,560	+24.7	1.6	1.3	38,011	35,227	11.7	10.1	804 5/	800 4/5
Spencer 6/	26,489	36,004	-26.4	610	76 2/	+702.6	2.3	0.2	6,549	5,936	9.3	1.2	123	126
Volume 7/	11,773	8,242	+42.8	772	412 2/	+87.4	6.6	5.0	3,232	2,702	23.9	15.2	88	63 4/
Wiener	5,876	5,013	+17.2	399	262	+52.3	6.7	5.2	1,361	1,502	21.4	17.4	30	30
Total or Average	1,303,324	1174,125	+11.0	53,852	45,642	+18.0	4.1	3.9	294,147 8/	259,480 8/	18.1 8/	17.4 8/	5206	4858

Source: Footwear News. (footnotes appear on following page).

Footnotes to Table 19

1/ Includes extraordinary items.

2/ Less extraordinary items.

3/ Not available.

4/ Estimated.

5/ Footwear retail units only.

6/ Fiscal year ending June 30, 1968.

7/ Fiscal year ending July 31, 1968.

8/ Excludes sales and stockholders' equity of Simco.

Table 20

PERCENT DISTRIBUTION OF SALES OF FOOTWEAR
BY TYPE OF RETAIL OUTLET

Type of Outlet	1958	1963	1968
Shoe Stores	52.3%	49.4%	50.6%
Department Stores	16.4	22.4	23.4
Family Clothing Stores	8.5	8.4	7.1
Women's Ready-to-Wear Stores	4.9	4.7	3.8
Men's and Boys' Ready-to-Wear Stores	4.2	4.2	4.2
General Merchandise Stores	5.7	4.4	3.4
Limited Price Variety Stores	0.6	2.9	3.4
Mail Order Catalog	2.8	2.7	2.6
All Other Retail Stores	4.6	0.9	1.5

Source: American Footwear Manufacturers Association

Table 21

ESTIMATED SALES OF FOOTWEAR BY TYPE OF RETAIL OUTLET
1958, 1963 AND 1968
(Millions of dollars)

	1958	1963	1968	% Chg. 1958–68	Share of Mkt. 1963	Share of Mkt. 1968
Shoe Stores, Total	$2,130	$2,390	$3,290	54.5%	49.4%	50.6%
Under 11 Units	1,240	1,328	1,690	36.3	27.4	26.0
11–100 Units	188	246	377	100.0	5.1	5.8
101 & Over Units	702	816	1,223	74.2	16.9	18.8
Department Stores, Total	670	1,084	1,520	126.9	22.4	23.4
Under 11 Units	257	321	340	32.3	6.6	5.2
11–100 Units	196	407	596	204.0	8.4	9.2
101 & Over Units	216	357	584	170.4	7.4	9.0
Family Clothing Stores	348	404	460	32.2	8.4	7.1
Under 11 Units	248	268	275	10.9	5.5	4.2
11–100 Units	62	59	55	-11.3	1.2	0.8
101 & Over Units	38	77	130	242.1	1.6	2.0
All Other *	627	786	960	53	16.2	14.8
Under 11 Units	405	437	480	19	9.0	7.4
11 & Over Units	221	349	480	107	7.2	7.4
Mail Order Catalog	113	133	170	50.4	2.7	2.6
All Other Kinds of Retail	189	42	100	-47.1	0.9	1.5
Total Market	$4,075	$4,838	$6,500	59.5%	100.0%	100.0%
Summary						
Under 11 Units	$2,150	$2,354	$2,785	29.5%	48.8%	42.9%
11 Units & Over	1,623	2,311	3,445	112.0	47.9	53.0
Mail Order & Other	302	175	270	-10.6	3.3	4.1
Total Market	$4,075	$4,838	$6,500	59.5%	100.0%	100.0%

* Includes women's ready to wear, men's and boys' ready to wear, general merchandise and limited price variety.

Source: Department of Commerce

Table 22

NONRUBBER FOOTWEAR: TOTAL WAGE AND SALARY AND PRODUCTION WORKER EMPLOYMENT, 1950-1969

(Employment in thousands)

Year	Total Employment	Production workers	
		Number	% of Total employment
1950	252.3	229.1	90.8%
1951	241.0	218.2	90.5
1952	246.2	222.5	90.4
1953	249.9	225.6	90.3
1954	243.4	218.8	89.9
1955	248.4	223.4	89.9
1956	246.3	221.3	89.8
1957	243.8	218.8	89.7
1958	237.4	212.7	89.6
1959	247.5	222.6	89.9
1960	242.6	216.4	89.2
1961	239.6	214.0	89.3
1962	240.6	215.1	89.4
1963	231.6	206.3	89.1
1964	230.5	204.8	88.9
1965	234.5	208.8	89.0
1966	241.5	214.2	88.7
1967	230.6	202.1	87.6
1968	233.4	204.1	87.4
1969	226.8	197.6	87.1

Source: Department of Labor

Table 23

WAGE AND SALARY EMPLOYMENT IN MANUFACTURING AND NONRUBBER FOOTWEAR, IN SELECTED STATES, 1958 - 1969

(In thousands)

	Illinois		Maine		Massachusetts		Missouri	
Year	Manufacturing	Nonrubber footwear	Manufacturing	Nonrubber footwear	Manufacturing	Nonrubber footwear	Manufacturing	Nonrubber footwear
1958	1,171.8	12.8	100.3	19.2	665.7	41.2	374.5	32.8
1959	1,225.6	12.6	103.4	20.9	698.1	42.0	390.9	33.8
1960	1,210.5	12.3	104.5	21.2	698.0	40.5	392.7	31.8
1961	1,165.0	11.8	103.2	21.1	684.9	39.7	375.7	29.5
1962	1,199.3	11.4	104.3	21.1	687.6	38.1	387.4	28.7
1963	1,203.8	11.0	102.8	21.8	663.5	35.0	393.8	26.4
1964	1,238.1	10.3	104.0	22.9	649.9	33.6	402.7	26.0
1965	1,302.4	10.2	108.0	24.9	665.8	33.4	416.9	25.3
1966	1,393.4	9.9	115.0	26.3	696.0	32.8	445.4	25.6
1967	1,392.5	9.1	116.3	26.0	701.0	31.0	454.0	24.0
1968	1,386.9	8.9	118.0	26.9	690.4	31.1	459.2	23.9
1969	1,403.8	8.7	115.9	24.6	681.6	28.4	459.2	22.4
Percent Change: 1958-69	+19.8%	-32.0%	+15.6%	+28.1%	+2.4%	-31.1%	+22.6%	-30.5%

continued.....

Table 23 (continued)

WAGE AND SALARY EMPLOYMENT IN MANUFACTURING AND NONRUBBER FOOTWEAR, IN SELECTED STATES, 1958 - 1969

(In thousands)

	New Hampshire		New York		Pennsylvania		Wisconsin	
Year	Manufacturing	Nonrubber footwear	Manufacturing	Nonrubber footwear	Manufacturing	Nonrubber footwear	Manufacturing	Nonrubber footwear
1958	80.6	17.7	1,866.8	30.5	1,397.3	24.4	431.8	10.1
1959	86.5	19.2	1,892.8	30.3	1,407.3	26.2	459.8	10.2
1960	87.0	18.2	1,878.7	28.4	1,439.6	26.2	460.4	10.1
1961	85.9	17.9	1,823.0	27.6	1,378.0	26.4	439.0	9.7
1962	88.6	18.2	1,837.9	26.2	1,398.9	27.4	455.9	9.4
1963	85.9	17.8	1,804.1	23.2	1,396.8	26.8	461.4	9.1
1964	85.6	17.3	1,794.8	22.9	1,429.3	26.4	469.6	9.1
1965	89.8	17.7	1,838.1	23.0	1,489.3	26.9	491.9	9.1
1966	96.0	18.2	1,894.5	22.3	1,559.7	27.3	508.6	9.1
1967	97.6	17.8	1,885.7	20.6	1,556.9	25.4	508.7	8.6
1968	99.7	17.7	1,879.0	20.5	1,560.3	25.1	507.6	8.6
1969	97.9	15.9	1,873.6	19.2	1,580.9	24.1	518.0	8.2
Percent Change: 1958-69	+21.5%	-10.2%	.4%	-37.0%	+13.1%	-1.2%	+20.0%	-18.8%

Source: Department of Labor

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Table 24

NUMBER OF INSURED UNEMPLOYED,
LEATHER AND LEATHER PRODUCTS, AND NUMBER
AS PERCENT OF ALL MANUFACTURING INSURED UNEMPLOYED,
1960-1969

Year	Leather Insured Unemployed	Percent of All Manufacturing
1960	33,700	n.a.
1961	35,000	n.a.
1962	29,400	n.a.
1963	31,400	n.a.
1964	24,800	n.a.
1965	19,500	n.a.
1966	16,100	n.a.
1967	19,400	3.4
1968	14,600	2.9
1969	21,800	4.4

n.a. - not available

Source: Department of Labor

Table 25

LABOR TURNOVER RATES IN MANUFACTURING AND NONRUBBER FOOTWEAR, 1958 - 1969

(Per 100 employees)

Year	Manufacturing					Nonrubber Footwear				
	Total Accessions	New Hires	Total Separations	Quits	Layoffs	Total Accessions	New Hires	Total Separations	Quits	Layoffs
1958	3.6	1.7	4.1	1.1	2.6	3.7	2.0	4.0	1.7	1.9
1959	4.2	2.6	4.1	1.5	2.0	4.5	3.0	4.3	2.3	1.4
1960	3.8	2.2	4.3	1.3	2.4	4.6	2.8	4.7	2.3	1.7
1961	4.1	2.2	4.0	1.2	2.2	4.6	2.6	4.6	2.1	1.7
1962	4.1	2.5	4.1	1.4	2.0	4.5	2.9	4.7	2.4	1.5
1963	3.9	2.4	3.9	1.4	1.8	4.5	2.9	4.6	2.3	1.6
1964	4.0	2.6	3.9	1.5	1.7	4.7	3.2	4.6	2.5	1.4
1965	4.3	3.1	4.1	1.9	1.4	5.1	3.7	5.0	3.1	1.1
1966	5.0	3.8	4.6	2.6	1.2	6.0	4.6	6.0	4.2	1.0
1967	4.4	3.3	4.6	2.3	1.4	5.5	3.8	5.9	3.6	1.4
1968	4.6	3.5	4.6	2.5	1.2	6.1	4.5	5.9	3.9	1.0
1969	4.7	3.7	4.9	2.7	1.2	6.0	4.2	6.6	3.9	1.6

Source: Department of Labor

Table 26

AGE DISTRIBUTION OF WORKERS IN MANUFACTURING INDUSTRIES, 1964

Industry	All workers	Under 20	20 and under 25	25 - 30	30 - 35	35 - 40	40 - 45	45 - 50	50 - 55	55 - 60	60 - 65	65 and over
Leather & leather products	100.0	10.1	14.2	11.4	8.8	9.7	9.7	8.9	9.3	7.6	6.3	3.6
Ordnance and accessories	100.0	1.3	10.1	14.1	15.2	14.3	15.4	12.6	8.1	5.1	2.9	.4
Food & kindred products	100.0	8.8	13.3	10.5	10.3	11.2	11.3	10.1	9.7	7.1	5.3	1.8
Tobacco manufacturers	100.0	6.2	14.0	11.4	9.0	10.2	11.2	11.0	9.4	8.6	5.8	2.6
Textile mill products	100.0	6.8	13.0	10.3	9.1	10.6	11.6	11.5	10.6	8.4	5.9	1.7
Apparel & other textile products	100.0	6.7	12.9	10.1	9.6	10.3	11.9	10.9	10.4	7.7	6.0	3.2
Lumber and wood products	100.0	6.9	14.4	11.2	10.4	10.7	9.8	9.4	10.0	7.9	6.2	2.5
Furniture & fixtures	100.0	9.0	16.2	11.9	10.2	11.0	10.7	9.0	8.2	6.5	4.7	2.0
Paper & allied products	100.0	4.7	14.9	13.0	11.7	12.5	11.4	10.7	9.0	6.3	3.9	1.3
Printing & publishing	100.0	8.7	14.4	10.3	10.0	10.5	10.5	9.5	8.9	7.6	5.7	3.3
Chemicals & allied products	100.0	3.1	11.9	11.9	11.3	12.9	13.1	12.0	9.9	7.5	4.8	1.0
Petroleum & coal products	100.0	2.1	7.8	7.3	10.1	12.0	16.2	14.2	12.4	10.4	6.5	.5
Rubber & plastics products n.e.c.	100.0	5.7	15.5	11.9	11.4	10.9	12.3	10.2	9.1	6.5	4.8	1.1
Stone, clay, & glass products	100.0	4.7	12.1	12.1	11.3	12.3	12.7	10.7	9.4	6.9	5.3	1.8
Primary metal industries	100.0	3.2	10.3	10.0	10.3	12.1	13.1	13.1	11.6	8.3	6.5	1.1
Fabricated metal products	100.0	5.4	13.9	11.0	10.5	11.7	12.6	11.8	9.6	6.6	4.8	1.7
Machinery, except electrical	100.0	4.7	13.1	10.9	10.6	11.0	12.7	11.4	9.9	7.7	5.5	1.9
Electrical equip. & supplies	100.0	4.5	13.7	12.3	12.6	12.7	13.8	11.3	8.2	5.8	3.8	.7
Transportation equip.	100.0	3.0	11.8	11.9	11.2	12.6	13.6	12.7	9.6	7.1	5.3	.8
Instruments & related products	100.0	4.1	14.4	11.5	11.9	11.0	13.1	11.3	9.2	6.9	4.9	1.3
Misc. manufacturing ind.	100.0	8.7	16.1	12.1	9.8	9.8	10.6	9.4	8.6	6.5	4.9	2.9

Source: Department of Labor

Table 27

PERCENT DISTRIBUTION OF EMPLOYED PERSONS IN MANUFACTURING, NONDURABLE GOODS, AND LEATHER AND LEATHER PRODUCTS BY BROAD OCCUPATIONAL GROUPS, 1969

Occupational group	Manu-facturing	Nondurable goods	Leather and leather products
Total Employed	100.0%	100.0%	100.0%
White-collar workers	30.4	29.8	19.0
Professional and technical, and kindred workers	9.6	6.7	1.7
Managers, officials, and proprietors	6.2	6.9	5.0
Clerical and kindred workers	12.4	12.6	9.9
Sales workers	2.3	3.6	2.3
Blue-collar workers	68.1	68.7	80.2
Craftmen, foremen, and kindred workers	18.7	14.5	5.8
Operatives and kindred workers	44.3	49.9	71.7
Laborers, except farm	5.1	4.3	2.6
Service workers	1.4	1.5	.9

Source: Department of Labor

Table 28

AVERAGE HOURLY EARNINGS OF PRODUCTION WORKERS
IN SELECTED MANUFACTURING INDUSTRIES, 1963-1969

Year	All Manufacturing	Nondurable Goods	Footwear
1963	$2.46	$2.22	$1.71
1964	2.53	2.29	1.77
1965	2.61	2.36	1.82
1966	2.72	2.45	1.87
1967	2.83	2.57	2.01
1968	3.01	2.74	2.18
1969	3.19	2.91	2.31
	Annual Percent Changes		
1963-64	2.9%	3.2%	3.5%
1964-65	3.2	3.1	2.8
1965-66	4.2	3.8	2.7
1966-67	4.0	4.9	7.5
1967-68	6.4	6.6	8.5
1968-69	6.0	6.2	6.0

Source: Department of Labor

Table 29

AVERAGE WEEKLY EARNINGS OF PRODUCTION WORKERS IN MANUFACTURING, NONDURABLE GOODS, AND NONRUBBER FOOTWEAR, 1958-69

Year	Manufacturing	Nondurable Goods	Nonrubber Footwear
1958	$ 82.71	$ 74.11	$ 54.36
1959	88.26	78.61	58.28
1960	89.72	80.36	58.04
1961	92.34	82.92	60.15
1962	96.56	85.93	62.66
1963	99.63	87.91	63.44
1964	102.97	90.91	66.55
1965	107.53	94.64	68.80
1966	112.34	98.49	71.81
1967	114.90	102.03	76.38
1968	122.51	109.05	83.28
1969	129.51	115.53	85.24
Percent change:			
1958-69	+56.6%	+55.9%	+56.8%
1963-69	+30.0	+31.4	+34.4

Source: Department of Labor

Table 30

OUTPUT PER MAN-HOUR, UNIT LABOR REQUIREMENTS AND RELATED DATA, NONRUBBER FOOTWEAR PRODUCTION WORKERS, 1960-67

(Indexes 1957-59 = 100)

	Output per--		Unit Labor Requirements in Terms of--		Related Data		
Year	Production Worker	Production Worker Man-Hour	Production Workers	Production Worker Man-Hours	Output	Production Workers	Production Worker Man-Hours
1960	102.7	103.2	97.3	96.9	100.9	98.2	97.8
1961	102.7	103.5	97.3	96.6	101.3	98.6	97.9
1962	104.7	104.1	95.5	96.0	103.2	98.6	99.1
1963	108.7	107.7	92.0	92.8	100.3	92.3	93.1
1964	110.2	106.9	90.7	93.5	102.2	92.7	95.6
1965	109.0	106.4	91.8	94.0	103.1	94.6	96.9
1966	111.4	108.0	89.8	92.6	105.8	95.0	98.0
1967 p/	108.4	105.6	92.3	94.7	98.5	90.9	93.3
1968 p/	114.3	110.8	87.5	90.3	104.9	91.8	94.7
1969 p/	105.7	106.1	94.6	94.3	94.0	88.9	88.6

p/ Preliminary.

Source: Department of Labor

Table 31

AVERAGE HOURLY EARNINGS AND SUPPLEMENTARY LABOR COSTS FOR WAGE EARNERS IN FOOTWEAR MANUFACTURING IN SELECTED COUNTRIES

Country	Date	Average Hourly Earnings			Estimated Supplementary Labor Costs as a Percent of Earnings	Estimated Average Hourly Labor Costs Including Supplements		
		Men	Women	Average		Men	Women	Average
United States	1968	1/	1/	$2.18	2/ 16%	1/	1/	$2.53
	1969	1/	1/	2.31	2/ 16	1/	1/	2.68
France	1968	$.88	$.74	.81	41	$1.24	$1.04	1.14
Italy	1968	.58	.50	.54	92	1.11	.96	1.04
Spain	1968	1/	1/	3/ .28	1/	1/	1/	1/
United Kingdom	1968	1.25	.83	1/	4/ 14	1.43	.95	1/
	1969	1.28	.86	1/	4/ 14	1.46	.98	1/
West Germany	1968	1.17	.91	1.02	41	1.65	1.28	1.44
Japan 5/	1968	2/.74	2/.41	2/.59	2/ 14	2/ .84	2/ .47	2/ .67

1/ Not available.
2/ Leather and leather products.
3/ Leather, shoes, and other wearing apparel. Includes salaried workers.
4/ Clothing and footwear.
5/ Data relate to regular workers employed in establishments of 30 workers or more.

Source: Department of Labor

Table 32

RELATIVE LABOR COSTS, NONRUBBER
FOOTWEAR INDUSTRY AND ALL MANUFACTURING

	Footwear Payroll Costs as Percent of:		All Manufacturing Payroll Costs as Percent of:	
Year	Value Added	Value of Shipments	Value Added	Value of Shipments
1963	58.9 %	32.4%	48.6%	22.2%
1964	57.2	32.3	51.4	23.7
1965	58.4	32.8	50.3	23.2
1966	56.8	31.7	50.0	23.3
1967	54.2	31.4	50.9	23.7

Source: Department of Commerce

Table 33

RECENT LABOR FORCE EMPLOYMENT AND UNEMPLOYMENT TRENDS
SELECTED SHOE MANUFACTURING CENTERS
1965-69

Areas	Leather and Leather Products Employment SIC 31 Annual Average (In thousands) 1965	1966	1967	1968	1969	All Manufacturing Employment (In thousands) 1969	Leather Employment as % of All Manufacturing Employment 1969	Unemployment Rate Annual Average (Percent) 1965	1966	1967	1968	1969
U. S. Total	352.9	363.6	351.4	356.9	345.2	20,121.0	1.7%	4.5%	3.8%	3.8%	3.6%	3.5%
Illinois, Chicago	9.5	9.2	8.5	8.2	8.2	974.2	.8	3.0	2.6	2.7	2.7	2.5
Massachusetts, Boston	18.0	17.5	16.0	16.1	14.9	292.2	5.1	4.0	3.6	3.3	3.2	3.2
Brockton	5.8	5.9	5.7	5.4	5.0	17.0	29.4	5.6	4.5	4.6	4.2	4.4
Lawrence-Haverhill	8.7	8.9	8.5	8.7	8.0	38.5	20.8	6.6	5.4	5.2	4.8	5.3
Lowell	2.5	2.2	2.1	2.1	2.0	20.3	9.9	8.3	6.2	6.2	5.4	5.3
Worcester	2.7	2.8	2.7	2.7	2.5	48.4	5.2	4.5	3.9	3.9	3.8	3.6
Missouri, St. Louis	11.4	11.4	10.7	10.7	10.0	291.0	3.4	3.5	3.3	3.4	3.5	*3.5
New Hampshire, Manchester	5.8	5.9	5.5	5.4	4.7	17.0	27.6	3.4	2.0	2.2	2.2	*2.7
New Jersey, Newark	3.3	3.6	3.3	3.2	3.1	*257.6	1.2	4.6	4.1	4.1	4.0	3.9
Paterson-Clifton-Passaic	2.2	2.4	2.3	2.3	2.0	*187.0	1.1	5.1	4.3	4.2	4.1	4.2
New York, Binghamton	9.6	8.3	7.0	6.5	6.1	* 45.0	13.6	3.9	3.4	3.3	3.2	*3.5
New York	30.5	32.0	32.7	34.0	33.7	*1,094.3	3.1	4.5	4.2	3.7	3.3	3.2
Utica-Rome	2.1	2.2	1.8	1.8	1.7	* 43.1	3.9	5.5	4.3	4.5	4.2	*3.9
Pennsylvania, Altoona	1.6	1.9	1.8	1.8	1.6	* 15.0	10.7	6.7	6.7	7.6	4.3	3.3
Harrisburg	3.6	3.4	3.2	3.3	3.1	* 38.8	8.0	2.9	2.4	2.3	2.4	2.0
Philadelphia	4.7	4.3	3.7	3.2	3.0	*567.8	.5	4.3	3.3	3.2	3.1	3.0
Reading	1.9	2.0	2.0	1.9	1.8	* 59.3	3.0	2.2	1.6	1.7	1.6	1.5
Scranton	1.1	1.1	.9	.9	.7	* 35.2	2.0	6.9	4.9	4.2	4.1	4.0
Wilkes-Barre-Hazelton	3.2	3.6	3.4	3.3	3.1	* 53.8	5.8	6.3	4.9	4.5	4.2	3.8
York	4.6	4.3	3.9	3.9	3.6	* 62.2	5.8	2.7	2.2	2.3	2.1	2.1
Tennesee, Nashville	5.8	5.7	6.1	6.0	6.1	61.6	9.9	2.7	2.3	2.8	2.7	*2.6
Wisconsin, Milwaukee	6.0	6.0	6.6		6.2	212.1	2.9	2.7	2.4	2.9	2.7	*2.7
Total 22 Areas:	144.6	144.6	138.4	137.9	131.1	4,431.4	3.0					
% of Industry Total:	41.0%	39.8%	39.4%	39.2%	37.9%							

* Preliminary

Source: Department of Labor

Table 34

NONRUBBER FOOTWEAR: ESTIMATED U.S. CONSUMPTION, PRODUCTION AND IMPORTS, BY KIND, 1965-69
(Millions of pairs)

Item	1965	1966	1967	1968	1969 (est.)
Total consumption	722	744	732	827	790
Production	626	642	600	646	582
Imports	96	102	132	181	208
Leather	35	46	61	86	100
Vinyl	55	51	66	90	100
Other	6	5	5	5	8
Men's & boys' consumption	167	174	175	181	189
Production	152	158	154	153	153
Imports	15	16	21	28	36
Leather	8	11	14	20	27
Vinyl	7	5	7	8	9
Women's & misses' consumption	356	361	336	396	351
Production	316	320	287	321	265
Imports	40	41	49	75	86
Leather	8	12	14	26	32
Vinyl	29	25	33	47	51
Other	3	4	2	2	3
Children's & infants' consumption	74	75	73	78	74
Production	68	70	61	63	54
Imports	6	5	12	15	20
Leather	1	2	3	5	6
Vinyl	2	2	6	7	9
Other	3	1	3	3	5
Sandals & slippers consumption	125	134	148	172	176
Production1/	90	94	98	109	110
Imports	35	40	50	63	66
Leather	18	21	30	35	35
Vinyl	17	19	20	28	31

1/ Slippers only.

Source: Estimated by the U.S. Tariff Commission. 1969 production and imports estimated on the basis of totals through September and differ from full year data shown elsewhere in this report.

Table 35

NONRUBBER FOOTWEAR: ESTIMATED U.S. CONSUMPTION, PRODUCTION AND IMPORTS, BY KIND, PERCENT DISTRIBUTION, AND IMPORT-CONSUMPTION RATIOS, 1967-1969.

(Millions of pairs)

Item	1967			1968			1969 (est.)		
	Quantity	Percent of Total	Import-Consumption Ratio	Quantity	Percent of Total	Import Consumption Ratio	Quantity	Percent of Total	Import Consumption Ratio
Total consumption	732	..	..	827	..	..	790	..	..
Total Production	600	..	..	646	..	..	582	..	..
Total Imports	132	..	18%	181	..	22%	208	..	26%
Leather	61	..	..	86	..	..	100	..	..
Vinyl	66	..	..	90	..	..	100	..	..
Men's & boy's comsumption	175	24%	..	181	22%	..	189	24%	..
Production	154	26	..	153	24%	..	153	26	..
Imports	21	16	12	28	15	15	36	17	19
Leather	14	23	..	20	23	..	27	27	..
Vinyl	7	11	..	8	9	..	9	9	..
Women's & misses consumption	336	46	..	396	48	..	351	44	..
Production	287	48	..	321	50	..	265	46	..
Imports	49	37	15	75	41	19	86	41	25
Leather	14	23	..	26	30	..	32	32	..
Vinyl	33	50	..	47	51	..	51	51	..
Children's & infants consumption	73	10	..	78	9	..	74	7	..
Production	61	10	..	63	10	..	54	9	..
Imports	12	9	16	15	8	19	20	10	27
Leather	3	15	..	5	6	..	6	6	..
Vinyl	6	9	..	7	8	..	9	9	..
Sandals & slippers consumption 1/	148	20	..	172	21	..	176	22	..
Production	98	16	..	109	17	..	110	19	..

Table 35 - continued

NONRUBBER FOOTWEAR: ESTIMATED U.S. CONSUMPTION, PRODUCTION AND IMPORTS, BY KIND, PERCENT DISTRIBUTION, AND IMPORT-CONSUMPTION RATIOS, 1967-1969.

(Millions of pairs)

Item	1967			1968			1969 (est.)		
	Quantity	Percent of Total	Import-Consumption Ratio	Quantity	Percent of Total	Import Consumption Ratio	Quantity	Percent of Total	Import Consumption Ratio
Imports	50	38	34	63	35	37	66	32	38
Leather	30	49	..	35	41	..	35	35	..
Vinyl	20	30	..	28	31	..	31	31	..

1/ Slippers only

Source: Derived from U.S. Tariff Commission estimates. 1969 production and imports estimated on basis of totals through September and differ from full year data shown elsewhere in this report.

Table 36

NON-RUBBER FOOTWEAR: U.S. PRODUCTION IMPORTS BY PRICE RANGES AND PERCENT DISTRIBUTION, 1968
(Thousands of pairs)

	DOMESTIC PRODUCTION										LEATHER & VINYL IMPORTS									
Price Range 1/	Total 2/		Mens & Boys		Womens & Misses		Childrens & Infants		House Slippers		Total 3/		Mens & Boys		Womens & Misses		Childrens & Infants		Sandals 4/	
	Qty	%	Qty	%	Qty	%	Qty	%	Qty	%	Qty	%	Qty	%	Qty	%	Qty	%	Qty	%
Under $1.21	22,113	3%	-	- %	-	- %	1,411	2%	20,702	19 %	67,494	38.3%	1,408	5.0%	36,635	49.3%	5,564	54.0%	23,887	37.6%
$1.21-$1.80	70,270	11	-	-	14,222	4	11,048	20	45,000	41	26,572	15.1	5,078	18.0	10,378	14.0	1,112	10.8	10,004	15.8
$1.81-$2.40	34,940	5	-	-	13,331	4	9,562	18	11,332	10	24,156	13.7	1,904	6.7	4,206	5.7	2,144	20.8	15,902	25.0
$2.41-$3.00	70,529	11	5,251	3	38,328	12	9,738	18	16,452	15	10,917	6.2	1,296	4.6	3,202	4.3	749	7.3	5,670	8.9
$3.01-$4.20	137,659	21	15,772	11	100,488	31	9,116	16	11,222	10	11,390	6.5	2,901	10.3	3,086	4.2	371	3.6	5,032	7.9
$4.21-$6.00	115,325	18	40,911	27	57,437	18	10,772	20	4,249	4	12,529	7.1	5,563	19.7	5,250	7.1	133	1.3	1,583	2.5
$6.01-$7.80	85,473	13	38,114	25	42,667	13	4,038	7	-	-	9,630	5.5	3,308	11.7	5,413	7.3	36	0.3	873	1.4
$7.81-$10.20	68,213	11	26,025	17	41,308	13	-	-	-	-	6,620	3.8	3,260	11.5	2,957	4.0	104	1.0	298	0.5
Over $10.20	43,099	7	26,513	18	15,088	5	-	-	-	-	6,953	3.9	3,535	12.5	3,101	4.2	83	0.8	234	0.4
Total	647,621	100	152,586	100	322,869	100	55,685	100	108,957	100	176,261	100	28,254	100	74,228	100	10,296	100	63,483	100

	LEATHER IMPORTS										VINYL IMPORTS									
	Total		Mens & Boys		Womens & Misses		Childrens & Infants		Sandals		Total		Mens & Boys		Womens & Misses		Childrens & Infants		Sandals 4/	
	Qty	%	Qty	%	Qty	%	Qty	%	Qty	%	Qty	%	Qty	%	Qty	%	Qty	%	Qty	%
Under $1.21	910	1.1%	-	-%	-	-%	-	-%	910	2.6%	66,584	74.1%	1,408	18.4%	36,635	77.9%	5,564	83.1%	22,977	80.7%
$1.21-$1.80	10,149	11.7	19	0.1	408	1.5	-	-	9,722	27.8	16,423	18.3	5,059	66.1	9,970	21.2	1,112	16.6	282	1.0
$1.81-$2.40	17,578	20.3	779	3.8	3,971	14.6	2,124	59.0	10,704	30.6	6,578	7.3	1,125	14.7	235	0.5	20	0.3	5,198	18.2
$2.41-$3.00	10,844	12.6	1,296	6.3	3,155	11.6	749	20.8	5,644	16.1	73	0.1	-	-	47	0.1	-	-	26	0.1
$3.01-$4.20	11,296	13.1	2,901	14.1	2,992	11.0	371	10.3	5,032	14.4	94	0.1	-	-	94	0.2	-	-	-	-
$4.21-$6.00	12,529	14.5	5,563	27.0	5,250	19.3	133	3.7	1,583	4.5	-	-	-	-	-	-	-	-	-	-
$6.01-$7.80	9,569	11.1	3,247	15.8	5,413	19.9	36	1.0	873	2.5	61	0.1	61	0.8	-	-	-	-	-	-
$7.81-$10.20	6,573	7.6	3,260	15.8	2,910	10.7	104	2.9	298	0.8	47	0.1	-	-	47	0.1	-	-	-	-
Over $10.20	6,953	8.0	3,535	17.2	3,101	11.4	83	2.3	234	0.7	-	-	-	-	-	-	-	-	-	-
Total	86,400	100	20,600	100	27,200	100	3,600	100	35,000	100	89,861	100	7,654	100	47,028	100	6,696	100	28,483	100

1/ Domestic production: Wholesale price, which is generally one-half the selling price at retail.
Imports: Importer's selling price, f.o.b. point of shipment.

2/ Includes athletic shoes, 7,524 thousand pairs in 1968.

3/ Excludes imports which are neither leather, plastic, or rubber, chiefly fabric-upper footwear for infants. Imports were 5,288 thousand pairs in 1968.

4/ Includes 1,515 thousand pairs of supported vinyl upper slippers, nearly all for women and misses priced under $1.21.

Source: Derived from US Tariff Commission estimates.

Table 37

U.S. CONSUMPTION OF
NONRUBBER FOOTWEAR BY PRICE RANGES, 1968
(Thousands of pairs)

Price Range 1/	Total 2/ Qty	Total 2/ %	Total 3/ Qty	Total 3/ %	Mens & Boys Qty	Mens & Boys %	Womens & Misses Qty	Womens & Misses %	Childrens & Infants Qty	Childrens & Infants %	Sandals & Slippers Qty	Sandals & Slippers %	Womens & Misses (incl. sandals) Qty	Womens & Misses (incl. sandals) %
Under $1.21	89,607	10.9%	45,018	7.0%	1,408	0.8%	36,635	9.2%	6,975	10.6%	44,589	25.9%	57,089	12.6%
$1.21-$1.80	96,842	11.8	41,838	6.5	5,078	2.8	24,600	6.2	12,160	18.4	55,004	31.9	33,162	7.3
$1.81-$2.40	59,096	7.2	31,147	4.8	1,904	1.1	17,537	4.4	11,706	17.7	27,234	15.8	31,875	7.0
$2.41-$3.00	81,446	9.9	58,564	9.1	6,547	3.6	41,530	10.5	10,487	15.9	22,122	12.8	46,626	10.3
$3.01-$4.20	149,049	18.1	131,734	20.5	18,673	10.3	103,574	26.1	9,487	14.4	16,254	9.4	108,134	23.9
$4.21-$6.00	127,854	15.5	120,066	18.6	46,474	25.7	62,687	15.8	10,905	16.5	5,832	3.4	64,067	14.2
$6.01-$7.80	95,103	11.5	93,576	14.5	41,422	22.9	48,080	12.1	4,074	6.2	873	0.5	48,890	10.8
$7.81-$10.20	74,833	9.1	73,654	11.4	29,285	16.2	44,265	11.1	104	1.6	298	0.2	44,535	9.8
Over $10.20	50,052	6.1	48,320	7.5	30,048	16.6	18,189	4.6	83	1.3	234	0.1	18,339	4.1
Total	823,882	100.0	643,917	100.0	180,839	100.0	397,097	100.0	65,981	100.0	172,440	100.0	452,717	100.0

RATIO OF IMPORTS TO CONSUMPTION OF NONRUBBER
FOOTWEAR BY PRICE RANGES, 1968

	Total 2/	Total 3/	Mens & Boys	Womens & Misses	Childrens & Infants	Sandals & Slippers	Womens & Misses (incl. sandals)
Under $1.21	75.3%	96.9%	100.0%	100.0%	79.8%	53.6%	100.0%
$1.21-$1.80	27.4	39.6	100.0	42.2	9.1	18.2	57.1
$1.81-$2.40	40.9	26.5	100.0	24.0	18.3	58.4	58.2
$2.41-$3.00	13.4	9.0	19.8	7.7	7.1	25.6	17.8
$3.01-$4.20	7.6	4.8	15.5	3.0	3.9	31.0	7.1
$4.21-$6.00	9.8	9.1	12.0	8.4	1.2	27.1	10.3
$6.01-$7.80	10.1	9.4	8.0	11.3	0.9	100.0	12.7
$7.81-$10.20	8.8	8.6	11.1	6.7	100.0	100.0	7.2
Over $10.20	13.9	13.9	11.8	17.0	100.0	100.0	17.7
Total	21.4	17.5	15.6	18.7	15.6	36.8	28.7

1/ Domestic production: Wholesale price, which is generally one-half the selling price at retail. Imports: Importer's selling price, f.o.b. point of shipment.
2/ Total nonrubber footwear except imports which are neither leather, plastic, nor rubber, chiefly fabric-upper footwear for infants.
3/ Excludes sandals and slippers and athletic footwear, as well as imports which are neither leather, plastic, nor rubber.

Source: Derived from US Tariff Commission estimates.

Table 38
DISTRIBUTION OF U.S. CONSUMPTION, PRODUCTION AND IMPORTS OF NONRUBBER FOOTWEAR
BY WHOLESALE PRICE RANGES, 1968
(Millions of pairs)

	Under $2.40			Over $2.40		
	Quantity	Percent of Total	Import Consumption Ratio	Quantity	Percent of Total	Import Consumption Ratio
Total Consumption	245	30%	48%	578	70%	10%
Production	127	19		520	81	
Imports	118	67		58	33	
Leather	28	33		58	67	
vinyl	90	99		-	1	
Mens, Womens & Children Consumption 1/	118	18	58	526	72	8
Production	50	9		482	91	
Imports	68	61		44	39	
Leather	7	1		44	99	
Vinyl	61	100		-	-	
Mens & Boys Consumption	8	5	100	172	95	12
Production	-	-		153	100	
Imports	8	30		20	70	
Leather	1	4		20	96	
Vinyl	7	99		-	1	
Womens & Misses Consumption	79	20	65	318	80	7
Production	28	8		295	92	
Imports	51	69		23	31	
Leather	4	16		23	84	
Vinyl	47	99		-	1	
Childrens & Infants Consumption	31	47	29	35	53	4
Production	22	40		34	60	
Imports	9	86		1	14	
Leather	2	59		1	41	
Vinyl	7	100		-	-	
Sandals & Slippers Consumption	127	74	39	46	26	30
Production - Slippers	77	70		32	30	
Imports - Sandals	50	78		14	22	
Leather	21	61		14	29	
Vinyl	29	100		-	-	

1/ Excludes sandals and slippers

Source: Derived from US Tariff Commission estimates. Production and import data do not agree entirely with those shown elsewhere in this report.

Table 39

PRICE INDEXES FOR FOOTWEAR 1/
AND RELATED PRODUCTS
(1957-59 = 100)

Year	Wholesale Price Indexes: Leather Footwear: Total	Wholesale Price Indexes: Leather Footwear: Men's	Wholesale Price Indexes: Leather Footwear: Women's	Wholesale Price Indexes: Leather Footwear: Children's	Wholesale Price Indexes: Apparel	Wholesale Price Indexes: Special Consumer Finished Goods, Ex. Cons. Foods	Consumer Price Indexes: Footwear 1/	Consumer Price Indexes: Apparel Ex Footwear	Consumer Price Indexes: All Commodities Except Food
1960	107	107	108	103	101.3	101.3	106.8	101.1	101.7
1961	107	107	108	104	101.0	101.2	107.8	101.7	102.0
1962	109	109	109	104	101.5	101.0	109.3	101.8	102.8
1963	108	109	108	104	101.9	101.0	110.5	102.8	103.5
1964	108	110	108	105	102.8	100.9	110.0	103.6	104.4
1965	110	113	110	108	103.7	101.7	112.9	104.4	105.1
1966	118	122	116	115	105.0	103.2	119.6	106.3	106.5
1967	122	126	120	119	106.8	105.2	125.5	110.5	109.2
1968	128	131	126	128	110.6	107.4	132.2	116.8	113.2
1969	133	136	132	135	114.5	109.9	140.3	123.7	118.0
	Annual Percent Changes						Annual Percent Changes		
1964-65	1.9%	2.7%	1.8%	2.9%	0.9%	0.8%	1.8%	0.8%	1.0%
1965-66	7.3	8.0	5.5	6.5	1.3	1.5	6.2	1.9	1.9
1966-67	3.4	3.3	3.4	3.5	1.7	1.9	5.0	4.7	1.9
1967-68	4.9	4.0	5.0	1.6	3.6	2.1	4.8	3.6	3.7
1968-69	3.9	3.0	4.0	4.7	3.5	2.3	6.1	5.1	4.4
1960-64	0.9	2.8	---	1.9	1.5	-0.4	3.7	3.0	2.0
1964-69	23.1	23.6	22.2	28.6	11.1	8.9	26.1	18.3	13.5
1960-69	24.3	27.1	22.2	31.1	13.0	8.5	30.8	21.8	15.7

1/ WPI covers only Leather Footwear. CPI Footwear includes canvas (rubber) sneakers and house slippers.

Source: Department of Labor

Table 40

NONRUBBER FOOTWEAR -- U.S. RATES OF DUTY

TSUS No.	Description	Rates of Duty: Pre-Kennedy Round 1/	Rates of Duty: Post-Kennedy Round 2/	Rates of Duty: Column Two 3/
700.05	Huaraches	20%	20%	20%
700.10	McKay-sewed footwear	20%	10%	30%
700.15	Moccasins	10%	10%	20%
700.20	Turn or turned footwear	5%	2.5%	10%
	Welt footwear, per pair:			
700.25	NOV $2	17%	17%	20%
700.26	OV $2 -- NOV $5	34¢ per pair	17¢ per pair	20%
700.27	OV $5 -- NOV $6.80	34¢ per pair	5%	20%
700.28	Ski boots	5%	free	20%
700.29	Other	5%	5%	20%
700.30	Footwear with molded soles laced to uppers	10%	5%	20%
700.32	Slippers	10%	5%	20%
700.35	Other leather footwear for men and boys	10%	8.5%	20%

Table 40 (continued)

TSUS No.	Description	Rates of Duty: Pre-Kennedy Round 1/	Post-Kennedy Round 2/	Column Two 3/
700.41	Other leather footwear sandals of buffalo	20%	10%	20%
700.43	Other leather footwear for women and girls NOV $2.50 per pair	20%	15%	20%
700.45	Other leather footwear for women and girls OV $2.50 per pair	20%	10%	20%
700.66	Footwear -- soles of leather, uppers of fiber NOV $2.50 per pair	20%	15%	35%
700.68	Footwear -- soles of leather, uppers of fiber OV $2.50 per pair	20%	10%	35%
700.70	Footwear -- soles other than leather, uppers of vegetable fiber	15%	7.5%	35%
700.75	Footwear -- soles and uppers of wool felt	14%	7%	35%
700.80	Footwear -- soles other than leather, other	25%	12.5%	35%
700.83	Footwear of wood	16-2/3%	8%	33-1/3%
700.85	Other footwear	25%	12.5%	35%

1/ Rates effective from August 31, 1963 to December 31, 1967.

2/ Rates effective as of January 1, 1972.

3/ Rates applied to imports from Communist countries.

Source: US Tariff Commission

The CHAIRMAN. Mr. Schneebeli, do you wish to continue?

Mr. SCHNEEBELI. I was interested in your colloquy with the chairman on the method of financing industry in Japan.

As we are all aware, the government in Japan, ever since World War II, has been synonymous with industry. They have been in the saddle. Government, banking and business all seem to be wrapped up in the same power structure.

You were talking about the high percentage of debt financing to which industry resorted in Japan. What interest rates do they pay?

We know labor is so much cheaper a commodity over there. Maybe money is much cheaper, too.

Secretary STANS. My recollection is that the rates are relatively low. They are 6.25 percent.

Mr. SCHNEEBELI. It is that high?

Secretary STANS. That is apparently the figure.

Mr. SCHNEEBELI. And we are paying 10, 11, and 12 percent in our industries for financing.

Secretary STANS. This is the prime rate, apparently, in Japan, and rates may be higher than that for smaller concerns. If you would like, I can get more information on that specifically and submit it for the record.

Mr. SCHNEEBELI. I think it is pertinent, because we are always referring to the comparative costs of labor between these two countries. I think the cost of capital also is important. I think if it is a big differential, it also enters into our thinking and discussion.

I don't know what we are going to do about it, but I think it is a matter we should be concerned about and should take into account.

Mr. CORMAN. I wonder if we might take a look at the income tax structure there. The three things together have a lot to do with this.

Mr. SCHNEEBELI. That is a good idea. Thank you for your contribution.

If we could, we should have a discussion here on the corporate tax structure, too.

Secretary STANS. We will provide that.

(The information referred to follows:)

INTEREST RATES IN JAPAN

[In percent]

Average lending rates	December 1969	January 1970	February 1970	February 1969
All banks	7.61	7.62	7.62	7.36
City banks	7.37	7.38	7.39	7.03
Call money rates	**January 1970**	**February 1970**	**March 1970**	**March 1969**
Unconditional	8.25	8.50	8.50	7.67
Over the month	9.00	9.25	9.25	8.40

Source: Monthly Economic Review, April 1970, Bank of Japan.

Note: The Bank of Japan's commercial bill discount rate was raised Sept. 1, 1969, from 5.84 percent to 6.25 percent.

Japanese Corporation Tax (Corporate Income Tax)

CHARACTERISTICS OF THE JAPANESE CORPORATION TAX

The Japanese corporation tax is imposed by a law separate from the personal income tax law. To meet certain economic policy objectives, special tax benefits are given to corporations as set forth in the Special Taxation Measures Law, apart from the Corporation Tax Law.

Corporation taxpayers include not only corporations but all types of juridicial persons, e.g., cooperatives, non-profit corporations, religious schools, social welfare juridicial persons, labor unions. It also includes associations without juridicial personality such as un-incorporated clubs or associations. Public entities, government agencies and government corporations are exempt from the tax.

The corporation is taxed on the income of each accounting period, income at liquidation and, in the case of insurance and trust companies engaged in retirement pension fund business, the aggregate reserve for retirement pensions at the beginning of the accounting period. In the case of a family corporation, a special tax is levied on the initial retention of profits exceeding a designated level. Income, regardless of its source, is computed in accordance with normal business accounting methods for each business period for the purpose of the corporation tax.

Since 1950 the corporation tax system has been based on the idea that a corporation is a mere aggregate of shareholders. Under this concept the corporation tax has been treated as an advance payment of the shareholder's income tax. When this system started, dividends received by an individual shareholders were included, like other income, on the basis on which the personal income tax was levied, but 25% of the dividends—as an approximation of the amount of tax charged on the dividends at the corporation stage—was allowed as a credit against the income tax. In addition, dividends received by a corporate shareholder were exempt from the corporation tax. In 1961 the German-type split rate system was introduced to help corporations increase their equity to debt ratio. That is, the tax rate on distributed profits of corporations was reduced by about a quarter from 38%. Correspondingly, the dividend credit against personal income tax was reduced from 20% to 15% of dividends, and 75% instead of the full amount of dividends received by a corporation became nontaxable. At present the corporation tax rates on undistributed and distributed profits are 35% and 26%, respectively.

In recent years a study has been made of the basic scheme of the corporation tax with a view to adopting the system to the changes in the actual social and economic situations.

In order to alleviate the tax burden of small- and medium-sized enterprises, the general corporation tax rate of 35% is reduced to 28% for income of not more than 3,000,000 yen[1] earned by a corporation with capital of not more than 100,000,000 yen. Such corporation's distributed profits are taxed at a reduced rate of 22%. In addition, a reduced rate of 23% applies to such special juridical persons as cooperative associations or non-profit corporations.

The income tax withheld at source on dividends or interest is credited against the corporation tax of the recipient corporation. If such amount withheld at source exceeds the corporation tax, the excess is refunded.

The corporation tax is paid under the self-assessment system. A corporation must file a corporation tax return, together with a balance sheet and a statement of profit and loss with the chief of the National Taxation Office within two months after the end of each accounting period, and must pay the tax as reported in the return. If taxpayers fail to file correct returns, the tax authorities reassess the returns through the procedure of "correction" or "determinations".

Corporations are also subject to the local inhabitant taxes and the enterprise tax (see below) on the basis of corporate income.

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[1] 360 Yen = 1 U.S. dollar. For purposes of rough calculation, 1,000,000 yen = $2,800.

CORPORATE TAX RATES

The corporation tax is imposed at the following rates:

Tax rates for ordinary income not distributed as dividends

	Percent
1. Ordinary corporations:	
a. Corporations with capital of more than 1000,000,000 yen	35
b. Corporations with capital of not more than 100,000,000 yen	
c. For annual income of more than 3,000,000 yen	35
d. For annual income of not more than 3,000,000 yen	28
2. Cooperative associations and corporations "in the public interest"	23

Reduced rates applicable to ordinary income distributed as dividends

	Percent
1. Ordinary corporations:	
a. Corporations with capital of more than 100,000,000 yen	26
b. Corporations with capital of not more than 100,000,000 yen	
c. For annual income of more than 3,000,000 yen	26
d. For annual income of not more than 3,000,000 yen	22
2. Cooperative associations and corporations "in the public interest"	19

Capital gains are included in regular income and are taxed at the normal rate.

"BLUE RETURN"

The government in 1950, in order to encourage modern accounting methods, introduced the "blue return". Corporations which agree to follow certain prescribed accounting methods may use the "blue return" by submitting an application on or before March 15 of the year in which they wish to begin using this form. Once the approval is received, the tax payer may use the "blue return" for all subsequent years.

Certain privileges obtain to the user of the blue return. (1) The tax authorities may correct the income of a corporation only when mistakes are found in calculation of taxable income based on the corporation's books and records. A statement must be attached to the tax form explaining the basis for the correction. (2) Income from the manufacture of important new products is not taxable. (3) Losses may be carried forward to offset income for five succeeding years or carried back to offset income of one preceding year. (4) Special computations for depreciation are applicable.

ENTERPRISE TAX

The enterprise tax is a prefectural government tax levied on a corporation's earned income and income upon liquidation. The present rate is 6% for annual income up to and including 1.5 million yen; 9% if over 1.5 million yen but not more than 3 million yen; and 12% if 3 million yen or over. The 12% rate applies, regardless of income, to all corporations whose capital is 10 million yen or over and which have offices, factories, etc. in three or more prefectures.

Income derived from business carried on in foreign countries and dividends received from domestic corporations are excluded from the taxable income.

INHABITANTS TAX

This is a prefectural and municipal tax leview on a per capita basis plus a percentage of the national corporation tax, before deducting any tax credit for withholding income tax, foreign taxes, etc.

The prefectural inhabitants' tax on a corporation with capital of more than 10 million yen consists of a per capita assessment of 1,000 yen per employee per annum, plus 5.8% of the national corporation tax. The prefecture can, under certain circumstances, increase this tax rate but not in excess of 7%

The municipal inhabitants' tax for corporations is composed of a per capita tax which varies from 2,400 yen to 4,000 yen depending on the population of the municipality, and 8.9% of the national corporation tax, with a maximum of 10.7%.

Tokyo residents, including corporations, are subject to a "Metropolitan" tax of 2.3% of taxable income, and a "ward, city, town, and village" tax of 3.9% corresponding to the "municipal" tax.

For detailed information on the Japanese tax system, see *An Outline of Japanese Taxes 1969*, Ministry of Finance, a copy of which is available in Room 3820 of the U.S. Department of Commerce.

The CHAIRMAN. Mr. Watts.

Mr. WATTS. Mr. Secretary, may I compliment you on your apparent attitude which to me reflects a change of philosophy from what we have been going through for the last number of years in that you appear to be more concerned about American industry and the future of American industry than any of your predecessors or other people connected with the Federal Government have been.

I want to compliment you on that, and I hope you stick to it and carry it out.

Secretary STANS. I thank you, sir. I would like to comment just briefly on that to be sure I am not misunderstand.

I don't want to imply in any sense that I am a protectionist, that I believe the only way to deal with these problems is to impose barriers at the border.

I believe with the President in the principle of freer trade between countries. I believe that, essentially, the world would be better off if we had free trade between all nations.

I don't believe, however, that we should be discriminated against by other countries in the process of arriving at the destination of freer trade.

I don't believe we can be a free trade nation in a world in which there is no other free trade nation. I don't believe, either, that we can follow a premise of free trade when imports come into the United States in such quantities and at such rates that there is no time for American industry to adjust, as is the case of textiles and, to a lesser extent, in the case of shoes.

Therefore, we have to be alert to figure out how it is that we are going to operate to see that American industry isn't completely overwhelmed by foreign countries that have advantages that we don't have.

I believe in a pragmatic approach to this problem, dealing individually with each industry and trying to see what it is that we can do to help.

But I don't want to deviate in that policy from the President's position of believing in freer trade among nations.

Mr. WATTS. Certainly, Mr. Secretary, I recognize you believe in free trade. So do I. But I am sure you join me in believing, in third grade language, that free trade ought to flow both ways and not just one way.

Secretary STANS. I certainly do.

Mr. WATTS. You referred to two amendments that you had proposed to H.R. 16920. Would you mind repeating those for me, sir?

Secretary STANS. Yes.

First, we would revise the definition of textiles to exclude silk products and to exclude manmade staple fiber and filaments. We don't believe that these items should be included within the framework of a textile articles program because, in the case of the manmade staple fiber and filaments these are products of the chemical rather than the cotton industry.

We don't think there is need at this time for relief of that industry. We have never included these products in our negotiations with the other nations. We would, however, include filament yarns that have been twisted because these are textile industry products that should be included in the bill. That is our first proposed amendment.

Silk is no menace to American industry and should not be included.

Our second proposed amendment is that we should not require the imposition of quotas on imports that are not really disruptive to the U.S. market. We think that there are countries exporting goods to the United States of high priced, specialty items, and so forth, that do not unfairly compete in our market or disrupt our market, and that it should be possible for the President, in such cases, to avoid a confrontation and retaliation by just generally excluding those products or those countries from the quota limitations that are imposed in this bill.

It would be a determination made by the President with the advice of the executive branch, and would eliminate a great many of the fears that now exist among other countries that we are going to apply this without any considerations of equity or reason.

We certainly don't intend that.

Mr. WATTS. Referring to DISC, or what we call the foreign trade corporations—they are practically the same, aren't they, but they use different terms? What are the terms of such a trading corporation that would give them the advantage? Are they anything other than the deferral of taxes?

Secretary STANS. That is the objective, to give a domestically incorporated foreign trade corporation the same privilege that now exists for an overseas corporation formed by a U.S. company.

The only advantage would be that it would not have to pay income tax on its profits until such time as those profits were withdrawn from export trade and taken into the parent company.

Mr. WATTS. That is about the only advantage they would have?

Secretary STANS. That is the advantage. This, we believe, would stimulate a great deal of exports on the part of existing exporters and companies that are not now engaged in export trade.

Mr. WATTS. I would like to discuss with you the nontariff trade barriers that you have so eloquently addressed yourself to and given us examples of here this morning.

Apparently, under our GATT arrangements, we haven't the authority to deal with nontariff trade barriers, is that correct?

Secretary STANS. That is correct. We have no legislative authority in this country to eliminate nontariff barriers with other countries.

If we are going to have reciprocal negotiations there will be times when we will have to reduce or eliminate some of our barriers.

Mr. WATTS. It has been forcefully pointed out to this committee by a number of witnesses that our trade people negotiate tariff reductions on our side and on their side and before our negotiators get home they have erected a trade barrier that brings in more money and impedes trade from the United States more than the tariff if it had been allowed to remain. That has happened, hasn't it?

Secretary STANS. I am not sure the relationship is quite that close or that immediate.

Mr. WATTS. It is rather close, isn't it?

Secretary STANS. I think it is fair to say that there is a feeling that in a number of cases the tariff reductions in the Kennedy round have been offset by other countries imposing nontariff barriers of one kind and another, yes.

Mr. WATTS. If I understood you, you say these barriers are constantly being erected?

Secretary STANS. Excuse me?

Mr. WATTS. I understood you to say this morning that you are becoming apprised of more and more barriers every day in different countries.

Secretary STANS. Yes. I learn about new ones all the time.

Mr. WATTS. How would this administration look or you look on our putting into this trade bill something that would give you or our traders some authority and some teeth in dealing with these nontrade barriers?

Secretary STANS. I certainly think we would welcome that. I would like to point out that the Congress has always retained jurisdiction over tariff and trade matters, and that we had assumed that any negotiations that we made with respect to nontariff barriers that resulted in the reduction of those which we impose would be something that the Congress would want to pass on.

Mr. WATTS. I didn't know we imposed any except one, and that is the American selling price, and you all recommend doing away with that and getting nothing in return.

Secretary STANS. We have quite a list of nontariff barriers. We do impose quite a number of them.

Mr. WATTS. Nothing like what is imposed against our people, do we?

Secretary STANS. No. I don't think ours measure up to those of other countries, but there is quite a number.

Mr. WATTS. How would it be if the Federal Government, you, or whoever does the trading, was given the authority over a period of 2, 3, or 4 years to negotiate away, to do away with these nontariff barriers, and in the event that any country refused to reciprocate with you that we take various actions against it, such as stopping trading with them on any commodity that is competitive in this country, or certain items that are highly competitive here, or the imposition of a similar trade barrier to the one they have, or allowing tariffs to double or triple to those countries that refuse to reciprocate with us in doing away with nontariff barriers, just general authority along that line?

Secretary STANS. What you are talking about is something of very wide, sweeping powers. I would hesitate to suggest that that would be the best course of action. I think that we should approach each of these nontariff barriers carefully, and we should try to negotiate our way past them.

We should expect to make concessions in return where appropriate, and the administration and the Congress should participate in the consequences.

Mr. WATTS. The only trouble I see with that, Mr. Secretary, is this; we have followed that procedure for years. Can you name more than two or three minor trade barriers that we have been able to do away with?

Secretary STANS. No; I don't know that I could name any of significance.

Mr. WATTS. What I wanted to do was to give you 3 or 4 years to negotiate away those trade barriers and then in the event they were not negotiated away, any country that refused to negotiate with us in getting rid of them, after that period of time mandatorily, not permissively, we would take the action of not trading with them on items that were produced in this country, or pick out certain items that were highly competitive with our industry, or put in restrictions similar to theirs, or raise our tariffs if they wouldn't deal with us.

Then you have some teeth back of you to make them agree to trade with you.

As long as you sit like a sitting duck and you are not able to do anything if they just say, "No," you are not going to get anywhere.

I was hoping we could put into this law something that would give you a hammer to plunk somebody on the head and say: "Look, if you are not willing to sit down here and be fair on this thing with us, if you are not willing to wipe out your nontariff barriers if we wipe out ours, then certain things are going to happen to you."

Secretary STANS. I would still prefer, Mr. Watts, to do it in two parts. If the Congress at this time would authorize and direct us to negotiate over a period of time for the reduction and elimination of nontariff barriers around the world, and give us its full support in that respect, we would proceed to do that.

Let us then report back to the Congress after a period of time on what success we have had and determine the course of action then.

I think there would be better international relations if we did it that way rather than under a total threat.

Mr. WATTS. I was planning to give you the time. I was willing to give you 2, 3, or 4 years to see what you could do in negotiating them away. But I was also having a little bit of pressure in back of that so that these people wouldn't say: "Well, there is that big old fat goose again trying to keep us from plucking him."

I wish you would give some thought to something like that.

Secretary STANS. I will. I will give thought to it and be prepared to discuss it in executive session.

I wanted to point out that there are two other provisions in the administration bill that we have recommended that deal in this area.

One is to strengthen the President's hands in seeking an end to the foreign practices that impede our business abroad.

Under one proposal, the authority the President now has to take action against countries which maintain unjustifiable import restrictions on our agricultural products would be extended to cover nonagricultural products as well.

The second proposal would permit the President to take appropriate measures in cases where subsidized exports from other countries to third countries unfairly affect our competitive U.S. exports in those markets as a result of that subsidization.

Those two provisions would go quite a way toward what you are talking about.

Mr. WATTS. May I comment about that? Authority has existed for some time to deal with that subject in agricultural commodities; has it not?

Secretary STANS. Yes.

Mr. WATTS. There have been no results. What makes you think that by adding nonagricultural products to it you will get results?

I am not saying you. I am talking abot your predecessors.

Secretary STANS. I can only assure you that it would be my intention and the administration's intention to use the authority which you gave us to see that we achieved reciprocity and fair dealing in all of these relationships.

I think the best answer to your question is that for the first time the magnitude of our trade difficulties is becoming evident to an awful lot of people. I think for the first time there is a conviction that we are at a great disadvantage.

Taking that reason alone, I believe, is assurance that this administration and future administrations are going to have to deal with the problem of international trade in a more aggressive style than has been the case before.

Mr. WATTS. I agree with that statement. The only thing I am saying is we ought to have some kind of triggering device in here, rather than sit around until all of our industries are ruined, as many of them have testified they are being ruined in this country today.

I was hopeful that you will give some thought to some language or something that could be done to cause our trading partners to look with realism on our request that certain nontariff barriers be eliminated.

If you had the authority and it was mandatorily spelled out that certain things were going to happen so far as trading with that nation was concerned if they didn't agree with it, I believe you would have a lot better success at the trading table than you are going to have otherwise, and a heck of a lot more than we have had in the past.

I will yield to Mr. Betts.

Mr. BETTS. I have one question along that line, Mr. Secretary.

Assume we passed the administration bill and repealed the American selling price, what would we have that we could use to deal with our trading partners in eliminating their nontariff barriers?

What would we have left? Isn't that really the important nontariff barrier that our trading partners accuse us of using? If we do away with it, what do we have left to deal with?

Secretary STANS. The American selling price is a very unusual item because it has taken on a symbolism in the European countries that perhaps even exceeds its monetary significance.

The fact is that in the Kennedy round of tariff negotiations, our negotiators agreed to the elimination of the American selling price, and put it in a package of concessions from the other countries to us in return.

In other words, this was a balanced package of concessions on both sides. It required, however, ratification by the Congress. It has never been ratified by the Congress.

The European countries every time I talk to them say, "How do we believe you really want to do business on the elimination of nontariff barriers on both sides if you won't even take the steps necessary to put into effect the one you agreed to years ago?"

So for this reason it has taken on tremendous significance. Since we do believe it is one that we could dispense with, and since it already carries its own price in terms of reciprocal concessions in chemicals and so forth, and on rubber footwear, we think the first step in showing our good faith is to eliminate the American selling price clause.

Mr. BETTS. Now, I would make two comments on what you said. First, witnesses who have appeared here since your first appearance, Mr. Secretary, have indicated the so-called concessions that our trading partners have been asked to make in this deal really aren't much in the way of concessions at all.

Second, if this is the whole symbol of our nontariff barrier situation, if we drop it then we have nothing left to deal with.

Those are the two comments I would make. I have assumed from certain witnesses who appeared here after you that this was really something we have overlooked in our trading.

Secretary STANS. I can only comment briefly on that. I am not in a position to evaluate whether the reciprocal concessions made a fair deal or not.

The point is that they were negotiated, and the others are looking to us to keep our deal. As far as the symbolism is concerned, I think it is important.

I wouldn't say we would be totally defeated in our efforts to negotiate on other nontariff barriers if it weren't enacted, but I certainly believe that it would be much more difficult to make any progress if we failed to eliminate the American selling price.

The CHAIRMAN. Mr. Collier will inquire.

Mr. COLLIER. Thank you, Mr. Chairman.

May I pursue this a little further?

I believe that if the Congress is going to move in the direction of eliminating the American selling price, recognizing, as we must, that it is the last tool of leverage which we have to cope with the nontariff barriers in other countries, we should be told exactly what other nations, who feel this is a symbol, are prepared to yield in return for the elimination of the American selling price.

I would be tremendously disappointed in this Congress if it should move in that direction, Mr. Secretary, without knowing exactly what is involved.

If we are going to get chicken feed in return for discarding the last lever that we have, I believe the Congress would be making a gross mistake.

Secretary STANS. It is my understanding that Carl Gilbert, who is the President's Special Trade Representative, testified at great length on the American selling price provision, and outlined in detail the reciprocal conditions that we get in return for eliminating it.

I can summarize it or submit it again for the record.

I could refer back to page 78 of the committee print. Mr. Gilbert said, "The agreement, when implemented, requires the United States to reduce chemical duties by an average of about 5 percent," and spells out all of that, and "The agreement requires the European community to reduce its chemical duties by an average of 26 percent, to modify its road tax system to eliminate discrimination against American automobiles. It also requires the United Kingdom to reduce its chemical duties by an average of 22 percent, and reduce the preferential tariff margin on its tobacco imports from us."

Further, "Switzerland agrees that if ASP is eliminated it will modify its regulations on canned fruit imports. Sweden, Austria, Nor-way, Denmark, and Finland are bound by the Kennedy round agreements to make substantial additional reductions in chemical tariffs when the agreement is implemented."

I am not enough of an expert to evaluate all of those concessions in terms of trade and say that they are positively and exactly equal to the concession we make if we eliminate the ASP.

But it is a result of the negotiation that took place under the Kennedy round. I think it can be presumed to be approximately an even trade.

Mr. COLLIER. I would certainly, claiming no expertise to contradict that statement, like to have those industries involved make an evaluation of exactly what this represents in dollars, and let us see if it is equal.

I have some reservation as to whether the final analysis it would be equal.

Getting on for a moment to something else, we are all familiar with the fact that many Members of Congress have introduced what is generally known as a bill or a series of bills varying in one respect or another, known as the Fair International Trade Act.

If the so-called flexible quota concept embraced in that legislation were adopted by all other nations as ground rules that would enable them to at least protect a portion of their own domestic market, would it be the policy of the United States to object to the adoption of such a policy by all of our trading nation friends?

Secretary STANS. I must say I am not familiar with that legislation by that description, so I can't really honestly comment on it.

Mr. COLLIER. There is one aspect of the discussion with the Japanese that I believe is in the textile bill, the difference being that one uses a 3-year average whereas the offer, as I understand, in these negotiations was using the 1-year average and moving up, providing an increase over and above the 1-year average in the case of textiles.

This is, in sum and substance, one of the concepts embraced in that bill. I would feel that if the other nations in the world adopted this in the interest of protecting to some degree the total disintegration of an industry or industries by reason of assuring itself a portion of its own market and at the same time permitting the expansion of imports consistent with a selected average, that we would feel, as I personally feel, that that was a fair arrangement and something which any foreign nation could and perhaps should do.

Secretary STANS. I would like your permission to look into that and study it and give you an answer based on better knowledge of it.

I am just not familiar with it. What you say sounds as though it makes sense, but I can't comment on it without understanding it more fully.

Mr. COLLIER. I believe that this could provide the basis for international ground rules where all the teams on the field would be playing by the same rules and not be competing with a variation of rules that have caused us all the trouble.

I think if we have learned nothing else from our experience in the last few years, at least since the advent of the Trade Expansion Act of 1962, we must realize that to continue on a course of naivete in our relationships becomes folly and can have a continued adverse impact upon our balance of trade as well as our very critical balance of payments problems.

Secretary STANS. I would agree with you there. I am not sure that our course has been one of naivete as much as it has been one of liberality.

Mr. COLLIER. Sometimes it is hard to draw a distinction between the two under the circumstances.

Secretary STANS. Yes. But in either case, I believe the realities of the present situation require us to take a good look at the export problems, the difficulties we are having, our import situation and the trouble it is causing our industries.

Mr. COLLIER. Getting into one area briefly, and I think it is an important area, Mr. Secretary, you cited, I believe, the figures in response to an earlier question of $40 billion on the aggregate of our export for 1969, $38 billion on imports. Is that correct?

Secretary STANS. That is approximately correct.

Mr. COLLIER. The $40 billion includes Public Law 480?

Secretary STANS. Yes.

Mr. COLLIER. Do you have a breakdown, because I think it is very significant, as to what part of the $40 billion—and I am going to take at my own discretion $38 billion because there is some question as to whether Public Law 480 properly fits into what we would call the normal commercial trade channels—is represented by manufactured goods in terms of what we are exporting and what part by nonmanufactured goods?

I think this gets into the very significant area of employment that becomes even more important at this time than it has been in recent years because of economic trends.

Secretary STANS. In percentages, out of the $38 billion of exports, it breaks down something like this: Food, feed and beverages, 12 percent; industrial supplies and materials, 31 percent; capital goods, including trucks and buses, 34 percent; consumer goods, including automobiles, 16 percent; and all the other categories, 7 percent.

I have another kind of breakdown that might be more clear for your purposes.

Out of our domestic exports, 6 percent are crude foods and 5 percent manufactured foods. So that is about 11 percent in foods. Nine percent are crude materials, 15 percent semimanufactures and 55 percent manufactured goods.

(The material referred to follows:)

VALUES IN MILLIONS OF DOLLARS

Economic class	1960	1964	1965	1966	1967	1968	1969	Percent change from 1960 to 1969
Domestic exports, total	20,408	26,297	27,187	29,994	31,238	34,199	37,444	+83
Crude foods	1,645	2,540	2,587	3,198	2,595	2,334	2,086	+27
Manufactured foods	1,117	1,687	1,590	1,582	1,596	1,671	1,782	+60
Crude materials	2,585	2,897	2,888	3,143	3,293	3,467	3 476	+34
Seimimanufactures	3,587	4,226	4,114	4,368	4,489	5,117	5,774	+61
Finished manufactures	11,473	14,947	16,008	17,703	19,265	21,609	24,327	+112
Imports, total [1]	15,069	18,749	21,429	25,618	26,889	33,226	36,052	+139
Crude foods	1,720	2,034	2,008	2,117	1,981	2,294	2,141	+24
Manufactured foods	1,566	1,819	1,877	2,309	2,518	2,882	3,043	+94
Crude materials	3,050	3,528	3,709	3,894	3,707	4,102	4,121	+35
Semimanufactures	3,471	4,001	4,964	5,620	5,592	7,141	6,774	+95
Finished manufactures	5,262	7,366	8,871	11,678	13,091	16,897	19,973	+280

Footnotes on p. 4608.

VALUES IN MILLIONS OF DOLLARS—Continued

Economic class	1960	1964	1965	1966	1967	1968	1969	Percent change from 1960 to 1969
			PERCENT OF TOTAL					
Domestic exports, total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
Crude foods	8.1	9.7	9.5	10.6	8.3	6.8	5.6	
Manufactured foods	5.5	6.4	5.8	5.3	5.1	4.9	4.8	
Crude materials	12.7	11.0	10.6	10.5	10.5	10.1	9.3	
Semimanufactures	17.6	16.1	15.1	14.6	14.4	15.0	15.4	
Finished manufactures	56.2	56.8	58.9	59.0	61.7	63.2	65.0	
Imports, total [1]	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
Crude foods	11.4	10.8	9.4	8.3	7.4	6.9	5.9	
Manufactured foods	10.4	9.7	8.8	9.0	9.4	8.7	8.4	
Crude materials	20.2	18.8	17.3	15.2	13.8	12.1	11.4	
Semimanufactures	23.0	21.3	23.2	21.9	20.8	21.5	18.8	
Finished manufactures	34.9	39.3	41.4	45.6	48.7	50.9	55.4	

[1] Data are based on imports for consumption for 1960 and on general imports for 1964 and following years.

Source: Prepared in the Bureau of International Commerce, U.S. Department of Commerce, Mar. 19, 1970.

Note: Data may not add due to rounding.

Mr. COLLIER. So that it would appear, then, that we are importing more in terms of man work-hours because of the disparity in manufactured goods than we are exporting, which in turn would have an unfavorable effect upon the labor market here.

Secretary STANS. It is pretty hard to tell, and it is a little hard to reach that conclusion because our imports, too, are heavily concentrated in manufactured goods and semimanufactured goods.

Out of our exports, 80 percent is semimanufactured and finished manufactured goods.

Out of our imports, 74 percent is semimanufactured and finished manufactured goods, so we do have a margin of exports of manufactured goods.

Mr. COLLIER. They might fall in the category of manufactured goods, but taking one major industry, for example automobiles, where for every automobile we import compared to every automobile we export, there are roughly 200 man work-hours involved.

If there is a wide disparity between the number of automobiles, for example, we can export to Japan as compared to those coming in, in addition to looking at all other factors, it seems to me that we ought to look at the number of hours of labor that is involved.

We wind up very definitely on the short end of trade in many of these areas, particularly with the growth of foreign automobiles ranging all the way from the Volvo, Toyoto, and other foreign cars that we are importing at a much faster rate, if the figures I have seen are accurate and I have no reason to believe they are not, than we are exporting American-made automobiles.

Secretary STANS. What you say is especially true in the case of Japan, because Japan tends to buy from us raw materials, lumber, minerals and so forth, and sell to us finished products.

That means we are importing a tremendous amount of labor from Japan, and we are exporting a relatively small amount of labor to Japan.

Mr. COLLIER. That is the point I was making. The dollar figures alone do not fully reflect what some of the associated problems in this area are.

Thank you very much, Mr. Secretary.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Secretary, would it be possible for you to return to the committee room at 2 o'clock this afternoon with your staff people?

There are other members of the committee that have not had the opportunity to interrogate you.

Secretary STANS. Yes, I can return.

The CHAIRMAN. Without objection, the committee will recess until 2 o'clock this afternoon.

(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., Hon. Al Ullman presiding.)

Mr. ULLMAN. The committee will be in order.

STATEMENT OF HON. MAURICE H. STANS, SECRETARY OF COMMERCE; ACCOMPANIED BY HON. STANLEY NEHMER, DEPUTY ASSISTANT SECRETARY FOR RESOURCES; SETH BODNER, SPECIAL ASSISTANT TO DEPUTY ASSISTANT SECRETARY; MICHAEL F. BUTLER, ASSISTANT GENERAL COUNSEL FOR DOMESTIC AND INTERNATIONAL BUSINESS; FOREST E. ABBUHL, DIRECTOR, TRADE AND COMMERCIAL POLICY DIVISION; AND CHADWICK JOHNSON, JAPAN DESK OFFICER, DEPARTMENT OF COMMERCE—Resumed

Mr. ULLMAN. Mr. Secretary, we are glad you could arrange to return this afternoon.

You mentioned this morning a figure of $7 billion of deficit on a liquidity basis in our balance of trade or balance of payments.

Would you elaborate on that?

Secretary STANS. It was in our balance of payments.

Mr. ULLMAN. Would you define what you mean on a liquidity basis?

Secretary STANS. Well, the liquidity basis is the more commonly understood measurement of the balance of payments.

The alternative is the official settlements basis, which is the basis of measuring the balance of payments on official accounts between governments.

The one we have always been talking about regularly in terms of our deficit is the liquidity basis of $7 billion.

It was balanced in the preceding year and over the preceding years before that it ran about anywhere from $2 billion to $4 billion in deficit, for quite some time.

Mr. ULLMAN. That would indicate then that if, in fact, we have a $2 billion trade surplus, as you indicate, a $9 billion outflow in all the other aspects of our financial and other dealings with foreign nations——

Secretary STANS. Yes, except that last year the trade surplus was only $1 billion so the net outflow in all the other items would have been $8 billion.

Mr. ULLMAN. The thing that bothers me about the statistics you use on trade balance is this: Do you not add to our exports the subsidized exports such as 480?

Secretary STANS. Yes, we do. They are included in our export figures as a regular matter.

Mr. ULLMAN. And do you not figure imports at the foreign point of origin?

Secretary STANS. Yes, that is correct.

Mr. ULLMAN. So, in effect, if you figured the actual inflow, it would be different if you figured in the cost of shipping goods to America in foreign bottoms and so on?

Secretary STANS. Yes. If you compare the values of goods, outgoing goods, at the U.S. border and incoming goods at the U.S. border, the cost of shipping on incoming goods is approximately $2 billion a year, in very rough terms, and it would add another couple billion dollars to our trade deficit.

Mr. ULLMAN. In other words, if we took that into consideration we would have an actual $1 billion deficit?

Secretary STANS. That is correct.

Mr. ULLMAN. Another thing that bothers me in looking at the statistics is our trading deficit with our main trading partners. As you well know, our main trading partners are, No. 1, Western Europe; No. 2, Canada; and No. 3, Japan, according to the statistics I can pull together.

But other than Western Europe, Canada, and Japan, I have added up the figures on your basis and I find that all other nations, other than the three I have mentioned, would give us in 1969 a $2.37 billion surplus in trade.

Would that be approximately right?

Secretary STANS. I think that would be approximately right, because in many cases of the developing countries we export more than we import.

Mr. ULLMAN. In 1968 this was $2.46 billion. In other words, I can see a fairly stable net surplus with all nations other than the three main trading partners that we have.

Secretary STANS. Yes. For 1969, our exports to the developing countries were $11.3 billion; our imports from the developing countries were $9.4 billion. So in the case of the lesser developed countries, we exported almost $2 billion more than we imported.

Mr. ULLMAN. This creates some problems for me. The main danger in our trading position comes from our three main trading partners in the free world. This is where the problem arises; does it not?

Secretary STANS. This is essentially where the imports tend to exceed exports; that is correct.

Mr. ULLMAN. Looking more specifically at No. 1, Western Europe, and those countries comprise our main trading bloc; I see for 1969 we do have a surplus, an actual trading surplus. We sold $12.3 billion; we imported $10.1 billion.

But what I also see is a adverse trend between 1968 and 1969. Our imports increased far more rapidly than our exports; is that not right?

Secretary STANS. You are speaking of Western Europe?

Mr. ULLMAN. Yes.

Secretary STANS. No. In the case of Western Europe, our imports were almoset static between 1968 and 1969. Our exports went up about $1,200 million.

Mr. ULLMAN. Yes; I see that now.

In other words, what we have in Western Europe is we had a 2.1 surplus in 1967 down to .933 in 1968 and back up to 2.2 in 1969. So we are practically at the 1967 level.

I wonder why that shift of over $1 billion in 1968. Do you know what caused that?

Secretary STANS. I am not quite sure that I know. I know that in 1968 we had a tremendous wave of imports because that was the year the inflation began in the United States and imports advanced very materially. There was heavy demand for many products. That may have accounted for the cycle.

Mr. ULLMAN. Turning to No. 2, Canada. In 1967, we had a $32 million surplus; in 1968, $933 million in deficit; in 1969, $1.2 billion deficit.

This was due in most part; was it not, to the automobile bill that we passed?

Secretary STANS. I would say that was due in considerable part to the automotive treaty that we have with Canada.

Mr. ULLMAN. Aren't you somewhat concerned about a $1.2 billion outflow there?

Secretary STANS. It is relatively large. If it persisted it would certainly be a matter of concern. We are negotiating now with Canada for some modifications of the automobile agreement that would tend to adjust that.

Also, Canada, as you know, has just, in effect, revalued its dollar which would tend to help our exports and, to some extent, impede their shipments to the United States.

So it may be that in 1970–71 that situation may be a little closer together.

Mr. ULLMAN. I am quite concerned about that.

The third trading partner is Japan. In 1967, we had a deficit of $300 million; in 1968, $1.1 billion; 1969, $1.4 billion, which probably is in line with your statistics.

Secretary STANS. That is correct.

Mr. ULLMAN. What we see there is that exports increased between 1968 and 1969 by $540 million; our imports increased by $750 million.

We had a net deficit change of position of $210 million during the year. In other words, even though we have a $1.4 billion deficit, it is an increasing deficit.

Secretary STANS. Yes. My figures are slightly different. I have an increase of $295 million in 1969 deficit over 1968.

Mr. ULLMAN. This is what gives a great many of us cause for concern. There probably are reasons why we should have had a deficit at some point with Japan, but it seems that at this point, particularly in view of the fact that we carry the heavy defense burden it would seem to me that the trend ought to be changing in one direction.

I would think the Japanese would recognize that in their negotiations with you.

Secretary STANS. As a matter of fact, we discussed that, and Secretary Rogers discussed it yesterday afternoon with the Japanese. They recognize it and recognize also that it is abnormal.

I believe they are buying more of our agriculurtal products in 1970 than before. It may be that the balance will be down somewhat, slightly, in 1970, from what it was in 1969.

Mr. ULLMAN. Another thing that concerns me is that, although we had in 1968 exports to Japan of $2.9 billion and in 1969, $3.5 billion, what they are importing from us in rather sizable amounts is raw logs. This has had an impact in the Pacific Northwest.

It is my understanding, as a matter of fact, that that amounts to a half billion dollars a year at the present rate.

Do you have that?

Mr. BURKE. Mr. Chairman, in view of the fact that there is an automatic roll call, and I expect to ask many questions of the Secretary, I would appreciate the opportunity of going over to vote and I would hope that the Secretary will be here when I return.

Mr. ULLMAN. Would you go and come right back? We will keep it going until then.

Secretary STANS. Our exports of logs in 1969 to Japan shows $276 million.

Mr. ULLMAN. That doesn't agree with statistics placed into the record earlier in these hearings.

The figures we had previously were close to $500 million. I wish you would double-check those figures.

Secretary STANS. We can. There is another category of paper-base stocks, which would be wood pulp and so forth. That is another $107 million.

Mr. ULLMAN. It probably was those two and maybe some other raw wood materials. These are raw materials with relatively little labor in them.

What I am saying is that they are buying from us raw commodities where there is virtually no processing and they are selling to us highly processed material, generally speaking. Isn't that true?

Secretary STANS. That is entirely correct.

As we said this morning, we are exporting to them very little labor, and they are exporting to us in their products a considerable amount of labor.

Mr. ULLMAN. How much in the way of wheat did the Japanese buy?

Secretary STANS. $120 million of wheat for last year.

Mr. ULLMAN. Much of that comes from the Pacific Northwest, and we are very conscious of that market. Generally speaking, out on the coast we are very friendly to Japanese trade, to Oriental trade of all kinds.

For that reason, we hate to see the trade position jeopardized by a continuing increasing imbalance that eventually has to lead to retaliation.

I will not pursue that further except to say, Mr. Secretary, that our primary problem arises from these three areas, our three main trading partners.

I think we would continue to be able to pursue our quest for complete freedom of world trade, if it weren't for those three trading partners.

I think it is also true that our main problems in non-tariff barriers, comes from our three trading partners.

It is not so much, I think, from Canada, but from Western Europe and Japan. Is that not right?

Secretary STANS. Insofar as the significance on the figures is concerned, that is correct. The fact is, however, that the developing countries, by and large, have a great many trade barriers that they have built up for the purpose of protecting their infant industries.

So the spread of the barriers across the range of countries is pretty universal.

The impact on us is primarily in the major developed countries, as you say, in Western Europe, Japan, Canada, especially.

Mr. ULLMAN. Have you thought of having a separate trade policy with these major industrialized nations as against the developing countries?

Secretary STANS. Most of our trade policies are based on the most-favored nation principle, which means that any arrangements we make with one country are applicable generally to all.

We have proposed, as you know, within the last year, a series of general preferences to the undeveloped countries to permit them to send more of their goods into the United States without tariffs and without limitations.

So this is a modification, a basic modification, of that principle. That may be what you are referring to.

Mr. ULLMAN. Yes. I think I would support that.

Mrs. Griffiths.

Mrs. GRIFFITHS. Yes, I would like to ask some questions.

I congratulate you, Mr. Secretary, on your testimony and on your efforts.

How do Japanese wages compare to American wages? What percentage of the selling price is wage in Japan and what in America?

Secretary STANS. I don't think I know it in those terms. I can give you the general range of wages.

Mrs. GRIFFITHS. All right.

Secretary STANS. For example, in textiles, in the United States we consider the current range to be approximately $2.40 an hour; in Japan, approximately 50 cents an hour, although, they have just had some recent increases.

The Minister told me yesterday it is now closer to 75 cents an hour. But even if it is $2.40 against 75 cents that is quite a disparity.

Mrs. GRIFFITHS. Why can't we work out an agreement that ties the wage rate to the right to import into this country?

Secretary STANS. It certainly has never been done before, because in international agreements, wages are just not recognized as a factor that justifies trade restrictions.

Mrs. GRIFFITHS. It seems to me that it is time we consider it.

Secretary STANS. We might consider it. I would predict that within the framework of GATT or the other international organizations, we would not get very far.

Our American labor movement, on the contrary, believes that the solution is in raising the wages in other countries.

Mrs. GRIFFITHS. I would think so.

Secretary STANS. But with such significant disparity, the Japanese can raise their wages 30 percent while we raise ours 10 percent and the effect of that is merely to widen the disparity because they have such a low base.

Mrs. GRIFFITHS. But if we limited trade or gave them some reward in the quota for raising wages, wouldn't it be of some effect?

What we really need is a fairer basis of trading. Economists just didn't understand how this thing was going to work out.

Secretary STANS. It is a very difficult matter, because there are many things besides wages that enter into the cost of production. For one thing, there are differences in social security benefits. In some countries, welfare benefits are included in wages; in others, they are separately included in taxes.

There are so many disparities . While I recognize the validity of your suggestion, I think it would be almost impossible to negotiate. We find it very difficult now to make valid comparisons of costs in the various countries. Of course, efficiency and productivity enter into it in a very great way, too.

For a long time we in the United States were able to compete with other countries with lower wages because of our tremendous productivity, our mechanization and so on.

But now much of that technology has been transferred to those other countries. They now have the same equipment we do for making textiles, for example. They have their scientific processes which have advanced considerably. They are able to compete with us on almost even terms insofar as each hour of work is concerned, so that the wage disparity tends to persist in their selling price.

We have lost a good part of our technological advantage is what I am trying to say.

Mrs. GRIFFITHS. I remember several years ago meeting Mike Kirwan in the Imperial Hotel, I believe, in Tokyo. He had been visiting steel mills. Of course, he comes from Youngstown. He said, "I have seen 14 steel mills on this trip that are better than any steel mill in America, and American capital built those steel mills."

So in a short time, these people are going to be underselling us.

Secretary STANS. I would be inclined to agree with everything he said except that American capital built the steel mills.

Mrs. GRIFFITHS. It was done through loans.

Secretary STANS. I see.

Mrs. GRIFFITHS. I would like to ask you this: When Japan invests in America, for what purpose do they invest?

Secretary STANS. There have been recent investments by Japan in Alaska, in lumbering, in fishing, in mining. I am not sure whether they are in oil up there or not. I doubt it.

Mrs. GRIFFITHS. In shipbuilding, too.

Secretary STANS. Shipbuilding is one.

Mrs. GRIFFITHS. Do they sell those things only in the American market or do they sell them also in Japan?

Secretary STANS. I think most of the things that they are developing in Alaska are going back to Japan or into world markets.

Mrs. GRIFFITHS. Are they competitive with Japanese products or is this a product Japan does not have?

Secretary STANS. I wouldn't know, honestly. I don't know as of today. I would assume that their interest is in the sources of supply for their own manufacture in Japan. They are after pulpwood. They are after lumber. They need minerals. Of course, they need fisheries for their own use and for world markets.

Most of the developments that I am aware of are to provide sources of supply for basic materials.

Mrs. GRIFFITHS. And for what purpose are American investments in Europe?

Secretary STANS. Pardon me?

Mrs. GRIFFITHS. For what purpose are American investments of capital in Europe?

Secretary STANS. They cover the whole range of enterprise. I would guess there weren't very many types of products that are not included in our investments in Europe.

A great many types of equipment in construction, computers—almost everything that I could think of is in one way or another represented by American investment in Europe.

Mrs. GRIFFITHS. But they bring those things home and compete with their own products on the American market, is that right?

Secretary STANS. In some cases they do; in some, they don't. In many cases, they build plants in other countries for the purpose of supplying the market in those countries.

Mrs. GRIFFITHS. Where they do not then compete with American-made products in those countries.

Secretary STANS. They would, of course, compete with American-made products in those countries by perhaps competing with our potential exports.

On the other hand, the American plant in a foreign country is also a good customer for our export of products, parts, supplies, machinery and so forth.

So it is pretty hard to draw a balance sheet on the net effect on our exports of our foreign investments overseas.

Mrs. GRIFFITHS. But it seems to me, as I heard Mr. Mills and you discuss the Japanese situation, that Japanese business and Government agree upon a market for Japan, and increasing the sale of Japanese-made goods abroad.

This is not the policy of this Government.

Secretary STANS. You are absolutely right.

Mrs. GRIFFITHS. Our policy, obviously, has been to permit a free flow of capital for whatever purpose it seeks. The real truth is that in spite of the fact that we do still have a balance of trade in our favor, we aren't really very good exporters.

The American market is so big and so good that we don't have anybody out breaking their backs to sell stuff abroad, and we are not giving anybody incentives of the type and proportion that Japan is giving.

Would you say that is true or not?

Secretary STANS. I would say that is very largely true. The United States is not, except in dollar amount, a heavy exporting nation. We only export about 4 percent of our production. Some of the European countries export as much as 30 percent of their output.

Japan, I think, is somewhere in the range of 10 to 15 percent of their output going into exports. Many of our American companies have not been interested in exports. Many of our medium size and smaller companies do very little.

We have been working very diligently in the Department of Commerce over the last year to try to encourage more companies to see the potentials in exports.

We have trade shows, exhibits, forums, seminars, and meetings of all kinds to try to generate interest in exports.

But the American businessman generally is a little bit afraid of the language problem. He is afraid of the redtape problem. He finds it difficult to get credit on exports at a reasonable rate.

All of these things are impediments that we are trying to break down. This is one of the reasons that we feel so strongly that the DISC proposal would help us greatly to build exports, because it provides some incentive that doesn't otherwise exist.

We are doing all we can to try to provide additional capital to the Export-Import Bank so that American companies trying to sell in foreign countries can compete on credit terms, too.

These are all parts of a transition that we have to make from a country which was casual about exports to one which has to become very aggressive and very intensive in its export effort or we are going to be overwhelmed by the floods of imports.

Mrs. GRIFFTHS. I think we ought to have not only a better policy and work harder at it, but I think we ought to get American business in, to agree that this is the way we ought to go.

Secretary STANS. I agree with you completely. We certainly have been trying on that.

Mrs. GRIFFTHS. Obviously, as I say these Japanese people here today—I presume these were all the guests that have been advising their government on what to do and how to do it—they can rely upon the fact that our policy is permitting American business to make a greater profit without concerning itself too much with America and where it really stands.

These people had not only themselves as lobbyists with their own government, but they have a built-in group lobbying for the same thing they want in America.

Only a few are speaking out against it. We have to get this thing organized for America.

Secretary STANS. I couldn't agree with you more.

Mrs. GRIFFTHS. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Burke will inquire.

Mr. BURKE. Mr. Secretary, in your answers to Congressman Schneebeli, you indicated there was more concern about big business than there was about smaller business because of the fact that the textile industry employed about 2 million people and it would receive greater attention from the Government than some of the smaller industries that were being affected by the accelerating imports.

Is that the policy of the administration?

Secretary STANS. I didn't mean to say that and I didn't mean to imply that. I did say, I think, that our concern is just as great in the one case as in the other, but that the types of remedies might differ in the case of textiles from the remedies that we might apply in the case of shoes because of the fact that the textile business is as large as it is and employs 2,400,000 people.

It doesn't seem conceivable that we effectively apply a policy of adjustment assistance or escape clause action.

I would hope that we could effectively use the escape clause provisions and the adjustment assistance for shoes, but the difference is not based on any intention to favor big business as against small business.

Mr. BURKE. During the weeks of the hearings that we had here, and I imagine you are being kept informed of the testimony that has been presented to this committee, as the chairman pointed out we had many, many witnesses here from all kinds of industries who are really being injured. We have had many of them that are practically wiped out.

How much time does the administration give to the shoe people, allowing for the time it will take for their extermination?

Secretary STANS. I would hope we wouldn't be talking in terms of extermination. Our desire is to help the shoe people in every conceivable way. This is the reason the administration, the President, announced on June 24 a program of assistance to the shoe people and their employees in this country.

Mr. BURKE. Are you referring to the task force report?

Secretary STANS. No, I am referring to the President's action that followed on the task force report. The task force report was an analysis of the problem, the characteristics of the industry, and so forth.

On June 24, the President announced a program of assistance to the shoe industry.

Mr. BURKE. Would you enumerate that and tell us how it is going to help?

Secretary STANS. Yes. I am reading from the release. It says:

> The program has three major components: First, initiation by the President of an investigation by the Tariff Commission under the escape clause provision of the Trade Expansion Act of the impact of increased imports on the men's and women's leather footwear industry; second, a series of domestic Government measures to deal directly with the various problems faced by some footwear firms and workers; and, third, authority for the Secretary of Labor and the Secretary of Commerce to proceed on each of the six adjustment assistance cases on which the Tariff Commission recently completed investigations.

Mr. BURKE. Let us take the first one. The first one is to have the Tariff Commission conduct further investigations; is that right?

Secretary STANS. That is correct.

Mr. BURKE. They have been investigating it for years.

Secretary STANS. Not under an escape clause provision which was initiated by the President. This is the first time the President has initiated an escape clause action in the history of the Trade Expansion Act.

Mr. BURKE. Suppose under the Trade Act of 1962 a finding is made in favor of the shoe industry. What will happen to the shoe industry that is going to benefit them?

Secretary STANS. One of the possible results of a finding under the escape clause provision would be an increase in tariffs on imported shoes.

Mr. BURKE. Do you think that will take place?

Secretary STANS. It could very well take place. I can't prejudge the situation. It might be the application of a tariff on a broad range of products or on certain products.

Mr. BURKE. In view of the history of the handling of these questions by the Government, and in view of the failure of the negotiators to come up with anything for our side, do you think it is practical to expect that anything is really going to happen, unless we do something in a legislative way?

Secretary STANS. I would like to point out a couple of things. One is that, as I testified this morning, the provisions for escape clause action and for adjustment assistance under the Trade Expansion Act were originally written so tightly that until late last year no company was able to qualify for relief.

We think that is wrong. We think that it should have been possible a long time ago for companies to qualify for escape clause relief, possibly increased tariffs or for adjustment assistance.

One of the things we are asking the committee to do is to amend that law, to make it possible when there is evidence of substantial imports to proceed promptly to give relief to the industry, to the companies and to their employees, rather than waiting forever as has been the way in the past and then finding the Tariff Commission turning down the application because it hasn't met the rigid requirements of the statute.

Mr. BURKE. In other words, there hasn't been any real concern about the injured parties until this legislation was before this committee.

Now we have an expression of concern on the part of some people that some people must have been injured.

In other words, all those people have gone by the board who are dead and buried. It is too bad about them. There will never be anything done about them.

But now we should open the gates just a little bit and have this adjustment that they talk about.

What adjustment?

Secretary STANS. Adjustment assistance.

Mr. BURKE. What would the small family operator of a shoe factory, say, up in New England, expect to get if he was about to close his door down?

What kind of adjustment could he expect to get?

Secretary STANS. Well, of course, it would depend upon the individual company and its circumstances. It might need working capital. It might need new equipment. It might need research. It might need new designs.

Mr. BURKE. It needs all these things. What does the Government do about it?

Secretary STANS. The Government is in a position to lend money.

Mr. BURKE. At what rate of interest?

Secretary STANS. At the Government's rate of money.

Mr. BURKE. What are they paying now for money?

Secretary STANS. If it were an SBA loan, it would be the same rate as the regular SBA loan, or any other type of Government assistance program.

Mr. BURKE. What rate of interest would the firm be expected to pay?

Secretary STANS. I am not sure, but it would not be the bank rate. It would be the Government's rate.

Mr. BURKE. What is the Government paying for money?

Secretary STANS. It is roughly to 6½ percent, in that range.

Mr. BURKE. In other words, they wouldn't get any rate lower than that; would they?

Secretary STANS. No; I wouldn't think so.

Mr. BURKE. There are no provisions made to give them a rate, say of 2 percent?

Secretary Stans. I don't think there is any way in which the adjustments-assistance provision would affect the interest rate.

Mr. Burke. You are a very able man, and you have done a good job as Secretary of Commerce. You certainly are realistic enough to know that if a man is flat on his back, he has no way of meeting competition, he has expended all of his finances, and when he goes in for a loan, even if he was granted the loan, there is no way he could survive under the present conditions he is facing as a result of the accelerated imports.

In other words, what you would be doing is giving him an opportunity to borrow maybe a half-million dollars or $300,000, but he would never be able to pay it back, because he would still have the same competition, the same glutting of the market that he is experiencing today.

Secretary Stans. There are other things that he could do. He might find it possible——

Mr. Burke. He could jump off the top of the building. That is what he could do. He is flat on his back. He is prostrate. He has been practically destroyed as far as his position in competition is concerned. The Government comes in and says to him, "We are going to help you. We are going to allow you to borrow money at 7 or 8 percent interest. And this is going to help you."

How will it help?

Secretary Stans. There may be some that can't be helped in that way. I would hope that a great many could be helped. If the relief takes place early enough in the process, it may help him very significantly. It may also help him to diversity his business more.

He may be in a line of shoes or in a line of activity which is on the decline. With financial help, he may be able to diversity into other products whereby he can maintain his market and build his business.

Certainly, it is all to the plus. I think the Congressman would agree with me that this is a very helpful thing. You might differ with me as to whether it is adequate to do the job or not, but certainly giving money to a business that is having problems on a basis that permits it to do research or to modernize, to mechanize, to train people, and to do all the other things that are necessary to survive must be helpful.

Mr. Burke. We had the Victory Shoe Co. in Holbrook, Mass., put in the most modern shoe factory in the world, the most modern production methods. They had money and everything else. But they closed their doors. They were 3 years old. They couldn't compete. Everything was done for them. They had access to highways for distributing and shipping their goods. They had surplus labor there ready to work at reasonably low wages. But they were unable to compete.

Secretary Stans. I can't comment on that company.

Mr. Burke. I want to ask you some questions about the unemployment situation in the country.

Right now I understand it is around 5 percent. I believe a member of the Federal Reserve Board stated the other day that before the end of the year it would go to 5.5 percent. There are other people who feel it will go to 6 percent.

Just where is all the money coming from to take care of all these unemployed people?

The administration is asking to raise the debt limit by $18 billion. They expect to go out on the money market and borrow $10 billion. They just passed a postal bill that authorizes the borrowing of another $10 billion.

Penn Central Railroad is in looking to borrow some money. We have unemployment coming up all around us. Some of the cities in our area are over 8 percent unemployed.

Just where is all the money coming from for these adjustment programs that they are promising today, the same way they promised them in 1962?

Secretary STANS. I think we are mixing two very important subjects, the one on the general economy and unemployment certainly being part of the price the country is paying for the overexpenditures of Government money in the past 4 or 5 years prior to 1969.

I am hopeful, as is the President, that that rate of unemployment will begin to go down again soon.

Mr. BURKE. The overexpenditures? The administration predicted there would be a surplus this year. When we come down to check on the unified budget, the regular Federal budget, we find out that we will have to raise the Federal debt limit by $18 billion. That has nothing to do with the past administration. That is the administration that is in office today.

Secretary STANS. I was talking about the year we had a $25 million deficit, which contributed more than anything else, perhaps, to the rate of inflation that we are having today.

Mr. BURKE. Yes; but we had a surplus last year.

Secretary STANS. We had a surplus last year. We will have a very small deficit in the year which ends next week.

Mr. BURKE. And that is the carryover from the past administration. Now we are going into the new administration, and we find that we have to raise the debt limit by $18 billion.

All I am trying to point out to you is that with all these obligations that the Federal Government is entering into as a result of the activity of this administration in borrowing $10 billion to meet the problems of the debt limit, authorizing a debt of $10 billion on the new postal reform bill, and then coming in here and asking, I understand, for hundreds of millions of dollars to take care of this disk program—where is the money going to come from to provide the adjustments to the unemployed worker who is supposed to be able to draw 65 percent of his salary, which means he will draw in Massachusetts about $61 a week for about 52 weeks, not to mention the family assistance welfare plan that the President has asked $4 billion for? These figures can be astronomical.

I don't see how we can sit here and say these things are going to be done.

I recall when one of your predecessors was sitting where you are now, former Secretary of Commerce Hodges, and I asked him how the unemployed person could depend upon the promises they were making. He gave me the same assurances that you are giving us now. But the problems today are far worse than they were then. We seem to be transporting all of our industry overseas, exporting jobs, and unemployment seems to be on the rise.

How we can sit here and say that we are going to abolish the American selling price, how we can forget about the problems of the textile industry, the problems of the shoe industry, the problems of the sporting goods and electronics industries. I don't see how we can do it.

I think you people have to come up with something a little bit more definite than you are coming forward with.

Secretary STANS. Mr. Congressman, what we have come up with so far as shoes are concerned, as far as textiles are concerned, is the result of long deliberation and discussion in all the agencies of the Government. I think they offer the opportunities of being very effective programs.

Mr. Gilbert testified back in May that if our administration program for textiles and shoes proves to be ineffective after a fair trial, we would be prepared to discuss the problem with the Congress again. We know we have to face these matters.

Mr. BURKE. What you are recommending is, let them steal the horse and then we will go in and lock the door. I don't think the Congress is about to buy that. I think there should be something spelled out on just how far we allow these negotiators to go.

Why did the negotiators at Geneva discuss the American selling price when they were not authorized under the legislation to do so? They went over there and practically promised them that, "We can go back to Congress and on top of these 50-cent reductions we have granted here, reducing the tariffs on 6,000 items. We will be able to go back to Congress and even eliminate the American selling price on top of what you are getting now. And we don't expect to get much back for it."

That is apparently what they did.

Secretary STANS. I am not very well acquainted with the circumstances of that negotiation. But I do know that because there was no legislative authority to eliminate the American selling price, the consideration in the form of offsetting concessions was set out separately in the same package, so that we don't get those concessions from the other countries if we don't give them the concessions on the American selling price.

Mr. BURKE. Under that trade bill, we allowed them to reduce the tariffs by 50 percent. In addition to that, if they eliminate the American selling price, how much does that further reduce the tariffs?

Secretary STANS. It would reduce the tariffs on chemicals approximately 5 percent, overall. But there would be a 30-percent reduction in certain low-duty chemicals and reductions in some high duties to about a 20-percent level—duties of 25 percent for sulfa drugs, 30 percent for dyes and pigments—which in many cases would normally be at higher rates.

So it is spread over a considerable number of items with different rates. But it averages out at 5 percent on chemicals.

Mr. BURKE. On other goods, what does it average?

Secretary STANS. There is very little application of the American selling price except to chemicals.

What are they giving us in return, is that your question?

Mr. BURKE. What other goods would have an effective reduction of tariffs by the complete elimination of the American selling price?

Secretary STANS. There are only two other categories, I am told. One is wool gloves, and the other is canned clams, which are part of the American selling price formula.

Mr. BURKE. What about rubber-soled footwear?

Secretary STANS. Rubber footwear, that is correct.

Mr. BURKE. I would like to point out to you, up in Massachusetts the Goodrich Rubber Co. had over 5,000 people working at their plant about 5 years ago. Today there is none working there. We had the Randy Shoe Co. in Randolph, Mass., where their employment peak was up around 1,200 or 1,300, and they are now down to about 600.

We have had about 15 shoe factories close up in the last 12 to 18 months.

We have textile firms closing up. We have electronic firms that are in difficulty.

The administration just closed the NASA facility in Cambridge, Mass., eliminating 800 jobs. They just awarded a $2 billion contract to Pascagoula, Miss., and left out either the Bath Iron Works or the Fore River Shipyard from consideration.

We face some real problems in New England.

The Government is able to maintain quotas on imports of oil. But, for some reason, they can't seem to consider imports of shoes and clothing.

I have asked this question before: Can you picture an Army walking without shoes?

Secretary STANS. No, sir.

Mr. BURKE. Can you picture an Army without clothing?

I believe that the shoe and the textile industries are just as necessary to our defense as the oil industry.

I am for quotas on oil, but I also believe that those quotas should be high enough to allow the American people in that area of the country to get sufficient oil to heat their homes. I am also in favor of reciprocal trade.

But I think the whole problem here is what the administration is asking us to do is to come in here and have a complete giveaway, a blank check. And once this American selling price is eliminated and once there is nothing done about the textiles or the shoes, or some of these other industries that are in real trouble, we have had it.

I am not criticizing you personally. I think you have done a tremendous job. I think you are one of the courageous men in this administration. You have gone over to the Orient and you have done the best yau can. But you have competition right down here in Washington, D.C.

Believe me, they are very devious in their methods. They are able to get their story across.

Apparently, some of our friends overseas, in Japan and other places, have been assured not to be concerned. The message I want to give you is that there are over 250 Members of the House who have footwear shoe factories and tanneries in their districts.

Referring also to this task report, I notice on one of these pages they advise the shoe industry to get out of the leather products and get into synthetics. They point out that this is the coming thing. I wonder how our cattle raisers in Florida, which is the biggest cattle-raising State in the Union, and cattle raisers in Texas and Arizona, feel about this elimination of the use of leather in our footwear.

Do you think that is going to create any unemployment in those areas? Do you think the tanneries that buy these hides are going to be concerned about unemployment?

Secretary STANS. Here, Mr. Burke, the only answer I can give you is that the customer makes a lot of those choices. If the customer wants plastic footwear, not leather, then somehow or other industry has to adjust to making plastic footwear.

Mr. BURKE. I am not quarreling with that. I am pointing out the task force is recommending that they forget about the leather products and practically telling them, "If you want to stay in business, you just have to stop buying leather and get into the synthetic wear."

I would think that that might raise some problems in these other areas of the country.

Secretary STANS. I would say this for the task force report: I think it is a great opportunity for the industry. If the task force's analysis of the facts about the shoe industry are incorrect, if the inferences they draw are incorrect, publishing that task force's report at least brings to light of day those convictions and gives the industry and all those who are affected by its conclusions an opportunity to rebut those facts.

Mr. BURKE. But they will be dead by the time they rebut them.

Secretary STANS. It doesn't need to take that long.

Mr. BURKE. There can be rebuttal on this report right now. I believe it was an exercise in futility, as far as this task force was concerned, about any recommendations. They haven't said anything that hasn't been said before, and they haven't come up with any constructive recommendations. Everything they said here was said during the hearings, and was said during the hearings back in 1962. But the problem is there, and it is growing every day.

I don't think we can allow this to happen to any industry in this country, even though the administration might feel that 300,000 people are working that they can't do anything about. There are over 300,000 people employed in the shoe industry. I don't think we can allow this to happen to the textile people, with 2½ million people employed there. I think their problems are the same.

I might also point out to you that I compliment you on supporting the textiles.

I would also like to point out that when we met with President Nixon—and it is no news—he said that he felt that the shoe industry was hurt the most. To bear that out, in 1967, the base from 1967 has gone up 15 percent in millions of pounds of textiles, to 1968. And the average of 1969 has gone up 24 percent. That compares with the increase in millions of pairs of footwear from 1967, an increase of 36 percent, up to 202 million pairs in 1969, an increase of 51 percent.

These are the figures we get from your Department. They show the increase in the footwear industry is up now where it is occupying about 26 or 27 percent of the domestic market. It is accelerating every day.

I want to point out to you that the footwear people are going to watch this legislation very carefully. We appreciate your support for the textiles. I can understand your position. I don't want to embarrass you.

The footwear people are going to be hurt in this legislation.

Thank you.

Mr. ULLMAN. Mr. Burleson.

Mr. BURLESON. Thank you, Mr. Chairman.

Mr Secretary, am I correct in my impression that in your testimony today, and when you previously appeared before the committee, that in the areas of goods or products, finished or raw, whatever it might be, it is your policy to favor a tariff system for most products other than textiles with perhaps some exceptions?

Secretary STANS. I think it is very difficult to generalize on that, because each case is separate. For example, in the oil-import problem, as you know, the administration was very much divided as to whether tariffs or quotas were the right answer. It is publicly known that I was one of those who felt that the quota system was a more reliable method of assuring our national security than a tariff system would be.

In the case of textiles we have testified today that we believe the quota system is the more effective to resolve that problem. The difficulty with tariffs is that any tariff that is fixed cannot determine in advance how much is going to come in under the tariff. A quota system prescribes precisely how much will come into the country, into the domestic markets.

So, depending upon the objective, the tariff system may be the most effective in some cases. And in other cases, it may not solve the problem at all.

Mr. BURLESON. I am glad to hear you say that, Mr. Secretary. I agree.

Of course, this committee could not write a level of tariffs into a bill. You would have a mail-order catalog, I assume, if we attempted it. But it could write quota limitations, could it not?

Secretary STANS. It certainly could.

Mr. BURLESON. Would it be helpful in administering the restraints—and I hesitate to use the word "restraints"—in our efforts to determine reciprocal benefits with our trading neighbors, if the committee, in maybe not all instances but in as many as it could, to write in a quota formula based on consumption, production, potential production, or whatever? Would that be helpful?

Secretary STANS. Are you thinking of——

Mr. BURLESON. I am thinking generally right now.

Secretary STANS. Just a general formula such as Mr. Byrnes suggested this morning?

Mr. BURLESON. I didn't recall just what he suggested. But it would be related to it, yes.

Secretary STANS. The idea of a general formula that tariffs would go up when imports reach a certain point or that quotas would apply when imports reach a certain point, has been discussed many times. And no one has found really a very good way of developing such a system.

For example, there are a lot of things we wouldn't want to apply it to at all. There would be no point in imposing a quota on the importation of diamonds, because we produce practically none in the United

States. In some cases, an import level of 10 percent might mean almost serious damage to an American industry. In other cases, an import level of 30 percent might be absorbed without catastrophe at all.

It seems to me that whatever is done has to be done on a basis that permits the executive branch a substantial degree of judgment. This is why we strongly support the provision in the Mills bill regarding textiles. The bill proposes a quota, a very tight quota, based upon the average of 1967 and 1968 shipments.

But if that becomes effective as to any country, then under international agreements that country has the right to retaliate against us by raising tariffs against us or imposing quotas on our goods. So, in endorsing that, we depend very much on the additional provision in the bill that gives us the right to negotiate agreements with other countries and have those agreements supersede the quotas. If we negotiate agreements with other countries, voluntarily, and presumably at higher levels than the quotas would be, then those countries, in effect, waive their right to retaliate against us, and we don't start a trade war.

So, I depend very much on the idea that the best course for us to proceed on is to give us enough of an umbrella in legislation to permit us to negotiate reasonable settlements with countries that otherwise would not want to negotiate with us at all.

Mr. BURLESON. Mr. Secretary, it seems to me that would be absolutely necessary. At the same time, I feel we have reached a point in our trade relations with other countries, probably where we should have less diplomacy applied than we have had in the past. We need to look to our own economy and to the welfare of our own business community more than we have in the past.

It seems to me we have passed the place where we can be so generous, as others have expressed this morning.

I would not expect you to comment on this. But on the gauntlet which must be gone through to attempt relief for some of the business community concerning imports, when you run the gauntlet, through some of our Departments, you get to the State Department, and it is all diplomacy. I have my doubts that there are very many people in the State Department now, the memory of "man runneth not to the contrary," who look at our business community with sympathetic eyes. I don't expect you to comment on this.

I think this should be concentrated in an area where decisions could be made and not run all over the lot trying to get relief, or something where everybody has a different idea about it, and it finally gets to the State Department, which has one idea, which can be opposed to all the rest. Then, finally, when it gets to the President's desk, you have an adverse decision. I have seen that happen.

Secretary STANS. The only comment I will make is that is one of the reasons we have a President who can take the conflicting interests from the Department of Commerce, if they differ from those of the State Department, and decide which is in the best interest of the Nation as a whole, taking all these factors into account. That is how we got to the point where we are today, in taking one position on textiles and another on shoes.

I presume that will be the ordinary course of Government for many years to come.

Mr. BURLESON. I wouldn't argue that point. I think we have to get away from some of this wide dispersal of authority, and I would even say judgment. It has to be reposed in somebody who can make decisions.

As Mr. Burke said before, the whole thing is ravelled out, and the decision becomes academic. As I said, I wouldn't expect you to join in this sort of an expression. But we have just had too many people who haven't looked at this thing realistically.

Thank you, Mr. Chairman.

Mr. ULLMAN. Mr. Conable will inquire.

Mr. CONABLE. Thank you, Mr. Chairman.

Mr. Secretary, I sympathize with your position here. There are wide points of view on the committee, and in the room.

As a practical man, sir, do you think it is going to be possible for the Congress to pass a quota bill that deals only with textiles?

Secretary STANS. I don't know. You, yourself, Mr. Congressman, are in a better position to judge that.

Mr. CONABLE. My judgment would be that it is not possible, frankly.

Secretary STANS. The Administration believes that the quota type legislation here is necessary to solve the textile problem. It believes that it can solve the shoe problem by other means, in other ways.

Congress's judgment may differ on that. Our position is that we do feel the quota legislation is necessary for textiles only.

Mr. CONABLE. You understand, I am sure, as a practical man, how it is easy to get into a pretty big logrolling spree on a bill of this sort, don't you? Just look around the room and see all the industries that want to be protected, which have cases they feel are every bit as depressing as the textile industry.

We have to take some responsibility once we open this door for what comes through it, don't we?

Secretary STANS. I am certain that is true. I would not dare to predict the outcome of a Christmas-tree type bill if it came to the President.

Mr. CONABLE. Even assuming that this committee has the discipline to resist the temptation for everyone to look after the interests in his own district, and assuming we bring it to the floor under a closed rule, the legislation then goes to the Senate. We don't need to discuss what is likely to happen there under their rules of nongermaneness, and so forth. I think that is a very real concern at this point.

At what point do we make an exception to a historic rule, and at what point do we pass beyond that and, in fact, roll back the pages of history in trade terms?

Secretary STANS. This is one of the reasons that we believe so strongly that enlarging and liberalizing the escape-clause provisions can help many of the industries that are troubled presently by imports. If we can find that solution it certainly will be better for the United States in its relations with other countries than to have broad-gaged quota-type legislation.

Mr. CONABLE. I have been surprised in today's discussions at the degree to which this bill has been described in anti-Japanese terms, the textile-quota bill, for instance.

Isn't it true that it would have a greater impact because of the historical pattern of textile imports on those countries that did not make large textile imports to the United States 3 or 4 years ago but now are having a sharply accelerating tide of exports to our country?

Secretary STANS. Yes. It would have a very strong impact on, particularly, Taiwan and South Korea, and to a lesser extent on Hong Kong.

Mr. CONABLE. And Japan, because she has had substantial import trade in textiles to this country previously, would not be hurt that much, would it?

Secretary STANS. It would be hurt considerably. Its rate of increase is quite high. But, again, these differences can be recognized in negotiated agreements when we get to that point under the legislation.

Mr. CONABLE. Assuming that such negotiated agreements are possible, you will acknowledge, I am sure, that there are serious political problems inside Japan relating to the negotiation of voluntary agreements as well, particularly when they, by so doing, give up their remedies under GATT.

Secretary STANS. There certainly are political difficulties in Japan today. I think Japan would take a more realistic viewpoint about negotiations within the framework of the Mills bill as it stands.

Mr. CONABLE. I trust they would, because, of course, our friendship for Japan is a rather important key in our whole Asian policy.

I am concerned about where we go in the field of retaliation, Mr. Secretary, once we start down this road. We all know the argument in Vietnam, that it is easy to justify a course of military escalation. But regardless of whether the justification is there or not, there is a serious question as to whether it is in our national interest to continue to escalate if the result is retaliation on the other side.

The same thing could be said of a trade war. Regardless of the justifications—and many of them have been adduced here today—for a sterner trade policy, in the long run there may be a serious question as to whether or not that sterner trade policy, to the extent it induces retaliation, may not hit more jobs on the export side than are possibly affected on the import side, at least at this stage.

Secretary STANS. I am glad you raise the point about Japan, because certainly there was no intention on my part to be anti-Japanese or "anti" any country. I answered a lot of questions about Japan.

Japan is the largest exporter of textiles to the United States. But our problem is much broader than Japan. Our relations with Japan are generally cordial and friendly, and we want to keep them that way.

Our difficulties are really not with the Japanese Government. That came out in the last few days. It is with the Japanese textile industry and the fact that the Government is not in a position to overrule that industry.

Mr. CONABLE. I agree with you, sir. And I am concerned about the implications of this bill in terms of the other developing countries, many of which we are not considering here today in duscussing this bill.

What about the issue of retaliation? What can we expect? We have been looking only at the side of our own outrage at artificial obstacles to trade. Our outrage is genuine, and probably it is well placed.

But isn't it almost inevitable, if we take this course, that we will be retaliated against, that industries that now have some degree of successful competition abroad and that make substantial contributions to our trade balance, such as it is, will find new obstacles thrown in their course simply because they are American industries?

Secretary STANS. My judgment would be this—and, of course, I could be partially wrong—if the bill is passed with quota limitations for textiles along the lines it is now written and with the provision for negotiation of reasonable agreements, we would, in almost every case, negotiate agreements. There is quite a bit of latitude that we could give in negotiations above the quotas that are prescribed in the bill. There would be every incentive for a country that was under the quota limitations to work out with us a reasonable solution that would not harm our industry and at the same time not do them any harm.

I believe that in every case of the major producing countries and most of the others we would be able to work out voluntary understandings and agreements that would supersede the quota provisions. If that were the case, then we would not face any retaliation.

Mr. CONABLE. My concern is one of where we are headed. As an exception to a historic trend, naturally I want to do what I can for businesses that have fallen on hard times. In almost any industry you can find those who exercised ingenuity and good old American competitiveness are doing better than those who didn't.

I acknowledge that within give nindustries there are much greater problems from imports than there are in other types of industries.

I want to express my concern, not only because of the situation here in Congress but because of the interpretation that is being given to it around the world and because of the tendency that everyone has to come in and look for the kind of protection the Government can give—which admittedly is not a very sound type of protection for a business, the best protection being good competition.

As I look at all these trends, I wonder if we aren't inevitably cutting off our nose to spite our face. It seems to me that foreign markets are likely to be growing faster than domestic markets. It seems to me, as the greatest manufacturing and trading nation in the world, we should have some confidence in our system and in our ability through ingenuity and willingness to compete, perhaps not in every case but in most cases.

I certainly fear the consequences in the long term if through pusillanimous action here we reverse our basic trade policy.

Secretary STANS. The only thing I can say to that is what we are talking about is a balancing of risk and a balancing of cost, potentially. The man who is unemployed because his shoe factory or textile mill went out of work couldn't care less about the things we are talking about. We have to figure out how we can do the best by him, the best by industry, but, overall, the best for the country in the long run. This means balancing out the question of whether we have quotas, tariffs, or some other device.

Mr. CONABLE. And it involves balancing out the jobs of people who make manufactured exports as well as the jobs of people who make products that are being damaged by imports. There is no coin without two sides. I am not sure that we have looked sufficiently at the other side of the coin here. Perhaps we have. Perhaps everything is as it appears.

However, I am not sure that I have seen anywhere a summary, a careful summary, of how many jobs are involved in American export business as opposed to those areas which are being damaged by imports. That certainly is something that requires our study as well as the other side.

Secretary STANS. We have some information on that subject that we can submit for the record.

Mr. CONABLE. I would appreciate it. I think it is important for us to understand the full implications of everything we are doing.

Thank you, Mr. Secretary.

(The document referred to follows:)

TABLE 1.—EMPLOYMENT RELATED TO FOREIGN TRADE, 1966 AND 1969

[Employment in thousands]

	Employment related to merchandise exports				Employment required to produce imports [2]					
	Number		As a percent of total private employment (excluding households)		Number		As a percent of total private employment (excluding households)		Total private employment (excluding households)	
	1966	1969 [1]	1966	1969	1966	1969 [1]	1966	1969	1966	1969 [1]
Total	2,464	2,663	3.8	3.8	1,824	2,538	2.8	3.7	65,183	69,498
Agricultural	471	327	11.9	9.1	159	187	4.0	5.2	3,963	3,584
Nonagricultural	1,993	2,336	3.3	3.5	1,665	2,351	2.7	3.6	61,220	65,914
Manufacturing	1,203	1,432	6.1	7.0	1,124	1,600	5.7	7.8	19,602	20,455
Nonmanufacturing	790	904	1.9	2.0	541	751	1.3	1.7	41,618	45,459

[1] Preliminary.
[2] Only those items most nearly comparable with domestic products.

Note: Export employment estimates are based on the value of U.S. domestic exports at U.S. ports. Import employment estimates are based on the value of U.S. imports for consumption adjusted to domestic port value. Employment includes wage and salary employees, self-employed and unpaid family workers.

Source: Foreign trade reports, U.S. Department of Commerce, Bureau of the Census.

The CHAIRMAN. Mr. Landrum will inquire.

Mr. LANDRUM. Mr. Secretary, I am one of those on the committee—and I believe it must be about universal or unanimous up here—who has great admiration for your individual efforts in this field of trying to negotiate an agreement with Japan, and trying to bring this great problem to some resolution without legislating quotas. I am pleased, of course, that you would come to the committee and provide the limited endorsements that you have for the textile provisions of the bill.

We are a little bit disappointed, as Mr. Burke indicated, about the reservations on the shoes. I wonder if you would care to state at this point some reservations you had or some amendments that you would want in if the committee should decide to include shoes.

Did you have some proposals there?

Secretary STANS. They would be the same amendments that we think would apply in the case of textiles.

The one amendment relates only to textiles. It suggests that silk need not be limited, and so forth.

The other amendment, however, would apply to shoes as well. It would provide that the President could waive the quota limitations applicable to any country in the event that that country's exports to the United States were not disrupting our markets.

That provision which would apply in the case of textiles could also apply in the case of shoes.

Mr. LANDRUM. I am not sure I understand exactly why you want to exclude manmade staple products. I would like to hear your explanation of that again, if you could give it to us.

Secretary STANS. Let me be sure I have your question correctly. Would you restate it again?

Mr. LANDRUM. I understood one of the amendments you wanted was a revision of the definition of "textile products" to first exclude silk products, and to also exclude manmade fiber-staple products.

Why is it that these are not "textiles"? You say they are part of the chemical industry.

Secretary STANS. We suggested it is not necessary to cover these within the framework of a textile program, because, first of all, they are products of the chemical industry rather than textiles and, secondly, there is no evidence of significant effect of imports on that industry up to this time.

Mr. Landrum. Is it not true, though, that this is the source, the chief source, of raw material that the textile industry uses in manufacturing these goods that we are concerned with?

Secretary STANS. Yes, of course.

Mr. LANDRUM. It would occur to me a little bit out of order to exclude that from the definition of "textiles," because, after all, it is going to be affected by the end product if we do finally adopt this legislation. Is that not true?

Secretary STANS. I suppose one parallel is that we are not providing for the quotas on wool, though we propose to deal with wool textiles and apparel. We are not dealing with the raw materials in either case.

I do not have the percentage at hand, but my recollection is that the imports of the manmade staple fiber and filament constitute a very small part of the consumption in this country and that our manmade fiber industry up to now has been effectively able to compete in general terms.

Mr. LANDRUM. With respect, Mr. Secretary, to the concern that Mr. Conable voiced about legislating this quota formula, is it not true that your position to negotiate is going to be considerably strengthened and that your chief reason for endorsing this legislation is not that it puts into law an exact amount which a nation can send into this country but that it strengthens your hand in negoiating with them a satisfactory agreement between our Nation and that nation on what can be brought in?

Secretary STANS. This is exactly my basis of feeling that the legislation is necessary. There is no reason for another country apparently to want to negotiate with us to bring the level of imports of any product down to a reasonable relationship with the growth of our market. Apparently, the only way we are going to be able to do that in textiles is to have the support of something like this legislation we are talking about.

Mr. LANDRUM. So, your endorsement of this proposal to legislate quotas is actually a move to stabilize and improve free trade. Isn't that true?

Secretary STANS. It is a move to provide for the orderly marketing of goods in this country and to eliminate the disorder that now exists, because these textiles are coming in in such a flood that our industry could not possibly adjust to it without great harm.

Mr. LANDRUM. So the use of the word "stable" or "stabilization" is not too grossly inappropriate, is it?

Secretary STANS. No, except that I do not want it to be construed that we are going to stabilize the quantities at any level. We do presume that any negotiations will give other countries an opportunity to share in the continued growth in the market in the United States.

Mr. LANDRUM. Absolutely, but under an orderly flow, as you have suggested?

Secretary STANS Yes.

Mr. LANDRUM. Again, Mr. Secretary, may I commend you for the great effort you have put into this field and for the real service you have rendered to our responsibility as a committee here to try to develop legislation. Thank you, sir.

Mr. ULLMAN (presiding). Mr. Vanik will inquire.

Mr. VANIK. Mr. Chairman, I would like to ask the Secretary what has been the level of price increases in textiles in 1969–68, 1970–69, both in products and in basic materials?

Secretary STANS. I do not think I have that material at hand.

Mr. VANIK. You can give me a ball-park idea of how the prices have been going up. Is it 3 percent, 5 percent, 8 percent, 20 percent?

Secretary STANS. I am going to ask Mr. Bodner of the Department of Commerce to answer that question. He has some knowledge on some parts of it.

Mr. BODNER. I think you will find a range in the various product areas. Apparel products have gone up in price slightly higher than mill products.

Mr. VANIK. How much has apparel gone up in the 1970–69 period?

Mr. BODNER. We are only part way through this year. I believe, but I would want to check this and get figures for the record, but I believe the increases are in the neighborhood of 5 or 6 percent. But I would have to check for the record.

Mr. VANIK. And 1969–68?

Mr. BODNER. I just don't recall, I am sorry.

Mr. VANIK. Is it anywhere near that figure?

Mr. BODNER. I would rather not hazard a guess. I think we can get a figure very promptly.

(The information referred to follows:)

PRICE CHANGES FOR TEXTILE AND APPAREL PRODUCTS IN 1969 AND EARLY 1970 FROM 1968

The Wholesale Price Index for textile mill products has remained steady during 1968 to date in contrast to the rise in the WPI for apparel products. The WPI for textile mill products was 100.2 (1957–59=100) in May 1970, compared with 1968 and 1969 averages of 100.6 and 101.0 respectively. The WPI for apparel products was 118.0 in May 1970, up from the average of 114.4 in 1969 and 110.2 in 1968. The 7.1 percent rise in the WPI for apparel products from 1968 to May 1970 was comparable to the 7.0 percent increase in the WPI for all commodities. In addition, the WPI for apparel products has leveled off in early 1970 in contrast to the continued rise in the index for all commodities.

The Consumer Price Index for apparel products (less footwear and upkeep) was 128.0 (1957–59=100) in May 1970 compared with an average of 116.8 in 1968 and 123.7 in 1969. The 9.6 percent rise in the CPI for apparel products from 1968 to May 1970 was less than the 11.1 percent increase in the CPI for all commodities.

Mr. VANIK. My question is this. I read some material within the last several days that indicated that the textile industry in the United States was going to experience some better conditions and circumstances this autumn for the third and fourth quarter. It referred to the possibility of the Congress passing this bill which you have recommended.

I was wondering whether there were any recommendations made by your office, Mr. Secretary, which would give the consumer some protection? Have you considered the possibility of an amendment that would drop the quotas if the price increases should get out of hand because of a control on the market price which would result from quotas?

Secretary STANS. We have not made such a recommendation.

Mr. VANIK. Would it not be a good idea to put such a protection for the consumer in this kind of legislation to insure that there will be no special advantage taken of those who go to the marketplace?

Secretary STANS. First of all, there is nothing in the legislation, and our intention to administer it, that would necessitate depriving the consumer of the present proportion of imported goods.

Mr. VANIK. I understand that. But, you see, it is a factor that will control the marketplace. There is no question about that.

When you limit the amount of an imported item, you do put a control on price. There is an effect on the price; is there not?

Secretary STANS. There could be an effect on the price if the effect of the limitation were to reduce the amount of competition in the marketplace.

Mr. VANIK. Would it not be helpful if the legislation would be suspended if it resulted in price increases that are beyond some acceptable thing that relates to normal inflation pressures?

I would say that the President ought to have this power over any other. Maybe the quota system should terminate if price increases should exceed 5 or 6 percent in any one year, and that would give the consumer some assurance that he is not going to be taken for a ride in a market that may be more aggressively controlled by this legislation than if it is nonexistent.

Secretary STANS. My difficulty with that is that I would not know how to evaluate the effect of imports or lack of imports on prices as distinguished from all the other factors that affect price—such as the level of wages, competition, technological improvement, and so forth. It might turn out to be a very unfair formula if you developed one along that line.

I certainly would be willing to look at it and discuss it. But I see an awful lot of pitfalls right from the beginning.

Suppose you get a 20-percent wage increase in the textile industry when other wages are only going up 5 percent. It would obviously be unfair to the manufacturer of textiles to limit his pricing under those circumstances. I just do not know how you would work out that kind of formula.

Mr. VANIK. You see, if there were a warning here to both the manufacturer and labor that whatever happens under this law results in a price escalation above a certain point that you lose the benefit of the quota protection, you both suffer by it. It might have a deterrent effect to an unwarranted price increase that might be brought about by excessive demands either by the manufacturer for profit or by the worker for higher wages.

Secretary STANS. I think there must be some fallacy in the thought of the manufacturer making an excessive demand for profits because it overlooks the thousands of competitors that each one has around the country. I think that factor alone is going to see that the rate of profit is held down.

Mr. VANIK. Let me ask you this question categorically.

If this bill is adopted, is it likely to result in lower priced textiles and textile products or higher priced textiles and textile products?

Secretary STANS. I would express the judgment that except for the element of inflation that might persist that this bill would tend to hold the price of textiles at the present level subject only to improvements in technology that would take place in the industry as they always have.

Mr. VANIK. You say then it would have no effect?

Secretary STANS. I would think it would have no significant effect.

Mr. VANIK. As far as price escalation is concerned to the consumer?

Secretary STANS. I would say that.

Mr. VANIK. I think we would be running in the face of a lot of history that does not support that. I am not prepared to analyze it or discuss it now. But it seems to me that whenever there are restraints on the normal course of trade, prices are inclined to be controlled. One of the Cabinet Task Force Reports on Oil Imports seem to validate this point of view. Oil import controls are reported to cost the American $6 billion.

Secretary STANS. That was a highly debated proposition. I think it was shown both at the wholesale level and at the retail level that the price of oil and oil products actually went up less under the control system that was then in effect over the last 10 years than did the wholesale price index generally or the Consumer Price Index generally.

Mr. VANIK. I am inclined to support this legislation. I appreciate your position on it, but I would like to see some safeguard for the consumer, to provide perhaps for the suspension of the legislation in the event that the price in any one year should rise beyond a certain percentage level.

Do you think it is impossible to draft the legislation that way as a matter of draftsmanship? Or do you simply disagree with it in principle? It could be drafted, could it not? It is within the realm of possibility that we could draft legislation with this safeguard to the people of America who are the ones whom we are really supposed to be concerned with here, the consumer. I think the consumer is first and everybody else comes after that. Do you now agree that whatever we do, the consumer's interest should be paramount?

Secretary STANS. I certainly do. But you also recognize that the laborer who is involved in the employment in these industries is also ultimately a consumer. I would hesitate, Mr. Congressman, to say that anything is impossible. But I would say that it would be almost beyond belief that we could draw a formula at this time that would deal with the proposition you are describing. And I would urge very much that a better course, I believe, would be to pass the legislation and watch the effects. If the effects are unreasonable, there are ways of dealing with that.

Mr. VANIK. The steel people tell me that the agreement is not working out on steel. They say that the shift has been over to high-quality items and that this agreement is not working out. Is that your reaction?

Secretary STANS. Their complaint is not with the European companies. They are satisfied with the way it has worked insofar as the European companies are concerned. They do feel that insofar as Japan is concerned, two things happened that were not contemplated. One is that the Japanese shipments in 1969 exceeded the quota to which they were committed.

But the Japanese have remedied that by agreeing to charge the 1969 excess against their 1970 quota.

The other thing they have complained about is probably more significant, and that is that the Japanese tended to upgrade the quality and price of the exports that they sent to the United States. I have never seen that quantified to know whether it is a 5-percent upgrading or a 10-percent upgrading. But I do know that the industry is concerned about this, and it may come up again, if there is an extension of the agreement.

Mr. VANIK. What would be your reaction to adding the steel-import provisions, making them effective after the termination of the agreement, just adding them onto this bill?

Secretary STANS. We have no administration position on the question of steel at this time. We have begun discussions as to whether or not the present agreement should be extended. We have no indication of whether the other countries would resist an extension.

I suggest that it may not be necessary at all to deal with steel in this forum.

Mr. VANIK. Let me ask you a question with respect to the Cabinet task force report on oil.

Suppose that was added to this bill, it might put it in a little better balance. Why not add the Cabinet task force report on oil-import quotas to this bill? We might then in the same bill impose some quotas and relax some, so it might be indicative of the more generous trading policy.

Secretary STANS. My answer to that is that I think we have solved that one. I think we have the mechanism now that is dealing with it effectively. We raised the level of imports through the Cabinet committee within the last month, and we also dealt with the problem of fuel oil in New England by allocating 40,000 barrels a day of No. 2 fuel oil in increased imports.

Mr. VANIK. They do not seem to feel that that has had any effect up there.

Secretary STANS. Not as of yet. But it should have significant effect this coming winter.

Mr. VANIK. I have not seen any effect in the marketplace. The price of fuel seems to be going up. Generally about this time of the year it does anyway, but we are paying higher prices than we ever did before.

Secretary STANS. This new quantity of oil has not begun to come in yet. But it would be scheduled to come in almost any day. It just was announced last week. I think it would have a very helpful effect on the oil supply in New England for the coming winter.

Mr. VANIK. I am thinking of something beyond New England. I am thinking of the effect on the broader part of America.

It seemed to me that combining the Cabinet task forces recommendations on oil-import controls to this legislation might help put it a little more in balance. It could be added to this bill. It is germane. As long as we are dealing with this trade issue, we could certainly go into this area.

Secretary STANS. I would only say two things to that.

The task force reports—and there were two of them, which differed, as you know—are based primarily on the issue of evaluating the national security interests of the country. This is, after all, the reason for the oil-import program. It is not one of protecting the oil industry in the United States. It is a different kind of creature than we are working with on textiles and shoes.

Secondly, I would say if you wanted to take on the most controversial issue that could be created this year, you would do that if you took on the oil situation. I know because we have lived with it for 9 months in the course of our own study.

I would strongly urge—I think it is under control now, and I think it is working out—that the Congress would do better to pass the bills we are talking about in the present framework than to tack that one on to it.

Mr. VANIK. I don't know. We might have an Army in the field without shoes. We might be in a real dilemma. We might have the first barefoot army in the world if we don't have some remnants of a home industry.

Well, I certainly feel, Mr. Secretary, that there are two things that I am very much concerned with.

One is that we certainly ought to consider the possibility of doing something about the oil-import quotas, which I do not agree are based on the national-security issue, because I think the oil in the ground is greater in America than is consumed.

The second point I make is that I feel we ought to have some consumer guarantees. I have been very disappointed about the price increases that occurred in the several industries right after they were made the beneficiaries of agreements. I thought they were arbitrary. I thought the public was being taken.

I do feel that we ought to try to write into this bill—and I think our trading partners will understand our concern for the consumer—something that can terminate this kind of restraint if prices should rise out of line. Whether you agree with the principle or not, I certainly will appreciate whatever help you can give with respect to suggestions that can provide some kinds of ways of insuring that within the framework of this legislation that there may be some way of lifting it if consumer prices should rise beyond an understandable level.

Mr. ULLMAN. Mr. Corman.

Mr. CORMAN. Mr. Secretary, I would like to ask you a couple of questions on DISC.

First of all, specifically as to how this might be useful to the movie industry, it is my understanding it would be possible to create a DISC for the rental or leasing or sale of movies made in this country for overseas distribution. Is that correct?

Secretary STANS. That is my understanding, too.

Mr. CORMAN. As I understood the Treasury's explanation, copyrights used abroad are not covered by DISC, but that would in no way affect movies as such.

Secretary STANS. That is my understanding. That is my advice here.

But I must say that DISC is a project and responsibility of the Treasury Department, and my testimony here was for the purpose of endorsing its objectives rather than testifying in very much detail about its specific provisions.

Mr. CORMAN. As I understand the mechanism, profits made overseas are not taxable until they come home. That is the basic thrust of DISC. Is that right?

Secretary STANS. Not quite. Profits made in an exporting company located overseas or in the United States whose business is devoted almost exclusively to exports are not taxable until they come out of that exporting company into its parent.

Mr. CORMAN. Yes. But I assume we set up some sort of business entity for a movie company to become its DISC, so that it may generate profits abroad.

Secretary STANS. Right.

Mr. CORMAN. That would not be taxable until they are brought back through that entity and distributed in this country as profits.

Secretary STANS. That is correct.

Mr. CORMAN. My worry is this. Are we therefore going to create a situation where they can leave their profits abroad and use those profits to make motion pictures abroad and get back into the same situation we had when we had frozen assets in foreign countries?

Secretary STANS. It would be my judgment that would violate the principles of DISC and would not qualify.

Mr. CORMAN. I can't quite get the advantage so far as the movie industry is concerned. If they can't do anything with their assets that are abroad, they are in a sense frozen until they bring them home. And then they are going to be taxed on them anyway.

In other words, how is this mechanism going to work from the point of view of this business entity?

Mr. BUTLER. In the DISC proposal, the second requirement is that 95 percent of at least a high percentage of the DISC assets must be invested in export-related assets. Those can be loans upstream to the parent corporation.

Mr. CORMAN. For production only at home?

Mr. BUTLER. For production only in the United States.

Mr. CORMAN. Then I assume we might have some real advantage in the movie industry because those profits are not going to get taxed so long as they are used to make more motion pictures to be exported abroad.

Mr. BUTLER. That is right. The assets must be invested in the United States in export-related assets.

Mr. CORMAN. How would that work, though, in the movie business where every time you have a production it is going to have some home consumption and some foreign consumption?

Mr. BUTLER. Treasury has indicated that if 20 percent of your business is export business and if it costs $10 million to produce a movie, $2 million of that can be credited against this asset-investment requirement for the DISC.

Mr. CORMAN. That industry may lend itself better to DISC than any other so far as I can see, because of the fact that almost every production has a rather significant foreign market.

Mr. BUTLER. Yes.

Mr. CORMAN. So they may be able to delay the tax forever.

Do you have any figures as to the gross cost, the estimated gross cost of DISC?

Secretary STANS. The Treasury Department has estimated that the first-year cost would be somewhere around $500 to $600 million. Subsequent-year cost would depend upon how much additional exports were generated as a result of DISC.

Mr. CORMAN. Were you involved in the studies? As I understand it, the Treasury's estimate was that half that would probably be consumed by the 93 largest exporters.

Secretary STANS. I am not familiar with those studies; no.

Mr. CORMAN. Do we have any problem with DISC's so far as any of the other commitments in GATT are concerned. Does it raise any problems that we are giving some tax advantage to exports versus home consumption?

Secretary STANS. Treasury has studied that very thoroughly and is satisfied that it should not give us any difficulties under GATT.

Mr. CORMAN. Turning to this textile quota bill, it is my understanding that you propose that we exclude certain high-cost imports that may not have any competitive impact in this country

Are you talking about wearing apparel as one of those?

Secretary STANS. Usually specialty items. There is no problem with imports of Appenzell handkerchiefs from Switzerland, for example.

Mr. CORMAN. There is a thing called a Paoli knit suit from Italy that costs $150 or some astronomical figure. Would that fall in the category that you might want to exempt?

Secretary STANS. I don't know. We might have to look into that specifically.

Mr. CORMAN. What strikes me about that particularly is that we are going to make it very difficult for me to buy a $2 shirt for myself, but very easy for me to buy a $150 suit for my wife. I want to be sure that we are not bringing ourselves a quota system here that is going to constitute attacks on the poor. I have a little apprehension about it from that point of view.

I cannot see how we can say that the quota bill is not going to affect the availability of low-cost apparel, because it is competing with American apparel. It is competing in price only. The quality is not as good. So we are going to remove from the American consumer, it seems to me, the cheapest wearing apparel.

Isn't that what we are doing?

Secretary STANS. The general answer to your question is that we are not greatly concerned—our textile industry is not greatly concerned today about most of the imports of textiles that come from the European countries. Their labor costs are higher. We can compete in the kinds of things generally that they make. Most of them are specialty or style items, French fashions, types of goods like that that are not a matter of concern to our industry in any significant degree.

It may well be that we would find no necessity for imposing quotas on imports of textiles from Belgium or Switzerland or countries of that type.

Mr. CORMAN. That is my point. What we are going to remove from the market, going to remove from the dry goods counter, is the $3 shirt. The reason we are removing it is because we say the American textile manufacturer cannot compete with the $3 shirt because of labor costs and taxes and all those other things.

Isn't that what we are saying?

Secretary STANS. "Remove" is not the right word, because we are not proposing in our negotiations to do anything to reduce those levels of imports. We merely want to keep them from being all $3 shirts, being all imported shirts.

Mr. CORMAN. Yes, sir. But the area of consumer goods we are talking about is the low-priced apparel.

Secretary STANS. In general, although I was using the high-quality European goods as an illustration, rather than as a generalization.

Mr. CORMAN. I suspect we are going to have to refer more to high-priced than high-quality, because I suspect that is what we are really talking about.

Secretary STANS. It is really higher-priced labor content too.

Mr. CORMAN. Yes, sir. Is there any area of trade in the world where the American businessman is asked to impose upon himself a voluntary quota?

Secretary STANS. I can't think of any.

Mr. CORMAN. In your negotiations with the Japanese was there consideration given to negotiating out some of the nontariff barriers in things other than textiles as consideration for giving them more favorable textile agreement? In other words, did you discuss just textiles, or did you discuss across-the-board trade between this country and Japan?

Secretary STANS. We have on a number of occasions talked trade across-the-board with Japan. We did not in the last 3 days. That was strictly a textile negotiation between myself and my counterpart in the Japanese Government.

But the problem of negotiating with trade barriers on the part of Japan is that they have 98 which are clearly in violation of their agreement under GATT, and we should not pay any price to get them to eliminate those. They are obligated to eliminate them without consideration.

Our real pressure is to get them to observe their international obligations.

Mr. CORMAN. Turning for the moment to the American selling price, you indicated earlier that you did not have a view as to whether or not that was a fair agreement.

I understand it was all worked out at arms' length bargaining in the Kennedy round, concessions were made, and in turn we agreed to repeal the American selling price. And once Congress does that, then the entire agreement becomes competitive.

Do you have a view now or does anyone else in your Department have a view as to whether or not that arms' length agreement that was worked out is fair to the American business community?

Secretary STANS. I said earlier that I did not think I could quantify precisely the value on each side. I will answer your question now by saying yes, I think it was a fair agreement negotiated at arms' length. And I have not seen any evidence to the contrary, although I know that viewpoint has been expressed.

Mr. CORMAN. I expect it has been expressed by those who did not benefit from it, and there would be a contrary view from those who did.

Looking at you as a representative of the total business community, it is your view that it is fair. Is that right?

Secretary STANS. It is my view that it is fair.

Mr. CORMAN. Did the Japanesce have any nontariff barriers so far as our selling them airplanes is concerned?

Secretary STANS. Light aircraft is under import quotas in Japan, so there is a nontariff barrier there.

Mr. CORMAN. What about passenger planes? Are there any barriers there?

Secretary STANS. None on the large passenger planes.

Mr. CORMAN. Has there been any discussion about whether or not we can get those barriers on the light planes removed?

Secretary STANS. There is continuing discussion about each of these items. I don't recall any specific about that one, but it is one of those that is being discussed.

Mr. CORMAN. One of the slogans that is very popular—at least it was when we were very deeply involved in foreign aid, economic foreign aid—was that we were working toward that day when we would have "trade, not aid." Much of our aid effort, nonmilitary aid, was designed to create productive capacity in developing nations so that they could become both a seller to the United States and a buyer from the United States.

Now, is the textile quota going to have any effect on Korea and Taiwan so far as that objective is concerned?

Secretary STANS. Korea and Taiwan are two of the very large exporting countries of textiles. Without any question, the provisions of the bill would require them to slow down their rate of exports to the United States.

Now, we would be able in our negotiations under the agreements that would supersede the quotas to take into account our relationships with those two countries and their psition as developing countries. They are the only two developing countries that are significant exporters to us now of textiles made from manmade fibers.

Mr. CORMAN. What about Hong Kong?

Secretary STANS. It is always a question of how to classify Hong Kong, whether it is a developing country or developed, because it is a colony of Great Britain. Hong Kong is an important exporter of apparel and fabrics made from manmade fibers.

We would also have to negotiate an agreement with them. However, I am not sure that they would be classified as a developing country for that purpose.

Mr. CORMAN. What do Korea and Taiwan purchase from us, what kind of goods? Is it mostly food? Do they have a trade deficit or a surplus so far as the United States is concerned?

Secretary STANS. Our trade balance with Korea is heavily in our favor at the present time. Last year we exported $699 million to Korea and bought back from them $291 million. So that the balance was $408 million favorable.

In the case of Hong Kong it is just the other way. We exported $364 million to Hong Kong last year and imported $815 million from Hong Kong. So we had a $451 million negative balance.

Now, the composition of this by character of goods, I do not have with me today.

Mr. CORMAN. Thank you.

Mr. GIBBONS (presiding). Mr. Secretary, may I commend you. You have been a very patient, a very tolerant, and a very articulate witness. I know you must be tired. I don't want to pick on you, but before it is over, it will look as though I am picking on you. You have to realize I am not angry with you, and I respect you for the job you have done.

Mr. Secretary, I am afraid our generation will be the generation that will go down as one that was willing to spend a hundred-thousand lives to protect freedom, to build it up around the world, but we were not willing to sacrifice $1 of potential profit or one job, one potential job.

I am curious as to why you have singled out the textile industry as being the one industry that needed extraordinary protection in the country. Will you go back through that rationale for me, please?

Secretary STANS. Yes, sir. The textile industry, as we have said earlier, employs almost 2½ million people. It thereby employs about one out of eight persons in the United States who are engaged in manufacturing. Among those are a considerable proportion of our minority people, because the industry is to a considerable degree located in the Southern States.

Mr. GIBBONS. It is your contention that we have been losing jobs in this industry. Is that right?

Secretary STANS. We have been; yes, in both textiles and apparel.

Mr. GIBBONS. I have some figures now. I would like you to correct these if these are not correct. These are figures that I derived from the American Textile Manufacturers Institute.

They show that in 1968—and I am going to give you a 10-year comparison—in 1968, the number of people engaged in making textile mill products was 990,000 people. That is 1968.

In 1958 there were 918,000 people. So I figure that the mill-products people have gained 62,000 jobs in 10 years. Is that about right?

Secretary STANS. Yes, if you go back that far, to compare 1958–68, that is right.

Mr. GIBBONS. Let us go into the apparel end of the business. The apparel people had in 1958, 1,171,000 people employed. And in 1968 they had 1,408,000 people employed, or they had an increase of 237,000 jobs in that 10-year period.

Obviously, jobs cannot be the problem, Mr. Secretary.

Are my figures wrong, or are they right?

Secretary STANS. Your figures are right, but your conclusion is not right.

Mr. GIBBONS. Explain to me the conclusions. Any industry that goes up in cold number of bodies employed, I don't think is a declining industry.

Secretary STANS. My disagreement is that you are stopping at the point at which I start in my fundamental concern about this industry. In 1969 and 1970 we are losing the employment. I don't quarrel with the fact that employment has grown over the last 10 years.

Mr. GIBBONS. Would you supply for the record, then, or for my edification those mills where the employment has dropped and the amount of employment in both—I don't have those figures—in both textile mills and the apparel industry? Do you have those figures, sir?

Secretary STANS. I don't have the figure by individual plants or States or locations, but I can certainly collect a great quantity of them for you.

(The information referred to follows:)

TEXTILE PLANT CLOSINGS SINCE JANUARY 1969

NORTH CAROLINA

Ellerbee Spinning, Ellerbee
Arista Mills, Winston-Salem
Erwin Mills, Cooleemee
Gamhill & Melville, Bessema City
Henry River Mills, Henry River
Highland Park Mills, Charlotte
Neisler Mills, Kings Mountain
Guerney Industries, Taylorville & Thomasville
Warren Mills, Albemarle
Virginia Mills, Swepsonville
Balston Mills, Lincolnton
Laurel Mills, Rutherford
Uniroyal Inc., Gastonia
Erwin Mills, North Durham
Rockingham Mills, Rockingham
Kingson Mills, Durham
American & Efird, Lincolnton

SOUTH CAROLINA

Abney Mills, Brandon Plant, Greenville
Clifton Mfg. Co., Clifton
Edward Mills, Rock Hill
Greer Mfg. Co., Easley
Highland Park Mfg. Co., Rock Hill
Niagara Mills, Spartanburg
Red Bank Mill, Lexington
Indian Head, Ringerville

GEORGIA

J. P. Stevens Exposition Plant, Atlanta
Crown Cotton Mills, Dalton
Whitehall Mills, Whitehall
Piedmont Cotton Mills, East Point
Chatsworth Yarns. Catsworth
Union Manufacturing Co., Union Point

OTHERS

Abbott Worsted Mills, Wilton, N.H.
Aberfoyle Mfg. Co., Stamford, Conn.
Corsicana Cotton Mills, Corsicana, Texas
Lacon Woolen Mills, Lacon, Ill.

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Louisville Textiles, Louisville, Ky.
Pinecrest Cotton Mill, Pine Bluff, Ark.
Souhan-Waucantuck Mills, Uxbridge, Mass.
Stanrick Mills, North Oxford, Mass.
Syntextiles, Johnson, R.I.
Tom O'Shanter, Manchester, N.H.
Texas Textile Mills, McKinney, Texas
Texas Textile Mills, Waco, Texas
Wyandotte Industries, Rochester, N.H.
Berkshire-Hathaway (plant in Rhode Island and plant in Mass.)
Sparking Mills, West Warwick, R.I.
Burlington Industries, West, Texas Plant
San Quentin Cotton Mill, San Quentin, Calif.
Kilby Cotton Mills, Montgomery, Ala.
Paul Whitin Mfg. Co., Gilbertville, Mass.
Sanco Piece Dye Woolens, Phillipsburg, Mass.
Greenville Finishing Co., Greenville, R.I.
Pontiac Print Works, Warwick, R.I.
Stervo Dyeing & Finishing, Clifton, N.J.

Mr. GIBBONS. I think you and I can agree that employment gained substantially in the 10-year period, 1958 to 1968, about 300,000 jobs, Mr. Secretary, as I figure it.

Secretary STANS. Yes; that was about the peak. From then on it has begun to decline.

Mr. GIBBONS. What about profit in this industry? Is it one where they have continued to make a profit? Or has it fallen by the wayside?

Secretary STANS. The industry on the average is profitable. There are many unprofitable units in it. But its average profit is in the low scale among manufacturing industries.

Mr. GIBBONS. Has it not historically always been that way in the United States?

Secretary STANS. I would think that is generally true.

Mr. GIBBONS. There is nothing new about that, is there? Isn't it true, Mr. Secretary, that the net profit after taxes—and these figures come from the Federal Trade Commission. I guess I ought to identify the source first. I can give you some later ones, but I just happened to figure these out. In 1961 the textile mill products, as defined by the Federal Trade Commission and Federal Securities and Exchange Commission, according to my figures, made a net profit of $280 million. And in 1968 these same people made $654 million, or an increase of $374 million net profit after taxes. Is that right?

Secretary STANS. I would not question the figures. I do not think it would lead to a conclusion that there was anything significant about it.

Mr. GIBBONS. I am not objecting to profits, because profits are what pay my salary. I realize that.

Secretary STANS. I think the question of profits relates to the amount of risk, the capital invested in the business.

Mr. GIBBONS. I am going to get to that next.

I have some figures on that. I hope you and I will continue to agree, as we have been agreeing.

I am still quoting from the Federal Trade Commission and the Security and Exchange Commission resources. The rate of profit as a percent of stockholders' equity—and that is about the best hardheaded businessman's approval of a business I know of—shows in 1960 the textile-product people were making 5.9-percent return on their equity, and in 1969 they were making 7.9-percent return on their investment, or they were making 2 percent more in 1969 than they were in 1960.

If those figures are not right, I want to know where they are wrong, and we will get the Federal Trade Commission and the Securities and Exchange Commission up here.

Secretary STANS. I will check them out. I don't have them here.

(The material referred to follows:)

TABLE 10.—NET SALES AND NET PROFITS AFTER FEDERAL INCOME TAXES, TOGETHER WITH NET PROFITS AS A PERCENT OF NET SALES AND RATE OF PROFIT ON STOCKHOLDERS EQUITY, FOR ALL MANUFACTURING CORPORATIONS, CORPORATIONS MANUFACTURING TEXTILE MILL PRODUCTS, AND CORPORATIONS MANUFACTURING APPAREL AND OTHER FINISHED PRODUCTS, 1960-69

[Dollar amounts in millions]

Year	Net sales			Net profit after Federal income taxes		
		Corporations manufacturing—			Corporations manufacturing—	
	All manufacturing corporations [1]	Textile mill products	Apparel and other finished products	All manufacturing corporations	Textile mill products	Apparel and other finished products
1960	$345,690	$13,254	$11,012	$15,197	$329	$152
1961	356,424	13,398	12,365	15,308	280	157
1962	389,404	14,449	13,055	17,727	354	212
1963	412,678	15,092	13,696	19,481	354	189
1964	443,072	16,249	14,880	23,208	507	318
1965	492,201	18,028	16,263	27,521	694	377
1966	554,159	19,513	18,110	30,937	702	432
1967	575,427	18,672	18,170	29,008	540	420
1968	631,911	20,841	20,718	32,069	654	507
1969	694,584	21,780	22,687	33,248	621	523
	Net profit as a percent of net sales			Rate of profit in percent on stockholders' equity [2]		
1960	4.4	2.5	1.4	9.2	5.9	7.7
1961	4.3	2.1	1.3	8.8	5.0	7.1
1962	4.6	2.4	1.6	9.8	6.2	9.2
1963	4.7	2.3	2.4	10.3	6.1	7.7
1964	5.2	3.1	2.1	11.6	8.5	11.7
1965	5.6	3.8	2.3	13.0	10.8	12.7
1966	5.6	3.6	2.4	13.5	10.1	13.3
1967	5.0	2.9	2.3	11.7	7.6	11.9
1968	5.1	3.1	2.4	12.1	8.8	12.9
1969	4.8	2.9	2.3	11.5	7.9	11.9

[1] Except newspapers.
[2] Annual data are quarterly average.

Source: Federal Trade Commission and Securities and Exchange Commission Quarterly Financial Report for Manufacturing Corporations.

Mr. GIBBONS. Let us go back to the apparel people at the same time, because they have not done real bad either.

According to the Securities and Exchange Commission people, the apparel people in 1961 made $157 million net profit, and in 1968 these same people made $507 million in net profit, or an increase of $350 million in that 10-year period. They made 2½ times as much increase in profit as they were making back in 1961.

Now these may be unusual figures, but I do not think there is any dispute about them.

Secretary STANS. I do not dispute the figures. I am sure they are correct.

Mr. GIBBONS. That gets back to my basic question, Mr. Secretary. Why did you single out the textile industry, which has had an increase in employment, increase in net profits, an increase in the percent of profit on their equity, stockholders' equity, for favorable treatment for trade negotiations and for trade legislation?

Secretary STANS. For the very simple reason that the rate of imports of manmade fiber products in the last few years has been increasing at such a rapid rate that it is tending to invalidate all of those experiences of the earlier 10-year period that you are quoting.

Mr. GIBBONS. Let us go back to manmade fiber products and look at the rate of imports as a percent of consumption, because I think it is a percent of the whole market.

My figures show—and I don't have any older figures. But I guess you have them. My figures show that in 1965, man-made fiber products amounted to 79 million pounds and that in 1969 they amounted to 257 million pounds. Now, that is a pretty substantial increase. But the domestic consumption of those same products, as I figure it, Mr. Secretary, started off in 1965 at 3,570 million pounds, and in 1969 they were over 5,640 million pounds.

So, in 1965 manmade fibers, as contrasted with the domestic consumption or the market, was 2.2 percent. And it has risen to the horrendous figure of 4.6 percent.

Now, I have been a businessman, and I never worried about 4.6 percent of the competition as being something that was going to put me out of business.

Secretary STANS. I have a difference in the figures there. I think they are in the classification of what you may consider "manmade fiber products." My figure for 1965 is 2.7 percent. The latest figures for the year ended March 1970 is 5.8 percent, more than double.

Mr. GIBBONS. Unfortunately, I do not have that. I realize it has gone up. It has doubled in 5 years?

Secretary STANS. Yes, sir.

Mr. GIBBONS. It still is only 5 percent of the whole market. Is that right?

Secretary STANS. Approximately 6 percent of the whole market on a poundage basis.

Mr. GIBBONS. That still gets me back to my fundamental question, Mr. Secretary. I agree with the conclusion you came to on shoes, and I applaud the administration and you for that decision.

But, as I figure the penetration in the shoe market and the nonrubber footwear, the penetration has doubled in 5 years, from 13 percent to 26 percent. In the steelmill products it has gone up from 10.3 to 13.7—a 3.4 percent increase in penetration. In TV, it is 11.8. In radio, it is 19 percent.

I was not going to get into something that pertains to us down in Florida, but strawberries, fresh fruit and vegetables—and you know these are jobs that are lost—I have strawberry farmers in my district that when you grab hold of a strawberry farmer, you know you have had hold of the hand of a farmer. It is calloused and rough, and that man has worked hard to make a living.

We have testimony here that the rate of pay for manual labor to raise strawberries is eight times as cheap in Mexico as it is right here in Florida. The strawberry imports went up from 2.6 million pounds to 13.6 million pounds in the 5-year period from 1965 to 1969.

On tomatoes, it went from 12 million pounds to 19 million pounds. It is a small industry, but it is very important to my area.

I cannot see why textiles get all the preferential treatment when other people have been treated a lot worse.

Secretary STANS. Will you let me answer a bit on that?

Mr. GIBBONS. Yes, sir.

Secretary STANS. The manmade fiber product category is only one of the categories that affects the textile industry as a whole. In the case of wool products, the imports make up 26 percent of the domestic market. In the case of cotton products, even though there are international agreements, they make up 12.4 percent of the domestic market in the latest figures that we have.

Now, the fact that there is an average, however, overlooks the degree of penetration in many specific products. For example, in men's dress shirts, manmade fiber products make up 41 percent of the domestic market. That is, imported shirts make up 41 percent of the domestic market. In sport shirts, they make up 36 to 37 percent of the domestic market.

In blouses, they make up 61 percent of the domestic market.

So there are many categories of these goods—gloves and mittens, wool and manmade fiber imports.

Mr. GIBBONS. Your argument is like my tomato argument. It won't hold water. We can't protect every little industry, can we?

Secretary STANS. I don't think that is the issue, is it?

Mr. GIBBONS. You were giving these things a broad-brush treatment in the beginning. I will have to admit that wool historically has been a rather large percentage of the market. We have never been the big growers or fabricators of wool products that other people have been. We just never ate many sheep around here, so we never grew a lot of wool. I guess we didn't eat sheep because we did not grow a lot of wool, one of the two. But we have never been great wool producers. We have always had a high penetration of that market.

Secretary STANS. I am sorry Mr. Burke is not here to debate some of that with you.

Mr. GIBBONS. He and I fight over shoes. You are on my side on shoes, so I am not going to pick on up any more on this.

I do not understand the DISC proposal too well. I recall last year we were fighting tax preferences. All that DISC adds up to me is another tax preference.

I am going to ask you why you picked out the DISC mechanism for trying to help industries rather than some other system.

As I understand, DISC really won't help the kind of trading companies that perhaps need help. In other words, the tax preference doesn't do you any good unless you are making a profit. A company that needs help, DISC is not going to help, is it? You can't give a tax preference to a company that does not make any profit.

Secretary STANS. A company that does not make any profit by and large is not likely to be an exporter in the first place. The export business involves a degree of knowledge, sophistication, research, marketing, and other attributes that generally come——

Mr. GIBBONS. I am glad you brought that up. We had testimony—and I think it was the Treasury Department that was here and said that this tax preference really only would equate out to about 1 percent of a decrease in American prices. Treasury officials said all they could figure out it would do for the profitmaking companies when the preference was equated out, was to net them enough to reduce prices by 1 percent. That is not going to help us penetrate a lot of markets, will it?

Secretary STANS. That may help stimulate a great deal of business.

Mr. GIBBONS. To reduce the price by 1 percent?

Secretary STANS. No, the opportunity to defer the taxes, to increase the size of the business and make more money by exporting will constitute a very substantial inducement.

Mr. GIBBONS. How are they going to do it? Are they just going to try harder? What are they trying to do? There companies that are now in the business, that have the skill and expertise and are making their profits, if all they can do is reduce their prices by 1 percent, how is DISC going to help them?

Secretary STANS. DISC is going to help them to do more business than they did before and thereby make profit on that additional business. It will induce them to get into exporting when they have not done it before or to increase their efforts in exporting, because it is helping them to finance the operations of the business.

The price factor in that sense is a relatively small element in it. It is encouraging the competition. It is giving them the incentive to get into the competition in the first place, to do more of it.

Mr. GIBBONS. Mr. Secretary, you have not convinced me, but you have been a good witness. I do not want to harass you any longer here. I think Mr. Corman has a few questions, though.

Secretary STANS. If I thought I could convince you, I would stay another hour or so.

Mr. GIBBONS. You and I have run out of an audience, anyway.

Secretary STANS. Thank you very much.

Mr. GIBBONS. I think all these gentlemen behind you have their minds made up, and I am afraid all the people here have their minds made up. And the newspaper people have all left.

Mr. CORMAN. Mr. Secretary, I want to ask you a little bit about adjustment aid.

I can sympathize with a man who is out of work because imports have forced him out of work. I can sympathize equally with a man who is out of work because the Government stopped buying whatever it was that his boss was producing. I cannot really see why we give more concern to one than the other.

So, I would like your view about this.

We are going to see a tremendous amount of employment dislocation as we cut back on defense spending. Now, why do we not provide the same mechanism for aid?

I realize the tariffs, taking that as a separate issue, we get to the point where we are giving adjustment aid, not tariff aid. Why do we single out the man who has either lost his job or lost his business because of imports as distinguished from those who suffer dislocations in the defense industry?

Secretary STANS. We are not really singling them out in the overall, although we are singling them out in this bill.

The fact is that the administration has conducted very extensive studies of the impact of reductions of defense spending. It has been in the process of developing programs to direct more of the SBA money, the EDA money, and the other money into areas that are affected by unemployment and business dislocation as a result of the reduction in defense spending.

So I think you can depend upon the fact that there will be progams in those areas as well.

Mr. CORMAN. How much EDA money is there this year?

Secretary STANS. About $250 million altogether.

Mr. CORMAN. I confess my unfamiliarity with the provisions which give preference to dislocations because of the defense spending. What are the specifics of that?

Secretary STANS. As far as EDA is concerned, wherever there is a percentage of unemployment in excess of a certain base, EDA can determine that it is an area qualifying for its assistance.

Mr. CORMAN. That is more, though, to aid the hard-core unemployment, ghetto unemployment areas, is it not than to help in this transition from defense to nondefense production?

Secretary STANS. No; except as the transition from defense production increases unemployment, it also makes it possible for those areas to qualify.

Of course, EDA is only one element in the program, because the Department of Labor and the Department of HEW both have substantial amounts of funds to help in labor programs, retraining programs, and so forth.

Mr. CORMAN. Are you familiar with what they are retraining the defense employees to do now?

Secretary STANS. Only in very general terms. I am not the best witness to testify on the retraining programs or the labor programs.

Mr. CORMAN. The trouble is that people who become unemployed when we cut back defense spending are highly qualified people. Also, I suppose, unfortunately for them, they are used to rather substantial salaries.

I am just wondering what we are going to do with them, what programs we have downstream to try to fit them into the nondefense economy.

Secretary STANS. The President has appointed a sub-Cabinet group that has been for months studying the problem of adjustment from defense activities to nondefense activities. I am not aware of all of the details of their activities. I know that insofar as my Department is concerned, EDA has been given instructions to participate in these matters and to do all that it can to help. And I am sure the other departments have, too.

But as to really what the program aggregates, I really cannot tell you.

Mr. CORMAN. Mr. Secretary, you are the one who brought up DISC this morning, and I do not mean to question you in detail about it. I realize those questions more properly go to Treasury.

But I have to tell you that I was recently inspired by my President when he said there is an old and cynical adage that says in an election year, the smart politician votes for all bills to spend money and votes against all bills to raise taxes.

I realize that DISC would be a tax cut not before my next election but before his. But I am going to think carefully on whether or not it would be the statesmanlike thing to do, considering our $18 billion deficit this year to vote for that tax cut for that rather limited segment of our total economy.

Secretary STANS. May I say one thing on that?

Mr. CORMAN. Yes, sir.

Secretary STANS. Over the last 16 months I have spent a great deal of time on export expansion because I am convinced that our balance of trade is the only really flexible element in our balance of payments.

If we can increase our margin of trade, we can improve our balance-of-payments position and give the strength that we need for the value of the dollar.

Now, generally speaking, we do not believe that the answer in our balance of trade is to curb imports. Only in the case of textiles do we believe the situation is so unusual as to require the kind of thing we are talking about today.

Therefore, our feeling is that to improve the balance of trade, we have to build exports.

Now, we have gone over all the categories of potential activity time and time again. We have increased the work in the field offices of the Department of Commerce. They are under instructions to spend 85 percent of their time promoting export trade. We have increased the activities in our foreign trade centers, our foreign trade shows to the maximum extent that we can undertake under the budget limits, of course.

We have been meeting with businessmen. We have been jawboning them to increase their export trade. We have been working with the National Export Expansion Council, which is a national organization in this field.

We have done a great deal to simplify the documentation on exports, to simplify the paperwork, saving millions and millions of dollars. We have been doing everything we can within the present legislative power that we have in our department and the other departments we have.

We have come to the conclusion there are only two ways we can stimulate exports from here on out. One is to provide unlimited credit to exporters through the Export-Import Bank and our banking system. And the other is to provide an incentive.

Now, other countries provide incentives. Japan provides an incentive to exporters by giving them special deductions for depreciation. Other countries in South America give actual credits to exporters. We cannot really compete effectively without matching terms with other countries in financing and incentives.

We feel that a tax incentive is a very essential thing to stimulate exports to the point where we pick up that extra $2, $3, or $4 billion of exports a year that will give us the trade balance that will give us the assurance that we can cut the deficit in our balance of payments.

DISC may or may not be the best device we can come up with, but it is the best one we have been able to contrive. It is the best one we have been able to think of.

The Treasury Department has given a lot of thought and time to it. I would hope that the overall necessities of our balance-of-trade position would induce this committee and you, sir, to support the DISC proposal, because it is one of the two means by which we can resolve our trade problems. The more we can do on the export side, the less we need to do to impede imports.

Mr. CORMAN. I can't argue with your ultimate objective. I am very apprehensive about the quota system, much more so than I am about DISC, except we just went through the painful exercise of tax reform. I had a strong feeling that we were creating DISC so that 10 years from now the folks could have a horrible example to talk about for tax reform, and I might be here to help them.

You look to maybe a $4 billion increase in our trade as a result of DISC. Is that correct?

Secretary STANS. I would not go that far. I say we need a $3 or $4 billion increase in our trade, and I think we can achieve it by the combination of DISC and increased financing. Our increased financing is a budgetary problem and to some degree a legislative problem. We are working on that. But we need the combination of the two.

We have been encouraging business for so long to increase their export that businesses and the organizations have finally come back to us and said, "We are doing everything we can do. When are you going to do something to help us, to give us the reasons for doing more exporting?"

This is why we are talking about DISC.

Mr. CORMAN. I think we would both agree that from the point of view of the Congress and the point of view of the budget that a $600 million tax cut has the same impact as a $600 million expenditure.

Secretary STANS. Well, it is really not a tax cut. It is a tax deferment. It is still collectible when those profits are used. It is not giving the money away at all.

Mr. CORMAN. I am not too sure. It looks like it might be a long, long time before they ever decide to bring it home, since they can bring home only 50 cents on the dollar.

Secretary STANS. They can only avoid paying the tax as long as they increase their export activity.

Mr. CORMAN. One of the defenses for DISC was that some of the large companies would forego construction of plants abroad. Of course, that is very appealing because that keeps investment at home and it keeps jobs at home.

Do you have any specific companies that you are aware of that are apt to forego foreign construction of plants if we pass DISC?

Secretary STANS. I have heard of some. I believe there are a number in our correspondence. There were some that were referred to in my testimony this morning. I think that could be proven.

Also, I think it can be proven that there are companies who have not exported before that are interested in doing so by reason of DISC. One of them, I was told about this morning—perhaps I should not say this, because I do not know the full information—but I was told this morning there is a drug company that as a result of DISC has been looking into the possibility of exporting and, as a result, believes it has uncovered a $50 million market.

Now, if those things are true, they can be extremely important elements in the building up of our export trade.

Mr. CORMAN. Yes, sir. As I remember Treasury's testimony, it was that 92 corporations would very probably be the beneficiaries of about one-half of this tax deferment, which means, you know, on the average that is a little better than $3 million for each of those corporations for the first year.

I assume that they go from rather large to rather small over that big a spread.

The thing we need to know, I think, is when it is really going to involve an expansion of exports? Or when are we just postponing the collection of taxes on exports that are going to be going out, profits made on them, whether we have DISC or not?

In other words, how much more in new exports are we really getting. and how much in tax losses are we suffering—or at least deferment are we suffering from business that is already going to be there?

Secretary STANS. The only comment I can make on that is, of course, no one really knows until we try it. We know that it will be a plus. because it can't possibly be a negative. It is bound to increase our business to some extent.

Now, I was reminded this morning by the chairman or some member of the committee that trade legislation is something that only happens about once every 4 years but tax legislation happens more often.

Suppose we put this into effect and after 2 years we find it has cost $600 million a year and it has only added $1 billion to our exports. It is not inconceivable that the Congress at that point would say, "Well, we tried, but it does not pay off."

I think it is worth a try. I think it is worth the effort to determine just how much we can really build up these exports as a result of these measures, because the exports are crucial. It is critical that we build our exports. We have to take some risks in the process of doing it, just as well as to take more credit risks.

But the balance-of-payments problem is basic to our international strength. Therefore, we have to find ways of increasing our trade.

I would strongly urge that this is the best method that has been devised, that it is worth a try, worth working on.

Mr. CORMAN. I would not be too sanguine about ever getting rid of it once you adopt it, because, as I remember, the tax structure for oil started in 1926, when we were worried about whether or not we were going to find enough to keep all our cars running. But it looks like it is still the only shelter where a man can invest his money without being taxed at all, except maybe municipal bonds.

Secretary STANS. The Congress in its wisdom reduced the depletion allowances last year.

Mr. CORMAN. Yes, sir, but if you are in the 50-percent bracket—and regrettably, I am not—you are invited to go to New York and they will explain to you how you still don't have to pay anything.

I got the invitation yesterday.

So we may have done less than we had hoped for and about what they had hoped for.

We have complained a little bit about the fact that the Japanese have some restrictions on American capital being invested over there. Isn't it true that so far as jobs are concerned, when you take American capital abroad, you take American jobs abroad?

Secretary STANS. Not necessarily. It depends on what that capital is used for and where those products are sold.

If American capital goes to Japan to manufacture there for sale in

Japan or for sale in the Pacific countries, that does not necessarily take jobs away from the United States. If the purpose of that investment in Japan is to manufacture there to send back to the United States, there could very well be a loss of employment here.

Mr. CORMAN. Yes, sir; I realize the production is cheaper. But I assume that whatever that capital is going to produce, whether it is for home consumption or export, it will cut down on the number of jobs that that capital generates. But I see your point.

Secretary STANS. You raise a very interesting point, not only with reference to Japan but with respect to all countries. And that is, what is the long-run, long-term effect of American capital going overseas?

Up to now it has been productive of return income. It has been productive of exports, because they are American subsidiaries over there, that take a lot of American goods to use in their products in those countries.

Ten years from now, 20 years from now, I don't think anyone is in a position to predict yet whether we have helped the country or done ourselves some harm by building all those facilities in other countries to supply foreign markets that we might otherwise be able to export to or to supply from the United States market which we might otherwise be able to take care of, ourselves.

There are pros and cons on it that are so difficult to weigh that I really don't know the answer.

Mr. CORMAN. Is there very much American capital invested in Korea and Taiwan in the textile business?

Secretary STANS. Very little up to now. There is an indication that there will be a lot more invested if it is not possible by legislation such as this or by negotiation to reduce the rate of imports. It will force American companies, if they are going to stay in business, to set up establishments over there and bring the goods into this country.

Mr. CORMAN. What about the investment of American capital in foreign shoe production? Is Italy one of the big——

Secretary STANS. Italy, Spain, and Japan are the three principal shoe exporters to the United States.

Mr. CORMAN. How about the American investment in Italy and Spain in shoe manufacture? Is that substantial?

Secretary STANS. There is some. I don't know how much, but there is a fair amount of it.

Mr. CORMAN. That is not the reason we are more concerned about textiles than we are shoes; is it?

Secretary STANS. No; I would not say so.

Mr. CORMAN. I appreciate your patience.

Thank you, Mr. Secretary.

Secretary STANS. Thank you very much.

Mr. CORMAN. The committee is adjourned until 10 a.m. on Monday for an executive session.

(Whereupon, at 4:45 p.m. the committee concluded the public hearing on tariff and trade proposals.)

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