TRADE REFORM

HEARINGS

BEFORE THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

NINETY-THIRD CONGRESS

FIRST SESSION

ON

H.R. 6767

THE TRADE REFORM ACT OF 1973

MAY 9, 10, 11, 14, 15, 16, 17, 18, 21, 22, 23, 24, 29, 30, 31;
JUNE 1, 6, 7, 8, 11, 12, 13, 14, AND 15, 1973

Part 3 of 15

(May 14, 15, 1973)

Printed for the use of the Committee on Ways and Means

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TRADE REFORM

MONDAY, MAY 14, 1973

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. Our first witness this morning is the former Secretary of Agriculture, who appeared before the committee on many occasions as Secretary of Agriculture.

We welcome you back, the Honorable Orville Freeman. You are recognized.

STATEMENT OF HON. ORVILLE L. FREEMAN, PRESIDENT, BUSINESS INTERNATIONAL CORP., ACCOMPANIED BY RICHARD P. CONLON

Mr. FREEMAN. Thank you very much, Mr. Chairman. I am delighted to have the privilege to appear once again before this distinguished committee. If you will pardon a play on words, it gives me something of a warm feeling to walk into this committee room. I only hope it won't be unduly hot before the morning is over.

Mr. Chairman, I appear before this distinguished committee to support the Trade Reform Act of 1973.

The post-World War II economic era has come to a close. From the negotiations scheduled to open this September in Tokyo between the countries of the free world, will come a new set of economic relationships and institutions. Since World War II, until very recently, the United States has dominated the economy of the free world.

U.S. policy during that 25-year period was a brilliant success. It contained communism. It made possible the rebuilding of war-devastated Europe and Japan into democratic countries with vigorous, expanding, competitive economies. World trade, international investment, and economic growth reached historic levels benefiting from an open policy which encouraged a maximum of economic intercourse of all kinds worldwide. The people of the United States prospered under such an open policy, with most Americans reaching an unprecedented standard of material well-being as the decade of the 1970's opened.

In the new economic age now dawning, the United States is no longer dominant. The very success of the open world policy between 1945 and 1970 has brought new problems and difficulties. Large and rapid move-

ments of goods and capital require more flexible international institutions. A rebuilt Europe and Japan have become strong economic competitors, rekindling national sensitivities and jealousies, and spreading friction and antagonism.

The single most important imponderable on the world horizon today is whether Japan, the EEC, and the United States can reach an accommodation as relative economic equals, and agree on workable trade, investment, and monetary ground rules. If new international institutions and arrangements can be worked out by the three "economic superpowers," the world's great problems of ecology, population, employment, food, the less developed countries, relations with the Communist world, and energy can be managed. But if the "Big Three" are unable to agree and the chasm currently widening between them becomes impossible to close, prospects for the future are grim.

It is essential, then, that the President of the United States be empowered to bargain in the critical negotiations that lie ahead from a position of strength. Title I of the Trade Reform Act of 1973 gives him the power he needs, while at the same time it establishes guidelines which make it possible for Congress to check the President's offers—beyond tariff reductions—before they become commitments.

Title I of the Trade Reform Act of 1973 will permit President Nixon to enter trade negotiations in 1973 in a substantially stronger position than the Trade Expansion Act of 1962 permitted President Kennedy 10 years ago.

Mr. Chairman, my support of the Trade Reform Act of 1973 does not mean that it cannot be improved. It can; and I hope, as reported out of this committee, it will be improved.

The major weakness of the Trade Reform Act of 1973, as now drafted, is that it fails to take into account the problems of the future. It is an imaginative set of proposals to respond to the international trade problems of the past. It would have been a good bill in 1963, but for 1973 it fails to recognize that the United States needs more than a foreign trade policy and a foreign monetary policy and a foreign investment policy and other narrowly directed policies. The United States needs a foreign economic policy covering all aspects of its actions in the economic field that affect foreign countries and all aspects of the actions of other countries in the economic field that affect the United States.

It fails to recognize that the world, or at least the industrialized portion of the world composed of the United States, Japan, and Europe, has already integrated into a single market to a very great degree—and, barring suicidal national actions eroding economic well-being for all people, will integrate economically even more swiftly in the future. Major economic actions in any one of the countries will increasingly affect every other country.

It fails to call for the building of improved international institutions capable of responding to the problems that world economic integration has already caused, problems certain to accelerate in the future.

The act should have a preamble setting out the broad lines of U.S. economic policy, and how each aspect of that policy influences and relates to every other aspect. The various titles and sections of the act should then reflect and be tied into this overall guiding policy and philosophy.

Such a preamble and statement of philosophy should look forward to tomorrow's international economic problems. It should make clear that trade issues are interrelated with monetary and direct investment policies. If they are handled separately, what is accomplished in one area may well be destroyed in the other.

It should not only recognize but emphasize that actions by one country which may appear to have little direct relationship with international trade can, in fact, have a severe market-disrupting effect on another country's market. Market disruption occurs not only from imports into a country; a far worse market disruption takes place when a country exports inflation or deflation.

The act should authorize the President to reach an agreement providing that any country taking domestic action that causes material market disruption in another country must enter into international consultation to measure the market-disrupting effects of its action and to seek ways to reduce or eliminate them. I clearly recognize that this is a far-reaching proposal that will be difficult to negotiate, but it is essential. It would make possible international procedures to meet problems we face in the real world of the 1970's, rather than restricting ourselves to meeting problems of the old world of the 1960's.

Mr. Chairman, I wish to emphasize that my strong support of title I of the Trade Reform Act of 1973 does not extend to title II, chapter 1, calling for safeguards in the event market-disrupting imports take place.

If an agreement can be reached between free world countries for international consultations to measure and ameliorate market-disruptive actions by any country, the safeguards set forth in chapter 1 of title II will not be necessary. But even if it proves impossible to negotiate such an international arrangement, I believe chapter I of title II should be deleted from the act. Or, in the alternative, Congress might enact the safeguard section into law with the proviso that it would lapse when and if Japan and the EEC repealed the safeguard procedures they currently follow or when agreement has been reached for international consultations in the event of market-disrupting actions by any country.

Mr. Chairman, I am critical of safeguards designed to protect domestic industries that prevent fair competition, because they are dangerous and expensive. They are dangerous because such power is easily abused. The nature of our political system makes it extremely difficult to resist the petitions of workers, communities and businesses who feel the sting of competition from imports. Safeguards are expensive because the entire Nation pays the cost: as consumers in higher prices, and as producers and workers whose market is cut back when Government action blocks imports, forcing prices up and diminishing national purchasing power.

Ours is a competitive economy. This country has attained the highest standard of living of any nation in history following this principle. Title III, vigorously administered, provides adequate protection against unfair competition. Most American industry, I believe, is willing and able to meet fair competition. The safeguard section is unnecessary. If fair competition cannot be met, the recourse should be not protection, which penalizes our entire society to protect a minor-

ity, but adjustment which gives real assistance to those who need and deserve help.

The Trade Reform Act of 1973 falls far short where adjustment is concerned. Chapter 2 of title II is totally inadequate both in concept and resources. Mr. Chairman, I do not claim any expertise in adjustment assistance; however, I do know that ours is a dynamic economy with a rate of change that is rapidly increasing. Substantially more unemployment results from industries that become noncompetitive internally than is caused by imports from outside our borders.

I have heard experts say that a young, skilled workman of today will need to be trained in three skills to keep employed during his lifetime. Such dynamic change points up the need for a national manpower policy. Mechanisms must be developed to provide adequate training and retraining opportunities with the genuine promise of a job at the end for all workers. Some of the countries of Europe are doing much more along this line than we are in the United States. Yet, for what appear to be budget reasons, the present administration, in the Trade Reform Act of 1973, falls far short of making meaningful adjustment recommendations.

I suggest, Mr. Chairman, that this is a logical time to make a major move toward a national manpower policy. Extensive and thoughtful hearings have been held by the Subcommittee on Foreign Economic Policy, and a bill, H.R. 4917, introduced by Congressman John Culver and sponsored by 44 Congressmen of both parties, is pending before the House.

So far in this testimony I have talked in terms of trade. Because there has been so much conjecture and emotion, and so little by way of objective facts about multinational companies and direct investment. Business International, the company I serve as president and chief executive officer, 2 years ago launched a study of U.S. multinational companies, designed to measure the effect on jobs in the United States and on U.S. balance of payments and balance of trade of direct investment outside the United States.

Permit me to emphasize at the outset the Business International does not represent any company, association or group; rather, it is a private company in the information business; reporting, publishing, researching, consulting, and holding roundtable conferences between governments and the international business and labor community. The information it markets is used widely by business, labor, the professional and academic world, and the public at large.

The study in question was designed and supervised by Dr. William Persen, Business International senior vice president for research and editorial, and adhered to the highest standards of objectivity and scholarship that Business International has followed for 20 years.

Permit me quickly, with the use of transparencies, to review this study with you, after which I will be pleased to respond to any questions.

If we could have the first transparency, this deals with the nature of the sample that we used in making the study in question. I think the transparency speaks for itself. I would just add to that by saying that 125 companies in nine industrial categories were in the sample.

Forty percent of all U.S. direct foreign investment abroad, or $20

billion, was made by the companies in that sample. I refer, of course, to the year 1970.

On the second transparency, one of the big questions has been the effect of investment abroad on jobs in the United States. Does it export jobs? Does it take employment outside the United States? A number of very excellent studies have been made in both the Government and private sector in connection with this, and they have all come up with generally the same macro figures, to the effect that in the United States, the increase in jobs by companies investing significantly overseas was substantially higher than the national average.

We carried that one step further. In this case, we took the companies in question and we broke them down in terms of the intensity of their investment abroad, their proportion of their investment abroad, and then we took this information and ran it through the computer with no idea what would come out at the end, what the relationship would be. We were quite surprised, Mr. Chairman, to find a very strong relationship between the intensity of investment abroad and job creation in the United States.

These are the four groups into which the companies were broken, based on their size, but the percentage of investment abroad. The result was that between 1960 and 1970, the companies with the greatest intensity of investment abroad increased their employment 41.8 percent, and on down the line in the other groups. You will note that the least intensive group still increased its employment substantially more than manufacturing firms in the United States as a whole, which was an increase of 10.8 percent.

I suggest to you that this is a very strong relationship, which indicates that investment abroad has a positive effect on employment within the United States. This would tend to follow when you take a look at transparency No. 3, the sales made by these companies during that 10-year period.

Notice that their sales rose 104 percent to U.S. customers, but their sales rose 306 percent to non-U.S. customers. This makes the point that during that decade markets were growing faster primarily in Europe, but also in Asia, than they were in the United States, and in this case these companies reached out to find those markets.

Transparency No. 4 has interesting information in connection with where the exports went among the companies surveyed. You will note that 132 percent of exports during that 10-year period went to unrelated buyers, 205 percent to all buyers, but 302 percent of exports went to their own affiliates.

This demonstrates the relationship, if you will, between investment and exports. It demonstrates the pull effect that investment abroad has on exports, and it gives the reason why greater employment results in the United States to meet the demand from those exports.

Transparency No. 5 directs its attention to the question of the balance of trade. You will note that among these companies their favorable balance of trade, their trade surplus, climbed from a level of $2 billion in 1960 to a level of $5 billion in 1970, while during that period in the United States as a whole our balance of trade dropped from $5.4 billion to $2.6 billion. We will be updating this, Mr. Chairman, hopefully in a few months to be through 1972.

Our early indications are that these figures are substantiated in 1971 and 1972 as well.

Incidentally, also, in terms of earnings remitted in 1970 our sample shows $2.8 billion in earnings, which was five times the amount that had been remitted back to the United States in 1960.

Finally, transparency No. 6 shows significant investment abroad during this period from the companies in our sample—and you will note that that did not adversely affect their investment in the United States. Their investment increased 178 percent over 1960 during that period, while that of all U.S. manufacturers increased 121 percent.

Finally, by way of summary, what we found, Mr. Chairman, was that investment abroad is investment in America; that it increased jobs in the United States; that it increased investment in the United States, and that it increased exports from the United States.

Finally, Mr. Chairman, may I close with a brief comment on the provisions which are pending in connection with taxes, particularly on the earnings that are gained abroad by companies who have invested there. I believe that these transparencies and the Business International and other studies, as well, make it clear that foreign direct investment is important to the U.S. economy overall, and to U.S. workers in particular.

It follows, I submit, that it should be U.S. policy to encourage, not hamper, that investment. In that light, may I comment that the tax measures recommended in the President's message accompanying his trade bill, and subsequently elaborated on in the Treasury recommendations, be carefully reviewed by this committee.

I am not a tax expert, but as I read the Treasury recommendations, deferral of corporate income tax on income earned abroad from direct investment would be revoked not only for prospective investment but also within a short period for earnings from investment already made. In that respect, the Treasury recommendations appear to be contrary to the policy set forth by the President in his message, and I quote:

"We should not penalize American business by placing it at a disadvantage with respect to its foreign competitors."

Mr. Chairman and members of the committee, thank you for your kind attention.

[Mr. Freeman's prepared statement and study referred to follow:]

STATEMENT OF ORVILLE L. FREEMAN, PRESIDENT, BUSINESS INTERNATIONAL CORP.

Mr. Chairman, Members of The Ways and Means Committee, Ladies and Gentlemen:

I appear before this distinguished Committee to support the Trade Reform Act of 1973.

The post World War II economic era has come to a close. From the negotiations scheduled to open this September in Tokyo between the countries of the free world will come a new set of economic relationships and institutions. Since World War II until very recently, the US has completely dominated the economy of the free world. US policy during that 25-year period was a brilliant success. It contained monolithic communism. It made possible the rebuilding of war-devastated Europe and Japan into democratic countries with vigorous, expanding competitive economies. World trade, international investment and economic growth reached historic levels benefiting from an open policy which encouraged a maximum of economic intercourse of all kinds worldwide. The people of the US prospered under such an open policy, with most Americans reaching an unprecedented standard of material well-being as the decade of the 70's opened.

In the new economic age now dawning, the US is no longer dominant. The very success of the open world policy between 1945 and 1970 has brought new problems and difficulties. Large and rapid movement of goods and capital require more flexible international institutions. A rebuilt Europe and Japan have become strong economic competitors, rekindling national sensitivities and jealousies and spreading friction and antagonism.

The single most important imponderable on the world horizon today is whether Japan, the EEC and the US can reach an accommodation as relative economic equals, and agree on workable trade, investment and monetary ground rules. If new international institutions and arrangements can be worked out by the three "economic super powers," the world's great problems of ecology, population, employment, food, the LDC countries, relations with the communist world, and energy can be managed. But if the "Big Three" are unable to agree and the chasm currently widening between them becomes impossible to close, prospects for the future are grim.

It is essential then, that the President of the US be empowered to bargain in the critical negotiations that lie ahead from a position of strength. Title I of the Trade Reform Act of 1973 gives him the power he needs, while at the same time it establishes guide lines which make it possible for Congress to check the President's offers (beyond tariff reductions) before they become commitments.

Title I of the Trade Reform Act of 1973 will permit President Nixon to enter trade negotiations in 1973 in a substantially stronger position than the Trade Expansion Act of 1962 permitted President Kennedy ten years ago.

Mr. Chairman, my support of the Trade Reform Act of 1973 does not mean that it cannot be improved. It can, and I hope, as reported out of the Committee, it will be improved.

The major weakness of the Trade Reform Act of 1973, as now drafted, is that it fails to take into account the problems of the future. It is an imaginative set of proposals to respond to the international trade problems of the past. It would have been a good bill in 1963, but for 1973, it fails:

To recognize that the US needs more than a foreign trade policy and a foreign monetary policy, and other narrowly-directed policies. The US needs a foreign economic policy covering all aspects of its actions in the economic field that affect foreign countries and all aspects of the actions of other countries in the economic field that affect the US;

To recognize that the world, or at least the industrialized portion of the world composed of the US, Japan and Europe, has already integrated into a single market to a very great degree—and, barring suicidal national actions eroding economic well-being for all people, will integrate economically even more swiftly in the future. Major economic actions in any one of the countries will increasingly affect every other country;

To call for the building of improved international institutions capable of responding to the problems that world economic integration has already caused, problems certain to accelerate in the future.

The Act should have a preamble setting out the broad lines of US economic policy, and how each aspect of that policy influences and relates to every other aspect. The various titles and sections of the Act should then reflect and be tied into this overall guiding policy and philosophy.

Such a preamble and statement of philosophy should look forward to tomorrow's international economic problems. It should make clear that trade issues are interrelated with monetary questions. If they are handled separately, what is accomplished in one area may well be destroyed in the other.

It should not only recognize but emphasize that actions by one country, which may appear to have little direct relationship with international trade, can, in fact, have a severe market-disrupting effect on another country's market. Market-disruption occurs not only from imports into a country; a far worse market-disruption takes place when a country exports inflation or deflation.

The Act should authorize the President to reach an agreement providing that any country taking domestic action that causes material market-disruption in another country must enter into international consultation to measure the market-disrupting effects of its action and to seek ways to reduce or eliminate them. I clearly recognize that this is a far-reaching proposal that will be difficult to negotiate, but it is essential. It would make possible international procedures to meet problems we face in the real world of the 1970's, rather than restricting ourselves to meeting problems of the old world of the 1960's.

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Mr. Chairman, I wish to emphasize that my strong support of Title I of the Trade Reform Act of 1973 does not extend to Title II, Chapter I, calling for safeguards in the event market-disrupting imports take place.

If an agreement can be reached between free world countries for international consultations to measure and ameliorate market-disruptive actions by any country, the safeguards set forth in Chapter I of Title II will not be necessary. But even if it proves impossible to negotiate such an international arrangement, I believe Chapter I of Title II should be deleted from the Act. Or, in the alternative, Congress might enact the safeguard section into law with the proviso that it would lapse when and if Japan and the EEC repealed the safeguard procedures they currently follow or when agreement has been reached for international consultations in the event of market-disrupting actions by any country.

Mr. Chairman, I am critical of safeguards designed to protect domestic industries that prevent competition, because they are dangerous and expensive. They are dangerous because such power is easily abused. The nature of our political system makes it extremely difficult to resist the petitions of workers, communities and businesses who feel the sting of competition from imports. Safeguards are expensive because the entire nation pays the cost: as consumers in higher prices, and as producers and workers whose market is cut back when government action blocks imports, forcing prices up and diminishing national purchasing power. Ours is a competitive economy. This country has attained the highest standard of living of any nation in history following this principle. Title III, vigorously administered, provides adequate protection against unfair competition. Most American industry, I believe, is willing and able to meet fair competition. The safeguard section is unnecessary. If fair competition cannot be met, the recourse should be not protection, which penalized our entire society to protect a minority, but adjustment which gives real assistance to those who need and deserve help.

The Trade Reform Act of 1973 falls far short where adjustment is concerned. Chapter II of Title II is totally inadequate in both concept and resources. Mr. Chairman, I do not claim any expertise in adjustment assistance. However, I do know that ours is a dynamic economy with a rate of change that is rapidly increasing. Substantially more unemployment results from industries that become non-competitive internally than is caused by imports from outside our borders. I have heard experts say that a young skilled workman of today will need to be trained in three skills to keep employed during his lifetime. Such dynamic change points up the need for a national manpower policy. Mechanisms must be developed to provide adequate training and re-training opportunities with the genuine promise of a job at the end for all workers. Some of the countries of Europe are doing much more along this line than we are in the U.S. Yet, for what appears to be budget reasons, the present Administration in the Trade Reform Act of 1973 falls far short of making meaningful adjustment recommendations. I suggest, Mr. Chairman, that this is a logical time to make a major move toward a national manpower policy. Extensive and thoughtful hearings have been held by the Subcommittee of Foreign Economic Policy and a Bill, HR 4917, introduced by Congressman John Culver and sponsored by 44 Congressmen of both parties, is pending before the House.

Mr. Chairman, so far in this testimony I have talked in terms of trade. Permit me for the balance of my time to direct my testimony to the twin brother of trade—direct investment. Trade and investment are two sides of the same coin. Only in the last few years has the magnitude and importance of foreign direct investment and how intimately it is related to trade come to wide attention. Estimates vary, but the level of worldwide direct investment by multinational companies is reaching $200 billion, 60% of it U.S. This investment sparks some $600 billion a year of production, increasing almost 10% a year, compared with less than 5% a year for purely national companies. The magnitude and speed with which multinational companies have expanded globally is unprecedented. As a result, all over the world, concern is growing about this economic phenomenon which suddenly looms so large on the world scene and appears to be on the way to greater power and importance.

Because there has been so much conjecture and emotion and so little by way of objective facts about multinational companies and direct investment, Business International, the company I serve as president and chief executive officer, two years ago launched a study of U.S. multinational companies, designed to measure

the effect on jobs in the U.S. and on U.S. balance of payments and balance of trade of direct investment outside the U.S. I want to emphasize at the outset that Business International does not represent any company, association or group. Rather it is a private company in the information business, reporting, publishing, researching, consulting and holding roundtable conferences between governments and the international business and labor community. The information it markets is used widely by business, labor, the professional and academic world and the public-at-large. The study in question was designed and supervised by Dr. William Persen, Business International senior vice president for research and editorial, and adhered to the highest standards of objectivity and scholarship that Business International has followed for 20 years.

A thumbnail report on the findings of Business International's study on "The Effects of US Corporate Investment Abroad" along with some brief specific company examples.

How Americans Benefit from US Business Investment Abroad

FOREWORD

When a US company establishes a plant overseas, does it take jobs away from Americans and siphon off funds that could be used for expansion at home? Does it hurt the general US economy?

To put these arguments to an objective test, Business International Corporation undertook a study of 125 US corporations, most with sizeable foreign investments but some with little or none. The study, "The Effects of US Corporate Foreign Investment, 1960-1970," was more than a year in the making and covers over 100 closely-filled pages of text, charts and tables.

This brief booklet highlights some of the findings of a summary of this study.

The BI study is one of the most comprehensive of a number of investigations of the subject undertaken in the last few years by various research teams including those of several US Government agencies.

Foreign Investment by US Industry

. . . Creates Jobs at Home
. . . Accelerates Investment in the US
. . . Increases American Exports
. . . Strengthens the US Dollar

All the findings clearly indicate that companies with investments abroad, and most particularly those with the largest proportion of foreign investment to total investment, show superior performance over non-investors in terms of creating new jobs at home, increasing the exports of their US factories, accelerating their investments within this country, and generally contributing to a strengthening of the American economy.

The rapid growth in internationalization of the world economy, with the resulting removal of many traditional barriers to the free flow of trade, is an important fact of life for our generation and for generations to come.

We feel that this new study and others to follow will make a valuable contribution toward a better understanding of the corporate world citizen and its role in the lives of all of us.

WHAT WE LOOKED FOR

The effect of US foreign direct investment on the US economy: jobs... sales... exports... imports... investment at home.

WHAT WE LOOKED AT

125 US manufacturing companies, divided into nine industrial categories.

Most have heavy foreign investment but some have none at all.

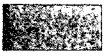
SOME FACTS ABOUT THE COMPANIES STUDIED

* Combined worldwide sales of $133 billion.
* Some 27% of these sales ($36 billion) to foreign customers.
* Exports of $9.4 billion with over 55% going to their foreign affiliates.
* A surplus of exports over imports of almost $5 billion.
* Gross investment of $97 billion of which $77 billion was in the US.

MORE FACTS ABOUT THE COMPANIES STUDIED

They accounted for...

OVER 16%

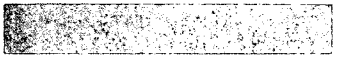


Of 1970 US factory shipments

OVER 26%

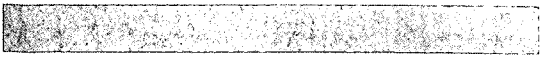
Of 1970 US nonagricultural exports

OVER 40%



Of 1970 US foreign manufacturing investment

OVER 70%

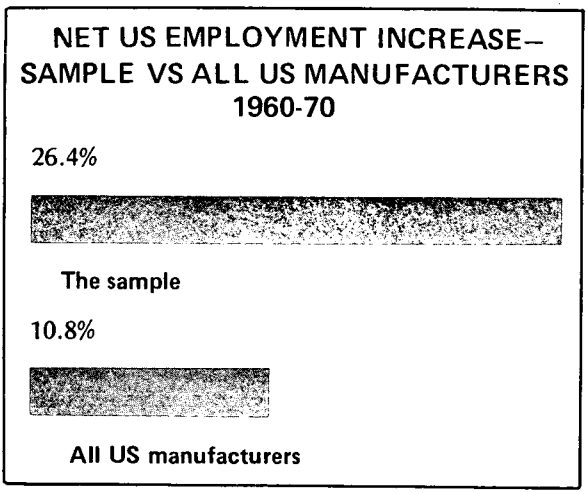


Of 1970 US balance of payments foreign direct investment outflows

WHAT WE FOUND

Foreign Investment Creates Jobs at Home

The companies studied increased their net US payrolls by more than 26% between 1960 and 1970. In the same period, US manufacturers as a whole increased their payrolls by less than 11%:

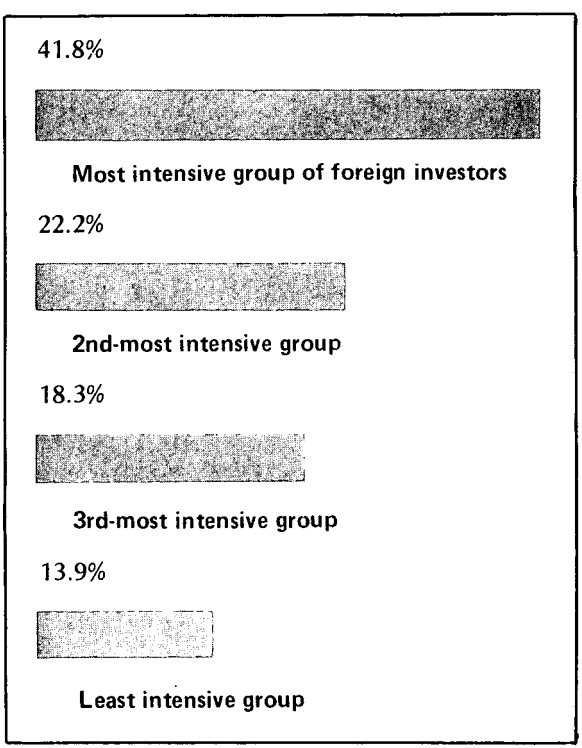


In 1951, the 3M Company had 12,000 US employees and foreign investments of about $8 million. Jobs directly related to international operations totaled 380. In 1971, 3M's domestic payroll was 37,900 and its foreign investment $691 million. One out of every eight US employees–4600 workers–owed their jobs to foreign operations.

WHAT WE FOUND

The Larger the Foreign Investment, the Faster the Rate of Employment Growth in the US

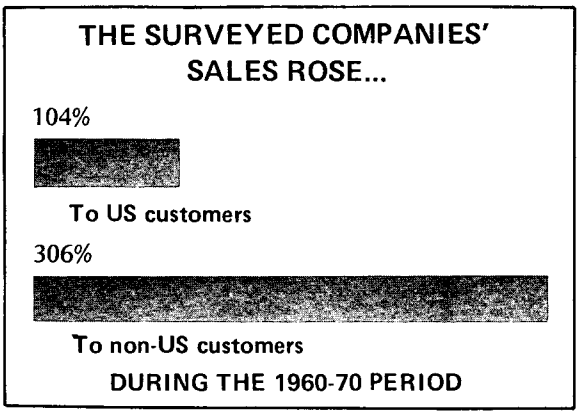
In the 11-year period ending 1970, the sampled companies with the most intensive foreign investment increased their US payrolls three times faster than firms with the least intensive foreign investment.



WHAT WE FOUND

Foreign Investment Promotes Overall Sales

During the 1960-70 period, the analyzed companies increased sales to US customers by 104%. Sales to foreign customers rose by more than 300%.



WHAT WE FOUND

Foreign Investment Produces Chiefly for Local Overseas Markets

More than half the companies replying to the question, "Where do you sell goods produced in your overseas plants?" estimated that between 90% and 100% of sales were to the local market in which the plants were located.

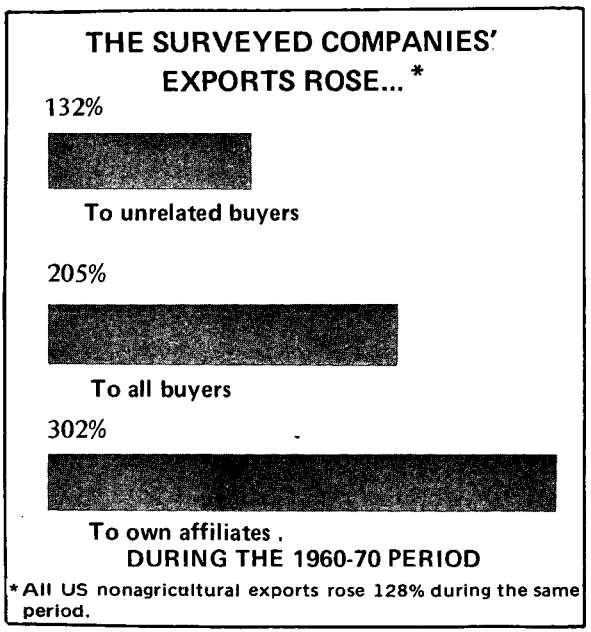
All companies replying estimated that 75% or more of sales from their foreign plants were in the local plant-area market.

Owens-Illinois' foreign plants had sales of $229 million in 1970. More than 99% of the goods were sold to local foreign customers.

WHAT WE FOUND

Foreign Investment Increases US Exports

The participating companies had exports totaling $9.38 billion in 1970. Their exports rose almost twice as fast as that of all US manufacturers between 1960 and 1970. Exports to their foreign affiliates rose almost three times faster than the exports of all US manufacturers.

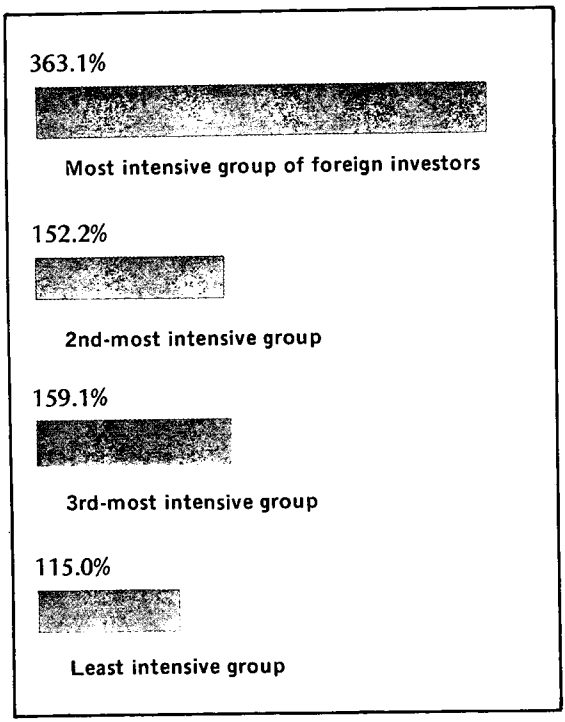


In 1962, Clark Equipment Company had overseas investments of $3 million and exports of $19 million. In 1971, investments (54 plants in 23 foreign countries) were $14 million and exports $93 million.

WHAT WE FOUND

The Larger the Foreign Investment, the Faster the Export Growth

As with job growth in the 1960-70 period, companies with the highest proportion of foreign investment increased their exports at a rate more than three times faster than companies in the group with the least foreign investment.



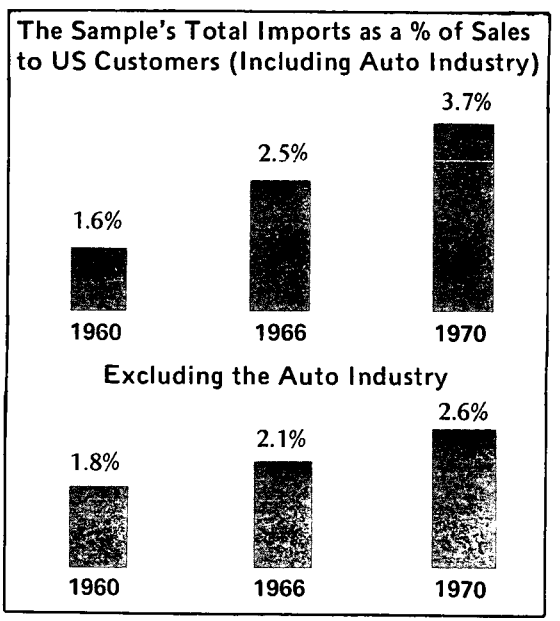
"Our analysis indicates that an estimated 1900-2000 domestic jobs have been created because of the 'pull' effect on exports from the US by our international investments."

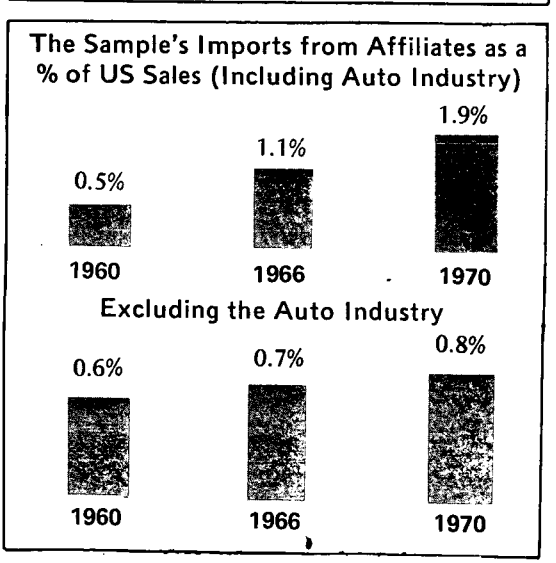
From a Union Carbide report on its international investments.

WHAT WE FOUND

The Effect on Imports

While imports as a percentage of total US sales have risen somwhat, the rise has been small. The increase has been extremely slight if the auto industry, which began importing from high-labor-cost Canada during the period studied, is excluded—0.2% between 1960 and 1970 for imports from affiliates.



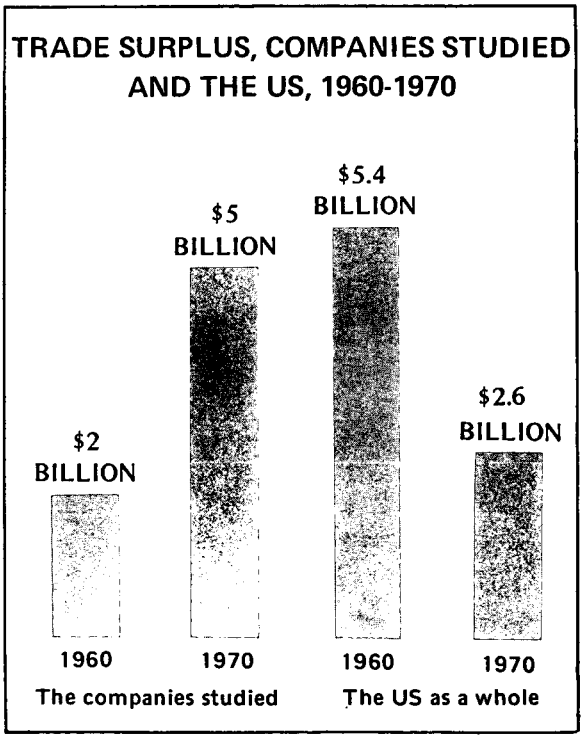


WHAT WE FOUND

Foreign Investment Strengthens the US Balance of Trade

The surplus of exports over imports of the companies studied rose from less than $2 billion in 1960 to about $5 billion in 1970.

During the same period, the US trade surplus declined from $5.4 billion to $2.6 billion.



WHAT WE FOUND

Foreign Investment Strengthens the Dollar

Since 1968 the direct foreign investment surplus has been the largest single favorable item in America's international ledger.

This surplus reached $3.5 billion in 1970. US Government projections indicate it will amount to $10.5 billion in 1975.

The participating companies alone remitted $2.8 billion in 1970, five times more than in 1960. After deducting net capital outflow, they contributed about $1 billion to the 1970 surplus.

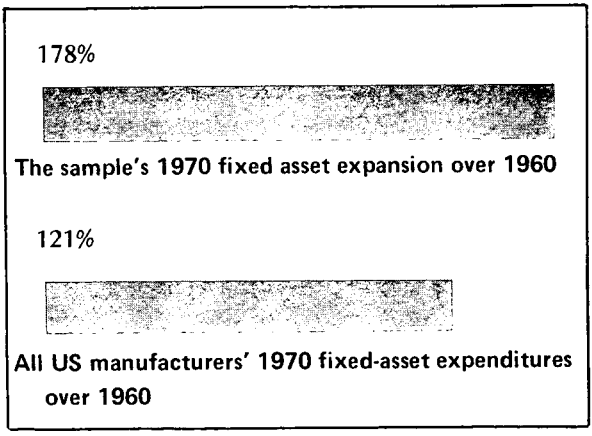
Thus in 1970 the participating companies' trade plus investment surpluses contributed a net of some $6 billion to the US balance of payments.

The net contribution of one company, Goodyear, to the US balance of payments for the 8-year period ending 1971 was $967 million.

WHAT WE FOUND

Foreign Investment Stimulates Investment at Home

While all US manufacturers increased their spending on domestic plant and equipment in 1970 by 121% over 1960, the participating companies increased theirs by 178%.



Caterpillar made its first investment abroad in 1950. Since then, it has constructed eight new plants in the US with a total floor space of 13,323,000 square feet and employing over 23,000 workers.

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WHAT WE FOUND

Why Companies Invest Abroad

The reasons are many, but the overwhelming majority of the companies studied indicated they invested basically to:

- Protect and expand markets gained initially through exports.
- Penetrate markets unattainable through exports alone.
- Protect the home market.

"Most US foreign direct investments are defensive, in the sense that the investor is trying to maintain his place in the world market . . . If US firms tried to continue operating only in the US, they would lose their markets to foreign firms."—From a US Department of Commerce foreign investment study.

WHAT WE FOUND

Investment Abroad is Investment in America

Our study shows that companies with the highest proportion of foreign investment to total investment scored high in:

– Increasing jobs in the US.
– Increasing investment in the US.
– Increasing exports from the US.

Why?

Some Reasons Suggested by the Study...

* Foreign affiliates make US companies more competitive abroad, thus creating a "pull" effect for US exports.
* By doing business in a variety of markets worldwide, a company is less subject to the ups and downs of the US business cycle. Income and jobs are more stabilized.
* Income from foreign investment enables a company to devote more resources in the US for improvements of its products and processes.
* Products with declining sales at home because of technological improvements may still find acceptability in foreign markets.

ABOUT BUSINESS INTERNATIONAL

Business International Corporation, founded in 1954, is an independent research, publishing and advisory organization with world headquarters in New York City and principal offices in Geneva, Hong Kong and seven other major cities in Europe, Asia, Latin America and the US. It has research representatives in 70 countries.

A primary purpose of BI is to advise and assist the growing number of companies operating multinationally regarding the problems and opportunities existing in world markets. BI's global information system serves some 600 multinational corporations here and abroad, governments, educational institutions, banks and others.

Among BI's unique services are roundtable meetings to bring together government leaders and business executives for in-depth, problem-solving discussions.

BI produces a wide variety of business publications, research reports and economic studies.

PARTICIPANTS IN THE BUSINESS INTERNATIONAL INTERNATIONAL INVESTMENT AND TRADE STUDY

Abex Corporation
ACF Industries, Inc.
Aeroquip Corporation
Alberto Culver Company
Allied Chemical Corporation
Allis-Chalmers Corporation
Ambac Industries, Inc.
American Brands, Inc.
American Metal Climax, Inc.
Ampex Corporation
Armco Steel Corporation
Armstrong Rubber Company

Babcock & Wilcox Company
Bell & Howell Company
Blue Bell, Inc.
Boeing Company
Borden, Inc.
Bristol-Myers Company
Brunswick Corporation
Bunker-Ramo Corporation
Burroughs Corporation

Cameron Iron Works, Inc.
The Carborundum Company
Carrier Corporation
Caterpillar Tractor Co.
Celanese Corporation
Champion Spark Plug Company
Chrysler Corporation
Clark Equipment Company
Copperweld Steel Co.
CPC International Inc.
Cutter Laboratories, Inc.
Cyanamid International

Deere & Company
A. B. Dick Company
Donaldson Company, Inc.
Dow Chemical Company
Dresser Industries, Inc.
E. I. du Pont de Nemours & Co., Inc.
Dymo Industries, Inc.

Eastman Kodak Company
Eaton Corporation
Economics Laboratory International, Ltd.
Estee Lauder Inc.
ESB Incorporated
Ethyl Corporation
Everest & Jennings International

Ferro Corporation
Firestone Tire & Rubber Co.
FMC Corporation
Ford Motor Company
The Foxboro Company

General Foods Corporation
General Mills, Inc.
General Telephone & Electronics International
Gerber Products Co.
Green Giant Company

Hanes Corporation
Harris-Intertype Corporation
Harsco Corporation
Hercules Incorporated
Honeywell Inc.
Hooker Chemical Corporation (a subsidiary of Occidental Petroleum Corporation)
Hoover Worldwide Corp.
Hyster Company

IBM World Trade Corp.
Illinois Tool Works, Inc.
Ingersoll-Rand Company
International Flavors & Fragrances Inc.
International Harvester Co.
International Multifoods

Jantzen, Inc.
Johns-Manville Corporation

Kaiser Industries Corp.
Kimberly-Clark Corporation
Koppers Company, Inc.

Lehigh Valley Industries, Inc.
Eli Lilly International Corp.
Lockheed Aircraft Corp.
Lone Star Industries, Inc.
Lubrizol Corporation

Mallinckrodt Chemical Works
Marathon Oil Co.
Mars, Inc.
Mattel, Inc.
The Mead Corporation
Memorex Corporation
Merck & Co.
Miles Laboratories
Minnesota Mining and Manufacturing Co.
Monroe Auto Equipment Co.
Monsanto Company

Nabisco, Inc.
National Distillers & Chemical Corp.
Newmont Mining Corp.
Norton Company

Otis Elevator Company
Owens-Illinois Inc.

Perkin Elmer Corp.
Pfizer International Inc.
Philip Morris International
PPG Industries, Inc.
The Procter & Gamble Company
Purolator Incorporated

Questor Corporation

Ralston Purina Company
Raymond International
Reeves Brothers, Inc.
Reliance Electric Company
R. J. Reynolds Industries, Inc.
Richardson-Merrell Inc.
Riviana Foods, Inc.
Rohm & Haas Company

St. Regis Paper Company
Schering-Plough Corporation
Skil Corporation
A. O. Smith Corporation
Smith, Kline & French Laboratories
Standard Oil Company of California
Standard Oil of Indiana
Standard Register Company
Stauffer Chemical Co.
Sundstrand Corporation

Tektronix, Inc.
Texas Instruments, Inc.
The Trane Company
TRW Inc.

Union Carbide Corporation
Upjohn International Inc.
USM Corporation

Varian Associates

Warner-Lambert Co.
Weyerhaeuser Company
Willamette Industries, Inc.

Xerox Corporation

The CHAIRMAN. Thank you, Mr. Freeman, for your very interesting statement. The information you gave us resulting from the study made by your organization is very, very enlightening. We appreciate that information very much. Mr. Burke?

Mr. BURKE. Do you think you will be able to get any facts and figures on 1971 and 1972 before we conclude the hearings?

Mr. FREEMAN. I doubt it, Congressman Burke. We are going to try very hard. It will depend on just what kind of responses we get and how quickly we can schedule interviews with some of the respective companies by way of followup. We will make every effort we cna to try to do so.

Mr. BURKE Those are the 2 years of the trade deficit, and I think they are more important than the figures you have given us here today.

The CHAIRMAN. Mr. Schneebeli will inquire.

Mr. SCHNEEBELI. Mr. Secretary, I recognize your expertise in the field of agriculture as a former Secretary. While I realize that this is not your present specific concern, nevertheless, I think you might be in a position to answer some of the criticism that is being leveled at the recent grain deal with the U.S.S.R.

Could you give us your reaction to this criticism?

Mr. FREEMAN. I would be very happy to try to respond. Would you be kind enough to help me a little by indicating which criticism? There has been quite a bit.

Mr. SCHNEEBELI. There has been criticism that the grain was sold at too cheap a price; that there was a deal made with some grain dealer or dealers.

Mr. FREEMAN. On the second criticism, that there was a side deal and some hanky-panky, I see no evidence of that. I think there was none.

On the first part of your question, I do think that we paid too much. I do think the matter was badly handled. I think there was information available within the Deparmtent that was not used that should have been widely known as to the magnitude and extent of the crop failure in Russia, as to Russian policies in terms of expanding their animal husbandry and their animal industry which would have led immediately to the conclusion that there was a shortage and they would be in the market buying very heavily.

Unfortunately, that information was, as far as I can find out, bottled up and in the course of discussions and evaluations within the Department at the same time that the Russian buyers were over here going from purchaser to purchaser to purchaser and buying grain at a much lower price than they should have bought it.

Mr. SCHNEEBELI. You started out by saying we paid too much.

Mr. FREEMAN. I beg your pardon. I misspoke. They paid too much.

Mr. SCHNEEBELI. They paid too much or too little?

Mr. FREEMAN. From our point of view, they paid too little. They got too good a deal is what I am trying to say.

Mr. LANDRUM. Will the gentleman from Pennsylvania yield?

Mr. SCHNEEBELI. Yes, sir.

Mr. LANDRUM. What I interpreted Secretary Freeman to be saying is that they bought better than we sold.

Mr. FREEMAN. That is correct.

Mr. SCHNEEBELI. You are saying that they paid too little, then.

Mr. FREEMAN. As you well know, they went around to the various grain companies, and this country deals through the private market. The Government does not sell the grain. By doing that very quietly and by eliciting confidence and by demanding that nothing be said about their purchases, the real information as to the magnitude of their purchases did not come out until they had gone around the circle once and a half with our various grain traders.

The point I make is that the information as to their needs and the magnitude of their buying was available and should have been publicly known.

Mr. SCHNEEBELI. But you do say there was no evidence of "hanky-panky."

Mr. FREEMAN. I see no evidence of hanky-panky.

Mr. SCHNEEBELI. Thank you.

The CHAIRMAN. This conversation brings to mind what I was told by friends in Europe whose countries have carried on trade with the Russians for some period of time that they know exactly what they want, they know exactly what the price of what they want should be, and they are not willing to pay that price.

Mr. FREEMAN. That would square with my experience when we were dealing with them 10 years ago.

The CHAIRMAN. Mrs. Griffiths?

Mrs. GRIFFITHS. I would like to say to you, Mr. Secretary, that when I was new on this committee and Mr. Noah Mason was the ranking member, I remember that you appeared here and that after listening carefully to all you had to say, Mr. Mason said, "I would like to say to you that in all the years I have sat in Congress you have the most sense of any Secretary of Agriculture we have ever had." I tell you right now, Mr. Secretary, that there hasn't been anything happening to change it.

The CHAIRMAN. Mr. Conable will inquire.

Mr. CONABLE. Mr. Secretary, can you tell us what the present situation is of soybeans in Europe? They are tariff free, are they not?

Mr. FREEMAN. Yes.

Mr. CONABLE. That is a major export to Europe. It is used there, I believe, to make margarine, and for feed.

Mr. FREEMAN. Yes.

Mr. CONABLE. Is this a probable place of retaliation against our trade if we don't work out a rational pattern and fall back into economic nationalism.

Mr. FREEMAN. Yes, I would say it is the No. 1 target.

Mr. CONABLE. In other words, the Europeans would like some excuse to move against it. If we give them that excuse by unwise policies of our own, it is a probable point of attack.

It is a very large trade and likely to continue at a very high level. It does not come under the common agricultural policy commodities, and so it is a very vulnerable target. We still are virtually the exclusive provider of soybeans, aren't we, for the world?

Mr. FREEMAN. Almost. We are by all means the overwhelming supplier.

Mr. CONABLE. Some are grown in Africa now.

Mr. FREEMAN. There are some in Africa and some in China. The Russians, of course, are competitive in the sense that they get something comparable from sunflowers on the oil side, but they do not get nearly on the meal side an equal product.

Mr. CONABLE. There is some irony for the American farmer in his feeling that he was let down by the Kennedy round and that if we have no Nixon round or whatever we want to call it, that they are probably the point of attack for the reaction.

Isn't it probable that to soybeans and other agricultural products there will be the greatest peril resulting from resurgence of economic nationalism if we are not able to continue our outreach in trade.

Mr. FREEMAN. If the negotiations break down and if the EEC decides that it will retaliate, this will be one of its very first targets, most certainly.

Mr. CONABLE. Thank you, Mr. Secretary. That is what I wanted to know.

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

Mr. LANDRUM. Mr. Secretary, we presently have, I read, a $6 billion trade deficit. Is that approximately correct?

Mr. FREEMAN. That is roughly correct.

Mr. LANDRUM. Suppose the negotiating authorities requested to be delegated to the executive branch are denied. What are the prospects under those conditions for making any improvement in that trade deficit? What would be the prospects?

Mr. FREEMAN. It would be my judgment, Congressman Landrum, that they would be pretty grim. At the moment, the drift is definitely protectionist and nationalist in its nature in every country in the world, both in terms of restrictions on investment and in growing restrictions on trade both nontariff barrier and executions of tariffs proper.

These negotiations, as I see them, will hopefully reverse this drift. If it continues, I think tensions will grow, that various kinds of restrictions will increase, that retaliations will begin to take place and the whole thing will accelerate.

When that happens, I think the United States will suffer very seriously. There was a question a moment ago about soybeans. That would be a very early target. Several times the EEC has tried to bring that up.

They have had an enormous butter surplus over there, and they have been peddling it around the world. I have had a little experience in that. They said, "Why should we allow these soybeans to come in here, this oil, and compete with our butter producers?"

Our Government has stood firm and said very strongly that this would be a major breach and they have backed off, but they would like to go after it. I am afraid that I would have to say that with the exception of Japan, which is the only country in the world that I know of that is liberalizing now on both trade and investment, every other country in the world at the moment is moving in the other direction.

I think it is very critical, and failure to have effective negotiations might result in that drift becoming a gallop.

Mr. LANDRUM. Mr. Secretary, on a little different line, we see in the news a discussion of the prospects of trade with China and with other of our nontraditional trading partners, but particularly with China at the present time and the prospects of large sales of cotton.

What is your information about what we can expect in the way of trade with China in the field of raw cotton?

Mr. FREEMAN. I am very sorry, Congressman. Precisely in the cotton area I am sure you have much more information than I have. On that one, I only know what I have read in the newspapers.

I would say that in the overall where China is concerned, I think the trade potential in the long run ought to be strong. In the short run, I think it will move forward fairly slowly. At the moment China is operating pretty much on a pay-as-you-go basis. Their national credo is self-sufficiency. They have made it clear again and again they will never become dependent on any outside forces. They were at one point dependent on the Russians. They are beginning to talk a little bit about taking some credit for a 1- or 2- or 3-year period under limited circumstances. They have limited trade, limited resources. They can't pay for very much unless they can get a line of credit or someone is prepared to extend to them some kind of assistance.

In the overall, the level of trade with China is going to move forward, I think, somewhat slowly so as long as that policy is followed. They, however, like the Russians, need certain raw materials.

The Russians came in to buy all this grain because they were committed to an animal industry, because their protein intake in the Soviet Union is only one-half that in the Western world.

Business International had a roundtable with the Russian Government from Kosygin on down in 1972, and I was quite surprised at the frankness with which Kosygin and all of them said, "We are going to correct that and see to it that our protein intake of the people of the Soviet Union is equal to yours in the rest of the Western world." That is one of the reasons why they bought so heavily. That is a very expensive way to build up protein, but they made that decision. They went in and spent all their gold.

I would guess, Congressman Landrum, that they had some failures of supply within China itself. They needed some cotton. They came in to buy it. I won't reach the conclusion from that that this will necessarily continue.

Mr. LANDRUM. Do you know what the protein intake of Russia is compared to the protein intake of Japan is today?

Mr. FREEMAN. I think the Japanese protein intake is roughly comparable to ours. They don't take it the same way. They eat a lot more fish than beef, for example, but it is a healthy level. They have substantial animal products such as milk and fruit, much more so than the Russians. I would suspect that they are halfway between us and the Russians, but the Russians are at only half our level, which they themselves freely acknowledge.

Mr. LANDRUM. Back to your transparencies that you showed the committee earlier, with regard to the second one, could he put that on the screen again.

Mr. FREEMAN. Yes, sir. Would you put up transparency No. 2, the one on intense labor?

Mr. LANDRUM. The larger the foreign investment, the faster the rate of employment growth in the United States, the title, and the most intensive. The chart makes very clear that the more our capital investments in these foreign areas are, the more their particular employment increases.

Company A, for example, the most intensive, as I interpret your chart, means that it increased its employment in this country 41.8 percent.

Mr. FREEMAN. That is correct.

Mr. LANDRUM. Going beyond those companies that you studied more in detail, did you find any evidence at all to indicate that those companies investing in foreign activities, foreign manufacturing, had any decrease in employment in America?

Mr. FREEMAN. Yes, there are some in certain kinds of industries that invested abroad as a means of meeting competition where in those instances the level of employment that they had was less than prior to that investment.

Mr. LANDRUM. In those instances was there evidence that the prime purpose of investing abroad was to avoid our labor conditions here or to take advantage of a lower labor market over there?

Mr. FREEMAN. We found no evidence of either of the reasons you cite, Congressman Landrum, but rather it was a response to the competitive situation and in all the instances that we checked, it resulted in some jobs, perhaps some fewer rather than no jobs at all.

Mr. LANDRUM. To what extent was the foreign manufactured product sent back to the United States by those companies?

Mr. FREEMAN. In the instances which I cite, there was a significant amount brought back in order to keep a market that the company in question had within the United States. In the overall, in a macro sense, it was a very small percentage of the total sales within the United States.

In the sample, for example, the amount sent back to the United States as a percentage of sales had increased from 0.6 percent to 0.8 percent in 1970, or only two-tenths of 1 percent.

In terms of this sample, it was very small and, of course, in terms of the total return from investments abroad back into the United States, there are different figures being used. I would say roughly the one I see most is that approximately 7 percent of the total manufacturing done abroad stemming from U.S. investment returns to the United States. The amount is relatively small and at least in the instances that we reviewed and interviewed it was a response to a competitive situation rather than an effort to avoid U.S. labor requirements.

Mr. LANDRUM. Overall, you see no adverse effect on domestic employment as related to this move overseas?

Mr. FREEMAN. I would say not at all. I would say definitely to the contrary. I am firmly persuaded from this study and my own observations that investment abroad draws exports from U.S. companies and creates employment in the process and that where the workers in this country are concerned, investment abroad is a plus.

That doesn't, of course, mean in every single industry or every town or every community. There are adjustments involved in this as a part of it, but in the overall, in terms of the workers in this country and the number of jobs available in this country, this investment abroad is a positive thing.

Mr. LANDRUM. Thank you very much. My time has expired.

The CHAIRMAN. Mr. Chamberlain?

Mr. CHAMBERLAIN. I have no questions.

The CHAIRMAN. Mr. Duncan?

Mr. DUNCAN. Thank you, Mr. Chairman.

Mr. CONABLE. Will the gentleman yield?

Mr. DUNCAN. I will be glad to yield.

Mr. CONABLE. I would like to ask if you won't get a comparable chart if you plotted the domestic investments of the same companies that are involved here. Won't we find that the same companies were also investing more in the United States in roughly the same proportions?

Mr. FREEMAN. If you recall, there was a chart that showed that these same companies invested significantly more in the United States than the national average in manufacturing.

Mr. CONABLE. Is there any way of tying that together, though?

Mr. FREEMAN. I think very definitely that they invest more in the United States by virtue of having invested abroad because this has made it possible for them to diversify their base. It has provided an operation which can finance very expensive research and development. It has helped some companies, and this is a matter of public record, to make difficult transitions themselves into new technology. In the cases of Burroughs and National Cash Register, for instance they have made it very clear that they could not have moved from mechanical machines to electronic computer machines if it had not been for substantial foreign operations which carried them through some critical years.

I think that, just as investment abroad makes jobs in the United States, it also makes investment in the United States.

Mr. DUNCAN. Mr. Secretary, I take it that you favor free trade, but don't you think that free trade also should be fair trade?

Mr. FREEMAN. I most emphatically do.

Mr. DUNCAN. Do you think we have fair trade in the world today?

Mr. FREEMAN. No, I think that there are countless evidences of restrictions and all kinds of Government involvement that I think do not make for fair trade.

Mr. DUNCAN. You indicate that the foreign countries are moving in the direction of freer trade. Can you give some examples of how they are moving?

Mr. FREEMAN. The only country I would know of at this point that is moving in the direction of freer trade is Japan, and that goes for investment as well. The rest, I think, are moving at this point in the opposite direction and the talk is protectionist and restrictionist and mercantilist rather than liberal, open-world-oriented, virtually everywhere in the world at the moment.

Mr. DUNCAN. You say that far worse market disruption takes place when a country exports inflation or deflation. When referring to deflation, are you referring to low-range rates or can you give some examples of what you mean.

Mr. FREEMAN. Let us take, for example, some of our primary trading partners to whom we sell heavily; Germany and Japan, for example. Currently, our exports are climbing in part because they are on a boom cycle in terms of their economic expansion.

Assume that they decided that they wanted to cool off their economies very rapidly and did it the quickest way, which was to impose heavy new taxes. That would immediately have an adverse effect on U.S. exports and as such would be a very grave element in the U.S. economy.

Conversely, if they decided to follow the monetary route and proceeded to set their interest rates very high, then you would have a flight of capital, or at least some, from the United States, and the dollar would move toward those places where it could get more return and higher interest. This, again, might very well trigger some kind of international crisis, and emergencies on the monetary front.

Any number of these kinds of things certainly had an effect on our trading partners when the President on August 15, 1971, announced a sharp change of policy in the United States, not only a surtax on imports but also an incomes policy which, I think, no other country in the world would have dreamed that this administration was likely to undertake. It came out of the clear blue sky. It, again, would have had a very great effect on them.

The point I am making, Mr. Duncan, is that I believe that today the world is interlaced economically whether we like it or not, that it is just a matter of fact to recognize that.

I think that it is going to become more so, and to use this in quotation marks, that a "common market," a great mass market, what Peter Drucker called a "global shopping center," is coming about.

That means that every country is tied into the economy of every other country, and I think the process is going to accelerate. The institutions to accommodate that, to give some advance warning, to ameliorate moves that a country might make, are simply not existent.

I think that it is important that thought be given at least to some kind of communication between countries looking into things which hitherto have been considered solely domestic in nature but which today for reasons I have given a real impact on other countries.

Mr. DUNCAN. Are these reasons which we have just discussed the main reasons that you are supporting the proposal that the President should have the right to negotiate or the authority to negotiate a binding decision?

Mr. FREEMAN. Yes; they are very much a part of it. As I said earlier, I think if the President does not get the right to negotiate and if the countries do not get together and begin to sort matters out, that the present drift will continue, and I think the present drift is protectionist and mercantilist, not in the other direction.

Mr. DUNCAN. Do you think that the exporting of low-wage rates to our country can also disrupt our economy or disrupt the market in this country?

Mr. FREEMAN. I haven't observed the exporting of low-wage rates to this country.

Mr. DUNCAN. Through products manufactured in places like Taiwan and Korea and Japan.

Mr. FREEMAN. No; I don't think it is having that effect. In the first place in this country there are a whole host of measures that prevent an adverse movement of wages. In the second place, when this happens—and low wages, let us say, in terms of fair competition now, which means it doesn't have additions of Governments' involvements in subsidies—if it comes in on that basis, we are following a sounder policy in the country to provide adjustment to the workers and communities and companies that suffer as a result of it.

Mr. DUNCAN. Don't you think though that exporting of products by almost slave labor at low-wage rates in foreign countries has dis-

rupted the electronic industries and the textile industries in this country?

Mr. FREEMAN. They certainly disrupted them for a little bit, but as I read the indicators now, the electronic industry in a great number of products is back in a competitive position. They are building plants and making very solid profits. At the moment, I think we can't even import textiles because our prices here are too low and prices are higher somewhere else in the world.

Mr. DUNCAN. I understand that all American flags are being made in Hong Kong, and we certainly are importing all kinds of textile products in this country.

Mr. FREEMAN. There are some things coming from that area.

Mr. DUNCAN. It has been on the increase instead of a decrease through the years.

Mr. FREEMAN. In case of a number of things. In textiles, it certainly has not in the last part of this year. It has turned completely around. That may be the result of short-range abnormal forces plus a fatcor which I think is very important, which is, of course, the devaluation of the dollar.

I am not one who felt even 2 years ago that the U.S. economy was not competitive. There have been a lot of gloom-and-doom prophesizers in government and industry and in labor.

We have had some special handicaps in this country, one of the worst of which has been the value of the dollar. Now that the dollar is devalued, now that we have moved out of our own recession and we have decreased our labor unit costs by producing at a higher level of our plant capacity, I think we are improving our competitive position enormously.

Our exports are going up, and I think this is the way to do it. If an industry does become for a variety of reasons outmoded and no longer competitive in a dynamic economy, I think we should do something to make a transition only, but not to protect a minority because thereby 83 million workers in this country suffer because of the allegation that there have been 500,000 jobs lost.

To me, it make better sense to do something about the 500,000. Assuming they were lost, which I question very much, but assuming that they were, it is better to do something about the lost jobs than to penalize 83 million workers.

Mr. DUNCAN. Thank you, Mr. Secretary. My time is up. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Vanik will inquire.

Mr. VANIK. Mr. Secretary, on page 6 of your green booklet, you state: "The larger the foreign investment, the faster the rate of employment growth in the United States." To me, this information is not really conclusive, because first of all, this was a period of dynamic recovery in the United States because of some of the many policies in which you had a very active part.

I find it very difficult to separate out of that period of rate of employment growth in the United States, that part of it that stems from foreign trade and that part of it that stems from our normal recovery.

Now, that is all wrapped up together here. I think that unless you try to refine out the information, it is very difficult to give great credence to a categorical statement that has so many, many factors wrapped up into it.

Mr. FREEMAN. It surely does, you are right, have many factors, but I would point out that this is over a 10-year period.

Mr. VANIK. That is right.

Mr. FREEMAN. From 1960 to 1970 there were ups and downs and flows and a lot of this happens which we believe would cancel out some of the factors.

Mr. VANIK. Would you say foreign investment does all of these wonderful things? Would you say that capital that is invested abroad and exported, creates more jobs for Americans than the same amount of capital investment in the United States?

Capital creates jobs wherever it is, but would you say that the foreign invested capital does a better job of creating jobs than domestically invested capital? That is what we are talking about. That is what the whole argument is about.

Mr. FREEMAN. Yes, it is indeed.

Mr. VANIK. It creates more jobs for Americans by going abroad than staying here and working?

Mr. FREEMAN. Without ducking your question, let me say first by way of a preface to a direct answer that if you assumed that there was an opportunity to invest at a level that would provide a fair return, which would make that investment possible, and all this could be done in the United States, it would seem logical to say that there would be more jobs at home if the capital would stay at home. But, of course, that is not the case.

No. 2, if I may finish, of course as to the actual mix here, if you will recall one of the transparencies these same companies invested more in the United States than the average during that period.

I answered a question earlier by saying that in part they were able to do that in at least two companies that I have named because they had invested abroad and had built a more diversified, broadly based operation.

I honestly say that as a direct answer there are some unknowns in what you described properly early as a big picture with lots of variables.

Mr. VANIK. The movement of American capital abroad is frightening our trading partners. Many nations are now taking steps to limit our investment. Notwithstanding the entry of American capital in Japan, that was worked out recently, most everywhere else in the world there are developing restraints on the expansion.

They are getting more cautious. They are getting more worried. They are getting more concerned about the extent of American investment where it can move into an entire industry.

I have the same concerns about the reverse situation. I would be concerned about foreign investment in the United States, which would take over an entire industry here, and then permit marketing conditions and control conditions to exist that would destroy a free market.

Doesn't it indicate that our foreign investment has reached an excessive dimension when there are curbs being established around the world in many, many places and in more and more places against an increasing venture of American capital into their enterprises?

Mr. FREEMAN. If you will permit, I would like to draw an analogy in answer to your question. You are correct that there are increasing tensions. National sovereignty is feeling threatened and this is true, but I think an analogy can be drawn to this country.

When I was a boy my father was very disturbed, as were many people in Minnesota, at the capital that came out from New York to build factories and stores, and he felt very definitely that the Midwest was being exploited by Wall Street and the big bankers and he did everything in his power, as did many politicians, to resist that.

The sovereignty of the State of Minnesota was threatened. That went away in part because of our Constitution. I think the same thing is happening around the world. The biggest single reason why the United States has a prosperous economy and the highest standard of living is because we have had one mass market we could produce for. I think the same thing ought to happen around the world, and it is in process.

Mr. VANIK. Mr. Secretary, we have had that mass market because we have had the highest labor standards in the world precipitated by labor organization and movements. It is commonly said that one of the purposes of multinational development in foreign countries is a way for the American corporation to get away from the "tentacles" of the American labor standards; that this is really the only way they can move out and get out from under the bargaining powers that labor has in the United States.

That may be offset in the long term when labor develops strength in these other countries; and labor will become international just as multinationals do. That is only a matter of time, but we have a difficult problem in trying to reconcile the fact that there is a great deal of shift of labor to foreign markets in order to avoid the American labor standards which have made America such a great market. They want our market, but they don't want to create the jobs here.

Mr. FREEMAN. I would only respond directly to that by saying that, in the interviews that were a part of this study and in my own observations, getting away from U.S. labor organizations or labor standards was a minimal factor that we found did not really exist.

There were other factors, and that simply was not one of them.

Mr. VANIK. I have just one further question. Under this bill, the costs of dislocation that are chargeable to trade problems are rather amply provided, but here is what I find fault with.

The fault that I find is that the cost in the United States of paying for labor dislocation resulting from trade, is charged against the general taxpayer instead of against those who cause it.

What I mean is this. If, through trade, jobs are, of course, shifted out of the United States to some foreign country, do we collect anywhere near the taxes from the multinational that would in any measure balance off the tremendous costs of paying dislocation assistance to American workers and some American industries that may be suffering a trade impact?

The figures on multinational taxation are absolutely secret. They are locked up. They are confused in consolidated returns. We can't even find out what their business is all about.

My concern is that all of the gains to the traders are thrust upon the general taxpayer in America, who not only suffers the loss of jobs in trade dislocation, but also has to pay with his tax money for the costs of this dislocation. The tax money does not come out of those who profit, those American enterprises who profit in the foreign trade. What do you have to say about that?

Mr. FREEMAN. I would only say that I don't think that we levied a special charge on the textile industry when it moved from New England to the South.

Mr. VANIK. I know that, but there were southerners who eventually paid taxes to the United States. Your man from New York paid taxes to the United States which helped cover some of the dislocation problems. They all operated under the same national law. It was all part of the national economy, so that the man from New York could pay higher income taxes to help support the poor cotton farmer in the South.

There was a national impact. Now we are talking about things that are beyond the taxation of the United States to a good measure, and beyond the American economy.

Mr. FREEMAN. I honestly do not really quite follow.

Mr. VANIK. You know that dislocation expense would be paid out of the general revenue funds.

Mr. FREEMAN. That is correct.

Mr. VANIK. So that it comes out of the pockets of the general taxpayer. This is what I would like to have you provide, if you can, and add to your statement. I know I can't expect you to have a response for this, to a question you probably didn't expect, but you have a tremendous list of corporations here, and I would like to know if you can provide some estimate as to what they pay in taxes to the United States from the profits of their foreign operations.

Mr. FREEMAN. Well, that can certainly be found very easily.

May I close on this: that the investment that was made by these companies as measured in this sample, and I think generally, created jobs rather than decreasing jobs. They didn't cost any adjustment assistance. They contributed profits to be taxed to pay for it in the instances when there was some.

Mr. VANIK. I understand that. You probably make the point that those who are involved in the multinational operation have created more jobs for themselves, but the net total for America might be a different story. In other words, they have gained, they have prospered, but we can't quite measure those who have suffered, those other companies who didn't have this recourse and just went out of business.

I have a whole host of them in my community, and I am sure a similar list can be drawn up in every community of industries and jobs that we have lost forever, and I think you have to measure it not from the standpoint of the multinational company itself, but from the total economy. This is difficult data to determine.

Mr. FREEMAN. It is difficult, indeed.

Mr. VANIK. Thank you very much.

The CHAIRMAN. Mr. Brotzman.

Mr. BROTZMAN. Thank you, Mr. Chairman.

Mr. Secretary, I wasn't in the room at the time of your testimony in chief. I will read your paper. But it would seem to me that this study will be particularly beneficial to the committee in one particular aspect. If I understand correctly, most of the figures that I have seen heretofore on the effect on the employment rates have been a comparison between multinational corporations, those with a foreign investment, versus a solely domestic corporation.

Mr. FREEMAN. That is right.

Mr. BROTZMAN. From just looking over your little brochure here, I would understand that of the 125 companies you used in this study, you have both companies with foreign investment and some in the sample that have none; is that correct?

Mr. FREEMAN. That is correct.

Mr. BROTZMAN. Maybe you testified to this, but how did you select your sample? I notice that you use nine industrial areas. I think you have tried to pick companies in nine industrial areas, but generally, what is the ratio between, let's say, companies with a foreign investment and those with no foreign investment in your sample?

Mr. FREEMAN. My associate, Mr. Richard Conlon, who is the senior vice president for Business International in Washington, obviously has that better in mind than I do. I will ask him to answer, if I may.

Mr. CONLON. The ratio was, I would say, a good 90 percent with foreign investment and 10 percent with none. The sample was deliberately weighed in terms of the foreign investing companies on the hypothesis that if you could find differences in performance among foreign investing companies of different intensities, it would be a piece of documentation that would be very helpful. Now, we did measure that against the domestic average.

On the chart, if you were here and saw it, during the 11-year period all U.S. manufacturing industry increased jobs by 10.8 percent during the 11-year period. Our sample group increased it 26.8 percent, and the top quarter of the group, that is, the most intensive foreign investors, increased it by over 40 percent.

If the counter-hypothesis were correct, namely, that foreign investment steals jobs or exports jobs from the United States, then you would say that the most intensive foreign investing companies would have the worst job creation record.

Mr. BROTZMAN. I think it does portray a new dimension of that and a new approach that is very valuable.

Let me ask you about one more term, if I may, and then I will conclude. When you talk about intensity of investment, are you talking about dollar amount in relation to capital assets, or how did you arrive at the intensity of investment?

Mr. CONLON. It is very simple. We took the total gross investment and also their total fixed investment and then the percentage of that total which was foreign.

Mr. BROTZMAN. I see.

Mr. FREEMAN. That was the proportion. In other words, the proportion of foreign investment to their total worldwide investment, which is United States plus foreign.

I should add also on this job creation that the figures we showed in those charts are net after acquisitions, because many of these companies in the period of the 1960's had many, many acquisitions in the United States. The acquisition figures were washed out. They are pretty solid.

Mr. BROTZMAN. As I said at the outset, I think this is a very valuable factor you have presented. I want to thank you for your testimony.

The CHAIRMAN. Mr. Corman will inquire.

Mr. CORMAN. Thank you, Mr. Chairman.

Mr. Freeman, I wonder if we could focus in on a slightly different aspect of the trade bill than we have been. I notice that you are very apprehensive about quotas as a mechanism in negotiating trade, but

let's look at it from the point of view of the impact on the American business community.

Every time we have quotas, or every time we significantly change tariffs, we both help some people at home and hurt some people at home. I can't get a handle on just what we do to give people within the business community who are going to be significantly influenced by all this a chance to tell their story before some objective entity, because this is a tremendous delegation of power.

I am not at all sure that the congressional veto of quotas would really be a workable check on the President. We talked the other day with the Secretary of Commerce about how we presently administer our quotas on cheese and oil. We have had the most experience with those. They have an elaborate licensing system, and yet the administration anticipates no such internal controls over quotas that may be imposed.

I cannot think through my own head how to give the American entrepreneur some voice, some protection in this. Have you any thoughts or worries along that line?

Mr. FREEMAN. I think it is a very legitimate concern. It does represent a very significant grant of power, and any President is subject to very strong political influences in connection with this kind of thing. They are extraordinarily difficult to define.

I think I have to say I don't know really what is the alternative. Someone has to conduct the negotiations on the quota side. The fact that it can come back to Congress and that there is to be congressional advance notice and opportunity for consultation, I think, is useful. Of course, any President, or anybody involved, is going to move with great care where Congress is concerned, because it can be voted down. So this represents, I think, a limitation that didn't exist in the Trade Expansion Act of 1962. Of course, that was only tariffs.

Mr. CORMAN. It was only tariffs. It was only the opportunity to lower them.

Mr. FREEMAN. That is right.

Mr. CORMAN. In this bill, by negotiation we can substantially increase tariffs, and there is no reason to think that that won't be done, because we are going to negotiate country by country and item by item.

Mr. FREEMAN. I have no answer to that. There is a provision in the bill for broad consultation, for involvement of the respective departments that are concerned in the areas in question. There is a clear commitment by the administration that these consultative procedures will be followed. But you are right that in the last analysis someone is going to have to sit across the table just as, I may say, happens when you kind of close book on a bill and there is a conference committee between the Senate and the House, and the rest of the committee is wondering what the devil is going on.

Maybe this is the same thing. Sometime, somewhere, someone has to have the power to make a decision, and you just have to have it.

Mr. CORMAN. Agreeing with that, still it seems to me as we pursue this thing that we might do something maybe nationally useful and move ours higher a little, tiny bit, but totally destroy somebody along the line. I just think that we need something in here to give the American businessman whose existence is on the line some opportunity to be heard.

I am very much in favor of free trade. I am in favor of lowering tariffs, but in consultations we talk about, you know, who is going to sit around that table. It is not going to be John Doe, haberdasher, out in Van Nuys.

Mr. FREEMAN. Mr. Conlon reminds me that the chairman of this committee and the chairman of the Finance Committee in the Senate have sponsored a joint committee which, as I recall, called for some adequate staff provision which might very well monitor and keep itself thoroughly informed as such negotiations go forward.

Today a businessman can get a hearing. Various trade associations did participate and come in and consult. The trouble is that very often they don't do it very effectively, and that could be improved and might be looked at.

Mr. CORMAN. Who administers that? How is that done?

Mr. FREEMAN. It is just a kind of collateral provision, and part of it is custom. For example, there are groups in various industries that are represented that, in a sense, sit in the backroom when these negotiations go forward. The negotiators consult with them.

When I was Secretary of Agriculture, I would consult periodically with various sectors of agriculture as to where the negotiations stood, what concessions could be made, how it affected various people involved, that might be formalized and tightened up. That is a possibility.

Mr. CORMAN. We also talk about removing nontariff barriers both here and abroad. Do you see any problem in that when the nontariff barrier is State law; for instance, the buy-American provisions in some State law, and some of these environmental control provisions that are State law?

Mr. FREEMAN. I think there will be some problems, but if a quota is taken off, that becomes clear national policy. Under those terms, I think anything contrary to that would be unconstitutional and would be struck down in the courts.

Mr. CORMAN. My 5 minutes have expired. I hope we have an opportunity to pursue this later. Thank you.

Mr. FREEMAN. Thank you.

The CHAIRMAN. Mr. Clancy will inquire.

Mr. CLANCY. Thank you, Mr. Chairman.

Mr. Freeman, the pamphlet which has been distributed to members of the committee, entitled "A Thumbail Report," on your findings refers to one company report which indicates that 1,900 to 2,000 domestic jobs were created as a result of the pull effect on exports. What is meant by a "pull effect"?

Mr. FREEMAN. That, in effect, when the investment is made, the result has been that it pulls export after it. The process that came out again and again as we interviewed these firms is that first of all a company exports its commodity abroad. It begins to build a market. Usually it starts with a representative in the country, a local national, and then it sends some of its own people out to build that market, and then realizes that if it is going to hold it as competition grows, it is going to have to service it better, and then it will build a plant and begin to expand it.

When that happens, then capital goods and components and many other things are pulled into that particular area. So the process is

exports, investment, and more exports, and it is those more exports that calls for more jobs.

I think the company in question in this case is Union Carbide, which made a very detailed study. A number of other companies have as well, and they have been able to point out precisely what jobs and how many they have in particular communities that wouldn't exist if it hadn't been for significant investments that they made abroad that are pulling exports from those local plants.

Mr. CLANCY. Now, of these companies that were studied which had foreign investments, did we find in most all cases or in some cases or in a large percentage of the cases the exportation of component parts which they manufactured to the country where the investment was made?

Mr. FREEMAN. Yes. They found some of that. They found a whole variety of combinations of components at various times in schedules of their manufacturing and servicing of their markets. They usually started out with capital goods, such as lathes, and other equipment that would move out first as they set up the plants. As they began to expand and strengthen their market, they would have other things coming from the U.S. plants—such as technology and components—and those would be meshed into a kind of interrelated overall operation, and that would have the positive effect of increasing exports from the plant in question.

Mr. CLANCY. I wanted to clear that up, because earlier you discussed one company which had expanded their research and development division as a result of foreign investment, but we do find in a number of these instances that component parts and other capital goods are exported just as well.

Mr. FREEMAN. Very definitely in almost every case.

Mr. CLANCY. Thank you very much.

The CHAIRMAN. Mr. Gibbons. Mr. Gibbons is recognized.

Mr. GIBBONS. Mr. Secretary, in your statement you spoke critically of the import relief provisions of title II. I wonder if you would be a little more specific on that.

Mr. FREEMAN. Well, may I emphasize that title III calls for various remedial actions in the event of unfair competition. Title II is directed toward fair competition, which means, by definition, there is no dumping, no export subsidy, no unfair advantage, but purely the matter of competitiveness in terms of cost and delivery and quality.

I suggest to you that to try to define when relief should be forthcoming under those circumstances is extraordinarily difficult. I find the language used there open to serious question, and it has been my observation that what happens in these cases is not the result of injuries, but the result of political pressures, and that whatever industry, company or business can muster the most muscle, then something tends to happen. That is one reason.

The other reason is that, by definition, we are then penalizing the rest of the country by requiring a higher price than they would get if fair competition was permitted to work its will. So then you are helping a minority at the expense of the majority.

I completely agree that there needs to be assistance when such dislocations take place, but I believe for countless reasons it is much bet-

ter done through a meaningful readjustment program than to set up quotas or higher tariffs with the results I have already described.

Mr. GIBBONS. Focusing now on the adjustment assistance provisions of the bill, do you think the adjustment assistance provisions of this bill are adequate?

Mr. FREEMAN. I think that they are very inadequate.

Mr. GIBBONS. What do you think we ought to do about this?

Mr. FREEMAN. I think really this country needs a basic manpower policy that would look to the changes that are the products of an increasingly dynamic society. As I mentioned in the testimony, it is said that a young man who is a skilled workman today, before he ends his working life, will need three skills, and this ought to be a part of our national policy, worked out between industry and Government, so that we can have an effective adjustment.

I don't think it ought to be restricted to just causes from imports. Nothing of that kind has been suggested. I think this would be an ideal time for such a policy. I think there would be wide support for it, and the trade would help to trigger that support. Instead, in what appears to be a very budget-motivated recommendation, I find these readjustment allowances and programs little better, if any, than those in the Trade Expansion Act of 1962, which proved to be worthless.

Mr. GIBBONS. Are you familiar with what the Europeans have done in this area of adjustment assistance?

Mr. FREEMAN. I am not familiar in real depth. I know a little about it, and there are quite extensive programs for readjustments in the U.K., in Sweden, in France, and in quite a number of places which are far more advanced than we are.

Mr. GIBBONS. I was talking to a legislator from Denmark last week and he told me that the shoe industry had been wiped out in his country. I thought maybe if we could find out what they had done for the people in the shoe industry there we could consider doing the same for the people here.

I don't seem to be able to get Mr. Burke's attention. You are not familiar with what they did for the shoe industry in Denmark, are you?

Mr. FREEMAN. I am afraid not, Congressman. I am sorry.

Mr. GIBBONS. Maybe I can get Mr. Burke to answer that.

Let me ask you this: I know that in your little booklet, which I find very interesting, you don't mention any of Mr. Burke's shoe companies. Did you have any of them included in the group of companies that you looked at?

Mr. FREEMAN. I don't believe that there were. I think I have to say no. I don't think there are, because there are not very many shoe companies that have invested abroad.

Mr. GIBBONS. They have not? I thought a lot of them had invested abroad.

Mr. FREEMAN. No. There are U.S. shoe machinery companies, for example, but they primarily make shoe machinery rather than shoes.

Mr. GIBBONS. But our shoe companies have not invested abroad; is that right?

Mr. FREEMAN. To my knowledge, they have not. There is a considerable exporting of certain things going on, but not any investment.

Mr. GIBBONS. Of course, I realize that those companies had to participate voluntarily in the survey that you made, and you have no way of coercing them.

How about Outboard Marine Corp.? They are No. 300 among the largest companies in the United States. They have substantial overseas investment.

Mr. FREEMAN. I am sure they were queried. We had a list of 600 companies. Some were unwilling to cooperate. Others didn't have adequate records. As you say, we had to solicit what was really a "time-consuming effort" on their part.

Mr. GIBBONS. I wondered. Ford apparently responded, but General Motors did not; is that right?

Mr. FREEMAN. That is right; it was just the choice of the companies in question.

Mr. GIBBONS. I don't see any radio or tape recorder manufacturers in here that I recognize.

Mr. FREEMAN. The response of the consumer electronic group to our request for participation was fairly small. We hope to move out now that these studies have become widely accepted in the updating of this one and strengthening and expanding the sample.

Mr. GIBBONS. Thank you, sir.

The CHAIRMAN. Mr. Waggonner.

Mr. WAGGONNER. I have no questions, Mr. Chairman. I certainly want to welcome the Secretary here this morning.

Mr. FREEMAN. Thank you, sir.

The CHAIRMAN. Mr. Karth.

Mr. KARTH. Thank you, Mr. Chairman.

Of course, I join with my colleagues in welcoming to the committee my old friend Mr. Freeman, with whom, Mr. Chairman, I had the privilege of serving in government back home. I was privileged to be in the legislature while the Secretary was Governor of the great State of Minnesota, and even handled some of his legislation. It is always nice to see you, Mr. Freeman.

Pursuing to some extent the question that Mr. Gibbons raised on chapter 1, title II, Mr. Secretary, as I understood your answer to his question, you find greater disfavor with that portion of chapter 1 and title II that would give the President the authority to erect barriers, that is, tariffs or surcharges. You find greater objection to that portion of the chapter than you do that portion that would give relief to injured American workers. Am I stating correctly what your testimony is?

Mr. FREEMAN. I am just not clear, Congressman Karth. As to title I that gave the President the power to increase or decrease tariffs and to remove quotas after clearing with Congress, I support it. Title II, the one on safeguards, is the one that I have recommended should be deleted. I think the President should have the power to negotiate. I do not think the President should have the power unilaterally, in effect, to impose tariffs or quotas or require agreements with other countries in cases of fair competition.

Mr. KARTH. Correct. That is one of your major objections to this bill, as I understand it.

Mr. FREEMAN. Yes.

Mr. KARTH. I might say that it is one of my major objections, as well. I doubt seriously that we could get a foreign country to sit down and bargain in good faith when, regardless of what agreement would be reached, they find one participant to that negotiation is able to undo unilaterally everything that has been done by erecting surcharges which might negate the whole agreement that they thought they had.

Mr. FREEMAN. I didn't mention that point, but it is a very excellent point.

Mr. KARTH. On your transparency No. 2, Mr. Secretary, if we could have that again, please.

My question, Mr. Secretary, on that chart is whether or not any one industry dominates the result which, therefore, could materially affect the end result. For example, in the 41.8 percent category, is there any one industry that dominates this 41.8 percent?

Mr. FREEMAN. No, I really don't think that there is. Mr. Conlon is swiftly paging through the big document that I think the Congressman has in his office which has a list of the different companies that went into that particular computer run.

I would answer in the negative, that there is no particular one that dominates. As a matter of fact, some of the larger companies, because their proportion of investment is relatively small even though they are billion dollar companies, end up in the fourth or third quartile instead of the first.

Mr. KARTH. I can understand that by company, but I was talking about by industry. If you don't have that answer now, if you should find that it is true that a certain industry does, in fact, dominate the 41.8 percent, I wonder if you would supply that for the record.

Mr. FREEMAN. I certainly will.

[The information requested follows:]

There follows the net US employment performance of the sample's companies for the 1960–1970 period on an industry-by-industry basis:

Industry:	*Increase (percent)*
Foodstuffs & tobacco	6.6
Metals & products	21.1
Building materials	17.5
Chemicals	15.8
Pharmaceuticals	52.3
Nonelectrical machinery	14.8
Electrical machinery	93.4
Transport equipment	17.6
Other manufacturing	47.6

It should be noted that the "electrical machinery" category included companies in both the computer and consumer electronics fields. The employment increase for all U.S. companies in this category during the same period was 25.5%, approximately four times less than the sampled companies.

It should also be noted that two other industry categories in the sample—"pharmaceuticals" and "other manufacturing"—also exceeded the 41.8% figure referred to by Congressman Karth.

One can only conjecture, however, as to whether one or more of these industries dominated the performance of the sample in terms of the relationship between job creation and intensity of foreign investment. In examining this relationship, the computer was not instructed to make an industry-by-industry comparison. Rather, it was only instructed to break-down the sample's companies into groups based on the proportion of their foreign investment to their total investment as of 1970. A set of arbitrary dollar benchmarks varying from under $10 million to over $200 million were established to group the responding companies.

Mr. KARTH. My last point, Mr. Chairman, is that the reimportation of U.S. products from foreign U.S. subsidiaries, I think, has grown at an accelerated rate in the last 2 or 2½ years, which your figures do not cover. While I accept your figure of going from 0.6 to 0.8 percent during the 1960's, I think that beginning with 1970 that has accelerated materially.

I merely point to automobiles, for example. Now all of the U.S. automobile manufacturers are making automobiles abroad, and not necessarily just to compete in that foreign marketplace. This is what disturbs me, because in a great many instances most of those automobiles are made abroad for importation back to the United States in competition, really, with themselves.

Instead of making a good, economical, compact automobile here in America, with American capital and American labor, they have gone over there and made it and find that it is really not competitive in that foreign marketplace and reimport it back to the United States.

I think if you could accelerate your survey in that regard covering the last 2½ years or so, it might materially affect the results that you have drawn. I see this is something that we have to look at very carefully.

Thank you very much, Mr. Secretary. It has been a pleasure to see you.

Mr. FREEMAN. Thank you.

The CHAIRMAN. Mr. Pettis will inquire.

Mr. PETTIS. Thank you, Mr. Chairman.

I would like to welcome the Secretary here this morning and to say that I had a very high regard, and still do, for the Secretary. I remember very well many of the things he did for agriculture while he was Secretary, and my question today is a rather general one.

I know that you still maintain a great interest in agriculture. What do you see as the potential of agriculture in the years ahead? We have had a lot of testimony here over the last few days to the point that this is going to be one of the bright spots in the American economy. Also, we have some problems; apparently we are going to have some difficulties in getting petroleum products to the farmer this spring when he needs it badly.

This is not asked in any way to elicit out of you criticism or praise, necessarily, for the present administration of the Agriculture Department. If you were the Secretary of Agriculture today, what would you do to improve or to solve some of these problems that would improve our trade position as far as the exportation of farm products is concerned?

Mr. FREEMAN. Well, No. 1, I would negotiate effectively and, I hope, skillfully with particularly the European Community, where the common agricultural policy is concerned, to try and loosen that very, very restrictive piece of legislation. One thing that I would be prepared to do would be to consider seriously with the European countries the possibility of international commodity arrangements.

It would be my judgment that the negotiations on the CAP are not going to be very successful. There may be some preliminary progress made on a few things, like getting them to cut down their export subsidies, getting them to maybe lower prices here and there a little bit, but the CAP to the European farmer is the same as a price support

program is to the American farmer, and the European farmer is much more effective politically than the American farmer. The toughest lobby in Brussels is called COFUS, and the European agriculture has come together in one lobbying group, something we never could do in the United States.

I think we are not going to get very far because this program is written in blood where their farmers are concerned, and we have hammered at it so long that it has become a matter of great sensitivity.

I have reason to believe that if we were willing to sit down and talk about the possibilities of real international cooperation involving not only price but some kind of supply control, some kind of storage, which at the time of the Kennedy round the European countries were not able to do since they only would talk price, now I think they would talk workable international commodity arrangements.

I think that course should be pursued. I am afraid at this point it is not being pursued, at least as I have seen the policy pronouncements by the administration. If that door is shut, there will be no meaningful discussion on this subject at all; a little here and there, but not very much.

On the second question, I think the future is bright for agriculture, particularly for us, because of the things we produce in the grain area, because of the growing demands for animal products around the world, but it isn't going to take place automatically. I will stick my neck out and say I would not be at all surprised if, by the end of this year, or certainly the end of next year, if we have any decent harvest at all we will be back in a heavy grain surplus position.

Mr. Butz is going to find himself in the same position I was in in 1966 and 1967, when I increased allotments, and I did it much quicker, I might say, than this administration. I am worried about the feed grains situation. They are way down on the 20 million ton carryover basis that I think is serious.

Be that as it may, with 40 million acres back in production the recovery can come very fast. That is why I think the continuation of a workable farm program is very important in the interest of the country and the interest of American agriculture.

Looking a little further down the road, I think that the demand for grain is going to grow very sharply. The world standard of living is hopefully going to increase, and this means a demand for animal products, and they chew up a lot of grain. So I think the future is a strong one, but it is going to move on very many cyclical dips, up and down, because agriculture is subject to outside forces that cannot be controlled, and agricultural economics is different from industrial economics.

The effort to apply the same standards and rules, which there is a great tendency to do, and which it would appear to me that this administration tends to do, seems to me not to represent the farmers' interests or the Nation's interests.

In the main, I would feel bullish and would say I would much rather be the Secretary of Agriculture trying to increase production, rather than trying to decrease it.

The CHAIRMAN. Mr. Waggonner.

Mr. WAGGONNER. Thank you, Mr. Chairman.

Mr. Secretary, in viewing this slide you have here, you concluded from your studies that the larger the foreign investment, the faster

the rate of employment grows in the United States. Do you know why these people are investing in plants overseas? Is it primarily because of nontariff barriers, or is it primarily because of their inability to compete without those investments overseas?

Mr. FREEMAN. It is both. I think the second one is the primary one in the overall; that they have to invest if they are going to keep and expand the market, and they have no produce close to that market. They have a pattern because of the nature of their product and need new competition to be doing business, including producing on the ground.

Then there are also many places where that is the only way they can jump over big tariffs and quotas as well.

Mr. WAGGONNER. You say that their inability to compete is probably the major reason for investments overseas as opposed to nontariff barriers.

Mr. FREEMAN. I do. I would put it this way: that in the main, and certainly up until now, companies would much prefer to produce in the United States and export. Why should they take the hazard of investing in a strange environment, complying with new laws and all the complications involved, if they could produce at home and sell the product? Therefore, they move into the investing abroad only when they feel that they have to.

Mr. WAGGONNER. Just one more question. Can you tell me where they made these investments because of nontariff barriers?

Mr. FREEMAN. I think in some industries almost everywhere around the world, but particularly in Europe. Europe is interlaced with a whole set of restrictions, and you find them in the less developed countries as well. I couldn't give any pattern, but I think it is almost universal.

Mr. WAGGONNER. I want to be clear. You are saying that in the less developed countries as well as the so-called industrialized or developed countries.

Mr. FREEMAN. Yes, and I am sure that your staff would have examples of that from the many studies this committee has had of this nature. GATT would have them. GATT has made a complete study of all the nontariff barriers and the countries where they exist and the commodities referred to, and it is enormous, and this is a factor many times.

Mr. WAGGONNER. Then the nontariff barriers might be the crux of all of our negotiations.

Mr. FREEMAN. They could well be. Today they are a much greater restriction than tariffs.

Mr. BURKE [presiding]. Mr. Vanik.

Mr. VANIK. Mr. Chairman, I would like to ask, Mr. Secretary, do you support the tremendous transfer of power from the Congress to the President that is provided in this bill in its present form? I see that Mr. Kendall, following you, is a strong advocate. Do you think the President has to have all of the powers that are set forth in this bill in order to carry out its objectives?

Mr. FREEMAN. I think that the President needs the power in title I. I don't think he needs the power of title II. I think that we need the power of title III and I think of title IV as well. I would summarize by saying that someone has to negotiate.

Mr. VANIK. All right. He has to have these wide powers to drop tariffs, raise them, come in with emergency taxes, and so forth. Tell me this: We, in our judgment, have to be provident. Let's assume that the year is 1976. There is a national election. The country has had a change of heart. They have had some different kinds of reaction to either domestic programs or trade programs.

Suppose the people of America were to elect my good friend Jim Burke as President of the United States, and he were to perhaps decide in Mr. Hartke as his Vice President.

Now, Mr. Nixon likes multinational business and multinationals like him, but let's suppose we get into a situation like that, where people who feel differently about the whole trade objective should have this tremendous power, do you feel that it is a power that should be generally given, because that is the way you have to study this issue of transfer of power from the Congress to the Presidency. It is fine and dandy when the policies of the President fit your views. Suppose you elect a President whose views are diametrically opposite, and I think Mr. Burke's chances for becoming President are quite good.

Mr. FREEMAN. Well, I would say yes, because I think Mr. Burke, in his wisdom and responsibility, would carry forward those powers thoughtfully and carefully, and if the country decided on a protectionist policy direction in elections, he should have the power to carry that out until we elect a man who follows a different policy.

Mr. VANIK. But what you have to concede is that these immense powers on the side of protectionism could be an awesome amount of power, just as they are possibly a power in the course of liberalism in trade.

I see this as the key question in this bill: Should this power be granted in the dimension that the President seeks?

Mr. FREEMAN. I think that is a question that I am sure this committee will wisely resolve. I have given my opinions in connection with it. I hope and believe that the power will be forthcoming because I think it is essential that the United States be able to lead.

Mr. VANIK. It is essential in your judgment, notwithstanding whatever view the Executive may have on the trade issues. It is in your judgment a wise and basically necessary power which the Executive should have, whatever his own views may be, with respect to the trade issue?

Mr. FREEMAN. Yes.

Mr. VANIK. I want to thank you for that. I hope Mr. Burke doesn't mind my remarks.

Mr. LANDRUM. Will the gentleman yield?

The CHAIRMAN. Mr. Landrum?

Mr. LANDRUM. I am afraid that people reading this record 10 years from now may interpret it as meaning that Mr. Vanik was asking the question can we really trust Burke to be President.

The CHAIRMAN. Mr. Burke is entitled to respond.

Mr. BURKE. The only comment I have to make is who needs any enemies when I have friends like Mr. Vanik and Mr. Landrum?

The CHAIRMAN. Mr. Gibbons?

Mr. GIBBONS. Mr. Secretary, you may not want to comment on what I am about to ask you. I realize that foreign trade is just a small part of our GNP, and I am worried about our country as a whole.

I wonder what your views are on the condition of our own domestic economy now. Is it too overheated? Are we going through another boom-and-bust cycle right now? Have you looked at this seriously?

Mr. FREEMAN. Indeed, I have tried to follow it, and I think I would share the concern widely expressed that we may very well be getting up very close to a hot level. Our productive plant still seems to have some unused capacity, some more expansion room.

I think it is going to depend on how effectively the powers that be in this Federal Government view the economy in connection with a whole host of very sensitive factors, and we won't know for some time.

I think it is just an open question whether we are going to go too far, or whether this can be balanced out without having a breakthrough on the inflation front. This was done fairly successfully during the first 5 years of the sixties when we had very low inflation and a rapidly expanding economy.

It was done by very careful fine tuning and adjustments. I think it was demonstrated that at that time it can be done, and if this administration is equally skillful, I think it is possible to do it again.

Mr. GIBBONS. I know the figures are that the American economy has been expanding at about 8 percent for the last two quarters. What is your estimate as to the kind of expansion we are capable of over a period of time?

Mr. FREEMAN. I think that we had better not go any further than that, and I think also we better not continue at that level for very long. That is too warm.

Mr. GIBBONS. I think most business economists would tell you that they think we can sustain about a 4-percent rate of expansion without harm.

Mr. FREEMAN. That is the usual number; yes.

Mr. GIBBONS. I know that installation debt has increased 24 percent that automobiles are selling at the highest rate in the history of the country, that manufacturing orders are rising twice as fast as they were in 1972, that we are already running into backlogs on shipments, and that the business program of capital spending is going so fast because of great demand and because of some of the tax policies that we have unwisely enacted. No one really thinks that business can expand at the rate at which it is.

I am wondering if we just aren't right back in the same kind of position as during the last boom and bust, which was about 2 years ago, as I recall. Prices in agricultural products, I believe, went up some 60 percent on an annual rate in March.

I don't know how much longer the economy can stand this. I didn't see anyone on the witness list this morning of whom I could ask this question, so I thought I would throw it out at you.

Mr. FREEMAN. I think it is dangerous. I think it is possible to cool it down without going into a bust period, but it is not going to be easy.

Mr. GIBBONS. It is going to take more than phase III.

Mr. FREEMAN. It is going to take more than phase III.

Mr. GIBBONS. Thank you.

The CHAIRMAN. Are there any further questions? If not, again we thank you, Mr. Secretary, for bringing to us your very fine statement.

Mr. FREEMAN. Thank you, Mr. Chairman.

[The following letter was subsequently received by the committee.]

BUSINESS INTERNATIONAL CORP.,
Washington, D.C., May 25, 1973.

JOHN M. MARTIN, Jr.,
Chief Council, Committee on Ways and Means,
Washington, D.C.

DEAR MR. MARTIN: * * *

While not specifically requested, we have undertaken to find out for Congressman Gibbons what readjustment assistance, if any, has been provided by the Danish Government to the Danish shoe companies and their workers (see pp. 698–99 of the transcript).

In response to Congressman Vanik's request for an estimate of U.S. taxes paid on foreign source income by the companies participating in the BI study, we have found the data requested by our researchers does not go beyond the companies' pre-U.S. tax foreign income remittances. This we required for the balance of payments portion of our study. Thus, short of a second study on this specific tax point, we are unfortunately unable to provide Congressman Vanik any creditable estimate.

There are studies, however, which address themselves to this question, and I would like to refer to one of them, the recent staff study of the Senate's Committee on Finance released on February 26th of this year. From page 17 of this study I quote the last paragraph:

"Table 4 shows that the taxable income on foreign earnings of U.S.-owned corporations was $11 billion in 1970. Taxes paid to foreign governments on that income is estimated at $5.7 billion, or 51.8 percent. After crediting those foreign taxes with a $4.6 billion foreign tax credit, the U.S. Government received only $640 million on the $11 billion in taxable income or 6%."

The principal reason for this apparent low U.S. tax payment is, of course, the foreign taxes already paid on the same income. In the context of Congressman Vanik's question as to whom should pay for readjustment assistance resulting from foreign trade and foreign investment dislocations, this $640 million U.S. tax payment is more than twice the estimated annual cost of an Amtrak-type of readjustment assistance program proposed by the UAW and others.

With regard to Congressman Burke's question on the updating of the BI study, through 1971 and 1972, our Research Director now estimates that it will be completed by mid-October. We hope, however, to be able to provide the Committee with a preliminary report, based on the computer printouts by the time Congress reconvenes in September.

On behalf of Mr. Freeman, may I again thank the Committee for providing him with the opportunity to testify on what I know he believes is the most crucial piece of legislation currently before Congress.

Sincerely,

RICHARD P. CONLON,
Senior Vice President.

The CHAIRMAN. Our next witnesses are Mr. Kendall, Mr. Jones and Mr. Wilson. Mr. Donald Kendall is the chairman of the Emergency Committee for American Trade, accompanied by other members of the committee, Mr. Gilbert E. Jones and Mr. T. A. Wilson, plus Mr. Robert McNeil, who I think is the executive director of the organization.

Mr. Kendall, do you desire to lead off for your group?

STATEMENTS OF DONALD M. KENDALL, CHAIRMAN, T. A. WILSON, AND GILBERT E. JONES, EMERGENCY COMMITTEE FOR AMERICAN TRADE, ACCOMPANIED BY ROBERT L. McNEILL, EXECUTIVE VICE CHAIRMAN

Mr. KENDALL. Yes, sir.

The CHAIRMAN. Would you like to have your three statements appear in the record before any questioning by the committee occurs?

Mr. KENDALL. Yes, sir.

The CHAIRMAN. Without objection, we will proceed on that basis. We are pleased to have you gentlemen with us.

You are recognized, Mr. Kendall.

STATEMENT OF DONALD M. KENDALL

Mr. KENDALL. Thank you, Mr. Chairman.

We strongly believe that this is the time to break the stalemate that has characterized U.S. trade policy for too long. Let me offer you some of the reasons why.

First, there are the GATT negotiations this autumn. We had to convince other countries that these negotiations were timely and necessary and that we would be ready for them. We do not want to sit on the sidelines while the Europeans and others go about making permanent arrangements affecting our interests.

The second reason is the fundamental relationship between trade and the fashioning of a modern international monetary system. We cannot expect to move forward in either area if we stay stuck on dead center in trade policy.

The third reason for an end to procrastination lies in the contribution that constructive trade policies can make to our changing relationships with other nations.

We must face the fact that when Europe started down the road to economic unity, America was the broker and often the banker. Our support for that movement was understood and appreciated throughout Europe. That's changed. The growing mood in Europe today is that they, the Europeans, are going to move toward greater unity despite American wishes. President Nixon has committed himself personally to an intensive effort to repair past damage and restore the sense of trust and mutuality to our relationship with Europe. Congress can help with trade legislation.

There is also an alarming growth of distrust and suspicion on both sides of the Pacific about measures each of us is taking, or not taking, to do something about the imbalance in trade between Japan and the United States. Some Japanese regard the President's trade proposals as directed at them in an almost punitive fashion. Here, too, action by the Congress should help bring the mutuality of interests between our two nations back to the forefront.

With the passing of the Vietnam war, we are trying to build on the fragments of accord that have been established with the countries of Eastern Europe. Increased trade could help. But, holding us back is the vacuum in negotiating authority that Congress has the opportunity to fill.

With regard to the poorer nations, the delay in dealing with the issue of preferences has produced unnecessary contradictions between what we promise and what we produce. These could be quickly ended.

Our fourth and foremost reason for recommending that the Congress go forward with the Trade Reform Act is that the American economy needs it. We need it for all the good reasons that have been said many times before about a policy of trade expansion. We may also need it to reinforce the confidence that is essential to the health of the American economy. Today, such confidence can be greatly abetted by congressional acion demonstrating that this Government is as capable as ever of functioning effectively and wisely.

Mr. Chairman, we welcome the Trade Reform Act of 1973 and I hope my specific comments on provisions of the bill will not detract in any way from the impression of strong support that we wish to convey to your committee.

TRADE NEGOTIATING AUTHORITIES

The President is requesting unlimited authority to raise, lower, or eliminate American tariffs pursuant to trade agreements. We applaud the boldness of the President's proposal and we appreciate his stated intention to use such authority prudently and wisely. We also recognize a number of cases where such wide authority could be very important to U.S. negotiating objectives—for example, in negotiating away European tariff preferences.

Whenever authority to eliminate tariffs is to be utilized, we recommend that where prenegotiation procedures indicate that serious injury might result to domestic workers and producers, the products concerned either be reserved completely from such negotiations or the tariff reductions be staged over a longer period of time than for lesser tariff reductions in order to provide time for domestic adjustment of workers and producers. Another cushioning device designed to help domestic workers and producers adjust to imports would be the deferral of tariff reductions for 3 years and then a phased reduction to "zero" over an ensuing period of 5 to 7 years.

We believe that the Congress should consider limitations on the authority requested to increase tariffs. That is, the Congress might wish to set a percentage ceiling on increases from the present level or Congress might consider adopting the formula in present and past trade agreements laws that give the President authority to raise tariffs under certain conditions no higher than 50 percent more than the 1930 statutory rates.

We are particularly pleased wtih the President's request to negotiate on nontariff barriers, and that he is seeking advance support from the Congress for such action. These barriers are important and we should find a way to deal with them. We think the President's general formulation is a good one and we believe he is right in asking essentially that the Congress agree that negotiations on such barriers are needed and can provide substantial benefits for American exports.

While generally approving the measured proposed by the President for handling nontariff barriers, we again recommend improved prenegotiation procedures for the benefit of domestic producers and workers. Specifically, we propose an amendment that, prior to entering into nontariff barrier negotiations, the President consider the views of the public concerning the economic impact of such negotiations.

SAFEGUARDING AUTHORITIES

The present test that domestic producers and workers must pass to obtain relief from imports through higher tariffs or import quotas has simply been too tough. Consequently, those seeking relief have turned to political action. The President has recognized this and has proposed improvements. Specifically, he is recommending that the causal relationship between past tariff concessions and import increases be dropped as a test for granting higher tariffs or quotas in the case of serious injury. We agree with this. We also agree with the recommendation that the remaining test—the relation of imports to serious injury—be changed from one whereby imports must be the "major" cause of such injury to a more lenient one whereby imports need only be the "primary" cause.

We have a problem, however, with the further proposed revision of the escape clause concerning the concept and definition of "market disruption." As proposed by the President, if the Tariff Commission finds an industry is experiencing serious injury while market disruption is present, then market disruption would constitute prima facie proof that imports are the primary cause of the serious injury. Market disruption is defined in the statute to mean substantial and rapidly rising imports being sold at prices below those of domestic producers.

Market disruption can and does occur in our economy but we question this formulation in the context of a new escape clause. It is highly likely that there will be a multitude of instances when domestic producers are in bad economic straits and market disruption under this formulation would be found to exist but when, in fact, there is no relationship whatsoever between the two. Were import restrictions provided in these instances, it would be the absolutely wrong cure for the economically depressed producers and workers and might only perpetuate an already bad condition. U.S. consumers would be adversely affected and our international relations damaged for no legitimate purpose.

We recommend, therefore, either that the market disruption proposal be eliminated or that the Congress define and treat market disruption more stringently so that the Tariff Commission will not interpret a more coincidence of serious injury to domestic producers and the existence of market disruption as proof that imports are the primary cause of the serious injury. If the Congress should decide to retain the concept of market disruption, it should provide that market disruption must be demonstrated to be the primary cause of import injury. Otherwise, we fear that American trade policy will be overly governed by simple statistical correlations between imports and domestic production.

Finally, for reasons cited previously in connection with tariff increases, we recommend that the Congress consider legislating an upward limit on the President's ability to impose tariff increases pursuant to the escape clause. An appropriate limit might be the one already suggested of holding increases to no higher than 50 percent more than the 1930 statutory tariff rates.

ADJUSTMENT ASSISTANCE

ECAT has long been a supporter of the adjustment assistance concept. We welcome its continuance for workers who may be injured by imports. We are disappointed that firms have been dropped from eligibility for such assistance in the President's proposals, and recommend that the Congress continue the eligibility of firms. But we suggest that the Congress consider limiting eligibility to small business concerns, as defined by the Small Business Administration.

UNFAIR TRADE PRACTICE AUTHORITY

We generally support the proposed revision of section 252 of the Trade Expansion Act to simplify and extend the President's authority to retaliate against countries maintaining unreasonable or unjustifiable restrictions on U.S. exports. We hope that the mere existence of

this authority—section 301—will cause other countries to refrain from such actions.

We can understand the President's request for authority to retaliate in cases where a foreign country subsidizes its exports to third country markets. We are very concerned, however, about the larger issue of subsidies. These are causing growing problems in international trade. As countries find competition increasing, the temptation to subsidize domestic producers and exporters also increases. Rather than escalating subsidies and retaliations against them, the United States might want to take the initiative in proposing the negotiation of an international code on subsidies. This could well be done within the nontariff barrier negotiating authority requested by the President. Such a code might aim at developing understanding as to the permissibility of subsidies and their limitations on products in international trade. A subsidy code would go a long way toward promoting international trade peace and would make it much easier to administer antidumping and countervailing duty statutes.

We have a major problem with section 301 in that it requires the President only to "consider" the international obligations of the United States prior to taking action under his retaliatory authorities. We believe that the President should act pursuant to section 301 in consonance with our international obligations, and recommend that Congress so amend the statute. While our recommendation undoubtedly may limit the President in specific cases, we believe it is a cost well worth paying in order to preserve existing rules of international law that have served the United States and its trading partners well over the years.

In addition, we recommend provision for public hearings prior to Presidential action under section 301 so that the President will be in a better position to gauge the consequences of proposed actions on domestic producers, importers and exporters.

ECAT generally supports the proposed amendments to the antidumping and countervailing duty statutes in the Trade Reform Act. We understand them to be mainly procedural in nature; designed to speed up the processes through which antidumping and countervailing duty complaints are considered.

BALANCE-OF-PAYMENTS AUTHORITY

The balance-of-payments authority requested by the President would allow the imposition of U.S. tariff surcharges or quotas in order to cut back on imports and conserve foreign exchange in certain very specific situations. The proposed authority was signaled by Treasury Secretary George Shultz in his September 1972, speech to the International Monetary Fund. ECAT supports this proposal, but, again, with the qualification that the President utilize it in consonance with our international commitments and obligations. As presented to the Congress, the President is required only to "consider" the international obligations of the United States before imposing restrictions on imports. For the same reasons we gave in connection with the section 301 authorities, we believe that "consider" is too weak and that the United States should accept the requirement to act in accord with our international commitments and obligations.

The balance-of-payments authority does not call for expression of public views on Presidential actions. We understand why public hearings could not be held in advance of such balance-of-payments actions. We feel, nevertheless, that after the President has taken such action, many hardship cases could arise. It would, therefore, seem appropriate to require public hearings afterward so that these cases may be heard and corrective measures taken.

EAST-WEST TRADE

We believe that rising levels of trade with Eastern Europe could lead to improved relations. The President has made rapid strides in normalizing our commercial relations with the Soviet Union. What is needed to give full effect to the arrangements that have been negotiated is the authority for the President to provide most-favored-nation treatment to products that would be imported pursuant to trade agreements. We support the proposals before the Congress concerning trade relations with the countries of Eastern Europe and believe they provide necessary safeguards so that imports from these countries will not be allowed to create serious injury for American manufacturers and workers.

TARIFF PREFERENCES FOR IMPORTS FROM LESS-DEVELOPED COUNTRIES

The President is requesting authority to provide duty-free treatment for certain imports from less-developed countries. The list of imports to be given duty free treatment would be drawn up after a series of hearings designed to determine products that are "import sensitive." For such products, tariff preferences would not be provided. Nor would preferences be provided for products when it might be detrimental to national security if they were imported in too large a quantity. And tariff preferences would not be provided to the products of those less-developed countries who in turn provide tariff preferences of their own to imports from industrial countries other than the United States. This deals with problems of the so-called reverse preferences.

ECAT supports these proposals and recommends favorable action by the Congress.

Mr. Chairman, this completes our comments and recommendations on the Presidents proposed Trade Reform Act of 1973. There are other major matters before your committee that I would like to briefly discuss. These concern changes in the present methods of taxing income earned abroad by American corporations and other legislative proposals that would severely restrict the ability of American companies to do business abroad.

TAXATION OF FOREIGN SOURCE INCOME

ECAT recently testified before this committee on the taxation of foreign source income. Our position then, as now, is strongly in support of the present provisions. I request that a copy of our April 3 testimony be made an appendix to our testimony of today.

The CHAIRMAN. Without objection, it may be included in the record.

Mr. KENDALL. Mr. Chairman, we are also aware that since our April 3 appearance the President has made proposals concerning the taxation of foreign source income.

Most of the public discussion of the administration's tax proposals has been concentrated on the succinct formulation of the proposed changes contained in the President's message of April 10. But that is misleading. For the changes recommended in the April 10 message were very substantially expanded by the language employed in the technical explanation which accompanied Secretary Shultz' testimony of April 30.

When the broad concepts of April 10 are joined to the definitions and elaborations of April 30, the apparent effect is to define a "tax holiday" so broadly as to mean that if virtually any new foreign manufacturing investment is made by a foreign manufacturing subsidiary, the income of such subsidiary making the investment will be immediately taxed to U.S. shareholders even though no dividend is received or cannot be paid by the subsidiary.

We further read these proposals to mean that existing investments will soon become "new" investments because of the 20 percent test which will trigger the same adverse tax consequences. As we pointed out in our prior statement to this committee on April 3, we fail to see how the imposition of this tax penalty solely upon American businesses operating abroad in competition with foreign owned companies will benefit either the American economy or American jobs.

Moreover, the administration's proposals on foreign source income undermines the basic foreign tax credit concept without which it is generally conceded that American business cannot compete abroad. By segmenting business operations into fractional parts, the result would be to render American companies less competitive vis-a-vis foreign owned companies with a resultant loss of foreign markets and jobs for Americans.

Accordingly, we find the administration's tax proposals unacceptable and difficult to reconcile with the recognized benefits that American business abroad provides the U.S. economy. These proposals, if enacted, will not only impede American business abroad, but make its continuing existence extremely difficult with a consequent abdication of foreign business to firms of other nations.

We agree with the President's statement in his message of April 10 that, "Our income taxes are not the cause of our trade problems and tax changes will not solve them."

To the extent that any investments abroad may result in adverse impact on producers and workers in our economy, such impact should be accommodated through other proposals of the President in the Trade Reform Act of 1973.

CONTROLS ON CAPITAL AND TECHNOLOGY

There are legislative proposals before the Congress that would impose serious restrictions on the outflow of American investment and that would also attempt to restrict the outflow of American technology. These proposals, like those concerning the taxation of foreign source income, apparently are based on the premise that direct investment abroad by American companies is harmful to the American economy and to American workers. Every major study of the matter, however, has indicated quite the opposite. They show that American investments abroad have been accompanied by increases in employment in the United States and that they contribute heavily to the

balance-of-payments position of the United States. On pages 22–25 of our detailed statement is a summary of an ECAT survey of 74 multinational companies which clearly demonstrates the benefits of such companies to the U.S. economy.

We believe that the proposals for restricting American foreign investments should be considered in the context of critical international economic problems facing our country. Among them is the escalating demand for imports of foreign energy. Balance-of-payments forecasters are predicting that in the years immediately ahead we will be spending in the neighborhood of $25 billion annually just to import foreign oil and natural gas. How are we going to pay for it? The only positive sector of our balance of payments is that dealing with private foreign direct investment. In 1972, the net earnings of such investment for the U.S. balance of payments was $7 billion. This is nearly $2.5 billion larger than the $4.8 billion net earnings of 1971. These net earnings will continue to grow and will be a vital source of the foreign exchange needed to help pay the costs of our imported energy. Rather than looking for means to restrict our ability to invest abroad, it would seem incumbent on our Government to be looking for means to assist it, both for reasons of economic interests as well as national security interests.

I thank you, Mr. Chairman, for this opportunity to present this statement to you and your colleagues.

[Mr. Kendall's prepared statement follows:]

STATEMENT OF DONALD M. KENDALL, ON BEHALF OF THE EMERGENCY COMMITTEE FOR AMERICAN TRADE

Chairman Mills and members of the Committe, I am pleased to be appearing before you again as chairman of the Emergency Committee for American Trade. With me are Mr. Gilbert E. Jones, Chairman of the Board, IBM World Trade Corporation and Mr. T. A. Wilson, Chairman and Chief Executive Officer, the Boeing Company. With your permission, we will submit a detailed statement for your record along with a few relevant documents and confine our remarks to those areas where we feel we can make the greatest contribution to your deliberations.

We are pleased that finally an effort is being made to break the stalemate that has characterized American foreign trade and investment policy for too long. What you and the President are seeking to accomplish is exactly what brought the members of ECAT together in the first place—the search for sound and workable foreign economic policies that meet the needs of America.

On the matter of timing, we know that there are some who share our convictions on these matters but who feel this is no time to attempt forward motion. They fear that an effort at this time to move forward with the proposed Trade Reform Act will end with America going backward with quite different legislation that will be most restrictive of international business.

That is a risk we believe should be taken. Let me offer you some of the reasons why.

First, there are the GATT negotiations coming up this Autumn. The United States worked for these negotiations. We wanted them. We had to convince a lot of countries that they were timely and necessary and that we would be ready. We succeeded. We did so while not hiding the fact that the United States intends to bargain harder than it ever has in the past.

It is true that we may not get what we want or what we have reason to expect from these negotiations. But, certainly, we won't get anything sitting on the sidelines while the Europeans and the rest of the world go about making permanent arrangements without us.

The *second* reason concerns the link between trade policy and the fashioning of a modern international monetary system. About two years ago, America cut loose from the strictures of a monetary system that was running into serious trouble. That was a bold thing to do. By and large, I think all of us agree it

was the right thing to do. The alternative might have been an attack of arteriosclerosis in international finance and a worldwide depression.

But, it is not easy in the middle of a stream to leap from one rock—even though the water is rising—if you are not sure where you are going to come down. In this case the United States made it fairly clear where we would like to end up; but we and the other nations with market economies are still in mid-air. The fundamental relationship between trade and monetary policy is still to be reshaped. And we just cannot expect to move forward in either area if we stay stuck on dead center in trade policy.

The *third* reason or set of reasons for an end to procrastination lies in the contribution that constructive trade policies can make to foreign policies. Our relationships with the rest of the world are in a state of change and the outcome is uncertain. As usual, our fears are more precise than our hopes and trade policy should be addressed to both the dangers and the promises of these times.

Europe is absorbed in the economic accommodation of two sets of nations. Here the members of ECAT have direct and vital interests. We trade with Europe and we invest in Europe to a greater extent than anywhere else overseas. The surveys that we have made and the Department of Commerce has made firmly establish that the trade and investment activities of large American companies like the members of ECAT produce essential benefits for the United States. Companies like those in ECAT have a substantial balance of trade surplus with Europe and the profits we repatriate from our investments in Europe are vital to our balance of payments.

Yet things are not going well. Last year, the United States balance of trade with Europe was in deficit for the first time in the post-war period. As we all know, our trading stance could be seriously damaged by the enlargement of the Common Market. Our investment position could also be jeopardized by new intra-European arrangements. Some of the dangers are open and obvious. But I believe there is more to it than meets the eye. For years, most European leaders have looked upon their trade and investment relationship with America as a matter of the highest order. Any rupture in that relationship was unthinkable. That may no longer be true.

We must face the fact that when Europe started down the road to economic unity at the end of the War, America was the broker and often the banker. Our support of that movement was understood and appreciated throughout Europe. That's changed. The growing mood in Europe today is that they, the Europeans, are going to move toward greater unity despite American wishes.

The problems that trouble us today like preferential arrangements with third countries are only a warning sign of what could happen if the relationship was downgraded by the Europeans—or by us.

President Nixon has committed himself personally to an intensive effort this year to repair past damage and restore the sense of trust and mutuality of interest that distinguished our relationship for so long. I think there is much the President will have to do to succeed. I also think that for the sake of the nation's future, the Congress should show that it too sets great store by trans-Atlantic solidarity. It can do so by favorable consideration of the President's trade proposals.

Our hopes and our fears also extend to Japan. The last time your Committee was facing foreign trade legislation, the problem of trade in textiles made a rational discussion of this relationship difficult. I know that you, Mr. Chairman, exerted every effort to resolve that issue with the least possible damage to our ties with that great and growing country. Fortunately, this is behind us. Yet, the relationship is endangered. Japan offers a tremendous present and potential market for American exports and investments. We hope to see this potential materialize while at the same time we fear that the imbalance of our trade with Japan could lead to some retrogressive form of block trading. There is an alarming growth of distrust and suspicion on both sides of the Pacific about measures each of us is taking or not taking to do something about the trade imbalance. Some Japanese regard the President's trade proposals as directed at them in almost punitive fashion. I think this misconception should be corrected by responsible American leaders and that action by the Congress should be directed at bringing the mutuality of interests between our two nations back to the forefront.

The ending of our involvement in Vietnam finds deep scars remaining, but it was accomplished in the context of understanding with old adversaries that could lead to a safer world. We are now trying to build on the fragments of

accord that have been established with the communist countries. One thing we have to build with is trade. It is a small part of our effort but it could become an essential part. Holding us back is the vacuum in negotiating authority that the Congress has the capacity to fill. In so doing, you would be telling other nations that domestic difficulties have not vitiated our capacity to conduct forceful foreign economic policies.

I would also say that our relations with the poorer nations of the world are highly responsive to trade policy and our delay in dealing with the issue of preferences has produced unnecessary contradictions between what we promise and what we produce.

Finally, Mr. Chairman, our chief reason for recommending that you and the Congress go forward again is that the American economy needs a better trade and investment policy. We need it to create more jobs and better jobs. We need it to keep our industry and agriculture competitive. We even need it as a spur to do more for Americans displaced by economic dislocation—no matter what the cause. We need it to fight inflation and devise a workable energy policy. We may also need it to help reassure ourselves, to reinforce the confidence that underlies the health of the American economy, the confidence that this government is as capable as ever of functioning effectively and wisely.

I would like at this point, Mr. Chairman, to express our views on the proposed Trade Reform Act of 1973 and to preface our remarks on the President's proposals with the comment that we welcome them. We believe they will well serve the national interest. We believe they will also be welcomed by our trading partners. If enacted substantially as proposed by the President, we believe they will enable the United States to enter negotiations with a view to improving our position in the international economy.

My comments on the President's proposals will be divided into four broad categories. I will speak first about the trade negotiating authorities requested by the President. I will then talk about the recommended safeguarding authorities. Thirdly, I will address the proposals that would allow the President to accord most-favored-nation tariff treatment to communist countries, and fourthly to his request concerning duty-free treatment for imports from developing countries.

TRADE NEGOTIATING AUTHORITIES

The President is requesting unlimited authority to raise, lower or eliminate American tariffs pursuant to trade agreements. We applaud the boldness of the President's proposal and we appreciate his intention to use such authority wisely.

While we do not know what purposes the President has in mind, we imagine that he might want authority to negotiate tariff elimination—primarily with European countries—with our trading partners who maintain among themselves and with others preferential tariff arrangements that discriminate against U.S. exports and those of other countries not privy to such arrangements. Because of both actual and potential adverse trade effects on United States exports, we recommend that Congress authorize the President to negotiate elimination of United States tariffs in return for other countries doing the same whenever he determines that such mutual tariff elimination would be in the United States interest. In this way the vexing problem of tariff preferences, for example, could be dealt with in a constructive fashion, i.e., through the progressive elimination of foreign tariff preferences. Whenever such authority were to be utilized, we further recommend that where pre-negotiation procedures indicate that serious injury might result to domestic workers and producers, that the products concerned either be reserved completely from such negotiations or the tariff reductions be staged over a longer period of time than that for lesser tariff reductions in order to provide time for domestic adjustment of workers and producers. Another cushioning device might be to defer any tariff reduction for three years and then begin a phased reduction to "zero" over an ensuing period of 5–7 years.

ECAT also believes that Congress should consider imposing limitations on the authority requested to increase tariffs pursuant to trade agreements.

Trade agreements for the purpose of raising tariffs have been the exception if, indeed, they have occurred at all in our tariff negotiating experience. The President may have in mind the possibility that in the course of negotiation it may prove desirable to offer to raise particular American tariffs up toward a level agreed upon with our trading partners. To illustrate: the American tariff in a particular sector could be 3%, whereas the tariff levels of our major trading partners on the same commodity is 12%. During the course of a negotiation, all parties might wish to arrive at a common tariff on that product of 6%. Then the

President would need authority to raise the American tariff level of 3% to the 6% level. In the example cited, this would be an increase of 100%.

The Congress might limit the President's authority to raise tariffs to the level given in the illustration. That is, the Congress might want to provide that the President could increase a given American tariff no more than 100% of its present level. An alternative limitation might be the one in present and past trade agreement laws. These give the President authority to raise tariffs under certain conditions no higher than 50% above the 1930 statutory tariff rates. Whether this would be the appropriate limitation or not we leave to the wisdom of the Congress. However, the suggested limit should not apply if a non-tariff barrier is converted to a duty, so long as the conversion is not used to increase the effective level of protection.

Non-tariff barriers to trade can constitute severe impediments to the ability of American producers to sell in foreign markets. We, therefore, are particularly pleased that the Pesident has requested authority to negotiate on non-tariff barriers and is seeking the advance approval of the Congress to do so.

As in the case of his request for authority to negotiate on tariffs, however, we have problems with the particular formulations concerning such negotiations. In the United States, as abroad, these barriers tend to be enshrined in national statutes or in administrative practices at both national and local levels of governments. Accordingly, negotiations affecting them pose both economic and political difficulties.

Also, negotiating on non-tariff barriers will be something essentially new. It will be different than negotiating on tariffs where measures have been devised over the years that enable countries to measure the economic benefits they derive from foreign tariff concessions and the economic cost to domestic producers. In the case of non-tariff barriers, the measurement of reciprocity is difficult.

Nevertheless, these barriers are important and they must be addressed. We think the President's general formulation is a good one. He is asking essentially that the Congress agree that negotiations on such barriers are needed and that they can provide substantial benefits for American exports.

We have, however, some reservation about the President's request for advance authority to implement certain non-tariff barrier agreements. We are particulaly concerned with his request for advance authority to implement non-tariff barrier ageements in the area of valuation. In the section-by-section analysis accompanying the trade reform proposals, it is indicated that the Administration has in mind, among other things, the very difficult valuation problem known as American Selling Price. The American Selling Price system (ASP) was negotiated on in the Kennedy Round and resulted in an agreement that was very specific. It included specific tariff rate changes and specific commitments to be implemented by foreign governments should the Congress eliminate the system. But the Congress did not enact the necessary enabling legislation to make the ASP package fully operative. While we believe the ASP system an anomaly and support its elimination through negotiation with our trading partners, the American Selling Price issue, it seems to us, is simply too sensitive to be disposed of without subsequent action by Congress as provided for in the President's other non-tariff barrier proposals.

While we generally approve the other measures proposed by the President in handling non-tariff barrier negotiations, we recommend improved pre-negotiation procedures for domestic producers and workers. Specifically, we propose an amendment that prior to entering into non-tariff barrier negotiations, the President consider the views of the public concerning the economic impact of such negotiations. In the case of negotiations on tariffs, the President is required to consider the views of the public as expressed in public hearings before entering into and concluding any negotiation. We believe this safeguard should be equally applicable to non-tariff barriers.

SAFEGUARDING AUTHORITIES

Title II of the President's proposed Trade Reform Act of 1973 contains some welcome additions to the so-called escape clause as well as some questionable revisions of it.

The escape clause formulation contained in the Trade Expansion Act of 1962 has not worked well. The test established in that Act for import relief through higher tariffs or imposition of import quotas has simply been too tough. Because this is so, administrative relief has not been available to domestic industries and workers. Accordingly, those aggrieved have sought the relief they believed due

them through the Congress in the form of requests for legislated tariff increases or quotas. The contest for import relief thus has been largely political in nature.

President Nixon has made proopsals to improve this situation. Specifically, he is recommending that the casual relationship between past tariff concessions and import increases be dropped as a test for granting higher tariffs or quotas in the case of injury. We agree with this and with the recommendation that the remainnig test—the relation of imports to serious injury—be changed from one whereby imports must be the "major" cause of such injury to one whereby imports are the "primary" cause. Under the present "major" test, "major" is interpreted to mean the one cause greater than all other causes combined. Under the "primary" test proposal, "primary" would mean the single largest cause. We think the substitution is sensible and hope the Congress will adopt it.

However, we have a problem with the further proposed revision of the escape clause concerning the concept and definition of market disruption. As proposed by the President, if the Tariff Commission finds an industry is experiencing serious injury while market disruption is present then market disruption would constitute *prima facie* proof that imports are the primary cause of the serious injury. Market disruption is defined in the statute to mean substantial and rapidly increasing imports being sold at prices below those of domestic producers. Market disruption can and does occur in our economy but we do question the President's formulation in the context of a new escape clause. It is highly likely that there will be a multitude of instances when domestic producers are in bad economic straits and market disruption under this formulation would be found to exist but where in fact there is no relationship whatsoever between the phenomena. Were import protection provided in these instances, it would be the absolutely wrong cure for the economically depressed producers and would only perpetuate an already bad condition. United States consumers would be adversely affected and United States international relations damaged for no legitimate purpose.

Also on market disruption, and the escape-clause, we are concerned that the Trade Reform Act requirement that the Tariff Commission completes its proceedings in three months (with the possibility that another two months might be provided if necessary) is questionable. The present statute requires that the Tariff Commission complete its investigation in six months. The curtailed investigatory period combined with the market disruption proposal could put the Tariff Commission under severe constraints in cases of serious injury simply to establish the *statistical* requirement of market disruption and issue a formal finding of serious injury primarily caused by imports. That finding if accepted by the President, would be followed by higher tariffs or quotas.

This seems to us bad public policy. We recommend, therefore, either that the market disruption proposal be eliminated or that the Congress define and treat market disruption more stringently so that the Tariff Commission will not interpret a mere coincidence of serious injury to domestic producers and the existence of market disruption as proof that imports are the primary cause of the serious injury. If the Congress should decide to retain the concept of market disruption, it should provide that market disruption must be demonstrated to be the primary cause of import injury. Otherwise, we fear that American trade policy will be overly governed by simple statistical correlations between imports and domestic production.

Other proposals concerning the escape clause would require the President, in the course of determining whether to provide import protection, to take into account the effects that higher tariffs or import quotas would have on American consumers, on the international economic interests of the United States as well as on other American industries who may have to pay the compensation bill for the higher tariffs in the form of lower tariffs on imports into our country of competitive products that they produce. We welcome this requirement along with the proposed requirement that the President take into account the social and other economic costs that would be imposed on communities and industries if import relief is not provided in cases where serious injury has been found by the Tariff Commission.

We also find worthy of support those proposals of the President authorizing him to suspend in whole or in part the application of items 806.30 or 807.00 of the Tariff Schedules of the United States where operations under these items has led to serious injury to domestic producers. We also believe the President is right in asking for authority to negotiate orderly marketing agreements in lieu of higher tariffs or import quotas.

The proposals on the suspension of items 806.30 and 807.00 when their use has led to serious injury accommodates the need to relieve serious import injury while preserving the items and operations pursuant to them that are beneficial. We recall that the only comprehensive study of operations under 806.30 and 807.00—released by the Tariff Commission in 1970—demonstrated the positive effect of these items on the U.S. balance of payments and on employment in the United States. At that time it was estimated that the U.S. balance of payments would lose $150 million to $200 million were the items to be repealed as advocated by organized labor. The Tariff Commission also stated that the provisions provided employment for about 37,000 Americans who were producing U.S. materials to be assembled or processed abroad and further processing them after they have been returned.

Finally, for reasons cited previously, in connection with tariff increases pursuant to trade agreements, we recommend that the Congress consider legislating an upward limit on the President's ability to impose tariff increases pursuant to the escape clause—Section 203. An appropriate limit might be the one already suggested of holding increases to no higher than 50% above the 1930 statutory tariff rates.

ADJUSTMENT ASSISTANCE

ECAT has long been a supporter of the adjustment assistance concept. We welcome its continuance for workers who may be injured by imports but are disappointed that firms have been dropped from eligibility for such assistance in the President's proposals. We recommend that the Congress reinstate the eligibility of firms, but suggest that the Congress consider limiting eligibility to small business concerns, as defined by the Small Business Administration.

As with the escape clause, we think the President is right in seeking to drop the requirement of a link between tariff concessions and increased imports as a test for establishing import injury. And we agree that the eligibility test for adjustment assistance should be easier than the test for tariff relief. Accordingly, we recommend that the Congress accept the proposal that imports need only be found to contribute "substantially" to either unemployment or underemployment. This should certainly make the adjustment assistance program much more operative than it has been in the past.

Finally, we hope that the Secretary of Labor in carrying out his responsibilities—and the Secretary of Commerce, should firms be reinstated—will call on the experienced and capable Tariff Commission to assist in conducting the necessary investigations under the program.

AUTHORITIES TO DEAL WITH UNFAIR TRADE PRACTICES

We generally support the proposed revision of Section 252 of the Trade Expansion Act to simplify and extend the President's authority to retaliate against countries maintaining unreasonable or unjustifiable restrictions on United States exports. We hope that the mere existence of this authority will cause other countries to refrain from such action.

Besides streamlining the retaliatory authorities, Section 301 of the Trade Reform Act would extend the authorities to cases where a foreign country subsidizes its exports to third country markets with the result of reducing U.S. exports to those markets. While it might be desirable that the President have authority to retaliate under such circumstances, we see a risk that other countries might institute similar practices on the grounds of United States subsidies.

The large question of subsidies is of increasing importance in international trade. As countries become more competitive, the temptation to subsidize domestic producers and exporters increases. Rather than escalating subsidies and retaliation against them, the United States might want to take the initiative in proposing negotiation of an international code on subsidies. This could well be done within the non-tariff negotiating authority requested by the President. Such a code might aim at developing understandings as to the permissibility and limitations of subsidies on products in international trade. A subsidy code would go a long way toward the establishment of international trade peace and would make much easier the administration of our antidumping and countervailing duty statutes.

We have a major problem with Section 301 in that it requires the President only to "consider" the international obligations of the United States prior to taking action under his retaliatory authorities. We believe that the President should act pursuant to Section 301 in consonance with our international obliga-

tions and recommend that Congress so amend the statute. While our recommendation undoubtedly may limit the President in specific cases, we believe it a cost well worth paying in order to preserve existing rules of international law that have served the United States and its trading partners well over the years.

In connection with Section 301, the Administration might consider seeking revisions in Article XXIII of the GATT to facilitate the imposition of higher duties or quotas on imports from countries unfairly restricting trade. Article XXIII now allows this but under time-consuming procedures.

Two other problems we have with Section 301 are (1) it provides no limits on tariff increases, and (2) it leaves to the discretion of the President whether there should be public hearings on his proposed actions. We again recommend that Congress provide a limit on tariff increases and perhaps guidelines limiting the imposition of quotas. The lower limit for quotas might be 75% of the quantity imported during a representative period.

We recommend provision for public hearings prior to Presidential actions so that the President will be in a better position to gauge the consequences on domestic producers, importers and exporters.

ANTIDUMPING AND COUNTERVAILING DUTIES

ECAT generally supports the amendments to the Antidumping and Countervailing Duty Statutes proposed in the Trade Reform Act. We understand them to be mainly procedural in nature and designed to speed up the processes through which antidumping and countervailing duty complaints are considered.

The Act also proposes that the Tariff Commission be given final responsibility on complaints that certain imports into the United States constitute patent infringement. When the Tariff Commission finds patent infringement it could direct the issuance of exclusion orders. We do not find this proposal objectionable.

On the proposed amendments of the Antidumping Act we do not believe that the Secretary of the Treasury should be absolutely required to make his determinations with respect to fair value in twelve months. Instead, he should have the discretion to set his own deadline in especially difficult cases. Similarly, in the case of the proposed amendments to the Countervailing Duty statute we feel the Secretary of the Treasury should have more than twelve months to determine whether or not there is a bounty or a grant provided by foreign governments on products imported into the United States.

We welcome the amendment to the Countervailing Duty statute that would make it applicable to products imported into the United States under duty free status. We also agree with the proposal of the President that as a condition for imposing a countervailing duty, such products be subjected to an injury test to determine whether they have caused injury to domestic producers.

BALANCE-OF-PAYMENTS AUTHORITY

This proposed authority would authorize the President to impose either import surcharges or import quotas on products from either all countries or from selected countries in order to preserve the United States payments position. Specifically, the authority would become operative when the United States balance of payments has been in serious deficit for four consecutive quarters, and it is projected that the payments deficit will continue for some indefinite time into the future. The President is proposing that a palliative to this situation would be the surcharge or quota imposition in order to cut back on imports and conserve foreign exchange. This proposed balance of payments authority was signalled by Secretary of the Treasury George Shultz in his September, 1972, speech to the International Monetary Fund. ECAT supports this proposal but again with a qualification that the President utilize it in consonance with our international commitments and obligations. As presented to the Congress, the President is required only to "consider" the international obligations of the United States prior to imposing restrictions on imports. For the same reasons given above in connection with Section 301 authorities, we believe that "consider" is too weak a test and that the United States should accept the requirement to act in accord with our international commitments and obligations.

Whether the definitions proposed in the Trade Reform Act are the right ones in respect of defining balance of payments deficits is a question not easily answered. We suggest, however, that the Congress very carefully consider the proposed definitions in order to ensure that the United States will impose surcharges or quotas only when circumstances warrant them. We think the President is right

in informing the Congress that the balance of payments authority is not intended under any circumstances to be utilized as a protectionist device.

One final problem that we have with the balance of payments authority is that it does not provide for the expression of public views on Presidential actions. We understand why the President could not hold public hearings on proposed actions under this balance of payments section. We feel, nevertheless, that after he has taken such action, many hardship cases could arise. It would, therefore, seem appropriate to require public hearings after Presidential actions in order that these cases may be heard and necessary corrective measures taken. When the import surcharge was imposed in 1971 as part of the President's emergency balance of payments program, there were subsequent hardships. Many of these were accommodated, but on an ad hoc basis. It would, therefore, seem desirable for the Congress to write into the balance of payments authority provision for public hearings so that hardships can be systematically handled.

The related proposal for Presidential authority to reduce or eliminate American tariffs when the United States balance of payments is in persistent surplus is certainly in order. We also favor the authority requested by the President to reduce import restrictions to combat domestic inflation.

ECAT supports the authorities requested by the President in Sections 403 and 404. Section 403 would give the President permanent authority to negotiate and implement supplemental trade agreements with foreign governments of a limited scope. This supplemental authority would continue beyond the five year period during which the President has requested major tariff cutting authority. The authority requested in Section 404 to provide compensation to our trading partners for any restrictive actions that the President might take pursuant to other provisions of the bill also appears desirable.

EAST-WEST TRADE

We believe that one of the most promising areas for American foreign trade is with the countries of Eastern Europe. These are countries with rapidly growing economies. They are countries with demands for the kinds of products that the United States is able to supply. Rising levels of trade could also lead to improved relationships among the American peoples and those of Eastern Europe. What is needed, however, for this to take place is a normalization of our commercial relations with these countries.

The President has made rapid strides in normalizing our commercial relations with the Soviet Union and other countries of Eastern Europe. What is needed to give full effect to arrangements negotiated with these countries is the authority for the President to provide most-favored-nation tariff treatment to products imported from them. We believe that the proposals before the Congress concerning trade relations with countries of Eastern Europe provide necessary safeguards so that imports from these countries will not be allowed to create serious injury for American manufacturers and workers. We further believe that the request that these agreements have a life of three years is sound. This three year period is long enough for us to ascertain the likely benefits of such trade to the American economy. We further believe that if the agreements during that period work out to our mutual interest the Congress should allow renewals for additional periods, each not to exceed three years, as requested by the President.

TARIFF PREFERENCES FOR IMPORTS FROM LESS-DEVELOPED COUNTRIES

The President is requesting authority to provide duty-free treatment for certain imports from less-developed countries. The list of imports to be given duty-free treatment would be developed from a series of hearings designed to determine products that are "import sensitive". For such products, tariff preferences would not be provided. Nor would preferences be provided for products that might be detrimental to the national security if imported in too large quantities. Neither would tariff preferences be provided to the products of less-developed countries who in turn provide tariff preferences of their own to imports from industrial countries other than the United States. This is the problem of so-called "reverse preferences". ECAT believes that this request of the President should be supported by the Congress. We do recommend, however, that Section 605 be amended to require public hearings prior to the President's modifying or withdrawing a duty-free preference.

Mr. Chairman, this completes our comments and recommendations on the President's proposed Trade Reform Act of 1973. There are other major matters

before this distinguished Committee that I would like to briefly discuss. These are the provisions concerning changes in the present methods of taxing income earned abroad by American corporations and other legislative proposals that would severely restrict the ability of American companies to do business abroad.

TAXATION OF FOREIGN SOURCE INCOME

ECAT recently testified before this Committee on the taxation of foreign source income. Our testimony then, as now, is strongly in support of the present provisions. I request that a copy of our April 3 testimony be made an appendix to our testimony today.

CONTROLS ON CAPITAL AND TECHNOLOGY

There are serious legislative proposals before the Congress that would impose restrictions on the outflow of American capital from the United States and that would also attempt to restrict the outflow of American technology. These proposals, like those concerning the taxation of foreign source income, apparently are based on the premise that direct investment abroad by American companies is harmful to the American economy and to its workers. Every major study on the matter, however, has indicated quite the opposite. They show that American investments abroad have been accompanied by increases in employment in the United States and that they contribute heavily to the balance of payments position of the United States.

I would at this point like to summarize the results of a detailed survey done by the Emergency Committee for American Trade of domestic and foreign operations of 74 large multinational corporations.

The data from the 74 multinational corporations covered in this survey reveals that in the years between 1960 and 1970 when these companies were increasing their overseas operations, they also:

Increased the number of their domestic employees by nearly 900 thousand from 2.5 million to 3.4 million.

Increased the book value of their fixed assets in U.S. manufacturing facilities from $15.3 billion to $34.1 billion, a gain of $18.8 billion.

Increased their sales from American facilities from $58.0 billion to $113.2 billion, a gain of $55.2 billion.

Increased their exports from the United States to the rest of the world from $4.3 billion to $12.2 billion, a gain of $7.9 billion.

Increased their net surplus of exports over imports from $3.2 billion to $6.6 billion, a gain of $3.4 billion.

Increased the balance of payments inflows attributable to their foreign investment—dividends, earnings, interest, royalties and fees—from $0.5 billion to $2.4 billion, a gain of $1.9 billion.

Increased their annual net balance of payments inflows from $2.9 billion to $7.3 billion, a gain of $4.4 billion.

The survey further documents:

That the industries which account for a large and growing share of foreign direct investments (e.g., non-electrical machinery, chemicals, and instruments and related products) account for the preponderant part of U.S. exports of manufactured products.

That these same industries have been among the most rapidly growing manufacturing industries in the United States.

That the international investment activities of the respondents played an important role in their rapid export growth and consequently made a major positive contribution to their domestic sales, investment, and employment growth.

Contrary to the popular misconception that foreign subsidiaries of American firms have been created for the purpose of serving the U.S. market, the survey reveals:

That foreign investments are made primarily to meet market demands that cannot be served by exports from the United States.

That exports from non-Canadian foreign affiliates to the United States amounted to only about 2 percent of their total sales during the 1960's.

That a substantial proportion of that 2 percent consisted of unprocessed raw materials.

That the total imports, including raw materials, from non-Canadian foreign affiliates were equivalent to only 0.7 percent of the respondents' production in the United States in 1970.

The companies covered by the survey are broadly representative of large American multinational corporations. These findings further establish that during the 10 year period covered by the survey, American multinational companies have:

Increased their domestic employment (exclusive of employment gains through acquisition) substantially more than the average manufacturing firm.

Increased their investment in domestic plant and equipment more than the average manufacturing firm and more than their foreign investments.

Increased their domestic sales more than the typical U.S. manufacturing firm.

Increased their sales from domestic facilities more than from overseas operations. (In the case of the companies surveyed, the increase of sales from domestic facilities was twice as much.)

Exported a growing proportion of their domestic production. Their ratio of exports to domestic production in 1970 was higher than that of the average U.S. manufacturing firm. (Survey respondents had a ratio of 10.8 percent, double the average.)

Accounted for a small and (except for U.S.-Canadian automobile trade) declining proportion of total U.S. imports.

The business and consulting economists who conducted the study had this to say about the results:

"The conclusions from the ECAT survey about the operations of multinational companies are based on sound statistics. If they clash with the judgments derived from a combination of isolated incidents and intuition, they can stand their ground. Undoubtedly, further research by others, particularly the United States Government, will improve on these findings and further raise the level of public understanding and discussion."

The above results have been corroborated by several other private studies conducted subsequent to ECAT's. Similarly, the survey by the Commerce Department and the comprehensive analysis of the U.S. Tariff Commission have produced the same conclusions that American direct investment is as beneficial on all major counts.

While much has been said about investment itself, there is less in the public record concerning the outflow of technology. Many assume that somehow or other, technology can be restricted to the United States. This is simply not possible. As my colleague, Gilbert E. Jones of IBM World Trade Corporation will tell you, technology flows in many directions and is beneficial to the United States as well as to countries abroad.

In an attempt to restrict technology outflows there are legislative proposals that would authorize the President to prohibit the holder of a U.S. patent from manufacturing the patented product, or licensing others to manufacture it outside the United States when in the judgment of the President "such prohibition would contribute to increased employment in the United States." The penalty for violating this law would be unenforceability of the patient in the U.S. courts.

The assumption behind this proposal is that a product will be manufactured in the U.S. rather than a foreign country if the U.S. patent holder is prohibited from making it abroad or licensing anyone else to do so. This is a completely erroneous assumption. There is no way a U.S. inventor can prevent his patented invention from being made abroad.

The reason lies in established and universally accepted patent law. When a U.S. patent issued, the invention becomes public. This means that foreign manufacturers can also use it—and they can do so without paying royalties unless the U.S. patent holder obtains patents in their countries as well. This is a costly and time-consuming process, and the U.S. owner is unlikely to bother unless there is some prospect of financial benefit to him.

Once the foreign patent is obtained, the patent holder generally cannot prevent manufacture of the product in that country. In most countries, a patented invention must be put to use within a specified time after the issuance of the patent; if not, the holder may be compelled to license the patent or forfeit it. Thus the U.S. owner of the patent must either negotiate voluntarily with those who wish to obtain licenses, or he may have to grant licenses at a rate set by the foreign government. But under the legislative proposal at

issue, he could not grant a license under any circumstances without the risk of having his patent declared unenforceable in the U.S.

Since foreign manufacture of U.S. patented inventions cannot be prevented, it is clear that the proposal would not do anything to protect U.S. employment. Nor would it do anything else to further the best interests of the U.S.

Loss of royalty income would have an adverse effect on this country's international payments position. A recent Tariff Commission report states that total U.S. receipts from royalties, license fees, and rentals (other than film rentals) were $940 million in 1971—up almost 20 percent from 1970. Furthermore, it is reasonable to assume that only a small portion of this total reflects royalties on products imported into the U.S., since more than 90 percent of the output of U.S.-owned companies abroad is for foreign markets.

Any significant loss of royalty income can have only a negative impact on domestic business and employment. When a company loses incomes, it normally responds by reducing employment and cutting spending on research and development.

Exempting foreign manufacturers from royalty payments will enable them to sell their products more cheaply than U.S. producers who pay royalties or who spend money on the research and development that results in the patented inventions.

Mr. Chairman, before concluding my statement I would like to refer the Committee to Appendix A to this statement which provides a detailed analysis of legislation known as the Foreign Trade and Investment Act of 1973. Were such legislation to become the law of our country I fear that the consequences would be most harmful.

The international economic problems facing our country are most critical. Among them is then escalating demand for imports of foreign energy. Balance of payments forecasters are predicting that in the years immediately ahead we will be spending in the neighborhood of $25 billion annually just to import foreign oil and natural gas. How are we going to pay for it? The only positive sector of our balance of payments is that dealing with private foreign direct investment. In 1972, the net earnings of such investment for the United States balance of payments was $7 billion. This is nearly $2½ billion larger than the $4.8 billion net earning for 1971. These net earnings will continue to grow and will be a vital source of the necessary foreign exchange needed to help pay for our imported energy costs.

Rather than looking for means to restrict our ability to invest abroad it would seem incumbent on our government to be looking for means to assist it both for reasons of our own economic interests as well as national security interests.

I thank you, Mr. Chairman, for this opportunity to have presented this statement to you and your colleagues.

APPENDIX A.—SECTION-BY-SECTION ANALYSIS, FOREIGN TRADE AND INVESTMENT ACT OF 1973, S. 151, H.R. 62 (HARTKE/BURKE)

TITLE I—TAX PROVISIONS

Title I contains a number of provisions affecting the U.S. tax treatment of international business. The most significant of these are:

Section 102: Current Taxation of Foreign Source Income

This section would subject all the income of U.S. subsidiaries abroad to U.S. tax on a current basis. Presently the profits of foreign subsidiaries of U.S. corporations are not taxed until such income is distributed in the form of dividends to the U.S. shareholders. Thus, the U.S. tax on the foreign income of U.S. companies earned through their subsidiaries abroad is deferred until "repatriated". In 1962 Congress limited the right to defer U.S. taxes in certain abuse situations, but deferral is still generally available.

Comment.—Enactment of Section 102 would have the effect of increasing the total tax burden of U.S. companies operating abroad to a level greater than that of their foreign competitors, who are permitted to retain their earnings without penalty. This would put the U.S. companies at a competitive disadvantage with respect to their foreign competitors. Eventually some foreign operations would no longer be viable and would have to close. This would result in losses of jobs not only overseas but in the United States as well, because of the parent company's dependence on the economic health of its subsidiaries for its overall economic strength. Moreover, foreign countries which have reduced their normal

withholding tax rates from 25–30% to 5–15% by treaty with the U.S. could justifiably contend that the change in U.S. law violated the purpose of the treaties, and they could proceed to impose withholding taxes at the full 25–30% rate on all remittances to the U.S. Assuming that the foreign tax credit structure remains intact, the net effect would be that most of the additional tax revenues would go to the foreign countries, not the U.S. treasury. Absent a foreign tax credit, the net effect would be a crushing overall tax burden of 80–85% in many cases.

Section 103: Repeal of Foreign Tax Credit for Corporations

This section would repeal the foreign tax credit; foreign taxes would only be deductible against taxable income. Under current law, U.S. corporations are entitled to a credit for the tax paid to a foreign country on income arising in that country. The credit is applicable against the U.S. tax otherwise payable on the same income.

Comment.—Enactment of this provision would result in *double* taxation of U.S. overseas subsidiaries and branches. A U.S. corporation with operations in a foreign country, where the corporate income tax rate is roughly the same as the U.S. rate, would be required to increase its total tax burden by approximately 50%. (See the annex). And for certain high tax countries the total tax burden could be as high as 80% of a company's foreign source income. Under such circumstances, U.S. companies could not hope to compete abroad with non-U.S. companies and might have to withdraw from international competition. Contraction of the overseas operations of American companies would, in most cases, directly impair the profitability of the U.S. parent resulting in greater unemployment both in the United States and abroad.

Enactment of this provision would also constitute United States abandonment of treaty rights secured on behalf of U.S. companies operating overseas. To prohibit American citizens and corporations from benefitting from a right established by treaty would, unless the United States denounced its tax treaties, constitute a unique example of a unilateral yielding of treaty advantages for U.S. individuals and firms, while maintaining those advantages for foreign firms and individuals investing in the United States.

Section 104: Depreciation of Foreign Assets

This provision would require depreciation of property located outside the United States by the straight-line method, which is a "conservative" method of computing depreciation, as contrasted with domestic investment where accelerated depreciation guidelines would continue to apply.

Comment.—This provision is conceptually unsound since it implies that property located abroad depreciates at a slower rate than does property in the United States. Its real purpose is to impose a further tax burden on the international operations of U.S. companies in comparison to their domestic operations.

Section 105: Transfer of patents, etc. to Foreign Corporations

This provision would require firms to report as income any gain realized on the transfer of a patent, invention, model, or design, copyright, process or similar property right in various reorganization transactions involving foreign subsidiaries of U.S. corporations.

Comment.—Since such transfers have often taken place in the past without any accounting transaction between parent and subsidiary, this provision would discourage the transfer of technology abroad. The proponents of this measure tend to think that the flow of technology is a one-way street leading from the U.S. to foreign countries. In fact, it is a two-way street, which has greatly benefited the United States over the years. To discourage technology transfers from the United States could lead to like actions by foreign countries, thereby depriving U.S. industry of sharing in the benefits of technological advances developed abroad.

Section 106

Section 106 would amend section 911 of the Internal Revenue Code to require compensation for services performed by an individual taxpayer outside the United States for domestic corporations or partnerships or controlled foreign corporations to be fully includable in gross income for U.S. income tax purposes.

An individual taxpayer may now exclude from gross income for each taxable year and thereby exempt from U.S. income taxation up to $20,000 of his earned income attributable to services performed for any employer (except the United States and its agencies) during (a) the taxpayer's bona fide residence in a foreign

country or countries for an uninterrupted period including a full taxable year, or (b) any period of 18 consecutive months during 510 days of which the taxpayer is present in a foreign country or countries. If a taxpayer qualifies as a bona fide resident of a foreign country or countries for an uninterrupted period of 3 consecutive years, the amount of the annual exclusion is increased to $25,000.

Section 106 would entirely eliminate these exclusions in cases where income is earned for services performed abroad for U.S. Corporations and partnerships and controlled foreign corporations.

Comment.—This section would discriminate unfairly against U.S. citizens working abroad for U.S. firms or controlled foreign corporations by denying them the exclusion for foreign earned income. Other U.S. citizens working abroad would remain fully entitled to the exclusion. Sponsors of the bill claim that the present law enables U.S. corporations to "unfairly entire American administrative, technical, and professional personnel (not available in foreign countries), to work overseas by offering them tax-free earnings." This position ignores the fact that those employees are subjected to foreign income taxes as well as to other foreign taxes—they do not enjoy "tax free earnings" as the bill's sponsors claim.

ILLUSTRATION INVOLVING A HYPOTHETICAL U.S. CORPORATION DOING BUSINESS IN COUNTRY A

	Percent	Under current law
Pretax country A source income (United States)		$100
Country A tax (rate of 50 percent)		50
Precredit U.S. tax (rate of 48 percent)	48	
U.S. foreign tax credit	48	
Net U.S. tax (48—48)		0
Total U.S. and country A tax (0+50)		50
Excess country A creditable tax (50—48)	2	

	Percent	Under Burke/Hartke
Pretax country A source income (United States)		$100
Country A tax (rate of 50 percent)		50
U.S. deduction for country A tax	50	
Pre-U.S. tax country A source income (100-50)		50
Net U.S. tax (rate of 48 percent)		24
Total U.S. and country A tax (24+50)		74

TITLE II—UNITED STATES FOREIGN TRADE AND INVESTMENT COMMISSION

Foreign Trade and Investment Commission

Title II of the bill establishes the United States Foreign Trade and Investment Commission, which subsequent provisions of the bill make responsible for administration of comprehensive import quotas, the Antidumping Act, the countervailing duty statute, part of the escape clause provisions and the adjustment assistance provisions of the Trade Expansion Act of 1962.

The title provides for five commissioners appointed by the President and approved by the Senate. Not more than three of them may be members of the same political party; one shall represent labor, one industry, one consumers, one agriculture and one the public. Commissioners shall be appointed for six year terms, with one term expiring every two years. The initial appointments shall be for two, four, and six years. A majority of the commissioners in office shall constitute a quorum.

Comment.—The functions assigned to the Foreign Trade and Investment Commission (FTIC) are now performed variously by the U.S. Tariff Commission and Treasury Department and in most instances with final decisions by the President. These functions are defined in different titles of the bill and are dealt with below.

Five Commissioners, rather than the six which make up the U.S. Tariff Commission, would make determinations by the Commission more responsive to changes in its membership, vacancies or absence of a Commissioner. Such volatility of its rulings in trade matters would create unnecessary uncertainty which would itself be a harmful trade barrier.

Making four of the five Commissioners "representatives" of the special interests of labor, industry, agriculture and consumers as opposed to the public's

interests is out of place on a quasi-judicial tribunal whose duty should always be to seek nothing less than the public interest.

Also, the bill would grant the Commissioners extensive decision-making authority without providing a mechanism to ensure that the necessary determinations could be made. While the bill would provide that certain final yes-or-no decisions (e.g., holding hearings, finding injury, etc.), would be made by majority vote or concurrence of one half of the voting Commissioners, no way would be provided to ensure that decisions could be made in those circumstances in which the FTIC would have to make certain intermediate findings or determinations. In these instances each Commissioner would be permitted to develop his own alternative, and the FTIC might not be able to agree on one of the resulting options.

For example, while the FTIC would be empowered to make dumping determinations, a special dumping duty (which is an amount equal to the difference between the purchase price or the exporter's sales price and the foreign market value) could not be assessed unless customs officials were informed regularly of the appropriate value of the goods in the exporter's home market. Under current law the Secretary of the Treasury has the sole responsibility for making this determination, taking into account certain specified adjustments. However, under the bill the three Commissioners could presumably each arrive at different values.

Similarly, the quota provisions of the bill would require the FTIC to establish categories based on five and seven digit TSUSA numbers. Again, the three Commissioners could arrive at different groupings. Consequently, such disagreements and the lack of a mechanism to resolve such disagreements could prevent the FTIC from carrying out its responsibilities required by law.

TITLE III—QUANTITATIVE RESTRAINTS ON IMPORTS

Import Quotas

Title III provides for quotas on virtually all imports. Section 301 provides that 1974 quota levels for each category should not exceed the 1965–1969 average. For subsequent years the quota would be the 1974 level of imports adjusted by the amount the Commission estimated was necessary in order for imports to maintain the same market share as they had in the 1965–1969 period.

The Commission could make additional decreases in quotas below the base level for 1974 where it determined that the levels of imports previously estimated inhibited the production of any manufactured product.

Any increases or decreases in quotas would be the same percentage for all countries. If any country failed to fill its quota, the Commission would inform the President and distribute the quota among new or existing suppliers as the President directed. This is the sole function assigned to the President under this title.

Imports would be exempt from quotas where (a) voluntary government-to-government quota agreement was already in force or (b) quotas were in effect by prior law; or (c) failure to import the goods would cause long-term disruption of United States markets, i.e., coffee, tea, bananas and other goods not produced in the United States, or (d) the competing domestic industry had consistently failed to modernize its products facilities.

Comment.—Quantitative restraints on imports would roll back U.S. imports of all products (with some exceptions) by category and by country to the average level of 1965–1969 and would permit subsequent increases (or impose subsequent reductions) as estimated by the Commission in proportion to changes in total U.S. consumption. The total roll-back of imports including exemptions has been estimated to run over $10 billion by the U.S. Department of Commerce.

The first probable effect of the imposition of the quantitative restrictions proposed in this bill would be a trade war of massive, unprecedented proportions, as foreign countries, under pressure from their exporter interests, would be forced to retaliate with similar measures against exports from the United States.

Locking-in the American economy to a set import-consumption ratio (by industry and source country) would eliminate a major source of competition for domestic industry and would cut out much of the existing incentive to increase efficiency throughout the entire U.S. economy.

Moreover, by selecting a particular base period, the bill would tend to lock the U.S. economy into a particular product mix, protecting obsolete processes and industries while shutting out the incentive to greater efficiency which foreign competition provides. The concept that at a particular point in time imports

achieved a "fair share" of the U.S. market, by product and by category, would seriously impair the operation of market forces within the United States. By substituting rigid historical "fair shares" for the free operations of market forces, the bill would seriously damage the competitive position of the U.S. abroad, and cause economic stagnation at home.

New foreign suppliers to the U.S. market—especially developing countries—would be discouraged, and inefficiency would be encouraged among traditional supplying countries, which would be guaranteed the same continuing percentage share of the U.S. market regardless of such competitive factors as price, quality, service, etc.

The Commission, however, would even have the authority to cut quotas further than the base ratio if it found that imports were "inhibiting the production of any manufactured product" in the United States. Since *any* level of competition, no matter how low, will affect *some* marginal producers and "inhibit production," there is no logical end to the restrictions the Commission would be authorized to impose.

TITLE IV—AMENDMENTS TO THE ANTIDUMPING AND COUNTERVAILING DUTY ACTS

Section 401: Antidumping

Transfer of Functions.—The administration of the Antidumping Act would be transferred to the United States Foreign Trade and Investment Commission. The administration of this statute is presently divided between the Treasury Department which makes determinations regarding price differentials and the Tariff Commission which makes determinations regarding injury.

Complaint Procedure.—This bill provides that a firm or group of workers is entitled to file a complaint on behalf of a domestic industry. The current Act makes no reference to complaints by interested parties. Under the Antidumping Regulations, however, interested parties, including groups of workers, are permitted to file such complaints.

4-Month Limitation.—The bill would require the Commission to complete its investigations and render its decisions within 4 months after the filing of a complaint. Under current law the only time limitation applies to the Tariff Commission which must make its injury determination within 90 days after a "case" is referred to it from Treasury.

Judicial Review.—The bill would clearly stamp an antidumping proceeding as an adjudication within the meaning of the Administrative Procedure Act. Complainants, as well as importers, would specifically be given the right to judicial review under the bill. It is not clear under existing law whether complainants have this right.

Comment.—These amendments involve essentially procedural matters. While some of the procedural changes might have merit, transferring the administration of the Antidumping Act to a new Commission, the primary function of which is to restrict imports by setting quotas, could prejudice determinations of what is fair competition in international trade.

In addition, the four-month time limit imposed by Title IV appears to be an unrealistic assessment of the time required to properly investigate a complaint and to permit interested parties to present their views. For example, in the case of dumping investigations, since the Tariff Commission is presently given three months for the injury determination alone, it is most unlikely that both the "less-than-fair-value" sales and injury determinations could be completed within four months.

Section 402: Countervailing Duties

Transfer of Functions.—The administration of this law would be transferred from the Treasury Department to the United States Foreign Trade and Investment Commission.

Formal Adjudication Procedure.—The bill provides that the Commission could investigate foreign export subsidy practices on its own volition or pursuant to complaints. Commission action would have to be made "on the record after opportunity for a hearing." Under current law the procedure is far more informal and somewhat secretive. Negative decisions, for example, are not published.

4-Month Limitation.—The bill would require the Commission to render its decision within 4 months after the filing of a complaint.

Judicial Review.—The bill would give both importers and complainants the right to judicial review. Under a decision of the Court of Customs and Patent

Appeals handed down in April 1971, complainants in countervailing duty cases were held not to have the right to judicial review.

Comment.—The comment on section 401 (Antidumping) is equally applicable here.

TITLE V—AMENDMENTS TO THE TRADE EXPANSION ACT OF 1962—ADJUSTMENT ASSISTANCE

Title V amends in their entirety two key sections of the Trade Expansion Act of 1962. The first section 301, which establishes the procedures and criteria for petitions and determinations related to escape-clause relief and adjustment assistance. The second is section 302, which provides for Presidential action after receipt of such determinations.

Section 301: Escape Clause Relief and Adjustment Assistance Determinations

First, escape-clause relief would be limited to quotas and would be imposed directly by the new Foreign Trade and Investment Commission. The quotas found necessary in an escape clause action by the Commission would modify the general quotas in force under Title II. The President would play no role in imposing such quotas, and he would only receive the Commission's reports. The Commission's action would be final, subject only to judicial review.

Second, the Commission would consider petitions for adjustment assistance but, in this case, the decision whether to furnish adjustment assistance would apparently be left in the hands of the Secretaries of Commerce and Labor. (The bill leaves this in doubt, since it does not provide what happens to an affirmative determination of the Commission with respect to a petition by a firm or group of workers.)

Third, whether the Commission is making an escape-clause or an adjustment assistance investigation, it would have to determine whether an article is being imported into the United States in such increased quantities, either actual or relative, as to contribute substantially (whether or not such increased imports are the major factor or the primary factor) toward causing or threatening to cause serious injury—to the domestic industry or firm—or unemployment or underemployment, as the case may be. Under this formula, (1) tariff concessions are omitted as a causal factor, (2) the imports may "increase" relatively although they are declining in absolute terms, (3) the increased imports need only "contribute substantially toward" causing or threatening serious injury, and (4) in the case of an escape-clause investigation, the domestic industry may consist of only those parts of those plants that produce the like or directly competitive article. In making its determination, the Commission would have to take into account all relevant economic factors, including, for the first time, loss of fringe benefits and decreased or stagnant wages.

Fourth, all proceedings of the Commission would be subject to the Administrative Procedure Act, so that its decision would have to be based upon a public record. Any "final order" would be subject to judicial review, but a final order would presumably be an escape-clause—and not an adjustment assistance—determination.

Fifth, as at present, six months would be allowed for escape clause investigations and 60 days for adjustment assistance investigations. Also as at present, public hearings would be mandatory in the former case and subject to a request by an interested party in the latter case. No change would be made in the characterization of those persons who are entitled to petition for escape-clause relief or adjustment assistance.

Comment.—The proposed amendments to the Trade Expansion Act of 1962 would strip the President of his discretionary authority to grant tariff or quota relief in escape clause cases and would substitute a mandatory requirement that the new Foreign Trade and Investment Commission fix quotas at a level which would prevent or remedy any actual or threatened injury due to increased imports. The President would retain discretionary authority to provide for adjustment assistance for firms or workers in an affected industry.

The bill would eliminate the present requirement that increased imports be linked with past trade agreement concessions and would authorize relief if increased imports "contribute substantially" (rather than being the "major factor" as under present law) to actual or threatened serious injury to a competing U.S. industry.

The relaxed injury standards, while arguably appropriate as a basis for discretionary authorization of adjustment assistance, are totally inappropriate as a

basis for quota relief. The history of escape-clause cases before the Tariff Commission has shown the difficulty of isolating imports as a factor in problems faced by domestic industries. Usually imports are only one of many factors contributing to such difficulties (others have included technical and managerial obsolescence, under-capitalization, style and marketing changes, high costs, tight money, labor shortages, etc.), and regulations restricting imports cannot provide significant relief to the domestic industry.

This amendment would commit the logical fallacy and practical folly of providing for mandatory quota restrictions on imports to "remedy" injuries for which imports were admittedly only partially (not even "primarily") responsible.

The President should retain the authority, under present law, to decide whether import tariff quota or other relief is in the national interest, even after a finding of import-related injury. Important considerations of national policy are involved here. If, for example, the United States restricts the import of items on which it has negotiated concessions in return for trade benefits for U.S. exports to other countries, particularly under the General Agreement on Tariffs and Trade, other countries may be entitled either to compensatory tariff reductions on other items imported by the United States or they may be entitled to retaliate by imposing their own restructions on items important to us. In either case the decision to restrict United States imports involves a necessary balancing of important interests in the United States. Under our system of government, the President is in the best position and has the constitutional authority to make such decisions. His vital discretion in this area should not be impaired.

TITLE VI—FOREIGN INVESTMENT AND TECHNOLOGY EXPORT CONTROLS

This title would give the President new authority to prohibit any person within the jurisdiction of the United States from engaging in the direct or indirect transfer of capital and the licensing, transfer or use of any U.S. patent outside the United States where this would contribute to unemployment in the United States.

Section 601

This section would empower the President to prohibit certain direct or indirect transfer of capital to a foreign country when in the judgment of the President the transfer would result in a net decrease in employment in the United States, and provide criminal penalties for violation.

Comment.—The effect of these provisions would be to subject U.S. foreign investors to unprecedented controls based on one criterion: the effect on employment in the United States. The language is so broad that it includes individuals as well as corporations and small transfers of capital as well as large.

The basic assumption underlying these provision is that foreign investment is harmful to the economy, particularly jobs. Every major study on the matter, however, has indicated quite the opposite. They show that American investments abroad have been accompanied by increases in employment in the United States and that they contribute heavily to the U.S. balance of payments.

Administration of Section 601 would necessarily be complex and uncertain. The theoretical standard of Section 601 for prohibiting transfers of capital—the prohibition of those which "would result in a net decrease in employment in the United States"—is necessarily vague because the nature of the objective does not lend itself to precise rules. Are transfers which would result in a net decrease in employment in the short-run but greater U.S. employment in the long-run to be prohibited or not? Is decreased employment in one industry to be matched against increased employment in other industries? And, as to the unit of application, is the prohibition to be applied on a transaction-by-transaction approach, a project-by-project approach, a business-by-business approach or an industry-by-industry approach?

Whatever approach is taken toward the application of Section 601, it is very difficult to envision any set of generally applicable regulations that could possibly give sufficiently detailed guidance to enable potential investors to determine in advance whether specific contemplated transfers of capital "would result in a net decrease in employment in the United States." Determinations as to which transfers of capital would be permitted would manifestly have to be adjudicated on a case-by-case basis. The complications and uncertainties would impede investments beneficial to the United States including those beneficial to short-run domestic employment.

Section 602

This section would authorize the President to prohibit any holder of a U.S. patent from producing the patented product abroad or from licensing someone to produce it abroad, when in the judgment of the President such prohibition would contribute to increased employment in the United States. The penalty for violation would be that the U.S. patent would be unenforceable in the courts of the United States.

Comment.—The proposed restrictions would adversely affect employment in the United States, impose significant financial losses on U.S. businesses and individuals, place domestic products at a further competitive disadvantage with foreign imports, and aggravate the already critical imbalance of international payments.

Section 602, assumes that a product will be manufactured in the U.S. rather than a foreign country if the U.S. patent holder is prohibited from making it abroad or licensing anyone else to do so. This is a completely erroneous assumption. The reason lies in established and universally accepted patent law. When a U.S. patent is issued, the invention becomes public. This means that foreign manufacturers can also use it—and they can do so without paying royalties unless the U.S. patent holder obtains patents in their countries as well. This is a costly and time-consuming process, and the U.S. owner is unlikely to bother unless there is some prospect of financial benefit to him.

Once the foreign patent is obtained, the patent holder generally cannot prevent manufacture of the product in that country. In most countries, a patented invention must be put to use within a specified time after issuance of the patent; if not, the holder of the patent must either negotiate voluntarily with those who wish to obtain licenses, or he may have to grant licenses at a rate set by the foreign government. But under Section 602 he could not grant a license under any circumstances without the risk of having his patent declared unenforceable in the U.S.

The U.S. patent holder therefore would face an impossible choice. He could either refrain from obtaining foreign patents and allow foreigners to use the invention without paying royalties, or he could obtain foreign patents and face compulsory licensing abroad at the cost of his patent rights in the U.S.

Since foreign manufacture of U.S. patented inventions cannot be prevented, it is clear that Section 602 would not do anything to protect U.S. employment. Nor would it do anything else to further the best interests of the U.S.

Loss of royalty income would have an adverse effect on this country's international payments position. A recent Tariff Commission report states that total U.S. receipts from royalties, license fees, and rentals (other than film rentals) were $940 million in 1971—up almost 20 percent from 1970. Furthermore, it is reasonable to assume that only a small portion of this total reflects royalties on products imported into the U.S., since more than 90% of the output of U.S.-owned companies abroad is for foreign markets.

Any significant loss of royalty income would also have a negative impact on domestic business and employment. When a company loses income, it normally responds by reducing employment and cutting spending on research and development.

Exempting foreign manufacturers from royalty payments would enable them to sell their products more cheaply than U.S. producers who pay royalties or who spend money on the research and development that results in the patented inventions.

The AFL–CIO has noted that 40 percent of all U.S. patent applications today come from abroad. If this is the case, it could be expected that foreigners would be establishing a strong patent position in this country even as the Burke/Hartke bill would weaken the American patent position abroad. The result would be a continued strengthening of foreign competitive advantage over U.S. manufacturers and a reversal of the present American surplus in the balance of international royalty payments.

Additionally, Section 602 would conflict with certain U.S. Treaty obligations. The Convention of Paris for the Protection of Industrial Property of 1883 in Article 5 puts restrictions on member countries' imposing requirements regarding the practice or use of the invention within the country, i.e., the "working" of a patent. Difficulty might well arise in this respect were the President to require that patented technology owned by a foreign patentee be worked in this country and not in a foreign country. Furthermore, under a bilateral arrangement with Germany of 1909 (Patent Agreement, 7 U.S.T. 45, TIAS 3478), work-

ing a patent within Germany must be considered working the technology in Germany, a Presidential declaration of the unenforceability of the U.S. patent for non-working in the U.S. at any time in the life of the U.S. patent would clearly violate this treaty arrangement.

As would be the case with Section 601, the administration of this section would pose large administrative burdens on the Executive. It would be a difficult, if not impossible, decision to ascertain in advance the specific consequences on employment of manufacture or license abroad by a U.S. patentholder. Too many variables exist which would influence the effect of foreign manufacture or licensing for foreign manufacture on domestic employment, such as the strength and scope of the U.S. and each of the relevant foreign patents involved, the market situation in the U.S. and abroad for the product in question, the degree of sophistication of the invention, the extent of foreign patent protection, the industry and employment situations in each country which might be involved, wage differentials and tariff barriers. For the same reasons set forth in the discussion of Section 601, a meaningful and timely evaluation of each case-by-case approach would act as a significant deterrent to overseas investment and licensing. In addition, the sanction provided would act as a general deterrent to the incentives intended to be stimulated by the patent system.

TITLE VII—OTHER FOREIGN TRADE PROVISIONS

Title VII of the bill is a "catch-all" title containing a number of unrelated provisions. The most significant of these are (a) a provision requiring that all goods containing foreign-made components be marked and advertised as such; and (b) a provision repealing those sections of the Tariff Schedules that provide that where materials or components are exported from the United States and then reimported in assembled or processed form, the duty is payable only on the value added overseas.

Section 701

Subsection (a) would require the semi-annual report which the Export-Import Bank is required to file with Congress to include "detailed information from which a judgment can be made of the effects bank operations are having on United States exports, imports and employment."

Subsection (b) would require the President to include in his annual report to Congress on the Foreign Assistance program a review of the extent to which manufacturing projects financed under the program are exporting their products to the United States, and the extent to which 22 U.S.C. 2370(d) [1] is being complied with.

Subsection (c) would require the Bureau of Labor Statistics to report at least once a year full and complete statistics on the conditions of workers employed overseas by the U.S. corporations,[2] and the products and distribution of the products of such corporations.

Comment.—There can be no basic objection to the dissemination of additional information of this kind. But the description of the information required, particularly in Subsection (c) is extremely vague. It should be incumbent upon the proponents of these provisions to justify fully the value of this type of information in terms of the cost to the taxpayer of gathering it.

Section 702

This section of the bill would require goods containing foreign-made components to be marked and advertised with the English name of the country of origin.

Comment.—Existing law generally requires disclosure of the country of origin of a foreign made component only where the component "retains its essential characteristics of function or appearance, "and not when it loses its identity during the manufacture of the domestic product.[3] Section 702 is therefore considerably more restrictive, since it would require disclosure, no matter how insignificant, of the foreign component. A disclosure requirement where foreign components represent a substantial proportion of the value of the product can

[1] Which provides that exports to the U.S. from manufacturing enterprise financed by a U.S. development loan must not exceed 20% of annual output during the life of the loan.

[2] Including corporations 10% of whose stock is owned or controlled by U.S. corporations.

[3] Thus, for example, disclosure has been required in the case of imported lenses used in the manufacture of sun glasses, but not in the case of imported glass beads used in the production of imitation pearls.

perhaps be justified by the consumer's right to know. A provision as extreme as Section 702 would, however, harass manufacturers quite unreasonably, particularly in the case of a complicated piece of machinery, such as an automobile which may contain components imported from more than one country. The effect would be, no doubt intentionally, to discourage the use of foreign made components, which would lead to higher prices.

Section 703

This section would delete from the Tariff Schedules items 806.30 and 807.00, which provide that where goods are exported from the United States and then reimported, the duty is payable only on the value added overseas. The intent of this section is to make the duty payable on the full value of the goods.

Comment.—This proposal is based on a thesis—that overseas assembly operations of U.S. corporations result in a loss of U.S. jobs—that was refuted by the Tariff Commission in 1970. Following an exhaustive study, the Commission concluded that repeal of Items 806.30 and 807.00 would cause a net deterioration of $150-200 million in the U.S. trade balance, and that the modest number of jobs returning to the United States would be more than offset by the loss of jobs among workers now engaged in producing components for export and in further processing of the imported products (T. C. Publ. 339, at pp. 232–3). Many U.S. companies (e.g., in the electronics industry) are able to remain competitive with their foreign counterparts only by arranging for the labor-intensive segments of their operations to be carried out in lower wage countries, and items 806.30 and 807.00 are essential to the continuance of these operations. Deletion of these items would in many cases result in the export of the company's entire manufacturing operations overseas.

Section 704

This section would require that the product description of imported goods required by the Tariff Schedules to be part of the customs entry be included in the invoices for such goods.

Comment.—This section would shift the burden of providing the product description of imported goods required by the Tariff Schedules to be part of the Customs entry to the foreign shipper who would be required to specify this information in the invoices for his merchandise to be exported to the United States. Presently this burden rests, properly so, with the United States importer, his Customs broker and/or his Customs attorney who are familiar with the Tariff Schedules. To shift this burden to a foreign shipper, who is not and should not be expected to be familiar with the numerous provisions of the Tariff Schedules, would be unreasonable, would harass the shipper, and would create a consequent non-tariff barrier to the exportation of merchandise to the United States. Furthermore, should section 704 be implemented the accuracy of obtaining this statistical information could well be jeopardized.

Appendix B.—Statement by Donald M. Kendall on Behalf of the Emergency Committee for American Trade Before the Committee on Ways and Means Hearing on Tax Reform, April 3, 1973

Chairman Mills and members of the Cimmittee on Ways and Means, I am pleased to be testifying today on the subject of the taxation of foreign income on behalf of the Emergency Committee for American Trade. I am Donald M. Kendall, chairman of ECAT and chairman and chief executive officer of PepsiCo., Inc. The members of ECAT are the heads of 63 large companies with extensive trading and investment activities throughout the world. They believe with me that private foreign investment benefits the American economy and that the trade and investment activities of multinational companies consitute vital contributions to the well-being of the Unied Sates and oher nations.

I will limit my statement today to: (1) the tax-credit provision whereby taxes paid abroad are credited against the U.S. tax obligation, i.e., a tax dollar paid a foreign government offsets a tax dollar owed the U.S. government on the same income, and (2) the so-called "tax deferral" provision whereby the U.S. tax is not levied until overseas profits have actually been distributed to the United States parent.

ECAT strongly urges the retention of these two provisions as features of U.S. tax policy. They are designed to achieve the desirable objectives of avoiding international double taxation and avoiding penalties or benefits on foreign versus domestic source income.

Tax credit and "deferral" are not peculiar to the United States system of taxing foreign income. So-called "tax deferral" is a universal practice and the tax credit mechanism is nearly so. The few countries that do not utilize the tax credit—for example, France and the Netherlands—do not do so since they levy no tax whatsoever on income earned abroad by their nationals. (A credit mechanism, therefore, is for them totally unnecessary.) Thus, the existing United States system of taxing foreign source income is in complete harmony with the practices and rules of all our trading partners.

The tax credit simply ensures that income earned abroad by U.S. firms shall pay the higher of either the U.S. or foreign tax rates. If the latter rate is the same or higher than the U.S. rate, then nothing is owed the U.S. Treasury. If the foreign tax rate is lower, then the U.S. Treasury is owed the difference between the foreign and the U.S. rate of 48%. In this manner double taxation is avoided and the higher of the two tax rates is charged.

Legislation before your Committee would change this to provide that taxes paid foreign governments would be treated as normal business deductions, regardless of the rate of foreign taxation. This would amount to taxing the same foreign source income twice and would lead to effective rates of taxation on such income of about 75% in most of the industrial countries of the world.

To illustrate:

Illustration involving a hypothetical U.S. corporation doing business in country A

	Amount
Under current tax credit provision:	
Pretax country A source income	$100
Country A tax (rate of 50 percent)	50
Precredit U.S. tax (rate of 48 percent)	48
U.S. foreign tax credit	48
Net U.S. tax (48–48)	0
Total U.S. and country A tax (0+50)	*50*
Under legislative provisions that would abolish the tax credit:	
Pretax country A source income	100
Country A tax (rate of 50 percent)	50
U.S. deduction for country A tax	50
Pre-U.S. tax country A source income (100−50)	50
Net U.S. tax (rate of 48 percent)	24
Total U.S. and country A tax (24+50)	*74*

With foreign profits of American subsidiaries subject to tax rates of about 75%, there undoubtedly would be substantial U.S. business withdrawal from abroad, leaving foreign markets to the enterprises of other nations. The consequences to the U.S. balance of payments and to the economic health of the U.S. economy could be disastrous. This would be so since both U.S. government and private studies clearly demonstrate that the operations of U.S. multinational firms produce net balance of trade surpluses of several billion dollars each year. Their overseas investments do not lower but instead raise their U.S. exports. In addition to their trade surpluses, U.S. multinational firms contribute many billions of additional dollars to the U.S. balance of payments through the repatriation of profits earned from their overseas investments. In 1972 these repatriated profits are estimated by the Department of Commerce to have totalled $10.3 billion. The Commerce Department also estimates that for 1972 there was an outflow of $3.3 billion for direct investment abroad, leaving a net surplus on private direct investment account of $7.0 billion to the U.S. balance of payments. Without these profit remittances and balance of trade surpluses, the U.S. balance of payments would be in terrible shape.

The U.S. economy would further lose since these same firms gain substantial revenues from their overseas operations. To lose all or part of these revenues would hurt their domestic operations. Total revenues would be smaller as would profits and funds for new U.S. investment. Employment would suffer as would the U.S. economy.

The second major area of contention concerning taxation of income earned abroad is that of so-called "tax deferral", which would be eliminated by the same tax reform bills. Elimination would mean that a U.S. tax would effectively be levied on all monies earned abroad in the year earned by the subsidiary. This would be so whether the monies were distributed to the U.S. corporate shareholder or not. In other words, U.S. corporate taxpayers could be taxed on profits never received. This would be analogous to requiring individual shareholders of

American corporations to pay personal income taxes on that portion of undistributed corporate profits used to retire corporate debt or to invest in plants and equipment.

As a practical matter, "tax deferral" is applicable only in those cases where the foreign rate of taxation is less than the 48% U.S. rate. Where the foreign rate is equal to or higher than the U.S. rate, there is no tax payment due the U.S. Treasury. Where the rates are below the U.S. rate, there is, of course, the obligation to pay the U.S. the difference between the foreign and the U.S. rate.

Most industrial countries have corporate income tax rates close to the U.S. rate. Most less-developed countries have income tax rates lower than those of the U.S. and the other advanced countries. Consequently, tax deferral has economic meaning mainly in regard to profits earned in the developing regions of the world.

Direct investments in the less-developed countries tend to be more risky than in the industrial countries of Europe and Canada. Nearly 75% of U.S. manufacturing investments are located in Europe and Canada where the income tax rates approximate the U.S. level. In addition to greater commercial risks in less-developed countries there are also greater risks of losses from domestic disorder, nationalization, exchange controls, license restrictions and other possible government restrictions. It is precisely because of these risks that such countries set their tax rates at relatively low levels in order to help compensate for such risks.

Elimination of deferral would make it difficult for American-owned companies to compete effectively with European, Japanese, or other foreign-owned firms operating in the lower tax countries. Non-American firms would not be required to pay an immediate tax to their home countries on the difference between the local rate of tax and the higher rate in their home country. Thus, profits of U.S. firms would be taxed at rates higher than their competitors in such countries. The ability of American companies to compete in these countries would be considerably diminished at a time when there is vigorous competition for the growing markets of the developing nations. From the viewpoint of U.S. competitiveness in the less-developed and other relatively low-tax countries, the deferral elimination would, therefore, be most harmful.

While this might sound somewhat strange, it is unlikely that elimination of deferral would provide significant U.S. tax revenues. This is so for several reasons. One is that the great bulk of U.S. direct investment is in industrial countries with tax rates at or near the U.S. level, as mentioned earlier. In those countries, therefore, not many U.S. tax obligations are being deferred. Another reason is that the countries affected would most likely increase their taxes on profit remittances leaving their borders. Then, the ironic result of the U.S. eliminating deferral would be higher revenues for foreign treasuries and not our own.

Most countries of the world levy, in addition to income and other taxes, a special tax on profits that leave their borders. This is usually referred to as a withholding tax on profit remittances. These "withholding" taxes average 25–30% of the amount being remitted but are held to much lower levels of 5–15% by virtue of bilateral tax treaties with the United States. The U.S. has such treaties with 23 of our trading partners. Such treaties have many purposes but basically they are designed to deal with national taxation measures that could impede the international flow of goods and capital, or artificially attract foreign investment.

Should the U.S. eliminate "tax referral," it is reasonable to assume that companies would be forced to make dividend remittances to the U.S. parent to provide funds to pay the additional U.S. income tax. Foreign governments might view this as an extra application of U.S. tax laws to the profits of their corporate nationals—which foreign subsidiaries of U.S. firms are—and take retaliatory actions. One such action could be to allow the profit remittance "withholding" tax to snap up from the lower treaty rate levels to the higher non-treaty levels. For those countries with whom we do not have treaties there would be similar incentives to simply raise their withholding rates. The consequence, of course, would be significantly higher withholding tax payments to the foreign government. These, coupled with the foreign government's own income tax rate, could bring the total tax levy up to or near the U.S. 48% rate, depending, of course, on the relative rate structures. Assuming existence of the foreign tax credit, the U.S. could gain but little or nothing whereas the foreign government would have collected more and the American subsidiary would be placed at

a serious competitive disadvantage vis-a-vis its Japanese, European and other national competitors, since it would have paid substantially higher taxes and have less cash available for investment and other essential business purposes.

To illustrate:

Assuming the foreign tax credit with a foreign income tax rate of 36% and a statutory "withholding" tax on profit remittances of 30% that is lowered to 15% by a tax treaty with the U.S., and a dividend distribution of $40 from the overseas subsidiary to the U.S. parent, the following two illustrations would pertain:

Illustration A.—Under profit remittance withholding tax of 15%

Taxable income	$100
Tentative U.S. tax at 48%	48
Credit for foreign income and "withholding" tax at 15% rate ($36+$6)	(42)
U.S. tax	6

Illustration B.—Under profit remittance withholding tax of 30%

Taxable income	$100
Tentative U.S. tax at 48%	48
Credit for foreign income and "withholding" tax at 30% rate ($36+$12)	(48)
U.S. tax	0

I believe this kind of eventuality is likely since many governments would do all within their means to see that they were the recipients of any tax payments to be made by their corporate citizens.

Aside from the disadvantageous economic consequences that are likely to flow from deferral elimination, I think it worth observing that it would discriminate against U.S. shareholders of foreign corporations as contrasted with shareholders of domestic corporations rather than remove a preference as some allege. Unlike domestic shareholders, U.S. shareholders of foreign subsidiaries would be taxed on income which they had not realized and which, because of devaluation, expropriations and exchange controls, they may never realize.

Other witnesses before this Committee have and will detail for you the positive benefits of investment overseas by American companies. While I do not want to take the time to recite the conclusions of a major survey of 74 large U.S. multinational companies that was undertaken and published last year by ECAT, I do request that these conclusions, which are given in the centerfold of the attached brochure, *Plain Words*, be made an addendum to his statement. As can quickly be seen from the conclusions, the multinational company is a major contributor to the well being of the United States and its economy. I fear that elimination of the tax credit and deferral provisions respecting taxation of foreign income would severely cripple that contribution.

Mr. KENDALL. I would now like to call on Mr. T. A. Wilson, who is the chief executive officer of Boeing Aircraft.

The CHAIRMAN. Mr. Wilson, you are recognized.

STATEMENT OF T. A. WILSON

Mr. WILSON. Thank you, Mr. Chairman.

I am pleased to have the opportunity to appear before the committee, as a member of the aerospace industry, to express my views on the crucial subject of world trade, and more specifically, the proposed Trade Reform Act of 1973.

Even at its current level of approximately 920,000 employees—which is the lowest level in the last 12 years—aerospace ranks as one of the largest single manufacturing industries in this country. Aerospace is also the largest net exporter, accounting for nearly $18 billion in the last 5 years, while imports were slightly less than $2 bil-

lion. About three-fourths of these exports were commercial products and services. Aerospace exports reached $4.2 billion in 1971, which was roughly one-tenth of all U.S. exports for that year.

As an average over the last 5 years, these commercial exports alone provided full-time jobs for over 67,000 direct employees and an additional 82,000 employees in other directly related industries such as primary metals, rubber and standard parts.

The facts are that the U.S. commercial aircraft industry presently holds a dominant position in the world when we consider that two-thirds of all commercial airplanes operated by free world foreign airlines are American made.

Mr. Chairman, I cannot overemphasize the importance of a free market environment for our industry. If I leave any impression with you here today, I want it to be that the best tariff is no tariff; free and vigorous competition will always produce the superior product and provide the greatest stimulation to worldwide growth.

World competition and world trade—that's the name of the game—but lest I give you the feeling that there is any room in our industry for complacency, let me dispel it immediately.

Even thought at this time the U.S. airlines buy 56 percent of the free world production of commercial jet aircraft, foreign airlines purchasing power is growing at a faster rate than that of the United States. Consequently, future growth of our industry depends heavily upon continued success in foreign markets.

To illustrate the singular importance of foreign trade to the Boeing Co., for example, I need only to cite that during 1970, we sold $716 million worth of airplanes to foreign customers and actually had less than zero net domestic sales because of domestic order cancellations. We would have had a difficult time staying in the commercial airplane business except for those foreign orders. Surely we would have shut down the 707 line and would have missed the Chinese Peoples Republic and Romania sales.

We have additional concerns. Commercial aircraft manufacturing, more than almost any other industry, requires a world market for financial success. Just to recover the huge initial investment involved in a typical new airplane program—before making any profit—as many as 300 to 500 airplanes have to be built and sold, and the time cycle for this process may be 8 years or more. Aerospace industries in other countries are rapidly increasing their capabilities. In terms of people, it is estimated that the free world, in addition to the 920,000 in the United States, employes 590,000 people in aerospace while the Communist world employs a slightly greater number, for a grand total in the neighborhood of 1.2 million which exceeds that for the United States. The EEC countries represent the largest free world bloc outside the United States, accounting for nearly 400,000 workers which in aggregate places them close to one-half that of the United States. Of this effort, the commercial part is heavily subsidized by their governments.

The best known results emanating from these new developments are the A-300B twin-engine airbus, the supersonic Concorde, the short-haul Mercure, and the 44-passenger VFW-614, and we are aware of other new commercial aircraft projects in Western Europe. In addition, the U.S.S.R. is becoming a more important factor both be-

cause of the importance of their aircraft-airline business to their national objectives as well as the basic fact that the Soviets have the largest airline in the world.

An increasingly important aspect of these changing relationships with our foreign customers and competitors is their own national needs and goals. Obviously, there is no common list, but they certainly include the gainful employment of their skilled labor, discussed earlier, their defense needs, and their own industrial growth aspirations.

The U.S. aerospace industry is now considering the problem of how best to continue to compete in the world market and what balance there will be between competition and cooperation. I believe the preservation of jobs in our U.S. aircraft industry depends on our continuation of strength in this world aircraft market. Indeed, direct action by U.S. aircraft manufacturers to enter into cooperative ventures with foreign companies may be the best way to keep the foreign markets open. So far we have been able to do this by placing only a small part of our business with foreign industry. However, sales are becoming more dependent on production concessions to our foreign customer countries.

The advisability of joint ventures with foreign manufacturers has been questioned in some quarters because of a claimed loss of American jobs. The underlying assumption in this claim is that a firm contemplating such an arrangement has the option of keeping things as they are, with no loss of its export business nor its export related jobs. But this is not an option that our industry is free to exercise. Failure to respond to the realities of foreign needs will reduce our growth opportunities and the associated domestic employment growth.

Proponents of protectionism have also claimed "Export of Technology." The fact is, in our own aerospace field, for example, the jet engine, the swept wing, the helicopter, the hovercraft, and advanced transonic airfoils originated abroad. Our technology is a two-way street and we can hardly afford to stop technical communications.

Returning to my main point, it is clear that the U.S. aircraft industry and world air transportation will suffer if a free and open market ceases to exist, or if we do not take proper action to capitalize on the foreign opportunities. Toward this end, certain actions can and should be taken by the United States.

I don't propose to talk extensively about the details of the Trade Reform Act today, but I do want to mention several specific items which are of particular significance to our industry.

First, there is a growing list of trade restrictions in the area of nontariff barriers, and we strongly support the proposed authority in title I of the bill to negotiate reciprocal reduction of these barriers. There are two nontariff barriers which we would like to bring specifically to the attention of the committee.

The first of these is the increasing foreign government involvement in the procurement process for aircraft purchased in the United States. In this regard, it is useful to note that of the 50 leading foreign airlines only 13 are privately owned. The other 37 have some government ownership, with 23 of these 100-percent government owned. Where a foreign government owns or effectively controls both its aerospace industry and its airlines, it often directs that the purchase of equipment will be from domestic suppliers. Such directives preclude

consideration of more productive equipment from abroad. In the aerospace industry we estimate that losses approaching $2 billion in export sales have resulted from such practices over the past decade. This preponderance of foreign government control also increases our vulnerability to retaliation if we impose import restrictions, and makes it mandatory that we have good government-to-government relations.

The other serious nontariff barrier is the increasing trend by these same countries to demand various forms of offset concessions from our industry as a quid pro quo when purchasing our products. The most common demand is for subcontract manufacturing on aerospace products associated with the product sold. Many offsets result in increased costs to the manufacturer as they are not placed on a cost-competitive basis. Therefore, assistance is needed in dissuading foreign governments from imposing noneconomic offset requirements.

Because we recognize the need to give the administration authority to react to inequitable foreign trade practices, we, therefore, support the legislation for countervailing duties in these instances.

The extension of most-favored-nation (MFN) treatment is also an important step in the direction of free trade. The current terms of trade for countries not enjoying MFN treatment gives them less capability to buy our products. This action is particularly important in our future sales to China and Eastern Europe which could expand significantly in the next few years. MFN should reduce the pressure for offsets. But notwithstanding all of our efforts to minimize offsets, some are likely to be necessary to penetrate growing markets and, as a consequence, the 30-percent tariff on eastern block-produced components increases the price and reduces the competitiveness of U.S. airplanes in the world market.

As a final point, I want to address myself to the overall bill to emphasize that our general support is in its intent even more than its actual substance. Mr. Chairman, we interpret that the purposes of this bill are to: (1) expand opportunities for trade, (2) use the authority to assure a more equitable trading world, (3) ease the impact of major shifts in trade, (4) expand trade with eastern bloc countries and developing countries, and (5) provide temporary relief for imbalances.

Finally, let us consider one last concern which relates to the implementation of the powers that the Congress may eventually give to the executive branch. The bill allows considerable administrative discretion. The high unit value and the long leadtime for sale of our products—which usually is from 1 to 4 years—means that both ourselves and our customers have to have reasonable assurance of stable conditions. Otherwise we cannot reach agreement and we cannot close our sales.

On these points, Mr. Chairman, we urge Congress to build in sufficient checks and balances to assure an evenhanded implementation of steps which have as goals: (1) avoidance of precipitous destabilizing actions and (2) are in the long-range direction of free trade.

Thank you, Mr. Chairman, for the opportunity to express our views to your committee.

The CHAIRMAN. Thank you, Mr. Wilson.

Mr. KENDALL. We will now have Mr. Gilbert Jones, chairman of the board of the IBM World Trade Corp.

The CHAIRMAN. We welcome you, Mr. Jones.

STATEMENT OF GILBERT E. JONES

Mr. JONES. Mr. Chairman, as chairman of the board of the IBM World Trade Corp., IBM's subsidiary for business outside the United States, and as a member of ECAT, I appreicate the opportunity to testify here this morning.

In general, IBM strongly supports the Trade Reform Act of 1973. Mr. Kendall has given you ECAT's overall position on the various trade proposals now before the Congress. I intend to speak to three specific aspects of that legislation.

1. The proposed controls on the transfer of technology and capital and the dangers they pose for America's high-technology industry.

2. The President's request for authority to negotiate to reduce non-tariff barriers and its vital importance to IBM and other U.S. companies.

3. The proposals for adjustment assistance as a device for redeploying the skills of American workers into job categories where they can be effectively employed.

Because my presentation will of necessity be extremely compressed, I respectfully ask that the committee include in the record of these hearings a fuller statement on similar issues which I made on March 1 of this year to the Senate Finance Subcommittee on International Trade.

In that testimony, I pointed out that IBM is an example of a high-technology company.

Three characteristics of high technology today with regard to our workforce are the following:

First, the rate of growth of the number of production workers is flat. Second, workers must upgrade their skills constantly as technology changes, and three, the ratio of direct workers to indirect workers in the manufacturing plant is becoming smaller and smaller.

When you add to these three factors the basic fact that the productivity of the American worker is still the world's highest, you can see that hourly wage rates on the production line have less and less to do with our ability to compete, either at home or abroad, in high-technology industries.

Another characteristic of high-technology industry is the rapidity of technological change. In our own case, we have gone through four significant technological changes in electronics since 1958, three of these in the past decade, two in the last 5 years. Progress is constantly speeding up.

These factors appear to me to offer a significant insight for the Congress to consider: The question of whether America can compete effectively in international markets ultimately is more dependent upon our ability to take advantage of technological advances—wherever they may come from—on our willingness to innovate in our products and our factories, and on our marketing expertise than it is on hourly wage differentials, at least within limits. It would be a mistake for the Congress to focus too narrowly on the fact that wages are higher in the United States than in foreign countries, and to assume that the best way to protect American industry and American jobs is to try to compensate for the difference through protective barriers. Government policy should encourage innovation and improvement in American industry, not necessarily shelter it from competitive forces.

Proposals which aim at hindering the international exchange of technology in laboratories or plants overseas would strike directly at this ability to innovate, and therefore, to compete. Let me illustrate why with my company used as the example.

As excellent as American technology is, neither IBM nor the United States has a monopoly on scientific knowledge in the computer field, and I am convinced that it would be a tragic mistake for America to try to hoard its technological know-how on the false premise that major advances necessarily evolve from laboratories in the United States.

Some of the most advanced concepts and devices utilized in computers were developed wholly or partially abroad. Among these are basic materials research in magnetic ferrites, microprograming, virtual memory, and, most recently, the Josephson junction.

Last August, IBM announced two new computer systems—the IBM system/370 models 158 and 168. Development work on these new systems was the joint effort of several laboratories in the United States and abroad with close and instantaneous links among them.

A great deal of know-how and inventiveness of foreigners actually goes into many other American products, as my colleague, Mr. Wilson, has pointed out to you.

The strength of IBM and of other American high technology companies lies, above all, in our management and marketing know-how—in our ability to take developments out of the laboratory, to transform them quickly and effectively into finished products, and then to market those products in the face of vigorous competition here and abroad. Any attempt to restrict technological flows or to hamper American investment abroad by taxing foreign income prohibitively would have the perverse effect of reducing sales by U.S. companies and of reducing American exports.

In our own case, TBM's net exports have increased from $52 million in 1960 to $305 million in 1972, an increase of approximately 500 percent. IBM's net contribution to the U.S. balance of payments, including exports, dividends, royalties and fees, in the 10 years from 1963 to 1972 was $4.44 billion. Translating the dollar value of our exports in 1972, one job out of every five in our U.S. plants and laboratories was accounted for by business between the parent company and IBM World Trade Corporation.

Thus, as Congress considers legislation that would hamper the flow of technology and capital, I hope that you will avoid thinking in terms of days gone by when handcraft and high labor content were the rule in American factories. Rather, I hope you will think in terms of the seventies and eighties when our ability to compete will depend on our technological innovation and marketing skills.

Now I would like to turn to the subject of nontariff barriers.

There is no doubt that the U.S. computer manufacturers, like other American companies, are facing an increasingly difficult time in penetrating and holding foreign markets because of a wide variety of nontariff barriers which have been and are being erected in Western Europe and Japan. Governments of major industrial countries are actively intervening to support their national computer companies which, as a result, are growing rapidly in ize, strength and sophistication.

Therefore, I believe that it is imperative that the President be given authority to negotiate to reduce these nontariff barriers.

Let me give you a few specifics of nontariff barriers which U.S. computer firms face in overseas markets.

First, buy national policies. These take different forms in different countries. Some Governments negotiate only with local manufacturers, instead of asking for bids. In others, political pressure may be exerted on Government agencies to buy from the local company.

Second, some countries require licenses to import computer systems. The licensing procedure is often complex and time consuming, and the customer's patriotism is even questioned.

Third, national or regional standards can hinder the import of computers. These may take the form of rigid certification procedures, or of rules regarding the interconnection of terminal devices to the national communications network.

Fourth, while not normally viewed as nontariff barriers, Government subsidies, financial assistance, and other backing of local computer companies creates an artificial barrier to trade. Looking only at four countries—Germany. France, the United Kingdom, and Japan—literally hundreds of millions of dollars in Government subsidies are being allotted by these Governments to their own computer industries at the present time.

The New York Times on May 7 had an article about a wholly owned Government competitor in the Soviet Union, which has announced a whole new line of computers that are compatible with the IBM 370.

Last, there is a danger of nontariff barriers arising on this regional level. For example, the EEC Commission for Industrial Affairs is considering preference on the community level, or in other words, "buy European."

Therefore, it is critically important for the American Government to work toward the elimination of nontariff and other trade barriers, including those discriminating against U.S. firms operating abroad.

Finally, I would like to comment briefly about adjustment assistance. We recognize that sudden surges in imports of particular commodities adversely affecting domestic firms and workers may require the temporary imposition of safeguards such as higher tariffs. In dealing with economic dislocation associated with imports, however, we feel that there should be a larger role for adjustment assistance than is contemplated in the draft submitted by the administration. Bills introduced in the House by Congressman Culver, and in the Senate by Senator Abe Ribicoff of Connecticut and by Senator Percy, are three approaches that might be considered.

We are well aware of the dissatisfaction which exists with the present adjustment assistance program. But we are convinced from our own experience at IBM that a well-conceived adjustment assistance program can make an important contribution, particularly if its key feature is to retrain people for specific jobs in growing segments of the economy.

Chairman Mills has stated that companies should do more in this area, so I would like to tell you briefly what IBM has done.

In the period from 1969 to 1972, IBM carried on its own adjustment assistance program to take account of advances in manufacturing techniques which eliminated a substantial number of jobs in our U.S.

plants. In order to maintain IBM's full-employment practice, we shifted more than 12,000 people into new jobs outside the manufacturing area.

More than 5,000 of these employees received significant retraining to enable them to take up new careers in marketing, servicing, programing, and administrative jobs.

There are two reasons, I think, why this program has been successful. First, we are able to project our personnel needs with a high degree of accuracy; and second, we knew what skills would be required to fill those jobs. Accordingly, the people who entered IBM's adjustment assistance program knew that the program would result in a job when the retraining was completed.

While the problem is obviously many times more complex on the national level than it is for IBM, I believe that, with similar attention to the identification of skill requirements and the design of retraining programs to meet those requirements, adjustment assistance can be a very effective tool for redeploying the Nation's manpower resources.

I would like to congratulate Governor Freeman on his comments on this subject. I would like to say that the IBM Co. stands ready to serve on an advisory council of Government and industry, on adjustment assistance, and we would love to contribute the full help of one or more of our people who have direct experience with design and implementation of such a program.

I will be happy to answer any questions during the question period. Thank you.

Mr. BURKE [presiding]. Without objection, your request for including in the record your testimony on the Senate side will be complied with.

Mr. JONES. Thank you, Congressman Burke.

Mr. BURKE. Also, on the statement made by Mr. Kendall, I notice appended thereto are some quite extensive comments on the Burke-Hartke bill. Without objection, that will be included in the record following your oral statement. We believe in giving the other side a chance.

[The Senate testimony referred to follows:]

STATEMENT OF GILBERT E. JONES, CHAIRMAN OF IBM WORLD TRADE CORP., PRESENTED AT HEARINGS BEFORE THE SUBCOMMITTEE ON INTERNATIONAL TRADE OF THE COMMITTEE ON FINANCE, U.S. SENATE, THURSDAY, MARCH 1, 1973

My name is Gilbert E. Jones. I am Chairman of IBM World Trade Corporation, IBM's subsidiary for business outside the United States.

I appreciate the opportunity to testify at these important hearings.

There is no mistaking the fact that we have come to a crossroads in the evolution of American foreign economic policy. Decisions that will be made in the next few months by the Congress will affect future domestic and international economic patterns in fundamental ways.

For several years now a public debate has been underway between those who regard multinational firms as a source of strength of the United States and those who allege that they are not.

Despite governmental and private studies which show that the multinationals create American jobs, contribute strongly to the balance of payments, and are instrumental in developing crucial new technologies, doubts persist among the critics, and they must be confronted by those of us who do business on a multinational basis.

I intend to do so here today, not by repeating the standard arguments and data with which you are all familiar, but by concentrating on the experience of

my own company. IBM is a high technology company, and high technology is acknowledged to be one of the greatest strengths of the U.S. economy. So I will be talking to you primarily about IBM's role as an innovator, manufacturer and marketer of high technology goods in a worldwide environment.

Before getting into the heart of my discussion, I thought it might be helpful for the subcommittee to have a clearer understanding of what we mean when we use the phrase "high technology" companies. An obvious example, of course, can be found in the computer industry.

I'd like to show you how extremely rapid technological change has resulted in vastly increased computing power for our customers at continually decreasing prices.

In 1952, IBM announced its first large scale electronic data processing system the 701. This machine used vacuum tubes like this and could do almost 2200 multiplications per second at a cost of $1.26 for 100,000 multiplications.

Six years later, in 1958, we introduced the 7090, a machine whose basic circuitry was entirely new and made up of these silicon transistors. The 7090 did about 38,000 multiplications in a second and the cost of 100,000 multiplications dropped to 26 cents.

In 1964, we introduced a new technology, SLT putting a hybrid integrated circuit on a ceramic substrate like this. That was the year we announced the System/360 Model 50. With that machine, the speed of computation was about the same as the 7090, but the cost of 100,000 multiplications dropped by more than half to 12 cents.

Less than three years ago, we announced our System/370 series which utilizes these fully integrated monolithic circuits. With this technology, we have up to 10 logic circuits on a chip. And we even have the capability now to put up to 400 on a chip. The System/370 Model 155 can do about 105,000 multiplications per second and the cost of 100,000 multiplications has dropped to a nickel. One of our latest computers the System/370 168 Model which was announced last year can do over two million multiplications per second at a cost of one cent for 100,000 multiplications.

While I have simplified these comparisons for the sake of brevity, they illustrate my main point: the rapidly decreasing cost of calculations for the computer user coupled with increased computing speed.

The same kind of change has happened to computer memories. Our 701 in 1952 used a cathode ray tube memory which looked like a TV tube and which is too bulky for me to bring here today. In 1954, we introduced ferrite core memories which were the principal memory technology until very recently.

Here you see how the size of ferrite cores has decreased. These cores had to be wired into planes, like this one.

Today, computer memories, like circuitry, utilize silicon chip technology, and memory costs have also decreased dramatically. The same amount of money today will buy more than six times as much memory as it would have bought in 1967.

I can't tell you today exactly what the next few years will bring, but I can say that technological change will become even more dramatic. Since 1958, we have gone through four significant technological changes in electronics, three of these in the past decade, two in the last five years. Progress is constantly speeding up.

The new technologies are also much more demanding of our manufacturing people. A typical manufacturing process for producing these chips has over 180 important steps. If each step is 99 percent perfect, the final yield at the end of the proces will be only about 13 percent. As you can imagine, considerable engineering and manufacturing effort must be expended to create relatively lossfree manufacturing.

This creates a need for enginers and technicians with skills of the highest order. And since technology changes so rapidly, it also means these people must be constantly relearning new skills and techniques.

Now from this brief illustration of a high technology industry in action, several broad characteristics can be noted.

One is the enormous rate of change. Generations of products are measured in a few brief years.

And not only do product lines change, but also competitive conditions. A company or, indeed, a nation which fails to keep apace of technological improvements and changes in marketing techniques may be among the leaders one year and a trailer only a short while later.

Another important characteristic is the declining labor input in the product line. This doesn't mean that improved technology results in fewer jobs. What it does result in is more highly skilled jobs, as I shall illustrate in detail toward the conclusion of my remarks.

It also means that labor costs on the production line are declining sharply as a percentage of our total costs. And it also means most important in terms of the work of this Committee that hourly labor costs on the production line have less and less to do with our ability to compete either with other firms in this country or with foreign computer companies.

Of course, no manufacturer wants to see his labor costs get out of line with his competitors'. But in a high technology field, a differential in hourly wages is far less important than a company's ability to maintain a technological lead.

It would be a mistake for the Congress to focus too narrowly on the fact that wages are higher in the United States than in foreign countries, and to assume that the best way to protect American industry and American jobs is to try to compensate for the difference through tariffs or other protective barriers. For most industries, the question of whether America can compete effectively in international markets ultimately is more dependent on our ability to maintain a technological edge, on our willingness to innovate in our products and our factories, and on our marketing skill and ingenuity than it is on hourly wage differentials, at least within certain limits.

Fortunately, innovation and risktaking are areas in which U.S. industry has traditionally excelled. While the computer industry may represent the current extreme in change and innovation, the simple fact is that no industry is—or should be—static. The facts of life in all industry require continual innovation to improve products and to lower costs.

The key for successful governmental policy is the creation of a climate which will encourage innovation and improvement in American industry, not sheltering it from competitive forces.

Specifically, in the field of legislation dealing with international commerce, Congress should avoid thinking in terms of days gone by, when handcrafts and high labor content were the general rule in American factories. Rather, we should think in terms of the 70's and the 80's, when our ability to compete will depend primarily on our technological innovation, our creative abilities, and our salesmanship.

Now in the next few minutes, I'd like to illustrate the basic points which I have been making by telling you a little about IBM's operations as a multinational corporation—its economic impact abroad and in the United States, and some of the problems that we face at the present time and in the future.

In 1972, IBM showed gross income of $9.5 billion and net earnings of $1.3 billion, with a total of 262,000 people employed here and abroad. IBM World Trade Corporation, which handles IBM business outside the United States, reported gross income of $4.2 billion, net earnings of $687 million, and total employment of 115,000.

Outside the U.S., IBM does business in 126 countries. It has 9 research and development laboratories in eight foreign countries and 19 manufacturing plants in 13 countries overseas. In addition, IBM provides education in new technology and management techniques at 78 overseas locations throughout the world.

IBM has been doing business on an international basis since its earliest days. Operations in Germany date back to 1910, in France to 1914, in Canada and Brazil to 1917 and in Japan to 1925.

IBM has pursued a general policy of manufacturing abroad the finished products sold abroad because that is, in virtually every instance, the only way to maintain its foreign markets. It is most important to understand that this policy has helped, not harmed, IBM's employment in the United States.

The reason for this is that operations abroad create demand for IBM products that cannot be satisfied by local manufacturing alone. This demand is met by a growing export business channeled through IBM's foreign subsidiaries. IBM's U.S. production destined for export has risen from $56 million in 1960 to $485 million in 1972. Imports have also increased during this same period. But, overall, IBM's net exports have increased from $52 million in 1960 to $305 million in 1972, an increase of nearly 500 percent.

We have stated on a number of previous occasions that one in eight of our manufacturing jobs in the United States is dependent on foreign exports. In fact, this has been a very conservative estimate—deliberately so, because this is a complex computation to make. However, translating the dollar value of our U.S. exports in 1972, we find that one out of every five jobs in IBM's U.S. plants

was accounted for by business between the parent company and IBM World Trade.

I hope it is no longer in doubt that multinational companies in general are large net exporters. The U.S. Tariff Commission study recently published by this committee found that multinational corporations in 1970 accounted for about 62 percent of all U.S. manufactured exports as compared with 34 percent of manufactured imports. The commission's analysis also indicates that "the U.S. industries most active in production abroad also are the heaviest contributors to U.S. exports"—a conclusion corroborated by other studies, such as those made by the U.S. Department of Commerce. (I think it is also worth pointing out parenthetically that, when transportation equipment is excluded—to screen out the effects of the U.S.-Canada auto trade agreement—the Commission says: "A statistically significant association between foreign direct investment activity and aggregate imports disappears entirely.")

The Tariff Commission study is less definitive with regard to trade-related employment since it points out that the conclusion depends on the assumptions used on what would have happened to the overseas markets of U.S. firms in the absence of their foreign investment. The Commission indicates that under the assumption that U.S. firms, without investing abroad, could have maintained the same share of the market that they enjoyed in 1960–61, the foreign investment of U.S. multinational companies has resulted in a net gain of 500,000 jobs in this country.

However, the Commission concedes that this estimate of jobs gains "is biased in the direction of excessive pessimism because it totally rejects—by assumption—the MNCs argument that at least a portion of the MNCs foreign direct investment has to go abroad to prevent foreigners from getting there first."

In IBM's case, there is absolutely no way in which we could have held onto our overseas markets, and increased U.S. jobs these last dozen years, if we had refused to invest in foreign facilities.

In the first place, many governments feel the need to keep local value-added in some kind of equilibrium with sales volume. If major countries had to import all IBM products now sold there, the drain on their payments balances in most instances would be prohibitive.

But even if this consideration did not exist, it is important to realize that the vast majority of our overseas jobs are not in manufacturing. Out of the total number of 115,000 IBM employees overseas today, only 27,000 are employed in manufacturing. This means that even if IBM were to manufacture all its products in the U.S., it still would have to maintain abroad more than three-quarters of the present number of overseas employees. At least 80,000 people would be needed as local sales forces, systems engineers, customer engineers, administrative and other support personnel to market and service IBM equipment—assuming that the current level of IBM's business outside the U.S. could be maintained.

As a practical matter, however, this level could not be maintained. The choice for us is not between exporting or manufacturing abroad, but between manufacturing abroad or losing large portions of the world market.

I cannot prove it to you scientifically, but my associates and I are convinced that if IBM tried to serve the world market entirely from the United States, our business abroad would shrink to a small fraction of its present size.

Other countries' restrictions on imports are not the essential reason why this shrinkage would occur. The crux of the matter is that an attempt to make computer technology an American preserve would not succeed. By refusing to manufacture in Western Europe, for example, we would be forcing foreign governments to subsidize and foster the development of their domestic computer manufacturers to an even greater extent than they now are doing, because those governments would feel widely dependent on foreign sources of supply of products and of development of technology.

Imagine the economic and psychological effect on Western Europe of total dependence on imports of high technology goods. It would never occur. By manufacturing abroad, we hold a market we would otherwise lose.

In addition to export revenues, the fees, royalties and earnings of IBM's wholly-owned subsidiaries and branches overseas represent a steadily growing flow of money to the U.S. In the ten-year period from 1963 to 1972, IBM's net contributions to the U.S. balance of payments was $4.44 billion.

IBM's contribution to U.S. and foreign tax revenues over the last five years amounted to $5.2 billion; over the last ten years to $7.7 billion. This represented taxation at the rate of approximately 50 percent of earnings, and of the total

taxes paid over the past ten years about 60 percent went to the U.S. government, and the remaining 40 percent to other governments.

In my judgment, these economic contributions were made possible by the main strength of my company—the speed with which we have been able to take technology out of the laboratory and turn it into marketable products. Neither IBM nor the United States has a monopoly on scientific knowledge in the computer field. We are convinced that it would be a tragic mistake for America to try to hoard its technological know-how on the false premise that major advances necessarily evolve from laboratories in this country. Rather, we know that our major strength lies in adapting technology, wherever it originates, quickly and effectively into finished products.

Accordingly, one of the reasons for our success is our closely integrated multinational research and development effort. We have access to overseas technology and talent through our laboratories outside the United States and we receive a steady flow of new ideas from all over the world.

An important part of the development work on the IBM computer systems IBM System/360 and IBM System/370 was done in the company's overseas development laboratories.

Last August, IBM announced two new computer systems—the IBM System/370 Model 158 and Model 168. Development work on these new systems was the joint effort of several laboratories in the United States and abroad with close and instantaneous links among them.

IBM customers in the United States as well as abroad are the final beneficiaries of these joint efforts.

What is true for the computer industry is also true for most American high technology industries. All have to search for the best talent wherever it can be found to maintain their leadership. A great deal of know-how and inventiveness of foreigners actually goes into American products.

I recall from my own experience in the Navy that the first work on radar and anti-submarine warfare was done by the British. So was the earliest development of jet aircraft. The Wankel engine is another foreign import. The electron microscope and the video tape recorder are examples of important inventions resulting from international scientific cooperation. Magnetic ferrites, so crucial to my own industry, were the result of half a century of scientific effort in the United States, Europe and Asia. Nor should we forget the crucial contributions of foreign scientists to the harnessing of nuclear energy, first for military and then for peaceful purposes, or to space exploration.

The economic progress made here as well as abroad during the last 20 to 25 years would not have been possible without the relatively free transfer of technologies among Western nations.

IBM, for example, has cross-licensing agreements with dozens of European companies. It has similar agreements with some 15 Japanese companies. IBM's magnetic tape manufacturing facility in Boulder, Colorado, was set up under a cross-licensing agreement with the Sony Corporation of Japan. It uses Sony patents and draws on the technical know-how of the Japanese Company.

Aided by overseas research and development, American high technology companies continue to lead the world. While every American legislator is familiar with the fear in this country of competition from certain imports, you may not be aware of the fact that our principal trading partners feel under immense pressure from advanced technology companies headquartered in the U.S.

Governments of major industrial countries are actively intervening to support their national competitors of U.S. computer manufacturers. That competition is growing both in strength and sophistication.

As European computer manufacturers, acting individually and jointly, develop their technological capabilities, they are getting substantial support from their governments.

From the beginning, national governments played a significant role in several major European computer companies. Some were created under government auspices, like France's CII and Great Britain's ICL. In both cases, the government participates in the company's equity.

In Germany, the government has allotted $832 million in subsidies during the 1971–1975 period for the domestic data processing effort.

In France, some $264 million will be spent by the government in subsidies to the French computer industry between 1971 and 1975. In addition, the computer rental business of CII is being financed by a group of government-controlled banks and the nation's Social Security fund.

In the U.K., outright grants to ICL in 1973 amount to about $36 million.

Besides giving direct support, governments also favor national computer manufacturers through "buy national" procurement practices.

At the same time, the EEC Commission for Industrial Affairs advocates preferences on the community level—replacing individual "buy national" practices with a "buy European" policy. Moreover, the EEC Commission wishes to apply ownership as the criterion, not the place of manufacture or incorporation of a company.

This policy, if implemented, would create a new formidable nontariff barrier against American computer manufacturers.

Several groups of European computer manufacturers have already been formed with EEC encouragement, the better to compete with American manufacturers. For example, Siemens of Germany has entered into a product development and marketing agreement with CII of France. Phillips of the Netherlands, too, is likely to join this group. Under the agreement, former customers of Siemens in France have been turned over to CII and former customers of CII in Germany have been turned over to Siemens.

Nixdorf and AEG-Telefunken, both of Germany, have joined together for computer systems development and production. They represent the two extremities of the product line, Nixdorf producing small systems and Telefunken large systems.

European companies now often team up to bid against IBM and other American companies. Last month, for example, Britain's ICL, backed by AEG-Telefunken of Germany, won a $6.2 million contract. A $4.6 million contract went to CII of France and Siemens of Germany, working with British, German, Danish and Dutch computer software-producing companies.

The consolidation of the computer industry in Europe is matched by developments in Japan. There, government support goes hand in hand with a plan to make the Japanese companies more competitive. Three groups have been formed by half a dozen Japanese companies in accordance with a government plan, and further consolidation can be expected.

Direct Japanese government subsidies supporting R&D include a $127 million grant paid over the 1972–1974 period for the development of a new generation of computers. Government-guaranteed low-interest loans to computer companies approved for 1973 alone amount to $156.6 million.

All these moves in Europe and Japan aim at reducing dependence on American equipment in the data processing field. Moreover, to be viable, the foreign companies will have to expand into the international marketplace.

And while IBM has a good deal of U.S. competition in our international markets, over 50 percent of competitive sales wins abroad in 1971 were by non-U.S. manufacturers.

IBM neither wants nor expects any government subsidy to compete against government-subsidized foreign manufacturers. But we do need the opportunity to operate freely abroad. We need unhampered worldwide R&D to maintain our position in technology, and worldwide manufacturing to maintain our position in the market.

Should U.S. legislation handicap American computer manufacturers in their overseas operations, the technology gap that still favors the Americans would tend to close. Foreign manufacturers eying expanded markets—including the U.S.—would be helped along. The damage done to the U.S. economy would be considerable, perhaps irreversible.

In our view, the proper response is legislation that looks toward the elimination of trade barriers, including non-tariff barriers that discriminate against U.S.-owned companies operating abroad. Far from treating U.S. foreign investment as a threat to U.S. employment, we must regard it as an important national resource that can provide U.S. exports, U.S. jobs, surpluses for the U.S. balance of payments, and technology essential for progress in the United States.

The idea that protectionism will save U.S. jobs is wrong. While some of the changes in employment in U.S. industries are related to shifts in the industries' international competitiveness, many others are not trade-related. The U.S. unemployment rate continues at about 5 percent for reasons that have little to do with U.S. trade and investment policies, *per se*.

The principal reason is that inflation got out of hand, and that we were forced to slow the rate of growth of our economy in order to try to check that inflation. The problem must be treated by domestic economic policy.

Some of our unemployment, of course, has been related to the loss of U.S. international competitiveness. The dollar became overvalued in world markets, and we moved belatedly to correct the situation. The recent realignment of exchange rates should help correct that situation. The way to provide an adequate level of employment in the U.S.—to absorb the unemployed and provide jobs for new entrants into the labor force—is to keep the U.S. economy growing at a strong non-inflationary pace. Economic self-sufficiency is not an answer to the problem.

We need to think dynamically of new industries, new products to meet new needs. The computer industry, after all, was merely an infant 20 years ago. It created hundreds of thousands of jobs and entirely new job categories. It generated exports and contributed to the health of the U.S. economy. American policy should be seeking that kind of dynamism rather than turning to the false hopes of protectionism.

Instead of retreating behind trade walls, U.S. policy should seek further reduction of tariff and non-tariff barriers to permit an orderly economic expansion throughout the world.

Most urgently, we need a stable monetary environment. The chaotic international exchange-rate situation in recent years has created severe international economic problems. Disruptions and uncertainities in international currency and finance markets complicate orderly planning everywhere. The recurrent dollar crises strain the entire fabric of inter-relationships among Western nations and ultimately can have serious effects on consumers and jobs in the U.S. as well as abroad.

Developments this past month have brought us to a moment of decision. It is vital that we make the right choices. I have indicated in general what I believe those choices ought to be—namely, that we should move in the direction of reducing barriers to trade among nations.

We recognize, of course, that sudden surges in imports of particular commodities adversely affecting domestic firms and workers may require the imposition of temporary safeguards such as higher tariffs. Where such safeguards are adopted, however, it is essential that they be employed for a limited period of time and that they expire automatically. Furthermore, those receiving the benefit of these safeguards should be required to make use of the time to adjust to change competitive circumstances.

In this connection, I hope that Congress, in its search for meaningful ways to deal with economic dislocation caused by disruptive import competition, will closely examine the area of adjustment assistance. We simply must help workers impacted by trade, but we must do so in a sensible and businesslike manner that does not harm other workers. The bill introduced last year by the Chairman of this subcommittee, Senator Ribicoff, is one of several approaches which have been suggested.

I support the adjustment assistance concept because of IBM's experience with its own internal "adjustment assistance" program. Let me briefly recount our experiences.

One by-product of the swift pace of change in the computer industry, which I described earlier, is that it eliminates demand for certain kinds of skills while creating demand for new skills.

In the 1969–1972 period, advances in manufacturing techniques eliminated a substantial number of jobs in our U.S. plants.

To maintain IBM's full employment practice, we shifted more than 12,000 people into new jobs outside the manufacturing area.

Of these, about 7,000 were moved into jobs requiring comparable skills. But more than 5,000 employees received major retraining to permit their transfer from manufacturing into marketing, service, programing and administrative jobs. Although we were not certain when we began that this retraining and transfer could be done, the program has been an outstanding success. There are two reasons, I think, why this was so: First, we were able to project our personnel needs; and second, we knew precisely what skills would be required to fill those needs. Accordingly, the people who entered IBM's "adjustment assistance" program knew they had jobs waiting for them when the program was completed, and they knew that what they were learning was necessary knowledge.

Based on our experience, I believe that a meaningful adjustment assistance program to deal with the consequences of shifts in U.S. trade patterns is not only desirable; with government, business and labor support, I think it can be made to work. Business can play a valuable role, perhaps within the framework

of an advisory council that would help design the program and monitor its operation.

For its part, IBM stands ready to participate in the effort—and by this I mean that we would be prepared to serve on an advisory council and to contribute the full-time help of one or more of our people who are experienced in identifying job requirements, in matching people to those jobs, and in creating retraining programs that actually work.

If I may summarize, I have essentially suggested a four-fold approach: lowering of trade barriers, international monetary reform, adjustment assistance, and a proper mix of domestic fiscal and monetary policies. I believe this approach would protect the tremendous benefits America has enjoyed from our trade and investment policies, and would also extend help to those who have been hurt by them.

To try to extend that help with protectionist legislation would be like trying to cure a headache with the guillotine, and I choose the analogy on purpose. A large number of well-meaning people have been proposing solutions to the unemployment problem in the country that in the long run will just not work.

It is manifestly to the benefit of all countries to safeguard the orderly functioning of economic activity throughout the world while pursuing legitimate national interests.

Recognizing that reality, we must bring the same kind of innovative, creative thinking to bear on our economic problems as we do to our technological ones.

Thank you, Mr. Chairman.

Mr. BURKE. The committee stands in recess, to reconvene at 2 p.m., and we expect the panel to be back here for questioning.

[Whereupon, at 12:40 p.m., the committee was recessed, to reconvene at 2 p.m.]

AFTERNOON SESSION

Mr. BURKE. The committee will be in order. We will start where we left off with the panel completing their testimony. The panel is now open to questions by the committee; Mr. Landrum?

Mr. LANDRUM. Thank you, Mr. Chairman. One question of Mr. Jones. I note throughout your testimony relating to the technological exchanges between our country and other countries that you say in one sentence: "Any attempt to restrict the technological flows or to hamper American business"—my question deals primarily with the restriction of technological flows—"would handicap the United States in its trade efforts with other nations."

I wanted to have your further views with regard to the potential of an amendment to the Export Control Act under which we do control the exportation of technological assistance.

Do you anticipate that we might have some need to amend that? Can we grant these authorities that the President is seeking to negotiate, or can we follow the rather firm statement in your comment on page 4 without amending the Export Control Act?

Mr. JONES. Congressman Landrum, I did not mean to imply that I wanted to abandon all control of technology going to Eastern Europe and the Communist countries. I believe that the export of strategic technology is a subject that should be reviewed by the Departments of Defense, State, and Commerce. The way this works today, and the licensing procedures as they pertain to computers, in my opinion, work well with one exception—the exception is that the guidelines for the control of that technology were set back in the late 1940's.

Meanwhile, the technology has grown so very rapidly that both those guidelines and the guidelines of COCOM are obsolete. I believe they are being reviewed now with the intent of having them changed, but they do have to be updated because they are completely obsolete.

As between Western Europe, the Far East, Japan, Australia, and the United States, I believe our ability to increase the standard of living in this country depends on being able to take technological initiative and invention, whether it occurs overseas or here, get that into a development phase, get it into a factory and get it out to the consumer at a competitive cost with marketing and management expertise, that is our real strength. That is the way we are going to have the best and strongest United States of America.

Mr. LANDRUM. Would it be true or not true that our traditional trading partners perhaps define the importance of the term "strategic" relating to technological flows less restrictively than we do?

Mr. JONES. In my opinion countries like the United Kingdom define "strategic" with less restriction than the United States.

Mr. LANDRUM. What about Japan?

Mr. JONES. I believe that all countries define it less restrictively than the United States.

Mr. LANDRUM. So would you say that even our effort to restrict to ourselves certain advantages of our technological developments would require that we do study our definition and perhaps redefine our definition of the term "strategic" in regard to the prospects of trade or potential trade with Communist nations?

Mr. JONES. Congressman Landrum, I only know how to answer you as it pertains to computers. The answer to your question as it pertains to computers is "yes." It is very necessary that the United States redefine what is strategic and make the licensing of what is not strategic a lot easier.

For example, it is much easier for a United Kingdom computer manufacturer to get an agreement from his government that he can install a machine in Moscow than it is for any U.S. computer manufacturer.

Mr. LANDRUM. Now, Mr. Kendall, I don't want to be repetitious, but I would like, if possible, the record to show your response to the questions that I directed to Mr. Jones.

Mr. KENDALL. Well, we are not involved in strategic——

Mr. LANDRUM. He is speaking primarily from the standpoint of the computers and computers only. I understand that you might be able to respond in a general way.

Mr. KENDALL. I can because I happen to have some strong feelings on this subject, Congressman Landrum. I think that the U.S. Government—and I am speaking now in all industries—has been overprotective in the area of controlling exports for defense purposes. We have kept ourselves out of some areas of competition because of this, when, for example, the Soviets could buy the identical thing from the Japanese or Germans or British and were doing so when our companies were restricted.

So I think we should determine what is really "strategic," as other countries have. One of the criteria that I would put up for that judgment is, what do the Germans have, the Japanese or British have? If they permit the export and the Soviets can buy it from them, then we should be able to sell it too.

Mr. LANDRUM. Mr. Wilson, would you care to make a response to that?

Mr. WILSON. I think my response, which would be built around airplane sales that we make, is similar to Mr. Jones'. Interestingly enough, the problem that we have is not so much what ultimately gets approved. It is that there is a timelag in there. Naturally, when you have a major sale pending that might be dependent on one item like an inertial guidance system, we feel very uneasy about that. The fact remains that we have, in the sale to China and Romania, been able to get the agreements that were necessary.

Mr. LANDRUM. In your experience of sales to foreign countries, have you encountered problems with our definition of the term "strategic"?

Mr. WILSON. Yes, we have, very definitely.

Mr. LANDRUM. Would you say that in those problems our definition of it could have been or could be liberalized without subjecting our Nation to any national security dangers??

Mr. WILSON. Yes, I think it definitely could. There are other tests than the ones they have now that would considerably liberalize it and make it much easier for us to do business.

Mr. LANDRUM. Thank you, Mr. Chairman.

Mr. BURKE. Mr. Schneebeli will inquire.

Mr. SCHNEEBELI. Gentlemen, I think you have been very helpful in addressing yourselves to some of the problems in connection with this legislation, particularly with respect to the criticism that it gives the President too much authority and that it is too open-ended. You do cite limitations that you think would be proper to put in the bill. One of these limitations, Mr. Kendall, is in connection with tariff increases. You say that the increases should be limited to 50 percent of the 1930 statutory tariff rates. For the record, why did you take that date?

Mr. KENDALL. We said 50 percent higher.

Mr. SCHNEEBELI. That is correct.

Mr. KENDALL. I think there should be some limitation on that. I think that any President is going to be subject to political pressures to raise tariffs. You are not writing a bill for this year or next year. You are writing a bill that I assume will last for a long time.

Mr. SCHNEEBELI. I don't disagree with you. I am merely wondering why you picked that date.

Mr. KENDALL. We think there ought to be some kind of limitation on that, just not totally open-ended.

Mr. SCHNEEBELI. But why did you pick the date, 1930?

Mr. KENDALL. Because that is the data in the current law which we are still operating under.

Mr. SCHNEEBELI. That is the basic reason?

Mr. KENDALL. That is the basic reason.

Mr. SCHNEEBELI. Was that affected by the subsequent tariff acts?

Mr. KENDALL. Tariff rates have but not the basic rate.

Mr. SCHNEEBELI. But you went back to the basic rate. Certainly the 1962 act made a number of changes.

Mr. KENDALL. It changed a lot of the various rates.

Mr. SCHNEEBELI. Yes. Another question: You said we will be spending in the neighborhood of $25 billion annually to import oil and natural gas. How are we going to pay for it? That concerns us too. You say we do have money flowing back as dividends and repayments. But the gap is so large. You indicate it is $7 billion compared with $25

billion. In connection with our oil purchases from Arabian countries; they offer a limited market for exports, both in numbers of people and the type of goods they want. Would it be to our advantage to transfer some of these oil purchases to the U.S.S.R., with its 250 million customers who want many of our exports, such as computers, electronic equipment, automobiles, farm products, et cetera?

Mr. KENDALL. Mr. Congressman, you asked really two questions: How do we meet that gap, and, then, should we transfer some of our oil purchases from the Middle East? On the first point, I only covered one part of how we can meet that gap, and if the energy requirements are that high, I am not sure that we can meet them. But one of the ways in which we can hopefully meet them is with the foreign direct investment earnings which I cited in my testimony.

The other was where we ended up with a deficit situation in the merchandise account. I believe that we are rapidly turning the merchandise side of our trade picture into a healthy surplus, and that will help pay for it. But I am not sure the merchandise surplus will go all the way.

Regarding the Soviet Union and oil, I have said previously in testimony that I think we certainly should have a second source of overseas energy. I know that that is the position that Japan today has taken, very openly, that they feel that they can rely on the Soviet Union for part of their energy requirements. From a merchandise standpoint to help our merchandise trade balance, the question is very obvious because if you look at where the oil is, you are talking about Saudi Arabia which has the biggest quantity of it, you have Libya, and you have, of course, Iran where there is a good market.

Saudi Arabians are not going to buy a great deal of our merchandise. They are going to buy some of it, but not a great deal. Nor do I think that Libya is going to buy a great deal of it. I say this in both cases because their populations, and, therefore, their necessity to import is rather limited. But in the Soviet Union and Eastern Europe, I think that we have before us one of the greatest opportunities we have anywhere in the world for selling U.S. merchandise. There is a tremendous consumer demand in the Soviet Union. They have money in the bank today with which to purchase goods and we happen to have goods which they need.

Mr. SCHNEEBELI. To my way of thinking, one of the strongest arguments we have with respect to most-favored-nations treatment for the U.S.S.R. is the fact that it seems advantageous for us to deal with them in petroleum requirements, because we have a means of exchanging something with the U.S.S.R. and getting some of our money back, while we are limited in that capacity with the Arab countries.

How was the People's Republic of China able to generate the capital with which to continue importing a lot without exporting much? It is my understanding that their exports are very limited. They have very little to export. Where are they generating the money and capacity to import so much? Their manufacturing generally is rather primitive, I believe.

Mr. KENDALL. I am certainly not an expert on China. But I think that the market in China for the foreseeable future is going to be a limited one for the very reason you raise. They appear to have very

little foreign currency and are generating very little foreign currency.

Mr. SCHNEEBELI. They don't have the resources to create it.

Mr. KENDALL. So unless they find oil or something offshore, I think it is going to be very limited. So far they have been very reluctant. As a matter of fact, I don't know of any case where they have used credits.

Mr. SCHNEEBELI. Their cotton purchases were cash?

Mr. KENDALL. It is my understanding that practically all of their purchases were for cash. They are not utilizing credit so I think it would be limited for some time.

Mr. SCHNEEBELI. So between the two, the U.S.S.R. has greater potential for trade with us?

Mr. KENDALL. I think the whole picture between China and the Soviet Union is different. In 1959 we had our first trade exposition in the Soviet Union. We have had diplomatic relations all during that period and we are just starting with China to open the door. There are very few businessmen who are now running companies or are in the management of companies who have ever had anything to do about China because it has been nonexistent during their careers. We are just beginning to open the door.

In the Soviet Union we already have a trade agreement. I was in the Soviet Union 2 weeks ago and there were 50 U.S. companies over there looking to do business.

Mr. SCHNEEBELI. It is a very interesting subject, but my time has expired.

Mr. BURKE. Do you wish to inquire, Mrs. Griffiths?

Mrs. GRIFFITHS. No, I have no questions, thank you.

Mr. BURKE. Mr. Vanik?

Mr. VANIK. I told Mr. Kendall before lunch that I would raise some of the questions I did last week and I would like him to have an opportunity to review them. I was looking over the newspaper account of the Pepsi agreement with the Soviet Union. As I understand it, it will provide for a $1 million bottling works near Rostov, on the Black Sea.

This arrangement would provide for a sale by the Pepsi Co. of 72 million containers of cola to the Soviets to their Soviet bottling works at what I estimated would be 20 cents a bottle. That comes to $14,400,000. In exchange for that we were going to buy in the United States 12 million bottles of vodka at $9 a bottle which would come to $108 million.

Of course, the Pepsi-Cola would be made of sirup developed in West Germany, so I don't know why we should have to absorb that $108 million of vodka. We ought to sell it to West Germany because they are getting the sirup business. I was trying to figure out on balance, how a transaction that would cost this country $108 million in outflow for cash for vodka and bring nothing back in was good for this country's balance of payments situation.

To round out my statement, I said further I thought all we would get out of this was a hangover and a Soviet hangover is pretty tough. What is the United States going to benefit by your financial transaction?

Mr. KENDALL. That just proves to you how much misinformation one get by reading and estimating.

Mr. VANIK. Maybe that is a problem. Do you recommend that the American people will give it up? You know we can still listen. All we are listening to makes us worry too much. If we stop reading and listening, I don't know what pleasure we are going to have left because that is all we are getting.

Mr. KENDALL. If you took those figures and extrapolated them and multiplied them the way you do, I guess, you could come up with that. The last time I was here, I had a dialog with Congressman Burke. We were talking about some good old Yankee trading and salesmanship.

I consider that this is probably one of the best sales jobs I ever did in my life and one of the best deals I ever negotiated. If the terms were such as you gave them, I miserably failed. I only wish that the transaction did amount to the kind of dollars you are talking about, because that would mean we would be selling an awful lot of Pepsi-Cola.

Actually one of the things that I think is most important about this transaction is that the units that we're going to sell in the Soviet Union are the least costly units we will sell anywhere in the world. One of the reasons for that is that we are selling them concentrate at the same price we do in other countries, but we don't have to spend the money in marketing and advertising so the profit is greater per unit.

When I talked to Premier Kosygin he was not talking liter for liter, but he was talking about dollar for dollar. You will not get the kind of hangover in this country that you get with $108 million worth of vodka. It will only be about $3½ million worth of Vodka.

We will sell concentrate and they will operate the plant, we won't. The plant will be theirs. So the whole transaction actually to start with is a very small one.

Another point which I am sure you are interested in is jobs: Is this is going to create jobs?

I heard that it was reported in the Washington Post that we said the concentrate was going to be sold out of Germany. Actually, we can sell the concentrate from anyplace in the free world we want. We have not determined whether we will ship it from the United States or not. But the important thing is the equipment. We are making proposals to the Soviet Union for putting in a complete canning facility which American Can and Continental Can are putting in through us.

We are talking about putting in a Crown-Cork filling line. We are talking about all the automation that goes in for the first modern facilities that will be the Soviet Union. That will be totally American equipment. The only ones bidding on it are American firms.

Mr. VANIK. But the figures I quoted were correct. They were as stated in the newspaper.

Mr. KENDALL. The 72 million bottles is 3 million cases a year. The vodka that we are going to bring over amounts to the same amount of units we are going to sell. I don't remember the exact figure, but it is around $3½ to $4 million, both ways.

Mr. VANIK. This brings me up to an important point. Our two experiences with the Soviets that are very prominent are yours with the Pepsi transaction and the other with the transaction on the Soviet wheat. We seemed to have fared very badly on the wheat deal. I think it becomes very, very difficult to develop a consensus in support of East-West trade if we turn out to be such poor bargainers. I

asked Mr. Dent the other day whether anybody was evaluating these transactions.

We don't want to probe into the businesses of private corporations, but I think that as these transactions are developed they ought to be evaluated to determine what tax impact there is, what job impact there is, what balance of trade impact there is.

On the face of it, you will admit that your transaction with the Soviets on your bottling works does not on balance look—if the newspaper accounts are to be taken creditably—very good.

Mr. KENDALL. Yes, it is for me.

Mr. VANIK. This was in the Washington Post. Do you think they are capable of making an error like that?

Mr. KENDALL. I think I would take the fifth amendment on that one.

Mr. VANIK. I will yield for a question from my colleague.

Mr. LANDRUM. One question relating to your response to Mr. Vanik. You are bringing over *x* number of barrels of vodka in exchange?

Mr. KENDALL. Yes.

Mr. LANDRUM. Will that be bottled before it is shipped to the United States, or will it be bottled in our factories after it gets over here?

Mr. KENDALL. It will be bottled in the Soviet Union.

Mr. LANDRUM. So actually the question of whether the Soviets get the advantage or the U.S. people get the advantage is the fact of where the jobs are for bottling that; is that right?

Mr. KENDALL. No.

Mr. LANDRUM. Isn't it true that more people are employed in bottling the product than are employed manufacturing it?

Mr. KENDALL. Are you talking vodka or Pepsi-Cola?

Mr. LANDRUM. Vodka and Pepsi, both of them.

Mr. KENDALL. The concentrate for Pepsi-Cola and the manufacture of Vodka, neither are very labor intensive. We can make all the Pepsi-Cola concentrate in a very small facility for the whole world.

Mr. LANDRUM. So the jobs are to be found in the bottling, in the package of it for the consumer?

Mr. KENDALL. That is right.

Mr. LANDRUM. Thank you very much for yielding.

The CHAIRMAN. Mr. Conable?

Mr. CONABLE. Thank you. Mr. Kendall, I would like to ask you about ECAT. It has been a very effective organization on the Hill and you have been working on trade outreach long before Mr. Burke put his bill in and attracted all the attention of the other fellows who are particularly concerned about maintaining our liberal American trade posture. Do we have a list of who makes up ECAT? Can you generalize about it?

Mr. KENDALL. We have a brochure on ECAT which we can make sure that all of you get if you don't have it now. It is made up mostly of large multinational companies. We have some smaller ones, but there are 63 members.

Mr. CONABLE. Do you have any function other than the influencing of legislation?

Mr. KENDALL. Well, our principal goal is to try and maintain the kind of trade policy that we have had in the United States in recent years and to stop any trend toward a protectionist——

Mr. CONABLE. So it is primarily a lobbying organization. I think you have done a very good job and worked most effectively in this area. I suspect that you may in the course of the development of this bill become something of a target because you have been so effective. So I hope you will make available generally the full information about the background of the organization, which I am sure is prefectly open and above board.

[The following was submitted for the record:]

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Mr. Robert W. Sarnoff, Chairman and Chief Executive Officer, RCA Corporation, 30 Rockefeller Plaza, New York, New York 10020.
Mr. Thomas B. McCabe, Chairman, Finance Committee, Scott Paper Company, Philadelphia, Pennsylvania 19113.
Mr. Donald P. Kircher, President, The Singer Company, 30 Rockefeller Plaza, New York, New York 10020.
Mr. J. Paul Lyet, Chairman and Chief Executive Officer, Sperry Rand Corporation, 1290 Avenue of the Americas, New York, New York 10019.
Mr. Richard M. Furlaud, President and Chief Executive Officer, Squibb Corporation, 40 West 57th Street, New York, New York 10019.
Mr. Patrick E. Haggerty, Chairman, Texas Instruments Incorporated, 13500 North Central Expressway, Dallas, Texas 75231.
Mr. Harry Heltzer, Chairman of the Board, 3M Company, 3M Center, Saint Paul, Minnesota 55101.
Mr. James A. Linen, Chairman of the Executive Committee, Time Incorporated, Time & Life Building, Rockefeller Center, New York, New York 10020.
Dr. Ruben F. Mettler, President, TRW, Inc., 23555 Euclid Avenue, Cleveland, Ohio 44117.
Mr. Harry J. Gray, President, United Aircraft Corporation, East Hartford, Connecticut 06108.

Mr. George L. Wilcox, Vice Chairman, Corporate Affairs, Westinghouse Electric Corporation, Westinghouse Building Gateway Center, Pittsburgh, Pennsylvania 15222.
Mr. Lester A. Burcham, Chairman of the Board, F. W. Woolworth Co., Woolworth Building, 233 Broadway, New York, New York 10007.
Mr. C. Peter McColough, Chairman and Chief Executive Officer, Xerox Corporation, Stamford, Connecticut 06904.
Mr. William H. Flynn, Chairman, Zapata Corporation, 2000 Southwest Tower, Houston, Texas 77002.
Mr. Justin Dart, President, Dart Industries Inc., P.O. Box 3157, Terminal Annex, Los Angeles, California 90051.

Mr. KENDALL. We certainly will. One of the things that we tried to bring not only to the Congress, but also to the Senate is to get chief executive officers of companies to come and testify themselves. As you know, the business community has been somewhat reluctant to do that over the years. We are getting them to do that. I think it has been beneficial for both sides.

Mr. CONABLE. Mr. Jones, I have a kind of general question to ask. We always hear in connection with any discussion of trade a question that seems to bother some Americans, that is that carrying a very liberal trade policy to its ultimate conclusion could easily result in this country's making only computers, only very high technology things because we have the know-how and the capital. We could wind up without jobs for people ill-equipped to handle the very highly specialized jobs characterized by your industry. We could become, in the New York idiom, the Westchester County of the world with a very large percentage of unemployables because we don't have any longer the shoe factories, textile factories and comparatively low-skilled jobs, but only high paid jobs.

Is this the ultimate end of a liberal trade policy? As our economy matures, must it inevitably mature in the direction of those elements of industry for which we are best equipped to the exclusion of all the other types of industries which now provide jobs for many marginal workers who otherwise would be on welfare?

I know in talking with the Japanese I find frequently they express wonderment at our trade anxieties saying, "Why, you people could spend all your time making computers. Why should you worry about textiles, rubber footwear and things of that sort."

So there is a dilemma here and how does a free trader answer this kind of a question? We certainly want to have a balanced society and provide jobs for all people regardless of their educational attainments or their skill capacities.

Mr. JONES. Mr. Conable, I am going to give you a kind of wandering answer.

Mr. CONABLE. That was a wandering question, I guess.

Mr. JONES. I would like to have you focus on the computer business. Out of every 100,000 people employed by a computer company, roughly 20,000 are in factories and 80,000 are outside of factories. So the question is, what do those 80,000 people do? They are involved in development, research, market support selling, repair services—a whole host of functions which are becoming more and more skilled, but they still make the computer industry very labor intensive.

In fact, if you look at both IBM and Xerox, you will find that for the same number of dollars, IBM and Xerox employ more people than General Motors. So that is the first piece of my answer.

The second piece of my answer is that if you look at some other industries, such as the automobile industry, I don't know how many people it took to make an automobile back in 1923 but I know it takes many, many less people to make that automobile today. I suggest to you that as technology in the automotive industry increases, the people who are doing direct labor of an unskilled nature will become less and less.

But I would also suggest that as that industry developed along with that industry developing a whole flock of other things. For example, to use your computer point, they are now all actively looking at how to put a computer inside an automobile. They have radio inside of automobiles. They have all kinds of accessories for the automobile industry.

Likewise as technology increases, I believe there will be new developments, the way television developed. The transportation industry has a whole flock of developments that will enhance it from new technology. I believe that new technology will develop jobs, not eliminate them.

Mr. CONABLE. We are all aware of the national defense argument of keeping some industries going. For instance, whether we have an efficient steel industry or not we certainly should retain that capacity in this country.

What do you think about that argument as it applies to some of the less skilled industries in the United States, like the textile industry, for example. Is it important that we try to maintain a balanced economy by retraining industries of this sort? Lots of people express the goal of economic development as making the best use of your resources and if that were the case, all low-skilled industries would go overseas at this point in all probability.

What about the national policy argument on this, which is quite apart from the defense argument and what about the loss of whole industries like, let's say, the transistor radio industry which has virtually ceased to exist in this country? Is that a serious thing?

Mr. JONES. Mr. Congressman, I am not really an expert in all those fields. I guess my answer is that in the precision industries, from a national defense point of view, it is most vital to see to it that the precision industries remain very strong in the United States of America.

If you ask me the same question on transistor radios, my answer would be "No," I believe that we have an electronics components industry in this United States that is very very strong. I think it is on the precision side of that industry and I think it is moving ahead faster, much faster than that industry is moving ahead overseas.

I believe that our ability to keep a strong engineering community in the United States will keep that technology moving ahead faster in the United States than outside of the United States, and I include Japan.

When you get me to textiles, you know it would be awful easy for me to say, "Look at du Pont, they somehow manage to keep going year after year" but I really don't know the answer to textiles.

Mr. CONABLE. Thank you.

The CHAIRMAN. Are there any further questions?

Mr. Burke?

Mr. BURKE. Getting to that adjustment assistance, how do you think these multinational corporations would feel if we had the Federal

Government step in and extend unemployment compensation up to 52 weeks with the Federal Government participating as they do under the Emergency Unemployment Act last year?

Mr. JONES. Mr. Burke, are you asking me to answer that question?

Mr. BURKE. Yes; I am asking all of you.

Mr. JONES. That is a very good question. It really centers the spotlight on two pieces of the problem. The first question is, are the multinationals responsible for shipping jobs overseas? My answer is that they are not.

In my company one out of every five jobs in the United States would disappear if we did not do business overseas. So, in my opinion, most of us are bringing jobs here. Only about 2 percent of the jobs go overseas.

The second spotlight goes to what Congressman Conable was talking about. The places the jobs have gone are Italy in shoes, the Far East in textiles, the transistor radio business to Japan. That is not because the multinationals sent them over.

It is basically that to survive, those jobs have to be over there. I don't think you can blame the multinationals for that problem.

Mr. BURKE. I haven't got your list here, but I did look at it earlier today. On the Chrysler Corp. they are manufacturing a car in Japan and they are giving it wide publicity on television. I believe it is a Colt car they manufacture in Japan.

They ship it back here. They tell the people of the advantages of buying that Japanese-made car. Why couldn't that car be made here in the United States? I believe General Motors is doing the same thing, and the Ford Motor Co. is doing the same thing.

Those are the jobs we have lost. They are in competition with their own product right back here. The testimony I have received from the multinationals is that the reason they go into these markets is because of the barriers that they have in trade that you can't export your product over there so to get your products in over there you have to manufacture it over there, but that is not true now.

We find these big corporations manufacturing the products over there to import them over here.

Mr. JONES. Mr. Burke, I can't talk about Chrysler.

Mr. BURKE. I just cited three of them. I could go down the list and ask you which ones import products, finished products, over here.

Mr. JONES. Could I use your example of Ford instead of Chrysler, because Ford brings back to this country many thousands of Capris.

Mr. BURKE. How many are they exporting to Japan?

Mr. JONES. I can't answer your question. The problem with exporting an American car——

Mr. BURKE. Before you go too fast for me, a Pinto automobile, according to the information we have, which retails over here for around $2,000 retails for about $6,000 in Japan. Does that tell you anything? You are a businessman.

Mr. JONES. It tells me something.

Mr. BURKE. A car that retails for $2,000 over here retails for $6,000 over there. Their $2,000 cars retail for $2,000 here.

Mr. JONES. Both Mr. Wilson and I testified that nontariff trade barriers and tariffs should be looked at carefully to give the manufacturers a break. The tax on a car coming from the United States is roughly $46. The cost of a car going from the United States to Japan

is at least 10 times that amount. I agree that that is a very unfair situation and should be corrected.

Mr. BURKE. Why should we place all the authority and power in the hands of the Executive? We did that in 1962, and then all these disruptive changes were brought about since 1962. We have had our two first trade deficits the last 2 years. We have had the devaluation of the dollar a couple of times, which I understand you people applaud because some of you people made out very well on the speculation over there.

Here is another question: I understand that gold has gone up today in price of over $100. Have you heard about that?

Mr. JONES. Mr. Burke, you just said that the IBM Co. speculates. We do not speculate.

Mr. BURKE. I said the multinational companies speculate; I didn't say IBM. It is the best kept secret in the world.

Mr. KENDALL. I think your allegation is an unfortunate one. I know you would not misrepresent the facts. I don't think you have the facts to support the allegation that the multinational companies are speculating, because that is not the case.

Mr. BURKE. Would you be willing to put an amendment on this bill that for every multinational company that speculated the United States will tax them at 100 percent?

Mr. KENDALL. As far as I am concerned, yes.

Mrs. GRIFFITHS. I would like to correct the gentleman's statement that we are exporting more cars than we are importing. The truth is that in 1970 we exported $821 million and imported $3,721 million.

In 1972 we exported 1 billion 3 million and imported 5 billion 7 million. We are not even close to exporting as many cars as we import.

Mr. JONES. Mrs. Griffiths, I am the one who made the statement. I was only referring to one company. Most of the cars are Volvos, Saabs, Mercedes, Volkswagens, Toyotas, and the like. I was referring to the balance of trade of one company.

Mrs. GRIFFITHS. But you would point out that Pinto engines come from England, don't they?

Mr. JONES. I don't know.

Mr. MCNEILL. Mrs. Griffiths, I think that may be the case. I know the Ford Motor Co. is putting into place in the United States facilities to produce that engine strictly in the United States.

Mr. VANIK. Will the gentleman from Massachusetts yield?

Mr. BURKE. I am not through, but I will yield to you.

Mr. VANIK. In your statement you said 1 out of 5 jobs in the United States depended on export as far as IBM is concerned. I have the 1972 report, which is the latest one that is available.

It says 1 out of 8 jobs in American plants is supported by export trade. Has that changed since this report, which is the latest one to reach us? The report said 1 out of 8. You said 1 out of 5.

Mr. JONES. Mr. Vanik, I am well aware of that. The 1 out of 8 was a very conservative statement put in the report from a speech given by Mr. T. Vincent Learson.

Prior to the time I testified before the Ribicoff committee, I had our staff make a study of that situation. The figure is that in the United States we have 42,000 employees in manufacturing. In the World Trade Corp. we have 27,000 employees in manufacturing.

The output of those plants is about the same. The rest of that is exported from the United States overseas.

Mr. VANIK. Then the financial report is in error?

Mr. JONES. Yes; it is.

Mr. BURKE. In view of your statement that the multinational corporations did not participate in the speculation on the devaluation of the dollar, Mr. Chairman, I ask unanimous consent to have the record kept open at this point in the record and ask permission to insert many of the statements made by responsible financial papers throughout the country, including the Wall Street Journal and many of the other newspapers in the country.

The CHAIRMAN. Without objection, that material will be included at this point in the record.

[The following articles from newspapers and periodicals, including an excerpt from a study of multinationals by the U.S. Tariff Commission referred to in the articles, were submitted for the record:]

[From the Wall Street Journal, Apr. 19, 1973]

TALK OF THE GLOBE—MANY CRITICS CHARGE MULTINATIONAL FIRMS CREATE MONEY CRISES—CORPORATE CURRENCY MOVES ARE CITED, BUT COMPANIES CALL TACTICS 'DEFENSIVE'

A WARNING TO THE PEASANTS

(By Charles N. Stabler)

LONDON—They can, and they do, force unwanted changes in the various values of national currencies. They strongly influence interest rates throughout the world. Through a combination of sophistication and sheer size, they often manage to evade governmental economic policies. In fact, in the pantheon of demons plaguing financial markets around the globe, they now have displaced the legendary gnomes of Zurich, the ultrasecretive Swiss bankers, as the chief culprit blamed for recurrent instability and breakdowns.

They are the world's multinational corporations—the giant firms and banks that operate through subsidiaries scattered around the globe. The marketing of their goods and services, in fact, knows few boundaries. They deal in nearly all of the world's currencies.

The multinationals are currently the center of a storm of controversies. Devious political doings, irregular labor practices, unfair competitive strategies—all these and more have been alleged as standard practices of the multinational corporation. But of all the controversies, the most complex concerns the multinationals' highly mobile money. To wit: It is increasingly argued that no nation nor any international monetary system can withstand the multinationals' financial power.

"Much of the funds which flow internationally during (a monetary) crisis doubtlessly is of multinational corporational origin," says a recent, massive study by the U.S. Tariff Commission. The companies don't deny this assertion. But whether they indeed possess the enormous power attributed to them by some of the world's financiers is open to varying opinion.

Nowhere are there more opinions on the subject of multinationals than here in this English capital's financial district, the so-called City of London. Here has traditionally been located the nerve center of what is called the Eurodollar market—that is, dollars on deposit in Europe and therefore beyond the purview of U.S. government control. With the growth of multinationals, this market has vastly diversified to the point that it is more appropriately measured in "Eurocurrency," consisting, say, of Euroyen or Euromarks—a kind of world money that integrates, sometimes to their discomfort, the financial markets of the various nations.

The power to move these deposits among banks in different countries is wielded by a variety of sources, ranging from the central banks of nations to wealthy individuals. But these days, such assets are largely controled by the

NOTE.—This is the second of a series of articles on the role of multinational corporations in today's world trade.

multinational banks and corporations. And if the multinationals' power is regarded in some quarters as threatening the world's financial structure, the multinationals themselves, while by no means minimizing their role in world finance, frequently maintain that their monetary maneuvering is purely defensive—an effort, in fact, to play a legitimate business game without being at the mercy of changes in the value of their chips.

Planning ahead

"The international treasurer must try to avoid a serious economic book loss to the company in dollar terms on account of even small changes in foreign currency values against the dollar," says William F. Ryan, international finance director of one of the great multinationals, Allied Chemical Corp. "To do so, he plans ahead to keep a balanced position in his financial assets and liabilities overseas. For example, if the deutsche mark is a relatively stronger currency against the dollar and the Italian lira is a relatively weaker currency against the dollar and a change in the mark-lira rate is likely, he would prudently aim to increase his mark financial assets and decrease his mark liabilities, while decreasing his lira assets and increasing his lira liabilities."

But if the rationale is obvious—the multinational company offsets its losses in one currency (translated into dollars) with gains from another—so, too, is the result: The weakness of the currency that is dumped is aggravated, and the strength of the sought-after currency is enhanced. And while international trade has always involved this process, the growth of multinational corporations in recent years—along with improvements in intercontinental communications—has sent the size and speed of capital flows soaring and, critics say, has consequently accelerated the pace of world monetary crises.

Here in London, Christopher Tugendhat, who represents the City in Parliament (much as if Wall Street had its own Congressman), remarks on a kind of "go-go" fever that has increasingly pervaded the control centers of multinational money management. In a recent book, he points out that when performance-oriented mutual fund managers all follow each other in and out of the same stocks, "upward and downward swings (in prices) are invariably exaggerated." He adds: "In certain circumstances, the same applies to currencies."

A few excuses

True, few deny that sometimes the multinationals enter into monetary maneuvering because they simply can't do otherwise—that there is in actuality much to buttress their claims that their moves are defensive. A New York banker, for example, analyzing the genesis of the most recent currency crisis (which resulted in the second devaluation of the dollar) says, "Our big customers (multinational corporations) weren't in it at the start, and they held back quite a while; they thought it would blow over. But as it kept building up, they finally had to step in and protect themselves." (This particular protection involved short sales of borrowed dollars and purchases of Swiss francs, German marks and Japanese yen.)

But despite what they say is their avowed dedication to purely defensive money management, the temptation for multinationals to use their financial prowess in speculative ventures is sometimes too great to be suppressed. "Certainly we take uncovered (speculative) positions in currencies," says the representative of a New York bank here in London, "and it can be very profitable."

Considering the size of the multinationals' assets, it isn't surprising that any moves on their part—speculative or otherwise—are greeted with concern, not only in the City and on Wall Street, but in Washington and Whitehall as well. According to the Tariff Commission study, for example, private institutions on the international financial scene controlled some $268 billion in short-term liquid assets at the end of 1971. By comparison, the reserves of the world's major central banks—the foreign exchange holdings that they use to buy or sell currencies to defend against unwanted price changes—come to less than $68 billion. Germany, for example, has about $22 billion in foreign exchange reserves, France has $5 billion, Great Britain $4 billion and Japan $17 billion.

(According to some major banks and corporations, the Tariff Commission figure is unrealistic and thereby distorts the comparison between the wealth of the multinationals and the central banks. Economists at New York's First National City Bank, for example, term the commission's estimate for the corporations "naughty numbers" and say it includes about $138 billion in nonliquid assets and doublecounting. But even if this figure were to be subtracted, the multinational treasury would still be more than enough to precipitate a crisis in the

event of even slight maneuvering. In the currency crisis that led up to the most recent dollar devaluation, well under $10 billion was sufficient to break down the alignment of exchange rates agreed on 14 months earlier at the Smithsonian Institution and, in fact, to sink the whole monetary system.)

Further enhancing the power of the multinationals is the fact that they can bring about major changes in a nation's balance of payments even without outright transfers of funds. The process is familiarly called "leads and lags," and its effect can be devastating. An example: Great Britain in one recent month had export-and-import-payment flows totaling $4.3 billion and a trade deficit of $269 million. If, because of doubts about the pound, British importers hastened payments and exporters respectively delayed collections by 10%—which is well within the realm of possibility—the nation's trade deficit would have widened to $699 million.

A nation can, of course, almost entirely seal its borders against money flows and thereby prevent such swings. The Soviet Union, China and other countries with tight economic controls and currencies that aren't readily convertible are cases in point. But such preventive medicine has its side effects in that investments are blocked and trade is effectively strangled.

How then can national money managers curb speculative, and disruptive, flows of capital while not frightening off wanted investment and trade? In the wake of each recent currency crisis, nations have tried to deal with this dilemma in a variety of ways. France, for example, has a two-tier currency; the price of francs used in trade is supported against some other European currencies, while the price of francs used in internal financial transactions floats in response to market forces. Several other nations now have what might be called negative interest rates on deposits from nonresidents in their banks; the nonresident has to pay the bank to withdraw money.

Skinning the cat

But such controls, money men say, really don't work very well in the long run. "There are too many ways to skin a cat," says a New York foreign exchange dealer. By way of example, he cites the case of a Latin American subsidiary of a large multinational company. The subsidiary was amassing large profits, the dollar value of which was threatened by an almost certain revaluation of the host country's currency. And the country's weak balance of payments, which had precipitated the idea of revaluation, had already caused it to block companies from exporting assets to a safer haven.

The solution: On orders from headquarters, employes throughout the company's worldwide network began to order all their airline tickets through the Latin American subsidiary. This ploy drained away the subsidiary's endangered profits to the tune of about $100,000 a year and served the dual purpose of trimming expenses for the company's other affiliates.

Indeed, multinationals have proved to be exceedingly versatile at outwitting national economic policies. Take the case of a devaluation stemming from a country's desire to curb inflation. Knowing that companies will often try to circumvent devaluation to maintain profit margins by simply raising prices, the move to devalue a currency is often accompanied by price controls. But a clever multinational management, anticipating devaluation, will prior to the devaluation announce an artificially high price for its products, which it then quietly sells at a discount; when devaluation occurs, the company simply eliminates the discount, thereby maintaining its profit margin.

"If necessity is the mother of invention, restrictions must certainly be the father of ingenuity," says Yves-Andre Istel of Kuhn, Loeb & Co. And other observers agree that such ingenuity will continue to triumph, since the benefits of trade and investment among nations are generally too desirable for governments to have them institute more restrictive controls.

"Bureaucrats and governments keep trying to control markets, but history proves they can't," asserts Milo Vesel, managing director of the Paris-based international arm of Smith, Barney & Co. He adds: "Thomas Aquinas kept warning the peasants they would go to hell if they raised the price of potatoes. But people took the chance and raised the prices anyhow."

In terms of the Eurodollar market, this situation means that efforts to control the market by one nation or a group of nations would simply drive it elsewhere—to the Bahamas, say, or to Zurich or indeed anywhere it could operate free of control. This eventuality isn't lost on the British, whose authorities reject the idea of regulating the Eurodollar by controlling financial intermediaries in London—even though it was through the Eurodollar market that $3 billion

flooded into England in a matter of days last year, knocking the pound sterling off its fixed peg and into a float that still continues. The British reasoning, of course, is that any effort to restrict Eurodollar operations would simply deprive London of the business.

(Many nations do control participation by their own residents in the Eurodollar market. But there is no supranational control, and there is little confidence such control could ever come about.)

The British have perhaps learned a lesson from what some consider to be a U.S. mistake. A recent study by Rimmer de Vries, international economist of New York's Morgan Guaranty Trust Co., indicates U.S. efforts to shore up the nation's balance of payments by restricting financial outflows "are responsible for the export of the international banking business of U.S. banks.

"The U.S. is the largest industrial country and has the most advanced banking system and the best developed money and capital markets in the world and therefore should be a much more important international financial center than it has been." Mr. de Vries says, "The enormous expansion of international financial activity in the past decade or more has largely bypassed the U.S. because of restraints and regulations." (One major result: In order to compete in international markets, U.S. banks have sharply expanded their overseas operations and created 35,000 jobs in the process, all outside the U.S.)

Constructive force?

In fact, most analysts say the Eurodollar market has more advantages than disadvantages for the world monetary structure. "On balance, most observers would agree that the Eurodollar market has been a major constructive force in the financing of economic growth and expanded international trade," John J. Balles, president of the Federal Reserve Bank of San Francisco, said in a recent analysis.

One advantage, Eurodollar proponents contend, is that the market is an increasingly important source of capital for companies and governments. For example, the investment banking firm of White, Weld & Co. says that last year's new issues of international bonds sold in the Eurodollar market totaled a record $5.66 billion, some $2 billion more than in 1971 and more than double the 1970 figure. The bonds were denominated in 10 different currencies and combinations of currenies, with Eurodollars accounting for $3.3 billion. (Affiliates of U.S. companies borrowed $1.8 billion of the total.)

"The record volume of new-issue activity again amply demonstrated the resilience and adaptability of the international bond market." White Weld says.

If the Eurodollar market is here to stay. is there any ready solution to the multinational corporations' potential for transmitting monetary strains from nation-to nation? Apparently not. And the reason, some analysts argue, is that the disruptive problem of short-term capital flows brought on by multinational corporate activity is basically a symptom rather than a cause of world monetary malaise.

"Regulation of the Eurodollar market isn't simply a technical matter but is rather an aspect of the broader problem of international monetary cooperation," says an early study of the question by Donald R. Hodgman, a professor of economics at the University of Illinois. "This in turn merges into the still broader issues of international economic and political cooperation."

[From the Wall Street Journal, May 19, 1972]

CONTROLLING CASH—MORE CONCERNS TIGHTEN MANAGEMENT OF FUNDS ABROAD TO TRIM COSTS—FIRMS SAY "LEADS AND LAGS," "FLOAT REDUCTION," HELP CUT RISKS AND INCREASE PROFITS

"EVERYBODY PLAYS THE GAME"

(By Charles N. Stabler)

NEW YORK.—Richardson-Merrill Inc., the pharmaceutical company, has a subsidiary in the Netherlands that recently needed to borrow about $500,000 for one year. The Dutch unit planned to borrow locally at an interest charge of 7.5%, or $37,500 a year.

Meanwhile, back in the Alps, a Swiss subsidiary of Richardson-Merrill had more money flowing in than it could use at the time. The Swiss unit figured

it would invest in Swiss securities then yielding around 5%, or $25,000 a year on $500,000.

In a similar situation a few years ago, the two subsidiaries, which normally have no particular reason to know each other's financial condition, would have followed these plans. But this time, money managers at the parent company here followed the situation closely and alerted the two affiliates. According to John R. Lilly, Richardson-Merrill treasurer, the two units then negotiated a mutually beneficial credit agreement that will also save money for the parent company.

In a small and simple way, the transaction illustrates an important change: hundreds of international companies now are giving sharply increased attention to international money management, a field that numerous concerns have curiously neglected.

The stakes are high

These companies are acting because they have found that where your money is and what it is doing at a given moment can make you—or cost you—millions of dollars. South American currency devaluations last year cost Goodyear Tire & Rubber Co. $11.8 million, the company reported. Because of the U.S. devaluation and other currency changes, Standard Oil Co. (New Jersey) last year wrote off $55 million. The company said repayment of debts denominated in foreign currencies would cost it an additional $70 million over a period of years because of the currency realignment.

Even excluding such monetary turmoil, the differences in national interest rates, taxation, exchange rates and other variables, coupled with the sheer growth in the volume of international business, all mean that international money management can make a real difference on profit sheets.

"International money management is still underdeveloped and underappreciated, but it now is getting a tremendous amount of attention at top management levels," says David B. Zenoff, a consultant who teaches at Columbia University's Graduate School of Business. "Everybody is playing the game more aggressively in his own interests," he adds.

Of course, really mammoth international companies like General Motors Corp. have played the game for years. But now, "the next tier down" of companies is joining in, says Joseph G. Goetz, a vice president of New York's First National City Bank. Today, 300 companies use the bank's network of foreign branches to try to improve their international money management—primarily by speeding up the flow of payments into company coffers—and most of them have signed up in the last two or three years, he says.

Reducing the "float"

The banks play a big role in the growing corporate drive to reduce international "float"—nonproductive cash accumulated in financial pipelines. Consider a company whose French subsidiary sells products made by another subsidiary in West Germany. Under the old system, payments might go through a bank in France, then be transferred to a bank in Germany to the account of the German subsidiary. The money might float unproductively for several days.

Under a new system, however, the First National City Bank office in Paris might accept the deposit and credit it to either the parent company or the German subsidiary the same day.

Besides First National City, numerous banks are increasing their involvement in international money management. Among others, the Bank of America in San Francisco and New York's Morgan Guaranty Trust, Chase Manhattan Bank, Chemical Bank and the private Brown Brothers Harriman & Co. are particularly active in the field, corporate financial men say.

Many corporations are also centralizing the payments and receipts of foreign subsidiaries to reduce foreign exchange transactions and risks and are tightening control over international money management generally. Typically, American Standard Inc. at the beginning of the year assigned to executives at its European financial headquarters in Brussels the responsibility for managing money flows among the company's seven affiliates in Western Europe. The diversified manufacturing concern is using a variety of techniques, including one of Citibank's programs to reduce float.

"We're already beginning to see the kind of savings that can result," says Sterrett Peterson, assistant treasurer of American Standard. Just the initiation of a sophisticated cash management program "gets our own people thinking in terms of faster cash flows and reducing high cash balances," he says.

"Probably another 150 companies are looking closely at what is needed," says Columbia's Mr. Zenoff. Such large, though not mammoth, corporations as Merck & Co., Chas. Pfizer & Co., Standard Brands Inc. and Fairchild Camera & Instrument Co. are currently tightening and refining their international money management capabilities, he says.

This tighter control allows companies to cut costs by such methods as "jumping currencies." In many international companies, subsidiaries in one country deal heavily with subsidiaries in other nations. In a typical situation, a unit in Germany owes money to a unit in Switzerland, which owes money to a unit in France, which in turn owes to the German unit. Instead of going all the way around, the debts can be "netted out" at a considerable reduction in float.

The companies also use tighter international money management to cope with a perplexing and important question: In which countries, at any given moment, should any surplus cash be placed?

According to Donald G. Robbins, chief financial officer of Singer Co.'s, a money manager dealing with questions like these faces three major variables: exchange rates, interest rates and taxes.

Watching the "leads and lags"

Companies increasingly program these variables into computers to help determine where money should flow at a given moment. They also make growing use of "leads and lags" in intercompany payments. For instance, if a company thinks the German mark will get stronger and the French franc weaker, it advises its French subsidiary to speed its payments of francs to the German subsidiary. The German subsidiary, in turn, is told to delay payment of marks to affiliates in other countries. Thus, the company as a whole has the largest possible holding in marks, which officials expect to rise, and the smallest possible holding in francs—or, ideally, a debt in francs—which the company expects to decline.

Corporations also insist on increasingly frequent and detailed financial reports from foreign subsidiaries. This allows the company to determine its net exposure to possible exchange rate changes for a given currency.

Such information is important. The widening of "trading bands" last December more than doubles the opportunities—and the risks—in currency exchange. Prior to that change, rules of the International Monetary Fund allowed currencies to fluctuate against each other by only 1% up or down from a designated exchange parity. With the widened trading bands, the currencies can move as much as 2¼% from parity.

Write it in yen

Moreover, American companies find it is more and more difficult to shove the risk of currency fluctuations onto foreign companies. In the past, many American companies routinely wrote all foreign trade contracts in dollars and thus avoided the risk of any losses from devaluations of foreign currencies. But now, foreigners "suddenly want other currencies," says David Slifer, head of the Bank of America's international money management group. For instance, many contracts for U.S. imports from Japan, which once would have called for payment in dollars, are now denominated in yen because of the exporters' insistence.

The increasingly sophisticated money management needed to grapple with such problems has significance far beyond company profits. The massive flows of corporate money out of the dollar and into strong currencies like the German mark helped trigger last year's monetary crisis and ultimate realignment of world currencies.

Such one-way flows are partly spurred by a tendency of corporations to "run with the pack," says Robert V. Roosa, former Under Secretary of the Treasury and a partner in Brown Brothers Harriman.

On the other hand, increased use of corporate money management methods may link various national credit markets more closely, economists say. For instance, deals like the Richardson-Merrill credit arrangement, carried out on a large scale, would tend to narrow the interest rate differentials between the Netherlands and Switzerland. Reduced demand for money in the Netherlands would depress rates there while decreased supplies of money would boost rates in Switzerland. This in turn would make for increased economic integration in Europe.

[From the Los Angeles Times, Mar. 4, 1973]

EURODOLLAR MARKET FOMENTING TROUBLE

$80 BILLION SENT ABROAD HELPS TO KEEP MONETARY SYSTEM ASKEW

(By Ronald L. Soble)

NEW YORK.—While the world's central bankers were still trying to decipher the role played by $80 billion in Eurodollars in last month's dolar devaluation, the authorities were faced last week with yet another currency crisis.

The latest round, too, was fueled at least partly by the puzzling Eurodollars.

The intricacies of international finance make it difficult to trace the $6.1 billion exchanged for Deutsche marks at the West German central bank in February.

But interviews with international bankers, multinational corporation treasurers, economists and commercial banking officials show the outlines of a speculative pattern.

A consensus is that although the Eurodollar market did not actually trigger the Feb. 12 devaluation—the dollar was overvalued to begin with—it certainly accelerated the crisis.

The currency brinkmanship practiced in recent weeks also shows that the February monetary crisis was not necessarily provoked by clandestine speculative strategy for personal profit by the so-called "money gnomes" of the world.

The crisis may have been caused principally by multinational corporations and government and commercial banks protecting their currency positions against possible losses from the weakness of the dollar.

Whether these actions are just another form of currency speculation is, of course, open to debate.

The Eurodollar market is a mystery. No country prints "Eurodollars" as such. The name refers to U.S. dollars deposited in Banks outside the United States, including foreign branches of U.S. banks. These dollars may be owned by Americans or foreigners.

The Russians may have coined the name. The story goes that a major supplier of dollar deposits to European banks in the early 1950s was a Russian state bank branch in Paris, the Banque Commerciale pour l'Europe du Nord, S.A., whose international cable code was "Eurobank."

Since cable plays a major role in foreign exchange transactions, dollar transfers to and from the Russian bank bore the "Eurobank" designation. Foreign exchange dealers and banks soon began to refer to these dollars as Eurodollars.

The Russians are still playing the Eurodollar game. Franz Pick, a New York expert on gold and currencies, contends that dollar devaluation has produced a windfall profit for Soviet bloc banks. Pick told a reporter European banks loaned Soviet financial institutions approximately $40 billion during the past six months to make purchases in the West. The 10% dollar devaluation means a whopping $4 billion saving on their repayments.

Most Eurodollar deposits are still in Europe. They may have been created by Americans transferring their dollar deposits from American banks to foreign banks, or by foreigners getting paid by checks drawn on American bank accounts which are deposited in banks in their own countries. Other funds come from foreign individuals or firms transferring their dollar deposits to foreign banks, or foreigners exchanging their countries' currency for these dollars and then depositing the dollars in a foreign bank.

Since the late 1950's, this market has emerged as a major tool for international transactions, spurred largely by big U.S. balance of payments deficits.

There were other reasons for the dollar flight abroad. They included military and foreign aid programs, and in limits imposed by the U.S. Federal Reserve System on interest rates which banks here can pay on time deposits—in contrast with higher interest rates permitted abroad.

(For example, the recent rate on a 180-day dollar deposit in a European-based bank would be at least 8.5% as opposed to about 6.5% in the United States.

As trade and capital movement heated up in the late 1950s and early 1960s, German, Dutch and Swiss banks became substantial lenders of Eurodollars that could be used for convenient short-term financing. About one-third of the world's $367 billion international trade in 1972 was financed by Eurodollars.

Major contribution

"There is no doubt in my mind that the Eurodollar market has made a major contribution to the financing of economic growth in this past decade," declares

Fred H. Klopstock, manager of the Federal Reserve Bank of New York's international research department, who is considered one of the world's leading Eurodollar experts.

But Klopstock also emphasizes that the market is a monster to central bankers because it can be used to finance speculative selling attacks on weak currencies.

The traditional secrecy that surrounds currency markets shrouds the names of the speculators who were betting on a devalued dollar.

But Eurodollar activity in West Germany was monitored as closely as possible by European banking officials during the two most frenzied currency trading days—Feb. 8 and 9—a leading Eurodollar expert said in a transatlantic telephone interview.

Some of the funds, the source asserted, had to come from multinational corporations, either U.S. or foreign.

C. M. van Vlierden, head of Bank of America, international operations, calls this activity "hedging by multinational corporations disposing of short-term funds."

Corporate treasurers and economists dislike the implications of the words "speculating" and "hedging." They prefer to refer to these activities as "protecting our company's position through long-range planning in the world's currency markets."

The treasurer of one major U.S. multinational firm insists, "corporate treasurers are not mean and nasty with this money." He continued: "you simply plan far enough ahead so that you don't get into a position where you suddenly have to cover yourself in a period of crisis."

An economist for another leading American corporation with extensive European affiliates told The Times that his firm had "recognized for several years that the German mark was a strong currency" and therefore bought forward in the D-mark market to protect itself. This is a common practice, he added.

Tough to define

"How do you define speculation?" asked one leading Eurodollar authority. He notes it is tough to distinguish between corporate treasurer's actions to defend his company and a strategy designed simply to turn a profit based on exchange rate changes.

This aspect of multinational activity will be investigated later this year by a Senate foreign relations subcommittee under the chairmanship of Sen. Frank Church (D–Ida.).

Banks—both the government-controlled variety and commercial institutions—also had a piece of last month's Eurodollar action, knowledgeable financial sources point out.

The last official figures gathered by the International Monetary Funds for 1971 estimated a $65 billion Eurodollar market of which $8 billion was in central bank holdings. Now the market is estimated at $80 billion and banking officials figure as much as $20 billion could be in the coffers of government banks. Leading Wall Street banking sources note that much of the huge sums deposited in central banks—as much as $7 billion of the $20 billion total—is in deposits held by the oil-producing nations of the Middle East. And, they declare, a significant amount of these Eurodollars found their way to the West German central bank in February. The central bank was forced to buy these funds to support the dollar's market price.

Commercial banks, American and foreign, also are significantly involved in Eurodollar trading and make deals to buy currencies to protect themselves against revaluations.

One of the busiest centers for Eurodollar trading activity is London, where the world's biggest commercial banks are well represented.

Dollar deposits in U.S. bank branches in the United Kingdom totaled $28.6 billion in September, 1972 (the latest Federal Reserve figures)—more than half of the $51 billion deposited in U.S. bank branches worldwide.

American banks use Eurodollars for much the same purpose as do foreign banks—to make loans to foreign customers, to swap for foreign currencies also for loan purposes and, subject to Federal Reserve restrictions, to make these funds available to their home offices during periods of strong credit demand.

The market is growing, along with world trading patterns.

This growth and the evidence of the market's latest involvement in the dollar crisis is sure to rekindle a close examination of the entire Eurodollar issue by central bankers, informed sources here and abroad agreed.

Bankers says the problem will soon be restudied through the Bank for International Settlements (BIS) in Basel.

BIS acts as a clearing house for intergovernmental monetary transactions and serves as a meeting ground for government banking officials. It monitors Eurodollar flows more closely than any other international organization.

Time and again, central banks have attempted to corral this market through a variety of internal controls. In fact, however, there is no international control of Eurodollar trading and, says the New York Fed's Klopstock, "it is difficult to visualize any system of supranationa control."

Rep. Henry Reuss (D-Wis.), one of Congress' leading international monetary experts, agrees that the Eurodollar market is "an international animal that has escaped control."

The Administration's recent proposal to eliminate the interest equalization tax by the end of next year could cool the Eurodollar market.

[From the Journal of Commerce, Feb. 26, 1973]

WAVE OF PROTECTIONISM FEARED—SPECULATION ON DOLLAR IS HELD MAJOR THREAT

(By David Post)

AMSTERDAM, Feb. 25.—"Continued speculation on the dollar should lead to a wave of protectionism in the United States which in turn would result in the greatest depression ever."

This was the warning voiced by Charles G. Bludhorn, chairman of the board of Gulf and Western Industries, speaking at a meeting of the American Chamber of Commerce in the Netherlands here Friday.

Placing most of the blame for the world's current economic woes on Japan, Mr. Bludhorn warned the audience not to lose faith in the U.S. or the dollar.

"EVERYONE IS LOSER"

"Speculation is a game where everyone is the loser in the end," he said.

"The general monetary situation could affect future world relations, and the major move is up to Japan which must get more realistic and open up its doors to trade."

Mr. Bludhorn warned that Europe would be the next to feel the impact of the Japanese markets: Once European trade barriers to Japan were down, there would be a flood of Japanese goods similar to the situation in the U.S.

The best method to curb speculation would be to set up an international banking agency—similar to the Federal Reserve Board—with emforcement powers.

"The speculators operating in Europe today make Monte Carlo look like a silly little place," he said.

$90 BILLION THUNDERCLOUD

"There is a $90 billion thundercloud hovering over Europe now which smells bad, and it is equalled only by the wind of isolationism sweeping throughout the U.S. This could result in protectionism the like of which the world hasn't seen since the 1930s. The end, of course, would be the worst depression ever," Mr. Bludhorn said.

He hinted that multinational companies had been adding to the wave of speculation in Europe this week, but vehemently denied that Gulf and Western, his own $1.6 billion multinational, did any speculating.

"If we have to make money that way, we might as well liquidate and become money speculators."

In a week in Europe, Mr. Bludhorn had met with divergent opinions about the recent dollar devaluation, ranging from "a great step forward" to "the United States is trying to destroy the Common Market." One industrialist reputedly told him, "if Connally was bad, then Shultz is worse."

Mr. Bludhorn said he believed that the Nixon Administration would not go out of office without settling America's currency problems, even if it meant placing 15, 50, or even 100 per cent duties on imports.

The only way to avoid this was for all trading nations to cooperate in curbing speculation.

He pointed out that the New York Stock Exchange was "one of the best bargains in the world," now available to European investors at a 10 per cent discount.

The U. S. had inflation problems, but these were under control, unlike inflation in much of Europe.

He concluded by saying "don't take America for granted, we devalued but don't make fun of us. The U.S. has been around for the good of Western Europe for a number of years, and it is regrettable that so many are trying to take advantage now. To lose confidence in the U.S. and the dollar is to endanger Europe."

Mr. Bludhorn was born in Vienna in 1926, studied in England and became a cotton broker in New York in 1945.

Gulf and Western was founded in 1958 and now embraces over 150 companies, including Paramount Pictures. Gulf and Western is currently trying to acquire 19 per cent of A&P.

[From the New York Times, Feb. 23, 1973]

Speculators in Currency: Who and Why

(By Clyde H. Farnsworth)

Paris, Feb. 19—The banks say the winners were the multinational companies. The multinational companies cite the banks. Everyone mentions the oil sheiks, and some talk of those institutionalized individuals—men like Jean Paul Getty, Aristotle Onassis and Stavros Niarchos—whose very capable financial advisers have been advising for months to be "long" on marks and yen and "short" on dollars.

Whoever it was, one multinational corporate treasurer said, they—the so-called "speculators"—made something like $400-million to $500-million from last week's devaluation of the dollar, or 10 per cent of the $6-billion that had flowed into West Germany, after you subtract the commissions.

Speculation, the speculators say, really amounts to protecting financial resources from the erosion of purchasing power. Speculative gains, the speculators say, are not ill got.

Who are the speculators? Daniel P. Davidson, vice president and general manager of the Morgan Guaranty Trust Company in London says the answer is the Fortune magazine list of the 500 biggest companies and 100 biggest financial institutions.

IDLE CASH USED

Others cite the central banks of some smaller countries, of Communist countries and of oil-producing countries of the Middle East. The word in London a week ago was that Libya had been converting hundreds of millions of dollars into marks. The dollar content of Kuwait's reserves dropped to $300-million out of total reserve holdings of $2.5-billion.

During periods throughout the year most multinational companies have idle cash. The oil companies and the automobile companies are the best examples. The European financial coordinator, usually someone based in Geneva or Zurich, Switzerland, is charged with putting that money to work before it has to go out again as some payment. If everyone is talking about an upward revaluation of the mark against the dollar, or a dollar devaluation, this man would look pretty silly having that cash in dollars.

But probably the bulk of the speculation consists of what the multinational corporate treasurers call "leading and lagging." This means paying your debts quickly if incurred in a strong currency country and letting them ride in the country with a weak currency.

Take the case of some ships being built in Japan or West Germany, the countries with the strongest currencies. It is far better for the future owner—say, an American company—to prepay those ships rather than wait out the possibility that a higher-valued yen or mark will later make the deal cost more.

PREPAYMENT PROCESS

Many multinational companies have subsidiaries in West Germany, and almost every subsidiary owes money to the bank. The same rule holds true. Far better that the debt be paid before the mark goes up in value.

Company treasurers reported that this process of prepayment had been going on for months in West Germany, although it was accelerated sharply during last week's crisis rush for marks.

Many companies, such as E. I. du Pont de Nemours & Co. and the International Business Machines Corporation, export from the United States to subsidiaries in Europe. In periods of currency strain where the dollar is under pressure, an internal corporate arrangement is worked out so that the European subsidiary's payments to the American parent are delayed as long as possible. The rule here is to wait until you can pay with cheaper dollars.

Banks also play a major role in speculation, although it is hard to find any bankers who will admit that their institutions are involved.

There were unconfirmed reports in the final days of last week's speculation that American banks were sending dollars to Frankfurt, West Germany.

Here is one story that was related on the understanding that no institution's name be used. A multinational bank in Belgium last week received a substantial supply of German marks from a second multinational bank. The first bank was actually paid 4 per cent to take the deposit because the second bank did not want the marks on its books.

It was afraid of arousing the wrath of the German authorities who were trying to clamp down on speculation. When the 10 per cent devaluation came, the second bank quietly got its 6 per cent.

And then there is the story of one American investor living in France, a very rich man who asked that his name not be used.

SWISS FRANCS ACCUMULATED

"Five years ago I began accumulating Swiss francs," he said. "I considered the Swiss franc something special, but then two months before the President's message on Aug. 15, 1971, I also bought Dutch guilders and Belgian francs. At the end of last June, after the pound floated, I bought German marks. I held onto everything but didn't buy anything more in February.

"This latest crisis took me a little by surprise. I haven't figured it out, but my profits in dollars must be in six figures. Remember, however, these are not real profits, but protection against losses."

IN WAKE OF DOLLAR DEVALUATION: WHO AND WHY OF SPECULATION

Money was made also by American companies that have assets in the hard-currency countries that did not devalue with the dollar. But the assets have to be worth more than the debts in these countries.

Peter Baer, a partner of the Baer banking house in Zurich, said that I.B.M., the International Telephone and Telegraph Corporation and the Eastman Kodak Company were among concerns that got a devaluation dividend because of their substantial assets in hard-currency countries.

Not everyone was a winner. Among the losers were some metal companies.

Le Nickel, controlled by the French branch of the Rothschild banking family, is one example. The French company's contracts are quoted in dollars. But its books are kept in francs. So it now earns fewer francs on its contracts.

Le Nickel, a particularly troublesome property of the Rothschilds, can break even on the devaluation only if the world price of nickel is raised to take account of the lower value of the dollar.

The company has no say in the matter since it is the North American giant, the International Nickel Company, that more or less makes price policy. Inco is expected to make a decision next week.

[From the Washington Star-News, Feb. 14, 1973]

MULTINATIONALS FIGURED BIG IN MONEY CRISIS

(By John Holusha)

What effect did the giant multinational corporations and banks have in bringing about the current international dollar crisis?

Quite a lot, apparently. But just what their role was and whether or not they did the United States any harm is the subject of considerable disagreement.

On the one hand there is Rep. Wright Patman, D-Tex., chairman of the House

Banking and Currency committee. The operations of U.S. banks with foreign branches, he said yesterday, "contributed to our worsening trade and monetary balances."

Multinational banks and corporations, he declared, "have engaged heavily in the speculation on the dollar in recent weeks. In short, they have been out in the market betting against their country and their country's currency."

BROADER HEARINGS

Patman said he would attempt to broaden the hearings on the legislation completing the technicalities of devaluation to include examination of the role of the multinationals.

A differing view was expressed by Lawrence Krause, an economist with the Brookings Institution. To the extent that moves by the multinationals helped precipitate the crisis that led to the devaluation, he said, they were performing a public service.

The international monetary system was not in balance, he said, "but you need a crisis to force governments to do what they should."

The multinationals, who have bills to pay abroad, saw a change coming and rushed to convert their dollars into other currencies, mostly marks. "These people are not speculators; they wouldn't be in the position they're in if they were. They're simply good businessmen taking defensive actions. They want to avoid a loss.

CAPACITY BEYOND DOUBT

"Of course the market doesn't know the difference between an offensive and a defensive action," Krause added.

That the multinationals have the power to throw the international monetary system into turmoil is beyond doubt, according to a massive study conducted by the U.S. Tariff Commission.

The 930-page volume, prepared for the Senate Finance committee, is titled "Implications of Multinational Firms for World Trade and Investment and for U.S. Trade and Labor." It has not been generally circulated yet.

The study concludes that the wor'd's multinationals control such vast sums that even relatively small shifts of funds from country to country can set off a currency crisis.

PUT AT $268 BILLION

"Private institutions on the international financial scene controlled $268 billion in short-term liquid assets at the end of 1971—the lion's share under control of multinational firms and banks headquartered in the United States."

This pool of money, the study said, is more than twice the sum of all reserves in the world's central banks and international monetary groups.

"These are the reserves with which central banks fight to defend their exchange rates. The resources of the private sector outclass them." the report concludes.

"Because $268 billion is such an immense number, it is clear that only a small fraction of the assets which it measures needs to move in order for a genuine crisis to develop."

VIEWED AS DEFENSIVE

However, the Tariff Commission report seem to support the view that the currency moves of the multinationals were more defenseive than offensive.

"Because such a small proportion of the resources of multinational corporations is needed to produce monetary explosions, it appears appropriate to conclude that destructive, predatory motivations do not characterize the sophisticated internal financial activities of most multinational corporations, even though most of the funds which flow internationally during the crisis is undoubtedly of multinational corporation origin."

The report also concluded that multinationals had a positive effect on balance of trade and that the main reason U.S. corporations invested abroad was to penetrate new markets rather than to find lower production costs.

On the touchy political issue of whether the multinationals have been "exporting jobs," the report takes no firm stand. Instead, it uses three sets of assumptions. Depending on which is used, the multinationals have exported 1.5 million jobs, exported 400,000 or stimulated the creation of 500,000 net new jobs domestically.

[From the New York Times, Apr. 1, 1973]

TRYING TO STEM CAPITAL FLOWS

(By Edwin L. Dale Jr.)

WASHINGTON.—Arthur F. Burns, chairman of the Federal Reserve Board, told a Congressional committee recently of a trip he made to Europe in early January, before the latest international currency turmoil began.

He found, he said, that high officials were relaxed and confident that the dollar would maintain its strength in the foreign-exchange markets. And if trouble should start brewing, they told him, it could easily be handled by the new array of exchange controls, mainly designed to ward off heavy inflows of dollars into their countries, rather than outflows.

"Well," said Dr. Burns, "that turned out to be a lot of nonsense."

The phrase is worth recalling in light of the communique agreed to here last week by the 20 nations negotiating world monetary reform. The communique of the Committee of 20 reflected the persistent, and sincere, conviction of most foreign countries—emphatically including the less developed countries—that a system of relatively fixed exchange rates among currencies must somehow be maintained in a reformed monetary system.

But the communique also reflected, indirectly, an awareness of how difficult it can be to maintain fixed rates for long in a world where massive flows of capital across the foreign-exchange markets are possible and where such flows make total sense to holders of money because they cannot lose and may make a profit.

The ministers told their deputies, who are doing the detailed negotiating at this stage, to try to find effective means of dealing with these capital flows, including "those associated with Eurocurrency markets." The deputies are to look into "a variety of measures, including controls, to influence" the capital movements and also to seek "arrangements to finance and offset them."

One interesting problem is that nobody knows exactly from whence these "disequilibrating capital flows" (in the words of the communique) come. Dr. Burns has a team of inspectors abroad trying to find out, but he has no great confidence that he will learn the whole truth.

Foreign-exchange dealers do not even know the truth. They get buy and sell orders from banks, who do not say on whose behalf the order comes.

A theory rapidly gaining ground in Congress, based partly on a Tariff Commission report, is that multinational corporations and banks, mainly American, are the sources of the flows, with their vast resources of liquid capital. That may be.

But if all those resources of liquid capital were available to speculate in currencies, there is at least a question why so many people had to borrow to do so. Eurodollar overnight interest rates were up to 15 per cent at the height of the recent crisis.

All that anybody really knows is that massive flows of capital are possible because they have, in fact, taken place. Beyond that fact, there is a great void. Companies like General Motors and Union Carbide have testified unequivocally to Congress that they do not speculate in currencies at all, though there is a gray area involving such things as prepayment of debts due in foreign currencies.

In addition, there are the famous "leads and lags." As Walter Wriston, chairman of the First National City Bank, pointed out in a recent interview with U.S. News & World Report, there is now $1-billion of export-import business being done *every day* in the world, not to mention international investment, tourism and the like.

If exporters and importers just delay or accelerate their payments, foreign-exchange markets can be swamped. Japan and Italy and France have tried to cope with this problem in various ways, but their efforts obviously did not succeed.

One of the more revealing episodes in the most recent monetary crisis was the day when France—with her well-known array of exchange controls—kept her foreign-exchange market open during the morning while the others had closed. The Bank of France took in a half billion dollars before noon and then shut down like the rest.

The world of even nominally fixed par values, which the ministers of the Committee of 20 said unanimously that they wanted, runs up against the problem noted in seemingly dry and technical terms in the latest report by Charles A. Coombs of the New York Federal Reserve Bank on the Federal Reserve's operations in the foreign-exchange markets.

Mr. Coombs explained why the Federal Reserve intervened in the market, selling German marks for dollars, in the period after Jan. 23. It did so, he said,

"in order to prevent the [mark's exchange] rate from reaching its ceiling and generating more speculative flows."

The operation failed, but the connotation is clear. If there is a nominally fixed exchange rate, no matter what the permitted margin of fluctuation above and below par, there is necessarily a ceiling. And, once the ceiling is reached, the speculation accelerates. Mr. Coombs is the first to put this now-evident problem so directly in an official document.

Finance ministers, in various meetings over the last three or four years, have bewailed the problem of massive capital flows. They have shown a capacity for new controls—such as negative interest rates on foreign deposits—that apparently have turned out, in Dr. Burns' words, to be "a lot of nonsense" in solving the problem, which was to maintain fixed exchange rates.

The Committee of 20 has clearly recognized the dilemma. The ministers have asked their deputies to resolve it, which may be more than even brighter-than-ordinary human beings can do.

[From U.S. News & World Report, May 21, 1973]

WHY "MULTINATIONALS" ARE UNDER FIRE AT HOME, ABROAD

GIANT U.S. FIRMS WITH OPERATIONS ABROAD—DO THEY CAUSE UNEMPLOYMENT? UNDERMINE THE DOLLAR? THESE ARE ONLY SOME OF THE QUESTIONS BEING ASKED

Congress, labor unions and foreign nations are aiming increased criticism at the growing economic power of "multinationals"—big U.S.-based companies that also operate overseas.

Pending tax-reform and foreign-trade bills contain proposals that would curb the growth of these firms and require more rapid payment of U.S. taxes on profits earned abroad.

There are about 3,600 American companies that have at least one foreign subsidiary, according to the Department of Commerce.

Only about 200 of these have overseas operations large enough to be considered truly "multinational." But they include some of the heavyweights in American business: General Motors, Mobil, International Business Machines, International Telephone & Telegraph, Western Electric, Rockwell International, U.S. Steel, Boeing and Du Pont—companies whose names are as well known in many foreign nations as in the U.S.

Attacks on multinationals range over a wide variety of issues, among them:

Job opportunities in the U.S. are reduced as production facilities and technology are transferred to plants overseas. Organized labor has charged that half a million jobs have been "exported" by U.S.-based multinational corporations.

Profits earned by American-based firms abroad are not taxable in the U.S. until they are returned to this country. Critics say this deferral is in effect an interest-free loan to U.S. subsidiaries overesas which can be manipulated to the advantage of the parent company.

Some foreign nations are becoming sensitive to the presence of U.S. multinationals, calling them a form of American economic imperialism and exploitation. Hostility in some countries has led to demands for an end to further investment by American companies.

Multinationals have been accused of undermining the dollar and trade balance. Some critics suggest that U.S. firms engaged in excessive speculation during the recent dollar devaluations by shifting their funds from weak currencies to strong ones.

HUGE STAKE

These allegations and others will be raised in congressional debate this year when trade and tax legislation is considered. The stakes riding on the outcome are enormous, especially for business.

The total value of U.S. investment assets abroad, according to the Senate Finance Committee, is about 203 billion dollars, including short-term assets. Manufacturing makes up 38 per cent of that total, petroleum 22 per cent, and other businesses, such as food producers, banks and communications companies, 40 per cent.

Europe has surpassed Canada as the main area for U.S. investments abroad, with Latin America in third place. Annual worldwide sales of foreign manufacturing affiliates of U.S. firms exceed 90 billion dollars, according to congressional sources.

The multinationals are quick to come to their own deefnse on all changes against them.

For example, the companies deny that they are fleeing high wage rates in the U.S. simply to utilize lower-salaried workers in foreign countries.

This view has gotten some strong support from massive studies of multinationals recently completed by the U.S. Tariff Commission, the Department of Commerce and the Emergency Committee for American Trade, a multinational lobby group.

An analysis of the Tariff Commission's data produces this conclusion:

Multinational firms generated 3 billion dollars more in exports than imports, made a positive contribution to the balance of payments, and under the most reasonable assumptions, caused a net increase of half a million jobs in the U.S. during 1966–70, the period covered in the study. Most of the new jobs, however, resulted from operations of foreign multinationals with plants in the U.S.

FOREIGN MARKETS

In fact, labor-cost considerations were secondary in most decisions to invest abroad, the study found. Much more important were the threats of being denied access to foreign markets and the need for control of raw materials.

The Emergency Committee for American Trade (ECAT) survey also indicates that U.S. multinational companies generally tend to be market-oriented rather than cost-oriented.

Only in industries such as electronic assembly, shoes and apparel—in which labor costs make up a very high percentage of total costs—was the need for cheaper labor a major incentive to invest in a foreign country, according to the ECAT survey.

The Tariff Commission pointed out that labor costs abroad average about 65 per cent of what multinational firms would pay in the U.S. Thus, the big multinationals—which incidentally tend to pay higher wage rates in the U.S. than firms without foreign investment—do benefit from savings by hiring workers overseas.

The Commission report also tended to support the charge that American multinationals caused a loss of jobs in the U.S. Under the most reasonable assumptions, a total of about 1 million new jobs in the U.S. have been created by operations of both U.S.-based and foreign-based multinational firms.

However, only 461,200 of these jobs can be attributed to home operations of U.S. multinationals. And, the Commission estimated, a total of 603,100 potential American jobs were lost during 1966–70 as U.S. operations moved to other countries, thus leaving a net loss of 141,900 jobs attributable to the American companies.

Yet another recent multinational study—this one by the Commerce Department—notes that most of the jobs created in the U.S. by multinational firms were filled by "white collar" managerial, research and service employes, while "blue collar" production-line workers tended to be displaced.

EXPORTS BOOSTED

The Tariff Commission study challenged a frequent contention that multinational companies contribute to the rising U.S. trade deficit by widening the balance-of-payments gap. In fact, instead of reducing U.S. exports, foreign investment by U.S. firms seems to have stimulated them.

Between 1966 and 1970, U.S. and foreign multinationals had a net beneficial impact of 3.4 billion dollars on the U.S. balance of trade.

Thus, multinationals apparently made a major, positive contribution to the U.S. balance of payments and were not a factor in the deterioration of the trade deficit during the late 1960s.

Foreign countries—as well as the U.S.—benefit from investment by American multinationals, the Tariff Commission found.

Private U.S. investors are among the principal sources of investment capital for underdeveloped nations. Large oil and mining companies have played major roles in tapping the mineral resources in all parts of the world. U.S. investment in manufacturing is also important to many developing countries. Most U.S. investment in manufacturing, however, takes place in countries that are already developed or well along the road to development.

THE BIG EIGHT

In 1970, the Tariff Commission said, foreign direct investment in plant and equipment in manufacturing by U.S. firms totaled 6.5-billion dollars—up more than 42 per cent from the 4.6 billion dollars spent in 1966. About 64 per cent of this amount was invested in 1970 in eight countries: Canada, Great Britain, Belgium, Luxembourg, France, West Germany, Mexico and Brazil.

U.S. investment plays a crucial role in the growth of the eight countries. U.S.-based multinationals in 1970 accounted for 13 per cent of all capital spending in those nations, and 22 percent of the capital spending in the industrial "backbone" sectors—metals, machinery and transportation equipment.

The Commission did not comment on the growing European sensitivity to American ownership of manufacturing capacities within the Common Market. However, it did determine that Americans had gained control over important sectors of foreign commerce, largely with the foreigners' own money—a finding that nationalists find particularly galling.

SHIFTING FUNDS

Because they have large amounts of capital at their disposal, U.S. multinationals have been accused of precipitating the monetary crises that have shaken the financial world recently.

The Tariff Commission found that private corporations at the end of 1971 controlled approximately 250 billion dollars in short-term liquid assets, with the bulk of that amount—some 190 billion dollars—held by corporations and banks headquartered in the U.S.

There is widespread agreement that the huge dollar holdings of American corporations and overseas branches of American banks can trigger massive monetary crises. The size of these assets alone does not create a crisis, but the movement of even a small fraction of them out of one currency into another would set off violent tremors throughout the world monetary system.

Because foreign governments generally hold a relatively small amount of capital in convertible short-term assets, any showdown in the international money market between foreign governments and the private sector would find the governments hopelessly outgunned, the Tariff Commission concluded.

Subsequent evaluation of the Tariff Commission figures by officials in the Treasury and Commerce Departments give a less alarming view of the power U.S. multinationals hold in the money market. About 10 billion to 12 billion dollars is readily available in corporate tills on any given day for participation in "hot money" flows, officials say.

Senator Frank Church, an Idaho Democrat, announced May 8 that the Senate Foreign Relations Subcommittee on Multinational Corporations would survey the largest corporations to determine the extent to which their transactions affected the February dollar devaluation.

Multinationals contend that they seek only to protect themselves from devaluation and do not speculate on currencies. They say they may react to an already existing crisis, but do not seek to cause disruptions.

NEW WORLD ORDER?

Some business experts believe that multinational concerns—because of the interlocking agreements they engender between countries—are creating a new world order and an economic basis for national interdependence and peace.

This prospect has been raised by William I. Spencer, president of the First National City Bank, New York, who suggests that interrelated business ventures among nations will impose a spirit of cooperation and will inhibit aggression—thus lessening the probability of war.

"The political boundaries of nation-states are too narrow and constricted to define the scope and sweep of modern business," Mr. Spencer says. These "new globalists," he adds, consider the entire world as a market, and search everywhere for fresh technology, talented people, novel processes, raw materials, ideas and capital.

Multinationals also have drawn support from the Nixon Administration. In his April 10 trade message, the President said:

"American investment abroad . . . has meant more and better jobs for American workers, has improved our balance of trade and our over-all balance of payments, and has generally strengthened our economy."

But big forces are lining up for the imminent battle over trade and tax legislation. "What is at issue today," says a Senate Finance Committee review of the Tariff Commission study, "is the degree of freedom that multinationals should have or the extent of regulation that should be imposed on their present operations and future growth."

The scope of U.S. "multinationals"

Number.—200 U.S.-based firms with extensive overseas operations, covering all parts of the world; 3,600 firms with at least one foreign subsidiary.

Assets.—200 billion dollars, mostly in manufacturing, petroleum and banking enterprises.

Short-term holdings.—190 billions in U.S. dollars and foreign currencies that can be quickly shifted about in the world's money markets.

Sales.—90 billions a year by foreign manufacturing affiliates alone of U.S. multinationals.

Income.—Net income of 42.1 billions, after taxes, for foreign affiliates during 1966–70—about half of which was turned over to U.S. parent companies.

Investments.—86 billions in direct investments abroad by U.S. "multinationals" at the end of 1971, more than double a decade earlier.

Source: U.S. Tariff Commission; U.S. Dept. of Commerce; Senate Finance Committee.

[From the Wall Street Journal, Apr. 3, 1973]

REVIEW AND OUTLOOK: A NICE PIECE OF CHANGE

We see that the foreign exchange operations of major New York banks came through the international currency crisis unscathed and even picked up a nice piece of change in the process. Several of them, including Chase Manhattan, First National City and Chemical New York have announced that their first quarter earnings include net trading profits made in the foreign exchange markets. Andrew F. Brimmer, a governor of the Federal Reserve System, yesterday said U.S. commercial banks in this period "contributed on balance some $2.5 billion to the volume of funds which moved abroad in connection with the exchange rate speculation."

Similiarly, the financial officers of the U.S. multinational corporations apparently protected themselves nicely during the crisis by getting out of dollars and into stronger currencies. Both the multinational banks and the MNCs, incidentally, also enjoyed a surge in the dollar value of their capital employed in foreign branches, subsidiaries, and affiliates. That won't look bad on the balance sheets either.

Was all this proper? George Stahl, publisher of Green's Market Commodity Comments, observes that the banks could only have made money in foreign exchange in the first quarter by betting against the dollar with dollars deposited with their banks, "thereby causing a loss to the international value as well as domestic purchasing power of their customers' dollars."

Donald C. Platten, Chemical's chairman, argued recently that it was unfair to accuse banks of speculating in the foreign exchange markets, that "We have a large foreign exchange trading department" to serve the needs of the bank's customers. In other words, whatever profits the banks made in the recent period derived from the legitimate accommodation of their customers.

To the extent the banks limited their trading to serving their customers' needs, and refrained from trading on their own hook, Mr. Platten's defense is of course impeccable. So too is the rationale of the MNCs in betting against the dollar, that because they have made purchases or sales of goods abroad they are forced to hedge in order to avoid a currency risk. To the extent they limited their hedging to cover legitimate commercial transactions, they are of course on solid footing.

A question of propriety is genuinely raised, though, in the report from London last week by our Richard F. Janssen, who finds that "American corporations no longer look on their 'cash managers' as mere custodians of foreign exchange. 'They consider them to be profit centers now,' one banker reports. So when a currency starts moving up on the market, cash managers are under home office pressure not only to switch existing funds but to tap their lines of credit at banks so they can buy more and make bigger gains."

It's only natural, considering the billions of dollars to be made on foreign exchange these past three years. A corporate financial officer would not have

lasted if he failed to cash in on the "sure things" that occurred in the foreign exchange markets. And his bank would risk losing a good customer if it quibbled about the uses to which lines of credit were being put.

Obviously, though, the situation has not been a healthy one. The dollar has lost international value and purchasing power, partly as a direct result of this form of cash management by U.S. multinationals. And while U.S. banks and multinationals regularly declaim against government controls on capital movements, this kind of private cash management may produce economic distortions just as perverse.

When an MNC taps its credit line at home, for example, doesn't this dry up lendable funds for domestic purposes? When it's done for legitimate purposes, we defend the system as the most efficient means of allocating international credit and capital. When it's done merely for quick speculative profits, though, the credit and capital may wind up being channeled into loans abroad that are less desirable and chancier than those available domestically. How many of the dollars that flowed abroad for speculative gains, in other words, resulted in relatively marginal foreign loans? The Fed's Mr. Brimmer also claims there has been a "relaxation of credit terms and a shaving of lending margins" in the activities of U.S. banks overseas. Tsk, tsk.

In a world of floating currencies, a large part of this problem may disappear, there being far fewer "sure things" on the foreign exchange markets. But while the principle of floating rates is a sound one, it is not yet certain that monetary authorities will refrain from unneeded and excessive tinkering with the markets, through further capital movement restrictions and other forms of intervention.

It is then with more than academic interest that we await the findings of a small army of Federal Reserve Board examiners tracking down the dollar flows that precipitated the latest monetary turmoil. If they find that the multinational banks and corporations did in fact contribute heavily to the turmoil—by chasing a fast buck, not just hedging, the news will do little to further the cause of liberal national policies toward capital movements. Over the long pull, that nice piece of change could end up in the debit column.

[From Business Horizons, April 1972]

The Real Culprit in International Monetary Crises

IMPACT OF THE MULTINATIONAL CORPORATION

(By Joseph O. Vogel)

Efforts to deal with crises in the world economy ignore the real cause—the immense economic power of the multinational corporation. The multinational corporation may harm the economy of the host government by minimizing any negative effects of changes in currency values, and the internationalization of financial institutions has inhibited the host countries' monetary objectives. There is little agreement concerning solutions, either within governments or between governments. The problems will become even more visible. The first steps toward any solution involve a redefinition of business-government relationships and the formualtion of a foreign policy that achieves goal congruence.

On Aug. 15, 1971, Richard Nixon addressed an anxious nation about the state of the economy, and the next morning Americans awoke to their first day of "Nixonomics"—frozen wages and frozen prices. Beyond our borders, foreign businessmen faced a new barrier on goods produced for sale in the United States.

Shortly after the Nixon speech, finance ministers of the member countries of the International Monetary Fund met in Washington to work toward solutions to the problems facing them. No one wanted a repeat of the trade wars of the past, and solutions proposed for the problem were numerous. Creation of more Special Drawing Rights, or "paper gold," was pushed by some, while others urged the United States to devalue the dollar by raising the price of gold. The United States, however, wanted the Japanese to revalue the yen.

The solutions offered are not new; they had been suggested before President Nixon's August speech. Each has some advantages and disadvantages, but they

all have one thing in common. They ignore the real issues and are directed toward the effects rather than the cause of the crisis facing the world economy—the multinational corporation.

The finance ministers have acted to bolster what may be outmoded institutions, and business will be able to operate across borders again. But unless the problem of the multinational corporation is recognized, the events of the past months are bound to be repeated. What is necessary is a close look at the multinational corporation and agreement among governments on how to deal with its immense economic power.

HISTORICAL BACKGROUND

American corporations began major international activities after World War I. Expansion was aided by government legislation that exempted U.S. corporations operating overseas from certain antitrust regulation, for example, the Webb-Pomerene Act of 1918. It provided qualified exemptions for American business related to export activities from the prohibitions of the Sherman Antitrust Act of 1890 and the Federal Trade Commission and Clayton Antitrust Act of 1914. Further post-World War I legislation permitted American banks to go abroad to serve their customers. Indeed, much of the overseas expansion of U.S. banks was based on legislation of this time.

The depression, however, curtailed the international activity of U.S. corporations; many were forced to fight for domestic survival. In addition, the New Deal marked the beginning of a change in the relationship between the political system and the economy. Government actions during the New Deal, although lacking the formal commitment of the Full Employment Act of 1946, formed the basis of the political economy. Government decisions were made with awarenes of the impact of these decisions on the economy.

The formation of the political economy had additional consequences; we are still feeling their impact. The formation of interest groups urging the government to act on their behalf has compounded government's problems, and made it harder for the government to take actions which are often prescribed for economic woes. The impact of interest groups as they affect the international economics scene was first felt in post-World War II arguments for or against free trade. These same arguments are being resurrected now, although the economic conditions are much different today.

At the end of World War II, the United States was the only Western power with its capital equipment intact and with capital to export. Much of the capital exported to rebuild the economies of our Western allies as well as Germany was through direct foreign investment. Net foreign investment in the postwar period grew tremendously. In 1950, it had reached $32 billion, and, by 1969, $157.8 billion.

The growth of American business abroad was closely followed by the overseas expansion of their financial institutions. These institutions perceived their services as being demanded anywhere in the world where their clients were located. The growth and activity of these banks closely approximated a product life cycle unique in international banking.

The cycle can be described as a four-stage process. First, the bank begins its international operation by providing basic services of documentation, letters of credit, and similar services. Stage Two of the cycle occurs when American banks begin to establish working correspondent relationships with overseas banks and to make loans to governments and business outside the United States. Stage Three involves the establishment of branches outside the United States; a tremendous expansion occurred during the past decade. Finally, in Stage Four, the bank moves its capital throughout its branch network, attempting to utilize its funds to optimize the return on those funds.

It is the fourth stage that has contributed so much to currency crisis as they now occur. Banks can, for the most part, move money among branches without regard for the impact this money movement may have on the monetary and/or fiscal policy in the countries involved. For example, if money is tight in the United States, a U.S. bank might import money from abroad to meet the needs of domestic customers. Indeed, evidence indicates that this actually transpired during 1969. In the period Jan. 26, 1966, to Nov. 25, 1970, liabilities of U.S. banks to their foreign branches reached a high in November, 1969, of $14,528 billion, almost nine times the January, 1966, low of $1,668 billion. These figures lend support to the product life cycle in international banking.

Likewise, the multinational corporation, acting in its own enlightened self-interest, can wreak havoc with a nation's international financial strength by

"speculating" in or with that nation's currency. The gist of these activities is simply that the multinational corporation can affect whatever course of action a government might take in domestic and international money matters. In fact, in most instances, they can act in a manner that may be contrary to the interests of a host government.

Government policy regarding the growth of corporate internationalization is almost nonexistent. U.S.-based multinationals seem to have escaped government attention, aside from enforcement of various "trading with the enemy" acts, restrictions on the outflow of U.S. capital during the sixties, and the efforts of the Department of Defense to push the sales of armaments made in the United States.

THE PRESENT CRISIS

The events of recent months indicate that change is needed, and that change of the international financial institutions themselves may not be enough. It is difficult to disassociate two causes of the latest economic moves by President Nixon: the international financial position of the United States, and the emergence of Japan and Germany as world powers. One fact, however, has become clear: decisions made and actions taken that are dictated by the condition of one nation-state's political economy may not be optimum in terms of achieving international equilibrium. The classic doses of castor oil, such as devaluation, are increasingly more difficult to swallow because of domestic political considerations. Furthermore, because of the international growth of corporation and financial institutions, the actions may have little, if any, functional effect.

Effects on Host Countries

The multinational corporation has developed the ability to manage its international financial transactions in a way that minimizes any negative effects of changes in currency values in the countries in which it deals. By taking mechanical steps to minimize exposure and using leads and lags in intercompany transactions, the multinational can actually profit from a devaluation. Such actions, though often referred to as speculation, are certainly not speculative in terms of accepting risks; rather, they make good business sense. Yet these actions which make good business sense to the multinational, may not be good for the countries in which the multinational operates.

The multinational corporation may be acting under the direction of its parent government, and, in so doing, harm the economy of the host government. In the 1960's when U.S. controls were placed on direct foreign investment by U.S. corporations, the corporations' actions in response had adverse affects on host economies. These countries were faced with reduced inflow of foreign capital for their economies and, at the same time, saw increased outflow of foreign exchange as the United States encouraged remittances of overseas earnings.

In addition, multinationals have proven very effective in tapping local money and capital markets, and have proven to be better competitors for these funds than local enterprises. Furthermore, repatriation of earnings and transfer of funds between affiliates deprives the host economy of the capital accumulation benefits achieved from investment.

The multinational corporation has been aided by the increasing internationalization of contemporary financial institutions. U.S. banks have taken Europe by storm, and their expansion has extended to merchant banking activities as well. Their expansion has contributed to greater efficiency in host capital markets, even if the greatest benefactors of this increased efficiency have been the U.S. multinational corporations. However, the influence of banks on the monetary policy of host countries has been even more important.

Traditionally, central banks set interest rates either to encourage expansion of a stagnant economy or to curtail overexpansion of an inflationary economy. Thus, interest rates are lowered to encourage economic expansion with cheaper, more plentiful money, and raised to curtail inflation by making borrowing more costly and the supply of lendable funds more scarce. Unfortunately, the internationalization of financial institutions renders such actions ineffective.

Recent experience indicates that the internationalization of financial institutions has inhibited the achievement of these monetary policy objectives. Suppose, for the above reasons, that interest rates are reduced in Country A and increased in Country B; multinational corporations will shift idle cash balances from the lower interest rates in Country A to the high interest rates in Country B.

This monetary flow serves to defeat the objectives of both countries. In Country A, interest rates are lowered with the objective of stimulating the economy

with increased investment and capital formation. However, the money flows to Country B, where interest rates have been raised to make capital dearer and scarcer. Evidence indicates this occurred in the United States during the 1968–69 periods of tight money. In this period, U.S. banks borrowed Eurodollars from their overseas affiliates to support their domestic loans. Hence, monetary policy proved ineffective for reasons external to those usually heard in the traditional debates over the relative effectiveness of monetary policy versus fiscal policy.

The Outlook for Solutions

While evidence confirms that the growth of internationalization disrupts the functioning of the nation-state, there is little agreement about solutions to these problems. The lack of agreement arises both within government and between governments.

A basic philosophical difference exists on how government should relate to big business. Regulations passed to stimulate industrial competition and efficiency often stifle competition and create waste. For example, domestic air routes are awarded and regulated to promote competition among airlines with the objective of motivating airlines to provide efficient services. A rational man, however, might question the efficiency attained when two or three half-empty Boeing 747's fly from New York to Los Angeles with departures scheduled at half-hour intervals.

The United States, created in a laissez-faire mold of Adam Smith, now finds itself in a dilemma about industrial concentration and comeptition. This conflict is exaggerated because the government has assumed the role of the nation's largest purchaser and producer of goods and services. Recent experience indicates that business would fight any basic government interference in the traditional conduct of business. Now it appears this has changed. Few businessmen fought wage-and-price controls although they were exposed to potential losses of profits.

Furthermore, a unique form of corporate socialism seems to have evolved. In the Lockheed experience, the government not only bailed a sick corporation out of bankruptcy, but also bailed out Lockheed's banks, which had committed millions of dollars to the aircraft manufacturer. Even before the recent wage-and-price controls, the U.S. government made a quantum leap in the amount of direct control it exerts over the economy.

This is not to make a judgment as to whether or not increased government control over the economy in good or bad. As control grows, however, the philosophical issue will become greater and free enterprise as it once existed will come to an end. The danger of all this is that the government will become preoccupied with its responses to interest groups and lose sight of the needs of the nation as a whole. No one has asked whether our political, economic, and social institutions can survive under this type of government. However, there is no guarantee that change will be better—or worse.

Even if governments like that of the United States could put their own houses in order, problems between nations would not necessarily vanish overnight. For example, the Japanese attitude toward foreign investment in Japan is cited as a major issue between our government and the Japanese government. Why should the Japanese want to risk significant changes in an economic system that has achieved goal congruence in society? Should the Japanese open their economy to possible monetary and fiscal disruption and loss of sales to mainland China (a U.S. "enemy") that may accompany foreign ownership. Seen in this light, the Japanese position is quite rational. Yet understanding another's position from his point of view does not always yield a solution to problems.

As the internationalization of the world economy increases, problems will continue to arise and greater pressures will be placed on governments to balance international and domestic considerations. This will be no easy task; few nations seem to have formulated a set of goals. The pressures for achieving a national goal congruence will be strong, but perhaps those pressures will not be as strong as the fragmenting influence of interest groups within nation-states.

One government's decisions about its corporations can have a significant impact on another nations government and its corporations. Consider the conflict between Rolls Royce and Lockheed. The U.S. could not persuade the British government to bail Rolls Royce out of bankruptcy, although the U.S. chose to bail out Lockheed. Assume that Rolls was allowed to go bankrupt and that there was no other source of engines for the Tri-Star. Would the U.S. government step in and prop up Rolls Royce? How would the British government react to this decision?

As the economies of the world become further integrated and grow more interdependent, the likelihood of conflicts of the Lockheed-Rolls Royce type

increases. Given the above situation, there is no assurance that a consensus solution is possible.

The problems are of no small magnitude. In twenty-five years historians, Japanese or American, may write that the recent Nixon economic program, so closely following U.S. overtures to mainland China, was one of a series of events that led to the war between the United States and Japan. Although this may now be considered an exaggeration, wars have started for international economic considerations. And it does illustrate the magnitude of the problem which nations face.

WHAT IS IN STORE

The preceding picture is not pleasant, and even if certain institutions are changed the basic problems will not have been solved. All that will change is that monetary men will have formulated a new set of rules for operation within the same existing problems. Nations will still find their monetary and fiscal policies extremely vulnerable to outside influences. Banks with extensive branch networks will be able to move monies through their networks at will and without regard for the monetary policies of the countries involved. Problems of this type are not solved by making changes in the framework of the IMF.

Nor will the problem of the multinational corporation as an employer and, therefore, as an influence on government fiscal policy vanish. As U.S. business expands abroad and foreign business expands in the United States, these problems will become even more visible. If and when the Japanese economy permits direct foreign investment with a foreign majority position, this problem will have an acute sense of urgency for the Japanese.

Finally, it is clear that the sovereignty issue will not be resolved by finance ministers. The question of corporate citizenship may face governments for years to come. Perhaps the corporate citizenship problem will diminish if the United States removes the "trading with the enemy" regulations and feels some of the pinch from foreign subsidiaries operating within her borders.

The first step toward any solution to these problems is a redefinition of business-government relationships. For the United States this point seems to be more critical than for other nations. Somehow the United States must strike a comfortable balance between our Adam Smith economic origins and our corporate socialistic state. Furthermore, this country must formulate a foreign economic policy that achieves goal congruence between the interests of the nation abroad and the interests of U.S. business abroad, and strike a balance between our domestic and international problems.

Any such policy will have to go beyond a loud protest by the United States when a mining company is expropriated. This policy will need government incentives to corporations with international activities and vigorous government promotion of these activities—promotion similar to those used in armament sales. A coordinated policy will eliminate the need for abrupt changes such as those we have seen recently, changes which must have been perceived by our traditional friends and trading partners as economic "brinksmanship" at best and economic bullying at worst.

Although the tone of this article has suggested that it will take more than a change in international financial institutions to correct the ills in the world economy, some change is likely to help. What is important is that if flexibility as well as accountability are built into any new system which supersedes our present system, we can hope that future crises will not be of such sheer magnitude.

No perfect solution can be found to the problems that are likely to arise as the economies of the nations of the world move toward integration. Two things are quite important, however. First, changes to the institutions through which national economies relate to each other will not eliminate problems confronting nations today. Second, we must remember that the international trade "game" is not a zero-sum game—everybody can benefit from the integration of economies and growth of international trade.

[Excerpted from study by U.S. Tariff Commission]

THE ROLE OF THE MNC'S IN GENERATING LIQUID SHORT-TERM CAPITAL FLOWS AND INTERNATIONAL MONETARY CRISES

Since 1967, the international monetary system has been subjected to a series of shocks that have threatened its foundations, called into question the utility of the Bretton Woods Agreements of 1944 on which it is based, and. finally, forced the abandonment of the parity of its lynchpin, the United States dollar.

The only comparable period of such strain or the system within living memory was that of the hectic international monetary history of the 1920's and 1930's. Indeed, the threat of, a return to the disordered conditions of those two decades—and the fear of it—land urgency and fire to the current debate about just what is wrong with the present system. It should be clearly underlined, however, that despite the recurrence of severe international financial crises in recent years (especially since 1967), the economic troubles which beset the major countries in the 1920's and 1930's have been absent. Despite disruptions in the monetary sphere, world economic growth, world trade, and international investment have reached record levels.

The typical "crisis"

The international monetary crisis of recent years have been more alike than different. They have so many characteristics in common that it is an easy matter to describe the "typical" financial crisis, which begins with a balance of payments disequilibrium between one country with a relatively large deficit and one or more countries with large surpluses, the counterparts of that deficit. National policies are are applied with greater or lesser enthusiasm in order to correct this disequilibrium. Generally, they are applied more severely in the deficit country than in the surplus ones, and sometimes the policies applied by the surplus countries turn out to be perverse, from the balance of payments point of view. That is, they find themselves, despite payments surpluses, in inflationary situations which they attempt to combat with tight money and high interest rates. These kinds of policies work to increase rather than decrease payments disequilibria.

In any case, exchange rates begin to reflect the payments problems. The deficit country's rate becomes "weak" and the surplus countries' rates become "strong." Under a par value system of the Bretton Woods type, exchange rates are fixed within the short run; in practice, the monetary authorities of the developed countries have attempted to keep them fixed in the long run too. Central banks have bent every effort to defend existing rates. In this process, the deficit country must sell off its reserves, while the surplus countries accumulate them.

In fairly short order, this process has led to huge and heavily disequilibrating flows of liquid short-term capital. Funds move away from the weak currency and toward the strong ones. The deficit country loses its reserves at a rapid rate; the surplus countries gain them equally as fast. The deficits get bigger, and so do the surpluses. Soon, the question of the appropriateness of policies to rectify balance of payments problems in the long run—or even the extended short run—becomes academic. Capital flows have depleted the deficit country's reserves and swelled the surplus countries' holdings to the point of unwelcomeness.

The Accusation Against the MNCs

Opponents of the MNCs argue that they play a crucial, destructive role in international monetary crises. The argument sometimes includes an accusation that they bear responsibility for at least part of the balance of payments problems that originally generate the crises, but this accusation is not central to the argument. Rather, the central point is that the MNC's are a source of the large flows of liquid short-term capital that are the proximate cause of the wreckage. Moreover, it is argued that these flows arise because the MNCs are predilected toward sustained, unstoppable "speculative" attacks upon exchange rates. Thus, it is held, speculators, with the MNCs in the van, can cause enough havoc within the system to produce the threat of devaluations or revaluations of exchange rates *even if* underlying national economic policies are appropriate and severely enough applied to rectify the balance of payments disequilibria—if only the speculators would give them the necessary time, which they do not.[1]

The evidence

An evaluation of the allegations made against the MNCs should involve an analysis of flows of liquid, short-term capital as they show up in the balance of

[1] Defenders of the MNCs are sensitive to these accusations and hasten to deny them. See, for example, *The Economist*, Oct. 31, 1970, pp. 54–55; *Business Week*, Sept. 25, 1971, pp. 82–107 (especially pp. 101–102); and *Newsweek*, Nov. 20, 1972, pp. 96–104. For a statement of the problem that is not necessarily accusing in tone, see *Foreign Trade, A Survey of Current Issues to Be Studied by the Subcommittee in International Trade of the Committee on Finance, U.S. Senate*, Washington, USGPO, May 14, 1971, p. 4.

payments, isolating and measuring those flows that are attributable specifically to the MNCs. Unfortunately, this is not possible. Data for the flows attributable to the MNCs are not available. In this respect, central banks and governments are technologically inferior to the MNCs which, in their own operations, are able to gather, analyze, and act upon the information necessary to them.

There is a useful alternative, however. This approach, the one taken in the following analysis, involves, first, an identification of all those kinds of institutions—banks and business firms—which have dealings in the internatioal money markets, as opposed to strictly domestic ones. Once this identification is made, the next step is to add together, as accurately as possible, the total resources—assets and liabilities vis-a-vis each other—which these institutions have at their command. Essentially, this procedure estimates the amounts of short-term funds that can flow in a crisis situation. If the numbers turn out to be small, then it can be concluded that these institutions' financial muscle is overrated by the critics. If they are large, then it can be concluded at least that the possibility of disequilibrating behavior becomes strong. All that is left to ask in the latter two cases is whether this behavior is speculative. That is, do the MNCs speculate aggressively (by risking assets for financial gain), or do they merely react protectively, to guard their assets against possible loss in value due to an exchange rate change brought on by the underlying balance of payments disequilibrium?

At least seven discrete types of institutions can be identified as significant participants in the international money markets. These are:

(1) United States commercial banks;

(2) United States "nonbank"—i.e., nonbanking business enterprises, including the parent firms of the MNCs;

(3) Foreign commercial banks, not including foreign branches of U.S. banks;

(4) Foreign governments, central banks, and international organizations;

(5) Foreign nonbanks, the counterpart of U.S. nonbanks in (2) above;

(6) Foreign affiliates of U.S. nonbanks—the MNC's affiliates;

(7) Foreign branches of U.S. banks.

Assets and liabilities of these groups should be included only to the extent that they are connected closely with the international markets, either because of the nature of the institutions which hold them or because of the kinds of transactions from which they derive. Also, the balances measured should be defined as carefully as possible as those short-term, liquid items that could and would move across international boundaries in timse of crisis. Thus, one should exclude reserve holdings of the principal central banks, even if they happen to be held as deposits in commercial banks, because it is highly unlikely that the major central banks would engage in speculation with those assets; they probably would remain so loyal to their fraternity that even protective movements against a weak-currency central bank would not take place.

The appropriate estimates for the seven sets of participants appear in Table 7. In accordance with the guidelines described above, the estimates for each have been made as follows:

United States Banks.—All short-term balances with all foreigners, excluding foreign central banks and including foreign branches of the U.S. banks. Also included are small liabilities to non-monetary international institutions such as the IBRD and IADB.

United States Nonbanks.—Short-term assets and liabilities with foreigners.

Foreign Banks.—External (i.e., non-domestic) foreign currency positions of banks in eight European countries reporting to the BIS (Belgium-Luxembourg, France, Germany, Italy, Netherlands, Sweden, Switzerland, and the United Kingdom), plus Canada and Japan. These figures have been modified in two major ways. First, the ten countries' banks' positions with U.S. banks were subtracted and replaced in the totals by figures showing assets and liabilities of U.S. banks against all foreign banks. This extends the coverage of the estimates. Secondly, on the assumption that most foreign branch activity of U.S. banks is concentrated in these ten countries, the worldwide asset and liability figures for U.S. bank branches were subtracted from the totals and shown in a separate section of the table.

TABLE 7.—ESTIMATED SHORT-TERM ASSET AND LIABILITY POSITIONS OF PRINCIPAL INSTITUTIONS IN INTERNATIONAL MONEY MARKETS, 1969–71

[In billions of U.S. dollars]

Holder of assets or liabilities	Denominated in dollars		Denominated in foreign currencies		Total	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
U.S. banks:[1]						
1969	8.9	28.1	0.5	0.2	9.4	23.3
1970	10.1	21.8	.6	.2	10.7	22.0
1971	12.1	15.8	.9	.2	13.0	16.0
U.S. nonbanks:						
1969	3.5	1.7	.7	.4	4.2	2.1
1970	3.6	2.2	.6	.5	4.2	2.7
1971	4.7	2.2	.5	.4	5.2	2.6
Foreign banks:[2]						
1969	[3] 64.9	[3] 52.3	[3] 10.7	[3] 10.6	[3] 75.6	[3] 63.0
1970	43.0	31.7	5.8	5.8	48.8	37.5
1971	44.3	38.3	8.4	8.2	52.7	46.5
Foreign governments, central banks, and international organizations:[4]						
1969	4.9	NA	0.4	NA	5.3	NA
1970	10.0	NA	2.8	NA	12.8	NA
1971	10.7	NA	8.0	NA	18.7	NA
Foreign nonbanks:[5]						
1969	7.3	6.2	NA	NA	7.3	6.2
1970	7.6	9.4	NA	NA	7.6	9.4
1971	6.8	11.4	NA	NA	6.8	11.4
Foreign affiliates of U.S. nonbanks:[6]						
1969	NA	NA	NA	NA	59.9	34.9
1970	NA	NA	NA	NA	80.6	46.9
1971	NA	NA	NA	NA	110.0	63.0
Foreign branches of U.S. banks:[6]						
1969	(7)	(7)	(7)	(7)	(7)	(7)
1970	34.6	36.1	12.7	11.3	47.3	47.4
1971	40.2	42.1	21.2	19.4	61.4	61.5
Totals:						
1969	89.5	88.3	12.3	11.2	161.7	134.5
1970	108.9	101.2	22.5	17.8	212.0	165.9
1971	118.8	109.8	39.0	28.2	267.8	201.0

[1] Data are total foreign short-term assets and liabilities of U.S. banks as reported in U.S. sources, less claims on and liabilities to official monetary institutions.

[2] Basically, these data are those reported to the BIS by banks in 8 European countries (Belgium, Luxembourg, France, Germany, Italy, Netherlands, Sweden, Switzerland, and the United Kingdom), plus Canada and Japan. Figures from U.S. sources relating to foreign branches of U.S. banks have been subtracted from these figures and are shown separately in the table for 1970–71. Also, the 8 European countries' asset and liabilities vis-a-vis the United States (denominated in dollars) were removed from the totals, and data from U.S. sources on total dollar claims and liabilities against foreigners were added.

[3] Includes foreign branches of U.S. banks.

[4] Data cover (1) identified official holdings of Eurodollars, (2) unidentified holdings of Eurocurrencies plus residual sources of reserves—both as estimated by the IMF—plus (3) claims on U.S. banks of nonmonetary official institutions such as the IBRD and IADB. NA—not available.

[5] Available data cover United States and foreign banks' claims on and liabilities to all foreign nonbanks, including foreign branches/affiliates of U.S. nonbanks. To insure elimination of double-counting, since positions of the U.S. affiliated firms are shown separately, the available data have been reduced by 50 percent—that is it is assumed that half of the assets and liabilities reported by United States and foreign banks against foreign nonbanks actually are liabilities and assets respectively, of foreign affiliates of U.S. nonbanks.

[6] Data are estimated current assets and liabilities of nonfinancial affiliates of U.S. firms.

[7] Included under foreign banks.

[8] Figures are from U.S. sources citing total assets and liabilities of branches. Therefore, some long-term items are included.

Sources: Federal Reserve Bulletin, September 1972; U.S. Treasury Bulletin, September 1972; Bank for International Settlements, annual report, 1971–72; International Monetary Fund, annual report, 1972; U.S. Commerce Department, Office of Foreign Direct Investment, foreign affiliate financial survey, July 1971 and foreign direct investment program selected statistics, July 1971; and data furnished by U.S. Department of Commerce, Bureau of Economic Analysis, Foreign Investment Division.

Foreign Governments, etc.—These data are restricted to foreign official holdings in the Eurocurrency markets, plus small amounts of claims held by nonmonetary international institutions on U.S. banks.

Foreign Nonbanks.—Seriously deficient in coverage, these figures include only U.S. and foreign banks' external claims and liabilities against nonbank firms outside the United States. The original figures obtained include *all* foreign nonbanks including foreign affiliates of U.S. firms, which are shown separately in the table and therefore should not be doubled-counted. In the absence of any hint of the share of U.S.-based affiliates in these totals, the totals were reduced by 50 percent in order to reduce the possibility of double-counting.

Foreign Affiliates of U.S. Nonbanks.—Estimates of the current assets and current liabilities of all non-financial affiliates of U.S. firms.

Foreign Branches of U.S. Banks.—Balance-sheet figures for total assets and liabilities of the branches. These data include some long-term, non-liquid items which should not be in the estimates, but this deficiency could not be removed.

Table 7 contains some purposeful double-counting, in the following sense: As the table is constructed the assets of any one set of factors listed constitute the liabilities of all the others to it. The powers of debtors as well as creditors should be borne in mind. The decision to move a balance from one location to another depends not only on the motivations of the balance's owner—who clearly can shift a deposit, say, from a bank in one country to a bank in another—but also upon those of the institution which owes the money; it can transfer its liability with equal facility. The thrust of the analysis is to identify the decision points and measure the resources that are available at each of them.

There is absolutely no doubt that Table 7 contains figures that should not be there, either because they are not to be considered voliatile or because they represent balances of an essentially domestic, rather than international character. On the other hand, it fails also to account for large balances that should be included, such as the assets and liabilities of non-U.S. MNCs. On balance, there is an error in the overall estimates, in one direction or the other. However, as the subsequent analysis will imply, substantial errors could be present in the estimates without necessitating any fundamental alteration of the conclusions which are derived from them.

The key figures in the table are the overall total asset and liability estimates in the lower right-hand corner. These measure the amounts of short-term funds that may have been capable of flowing within the system at the end of each of the 3 years covered—$162 billion in 1969, $212 billion in 1970, and $268 billion in 1971 on the assets side; and $135 billion, $166 billion, and $201 billion respectively on the liabilities side.

These indeed are very large numbers. They should lay to rest any doubts that the seven sets of organizations involved are capable of generating flows that could disrupt normal payments relationships among countries and, is fact, help to generatte international monetary crises. Consider the total assets estimated as available at the end of 1971—$268 billion. A movement of a mere 1 percent of these, or $2.7 billion, in response to exchange rate weakness or strength is quite sufficient to produce a first-class international financial crisis.

The seven categories of institutions listed represent a diffuse group. All are heavily involved in the international financial system, but all are not MNCs under even a very broad definition. The role of the latter[1] can be estimated by adding only the assets/liabilities of the U.S.-related groups: U.S. banks and their branches; plus U.S. nonbanks and their affiliates. In 1971, these four classes of institutions controlled $190 billion—or 71 percent—of the total assets of $268 billion shown for that year. Thus, the potential role—and almost certainly the active role—of the U.S.-based MNCs (including the multinational banks) is great. In fact, it dominates the system.

A question hardly has to be asked respecting their capacity for disruptive movements of funds. Such a capacity exists. However, if one is willing to presume that at least some movements of funds take place for protective reasons, or alternatively, to admit that only a small fraction of the corporate treasurers and bank vice-presidents in the system tend to speculate, then one can give a clean bill of health to most of the MNCs on this question. The total estimates are so large that only small fractions of the potential flow (or large flows generated by a very few firms) are fully capable of producing monetary crisis. In other words, there is a choice between two conclusions, neither one of which is especially damaging to the MNCs as a group. These are:

(1) That the MNCs react protectively, making only marginal adjustments in their asset and liability positions in the face of crisis. These adjustments add up to an enormous impact, but they do not redound unfavorably on the motivations of the MNCs; or

(2) That most MNCs hardly react at all, while a small minority, capable of generating heavy, disruptive movements of funds do so. Some or all of these few firms may actually "speculate" in the sense that, more than simply taking steps to protect their assets in times of monetary unease, they actively risk assets to gamble on the profits that can be made from exchange rate changes.

[1] For the purposes of this analysis only, the definition of "MNC" has been expanded to include U.S. banks and their foreign branches.

The estimates of Table 7, however, raise an even larger question. They give evidence of the size of the independent, largely uncontrolled monetary system that has sprung up within the comfortable old world of domestic systems, central banks that manage them (or try to), and stocks of international reserves used to hold things steady until balance of payments "adjustments" can work themselves out, largely through the mechanism of international trade. Some comparisons are appropriate here. The $268 billion asset figure shown in the table for 1971 is:

Equal to nearly 60 percent of the U.S. money stock at the end of 1971, defined as currency, demand deposits, and time deposits at commercial banks (excluding large CDs) ($465 billion);

About equal to the *combined* stocks of money (currency and demand deposits) and quasi-money (time and savings deposits) of the United Kingdom, Germany, France, and Belgium *together* at the end of 1971 ($269 billion);

More than three times as large as the total international reserves of all the "industrial countries" (as defined by the IMF) at the end of 1971 ($88.5 billion);

Well over twice as large as total world reserves ($122 billion).

The comparison with total world reserves is perhaps the most startling. During the long debate that ranged over the 1960's about the adequacy of international liquidity—i.e., levels of officially-held liquid reserves—that culminated in the creation of Special Drawing Rights (SDRs) as a new type of reserve asset, attention generally was focused on the adequacy of reserves to finance the traditional types of international business, chiefly trade. Little attention was given to the adequacy of reserves as a weapon to counter movements of funds into and out of the international money market. Yet that market now commands resources which overshadow those of the central banks by a significant multiple. Because of this, a merely marginal shift in the location of asset holdings in the international money market—especially in a crisis situation where the shift is likely to be reflected in reserve movements—can produce a multiple effect on the location of international reserves. Consider a concrete example: In 1971, West Germany's reserves rose by $4.8 billion, of which $2.4 billion represented an underlying balance of payments surplus (on current and capital accounts). Assuming that the remaining $2.4 billion, essentially composed of flows, of liquid, short-term capital, represented a shift in the locus of assets controlled by the international money market, this implies a movement of 1.1 percent of the total assets in the market at end-1970 ($212 billion). But it also implies a much larger relative shift—2.5 percent—in the locus of world reserves, calculated on the basis of world reserve holdings of $92.5 billion at the end of 1970. Actually, most of the shift was concentrated among a relatively few of the industrial countries. If the comparison were narrowed from a world perspective to include only those countries, the multiple effect clearly would be far larger.

In sum, therefore, while it is not appropriate to judge that speculative behavior characterizes the international financial dealings of the great majority of MNCs, it is appropriate to stress that they have been a primary creative force in the growth of the international money and capital markets. This is the sense in which the MNCs indeed have altered the international realities around which policies of governments—and the international monetary "system" in general—are framed. Indeed, if the large amount of privately-held liquidity which now characterizes the international markets had not been generated as it was by the MNCs, then the last decade's upsurge in world economic growth, trade, and investment might have been more restricted in the absence of some cooperative international effort to act in the MNC's place.

The size of the international money market which the MNCs have helped to create would not, by itself, necessarily represent an effective change in the realities of international finance, were it not for the parallel and complementary development of new institutions—especially the Eurocurrency markets—which give the market flexibility and an ability to generate almost instant flows of funds among national money markets. In an earlier time, central banks and governments had more freedom to work out appropriate monetary policies because the institutions of international finance were sufficiently underdeveloped that national money markets remained partially isolated from one another. The development of a strong, flexible international money market has taken away that advantage, allowing the international financial community to focus its flows quickly and directly—a focus which, as the recent international monetary crises have shown, has caused serious problems for the world's central banks.

CONCLUSIONS

Volatile, short-term capital flows are the chief proximate cause of the crises which have racked (but not wrecked) the international money system in recent years. It follows that some method of dealing with these flows by either controlling them or neutralizing their effects could have a beneficial effect on the functioning of the system.

The flows in question arise from an international money market of vast size, a market in which the MNCs (including the multinational banks) have a key role. It will be recalled that the assets held in that market—an estimated $268 billion—amounted to more than twice the volume of world reserves ($121 billion) at the end of 1971. It is clear also that a shift in the locus of only a small fraction of the international money market's assets, of which the U.S.-based MNCs control a large share, constitutes a movement large enough to generate a crisis condition—and that a shift of this magnitude can induce a multiple relative effect on the locus of central bank reserves.

Remedial steps, therefore, if they are to be oriented toward preserving as many of the features of the present system as possible, will have to be concentrated on the international money market as the source of disruptive flows. Some countries—France, for example—have toyed already with such remedial measures, in the form of controls on capital movements. Exchange controls of this variety are not a new thing. The United States has its own versions in the shape of the Foreign Direct Investment Program (which attacks movements of long-term capital) and the restrictions under which U.S. banks now operate.

Most private businessmen could argue that exchange controls of any sort are distasteful in the extreme and that they should not exist. This argument begs the question of whether or not controls on capital flows might not constitute a second-best solution which at least saves the system for the preservation of freedom to conduct current transactions. Those who apply the controls accept them as just such a second-best solution, but there is ample evidence that the controls are hard to administer, full of loopholes, and only partially successful. The markets soon learn to evade them.

One of the striking conclusions that emerges in an analysis of the IMM techniques of the MNCs is that they partake of a high level of technology and management science. In particular, their systems embody procedures for the fast development, dissemination, and action upon an extraordinarily complete body of international financial intelligence. It is true that most of this information is about their own internal operations on a worldwide scale, but it is impressive nevertheless; it gives them a basis for decision-making and a scope for independent action rather than mere reaction.

Contrast these systems with those of governments. It is unsettling in the extreme to see much of a country's knowledge about what has happened in an international monetary crisis listed under "Errors and Omissions" in the balance of payments. One has to presume that a handful of central bankers in the world possess some better knowledge about the details—but this "better knowledge" cannot be very well organized, because the best that central banks can muster for the struggle is a reactive, delayed defense rather than an offense, and they often lose.

There is a need, therefore, for governments—primarily central banks—to develop information systems at least as good as those possessed by the MNCs. Since the MNCs, at least the important ones, already are developing such information for themselves about themselves, it would seem possible and not excessively costly for central banks to require such information, on a confidential basis, from the MNCs. Access to reports on short-term asset and liability positions and where they are held would greatly enhance the perspective of the monetary authorities respecting international financial problems as they develop, and it would provide insights into the possible solutions to such problems before they degenerate into international monetary crises. The U.S. Government already has such reporting programs, although they presently fall far short of complete international reporting systems covering all or most of the information item that would be of interest. The greatest need, which is still unmet, is for information which is comprehensive, collected by authorities in the important Western countries in compatible formats, and then both shared and acted upon in concert by the major central banks.

The CHAIRMAN. Mr. Duncan?

Mr. DUNCAN. Do any of you gentlemen think we actually have free world trade today?

Mr. KENDALL. Are you talking about totally free trade?

Mr. DUNCAN. Yes, sir.

Mr. KENDALL. No, sir.

Mr. DUNCAN. Is that the opinion of the rest of you gentlemen on the panel?

Mr. JONES. Yes, sir.

Mr. DUNCAN. In most instances U.S. nontariff barriers are legislative and not administrative. Is that true in most countries or with our trading partners?

Mr. KENDALL. That they are legislative rather than administrative?

Mr. DUNCAN. Yes. In the United States our nontariff barriers are largely legislative and not administrative, is that true with our trading partners?

Mr. KENDALL. They are largely the same.

Mr. DUNCAN. Do we have some nontariff barirers that mutually exist in some countries, from country to country?

Mr. KENDALL. One that we have is the "Buy America" provision in Government contracts. However, we are more liberal in that than most overseas countries are.

Many overseas government purchases will not allow American companies to bid. Here we do allow foreign countries to bid.

Mr. DUNCAN. What country would you say has the most closed market today?

Mr. KENDALL. Japan.

Mr. DUNCAN. Could you name others?

Mr. KENDALL. A lot of people talked about barriers we have in Europe because the added value taxes was put on there as a nontariff barrier. I don't happen to share that opinion. I think they have a tax system that is certainly to their advantage, but they are not going to change that system.

Japan is the principal problem as far as nontariff barriers are concerned. Of course, you have the less developed countries which have barriers all over the place.

Mr. DUNCAN. Has the exporting of our patents and technology had an adverse effect on our ability to compete in the world trade?

Mr. JONES. Mr. Duncan, the answer to the question is no, from my standpoint. However, I differ from Mr. Don Kendall on the previous question. I think that there are a lot of countries that give us trouble with nontariff barriers. Most of them are not legislative. They are administrative.

Mr. DUNCAN. What product has the largest trade deficit?

Mr. JONES. The four products I am familiar with would be steel, textiles, electronics and automobiles.

Mr. DUNCAN. What product has the largest trade deficit? Would you say automobiles?

Mr. SCHNEEBELI. Would the gentleman yield?

Wouldn't it be oil?

Mr. DUNCAN. I think one of you gentlemen can answer that.

Mr. KENDALL. I really don't know the answer, Mr. Congressman, but I will provide it for you.

[The information follows:]

In response to the question of Congressman Duncan * * * as to which product has the largest trade deficit, the answer is new automobiles. In 1972, the trade deficit in new automobiles amounted to $4.4 billion.

Mr. DUNCAN. I would appreciate it. Do you consider the United States selling price a nontariff barrier as far as we are concerned?

Mr. KENDALL. Yes.

Mr. DUNCAN. Do you think the tools in this legislation can change their attitude on the trade barriers?

Mr. KENDALL. I think that the negotiators are going to have to do that. You don't give something up unless you get something back in return. I would hope that the negotiators that are going to be doing this are not going to give things up without getting something back.

Mr. DUNCAN. You think we will have to give something up to offset our present disadvantage?

Mr. KENDALL. In most countries. I think that in the European market you probably are. I don't in Japan. I think the case is different, but you are really going to have to take it country by country.

Mr. CORMAN. Thank you.

Mr. Kendall, as I understand you support that portion of the bill which gives the President the right to impose quotas when there is fair trade as distinguished from dumping or anything of that sort under certain circumstances.

Obviously that is a very potent negotiating tool because in some ways that is the ultimate in control of commerce. Would you give me a little idea as to why you think that should be a tool of the President's negotiators and secondly when it is used, how should it be allocated within this country among American businessmen?

Mr. KENDALL. We said that if it was proven that there had been injury. We also said that it perhaps should be easier to prove that there is injury. I think one of the things you have to look at in writing this legislation, in my opinion, is why should we separate imports from other dislocations that could occur in industry in the United States.

You can have shifting of industry. You can have technological obsolescences which could cause problems.

Mr. CORMAN. That is my question to you, not your question to me. I am asking you why you think the President should have the authority to impose import quotas when there is no unfair trade practice on the part of the exporting country. As I understand the testimony was that you supported that portion of the bill.

Mr. MCNEILL. We are supporting title II of the bill which has written into it the traditional escape clause that has been in our laws since 1949. It says that if pursuant to the conduct of a liberal trade policy, imports cause our producers serious injury, then after review by the Tariff Commission, the industry can ask the President to impose at the border higher tariffs or import quotas. The President's proposal in the bill before you would provide that in such cases the import increase would remain in effect for 5 years during which time the industry would have to adjust to the import competition and at the end of which would not be subject to the higher tariffs, unless renewed for one additional 2-year period.

Mr. CORMAN. We are not talking about tariffs. We are talking about quotas.

Mr. MCNEILL. Higher tariffs and import quotas are the measures of relief available to the President and have been for some 20 years.

Mr. CORMAN. They will be available differently in this legislation.

Mr. MCNEILL. They will be easier to obtain.

Mr. CORMAN. Easier is different from harder. The thing that sparked my interest in all of this is that we talked so much about textile quotas. When Mr. Maurice Stans was the Secretary of Commerce, it looked to me as if we were going to put in the hands of some bureaucrat some place tremendous authority over a significant segment of the American business community.

The bill went through the House and we kept broadening it and broadening it. Now the potential is very broad for the use of quotas.

I am wondering what you think we ought to do, if anything, if we have them, to regulate among the American business men what impact they will have. We do that with clothes. We do that with oil, but Secretary Dent said he didn't anticipate that there would be any governmental agency administering the quotas within this country once they were imposed.

Are you comfortable with that situation?

Mr. MCNEILL. The President in his proposal before this committee in this area is for the first time suggesting that the Congress write a requirement that prior to imposing quotas or higher tariffs, he, the President, take into account the impact of such higher tariffs or quotas on domestic producers, on competition in the domestic market and some other measures we welcome.

The measure also provides that during the tenure of import quotas or higher tariffs the industry effected report on a regular basis to the Administration as to the measures of adjustment it is taking on its own behalf. The presumption is that higher tariffs will be maintained only if the domestic industry is making good faith efforts to improve its own stiuation. We think the President has gone beyond what was required in the past and is requiring that he tell what the effect of quotas on consumers and others is.

Mr. CORMAN. You are comfortable that we tell him and he makes up his mind?

Mr. MCNEILL. We are comfortable with your telling him and under the provisions he is authorized to raise higher tariffs or impose import quotas. We suggested in our testimony that we think the President's ability to increase tariffs or impose quotas should be limited as this committee might see fit, if you should write in your own limitations.

Mr. CORMAN. Besides limiting him, do you think we should have something to say about how they are limited? Suppose we get a textile quota which was very high on his list. It was in 1971. At that time if he had the authority he would have imposed a textile quota. It would have been very harsh and severe because that is the way the legislation read that he sent up here.

Yet, they give it to the American importer on a first come-first served basis. Do we fulfill our responsibility to the American business community if we do that?

Mr. MCNEILL. I don't have a specific answer to that question, sir. I think there is balance written under the proposals that we certainly can support.

Mr. CORMAN. My 5 minutes are up.

The CHAIRMAN. Any other questions? Mr. Brotzman.

Mr. BROTZMAN. Your testimony relative to adjustment assistance could be very valuable to the committee. I understand on your retraining program you shifted more than 12,000 people into new jobs out-

side the manufacturing area. Then you recite that you had retrained, I think, 5,000 of them for new careers in marketing, et cetera, retrained I would assume for employment within IBM itself.

Mr. JONES. The answer is yes within IBM. Incidentally, we expect to retrain roughly somewhere around 1,500 to 2,000 people this year from one type of job in IBM to another type of technology and another job still inside IBM.

Mr. BROTZMAN. You point out that it is simpler, I guess, to do this within the corporation than to do it on a national basis. The problem is more sophisticated and difficult, but my question is, are larger multinational corporations, and perhaps this is a fair question for ECAT generally, are they going through this same retraining program within their own companies?

This is the way to get at it, I think. Now, is this being done in other corporations extensively or can you answer that question?

Mr. JONES. I can tell you it is being done in many corporations in Europe. I know of several in the United States where it is being done. One of them is Xerox. I would ask Mr. Wilson or Mr. Kendall to add to that.

Mr. WILSON. We are not a multinational company.

Mr. KENDALL. I think that most companies, where possible, certainly are trying to avoid layoffs as a result of the type of thing Mr. Jones was talking about but I think you would have difficulty in finding many examples of the type Mr. Jones is talking about.

Mr. BROTZMAN. We will strike the word multinational out of my question and you may respond.

Mr. WILSON. We normally have a rather extensive training program. In the recent period until a year and a half ago we had more people than we had work for. At that time there was no requirement for additional training. At the present time we are training people. Although our skills are not changing in the same context that Mr. Jones indicates, we are basically training people in the same skills that we basically had over the past 5 or 6 years.

There is some shift but it is not apparently as dramatic as he would indicate.

Mr. BROTZMAN. Now, Mr. Jones, you made a very generous offer to provide an advisor to work with us or somebody in this regard. What do you envision? Do you envision some sort of a federal law requiring this on the part of the employers? What are you thinking about?

Mr. JONES. I am thinking of some kind of a government-industry agency that is advising State unemployment offices of what types of jobs should be required in the retraining program because the key to such a program is to make sure that when you offer a person training that he has the chance of getting the job. The reason we are successful is because the person knows that "If I don't do well in retraining I will not have a job," so he works very hard to assimilate the retraining.

What I think would be helpful is a government-industry board that would examine future job skills and try to give the best advice possible as to what retraining really means and who it should be offered to.

Mr. SCHNEEBELI. If the gentleman will yield, I think we have sitting before us the man who headed up NAB, the National Association of Businessmen.

Mr. KENDALL. Yes.

Mr. SCHNEEBELI. You did an excellent job of training people. I think it is one of the very best jobs of industry training, and I would like to compliment you on the very great work you did.

How many did you train in one year's time?

Mr. KENDALL. The figures got up to where we were turning over 100,000 people in the second year of the operation. But that was when our economy was also not quite as heated up as it is today.

Mr. SCHNEEBELI. I would like to emphasize again that Mr. Kendall is the fellow who headed up this combined industry-governmental effort which has been so effective. Congratulations.

Mr. KENDALL. Thank you.

Mr. BROTZMAN. To conclude, I certainly agree with what you said, Mr. Jones. The reason it worked so well was that you were able to say "You are going to have a job when you get through your training." That is an incentive to get retrained.

The CHAIRMAN. Mr. Gibbons will inquire.

Mr. GIBBONS. Let me say to each of you gentlemen, as heads of your businesses coming here to testify, that I applaud you for this. I think it is more helpful for us to hear the voices of you who are responsible for the overall success of your companies than to have a professional speak in a professional capacity.

We get a lot of lip service about the lesser developed countries. I know generally I am pledged, in my own public spirited sense, to try to help these lesser developed countries. But I wonder if this is just a short range thing. May we not wake up in a few years and find these lesser developed countries competing with us? May they not turn out to be the Japans of the future?

What do you think about our policies toward the lesser developed countries? What should be our attitude toward them?

Mr. KENDALL. I will take a try at that. I think we should live up to the statements that we have made about helping lesser developed countries where we can and where we can economically afford it. However, I do think that "economically afford it" is an important question we have to analyze when you start going into programs like this. I think one of the things we said in our statements about giving preferential treatment was that we should do it but not at the expense of our own industries, where they are going to be hurt.

I would, for one, hope that some of the less developed countries would turn into a Japan, say, and compete with us because then it would be another good market also for the United States.

So I would hope that this would happen although I don't think that there is much likelihood of that happening in too many countries.

Mr. GIBBONS. Do you sell any Pepsi in Japan?

Mr. KENDALL. Yes, sir, we sell a lot of Pepsi-Cola in Japan.

Mr. GIBBONS. Do any of the companies represented here use insurance issued by OPIC, the overseas private investment corporation.

Mr. WILSON. No, sir.

Mr. GIBBONS. Mr. Wilson, what is going to be the impact on your industry as far as America's going metric is concerned?

Mr. WILSON. I think obviously there is going to be an impact. I guess I look forward to that coming and think we should move on it. I know Mr. Karl Harr of the Aerospace Industries Association is going to speak to the committee and I think he will be in a better position to address this.

With the large amount of commercial airplanes we sell overeas, I think it will be of great benefit to change over. I hope the Government supports a rational program in that regard.

Mr. GIBBONS. How about you, Mr. Jones. Will you be affected adversely?

Mr. JONES. It will save us money. At the moment we dual source all of our products and all of our drawings have to have both systems of measurement. As soon as we go metric, we will have just one.

Mr. GIBBONS. The adjustment assistance provision of the administration's trade bill is almost nonexistent other than for the working man. You testified, I believe, that you thought there ought to be some adjustment assistance for companies as long as they were "small" companies under the definition we now have for the purposes of the Small Business Administration.

Are there any differences on the panel about this? Do you think that the companies need adjustment assistance?

Mr. KENDALL. I am the one who made that statement. Apparently they agree. I think the small companies should be given it, but I don't think the larger companies need it. I think the whole problem area of adjustment assistance is an extremely complicated one. In some cases it has been too difficult for applicants to get relief. In other places where they have gotten relief you can't point your finger to any success as a result of retraining.

I really think this is an area where there has to be an awful lot of study. The National Alliance of Businessmen was mentioned in the training area along with IBM. We found the identical thing in NAB; where we had the greatest success was where we were training a man for a particular job.

The day he went under training, he went on the payroll and he knew what job he was going to when he got through. So that is where we had success. When you are taking a man from one company and you want to transfer him to another city, it is very difficult to get that man to move where the new job is. He doesn't want to pick up and move. So it is a very difficult thing to do.

Mr. GIBBONS. I assume you are supporting the concept of on-the-job training rather than the classroom or academic sort of approach.

Mr. KENDALL. Yes, sir.

Mr. GIBBONS. That apparently is your opinion as to the most effective type of retraining program we have, is that it?

Mr. KENDALL. It is the only one I have seen that has worked.

Mr. GIBBONS. It has. I agree with you.

Mr. KENDALL. I have seen it in San Francisco and New York where they were taken literally off the street and trained to operate checkout counters in supermarkets. When they left the training program they could go to a super market and qualify within a week to operate the checkout counter.

Mr. GIBBONS. Mr. Jones. Are your plants unionized in the United States?

Mr. JONES. Thank you for calling on me because it lets me add something to Mr. Kendall's last comment. That is that I think vested pension rights are very necessary and help a lot in what we are talking about. No, our plants are not unionized in the United States.

Mr. GIBBONS. What kind of progress, Mr. Jones, are you making with Japan with regard to cracking into that market over there?

Mr. JONES. It is tough to be humble and talk about how we do in Japan. We are doing very well over there. We have two plants and we have a rapidly growing business there.

Mr. GIBBONS. My time has expired. I thank you very much for your answers.

The CHAIRMAN. Mr. Waggonner.

Mr. WAGGONNER. Thank you, Mr. Chairman.

Mr. Jones, on page 5 of your statement you listed a number of specific examples of non tariff barriers. As far as a high technology industry such as yours is concerned, are they intended to be in a priority order as they affect your industry?

Mr. JONES. The "Buy National" barrier is number one.

Mr. WAGGONNER. That answered the question. I was just wondering for a high technology industry what the most serious non tariff barrier you had to face was. I consider this to be the biggest problem we will have in resolving some of these questions.

You gentlemen were in the room this morning when former Secretary Freeman spoke. Among other things he called for building improved international institutions which had the capability of responding to the needs of world economic integration. He said the world economic integration required the foreign trade policy, a foreign monetary policy and a foreign economic policy which we do not have.

Would any of you gentlemen comment about the value of these institutions being created. I presume although I didn't ask Mr. Freeman this morning, that he was talking about formal institutions that went into greater depth than does, for example, OECD in some of those areas.

Could you comment on the need to make provision for some of these permanent institutions in this legislation?

Mr. KENDALL. I don't know what institutions he was referring to. I assume he is talking about the International Monetary Fund and GATT. I really don't think that we have to create any new institutions. I think we have enough now. It is just a question of making the ones we have work better.

Mr. WAGGONNER. You answered my question, Mr. Kendall. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Vanik.

Mr. VANIK. Mr. Chairman, I did not finish a few questions. Going back to Mr. Kendall, one of the questions I raised the other day was whether or not all of the competitors of Pepsi had an equal opportunity to participate or get involved in the Soviet deal. I want to know whether everyone had an opportunity to participate, companies like Dr. Pepper, Coca-Cola, Royal Crown, and the uncolas.

Did they have a fair opportunity or an equal opportunity to get involved?

Mr. KENDALL. I don't know that I would say that about Dr. Pepper because they have not gone overseas yet. The uncola, I really don't know whether they got involved or not but the other one that sells the small bottle from Atlanta, Ga., had a great deal of opportunity.

Mr. VANIK. My next question is whether any federal official at any point interceded. How did you get hold of Mr. Kosygin? I have wanted to talk to him about several things. We don't find him accessible. Did some federal official call or write or telegraph and make an appointment or did you do that entirely on your own?

Mr. KENDALL. I am certainly glad you raised that question.

Mr. VANIK. I suppose you are delighted.

Mr. KENDALL. I have been looking for a public forum to answer just that question for some time. There were a lot of insinuations, at the time I made what I thought was the greatest sale I ever made, that President Nixon did it for me, because we happened to have a good relationship before he got in office.

The opening question I was asked on the Today Show, was: "Did the President help you in this transaction?" I looked straight at the questioner and said, "Of course, he did." He was somewhat surprised that I said that. I said the President has made it possible because of what he did with opening the doors with the Soviet Union and China.

This is one I started working on in 1959 when I went to the Soviet Union to participate in the American Exposition and almost got fired for it because people thought I was wasting company money. But fortunately, I survived because I got a picture of Khrushchev drinking Pepsi-Cola that went all around the world and which said "Khrushchev learns to be sociable." I went back 2 years ago in December with Orville Freeman's group, for a Business International meeting.

Before I went to that meeting, I was on the board of directors of the IDS Mutual Funds in Minneapolis. Tommy Thompson, our former ambassador there, was on the board. I asked him many questions. He suggested the Vodka-Pepsi arrangement. Then I had a meeting with Ambassador Dobrynin and told him I would like to have a discussion of this in Moscow.

He said this would involve several ministries because we had to buy something and sell something. Then he said the Health Ministry would have to be involved. It was a political decision. He said the Prime Minister was probably the only one who could make the decision.

He evidently communicted it. When I got there with the Business International group, and I was chairing the trade aspect of our discussions, the Prime Minister came up to me and said he understood that I wanted to have a discussion.

We actually met that night at a reception for the Prime Minister and I was called up in front of the table. He said, "Would you like to make a liter-for-liter deal on Vodka for Pepsi-Cola, and we shook hands and that was it.

Mr. VANIK. That didn't quite answer my question. I said did any government official indirectly or directly use cable, telephone or telegraph to help make an appointment? That takes a yes or no.

Mr. KENDALL. Are you referring to did I get any help?

Mr. VANIK. I am just wondering if there was any federal help you had by way of either cable, letter, telegram or personal recommendations.

Mr. KENDALL. I will give you a categoric "no." I have been investigated by the best expert in town, Jack Anderson. Let me read you what he said. I would like for the record to say what Jack Anderson says.

Kendall came home with an agreement to sell Pepsi to the Russians. It took him most of a year, not to mention four personal trips to Moscow, to swing the deal. He turned on the salesmanship precisely as President Nixon was easing tensions and boosting trade between the United States and the U.S.S.R.

Such timing has stimulated whispers in Washington that Pepsico has an inside track. We have found no evidence, however, that Kendall has received favorable treatment from the Nixon Administration.

Pepsico lost millions, for example, when the Health, Education, and Welfare Department banned the sweetener cyclamate from the market.

We have established that Kendall was the first aggrieved businessman to reach then-Secretary Robert Finch. With typical good humor, Kendall strode into Finch's office carrying a canvas bag. Pretending there was a bomb in the bag, he shoved it under Finch's desk.

"Is this where he sits?" demanded Kendall mischievously. I don't want to miss him the way they did Hitler. But he was unable to persuade Finch to relent. Nor did Kendall's friendship with the President prevent the Federal Trade Commission from bringing two suits against Pepsico.

One sought to prevent the company from imposing territorial restrictions on its bottlers. The other was intended to block a merger between Pepsi-Cola and Rheingold Beer.

As nearly as we can learn, Kendall has scrupulously kept away from the FTC and has left all the negotiating to Jim Frangos, an attorney in the Mudge, Rose law firm.

But, meanwhle, Pepsi is challenging Coke for supremacy on the brown, bubbly, effervescent ocean.

Mr. VANIK. The Pepsi Company gives you some rights for distribution of the Vodka in the United States. Do you believe that this kind of an exclusive franchise meets the spirit and the letter of American antitrust laws?

Mr. KENDALL. Well, if it didn't——

Mr. VANIK. Now wait a minute. I don't know.

Mr. KENDALL. I don't know anything that is in violation of the antitrust laws.

Mr. VANIK. You don't think it violates either the letter or spirit of the antitrust laws?

Mr. KENDALL. No, sir.

Mr. VANIK. That is all I had on that point. I am glad we had a discussion of this point because one of the things I feel is very, very important in trade matters is that there should be an equal opportunity for all American enterprise to compete.

I also feel there ought to be an umbrella, an authority in Commerce so that they could evaluate the transaction as to the economic meaning of a trade pact, whether it means more taxes, more dollars, an improved situation on the balance of trade.

I think we ought to analyze each and every transaction to see where we are going, particularly the larger and newer transactions.

I have a question for Mr. Jones. In going over this 1972 financial report on IBM, one of the things that disturbs me in a paragraph at the bottom of page 25 of the 1972 report which reads as follows:

Undistributed earnings of foreign subsidiaries included in consolidated returned earnings as of December 31, 1972 amounted to $1 billion 710 million. These earnings are indefinitely reinvested in foreign operations. Accordingly, no provision has been made for taxes that might be payable upon their remittance.

By this kind of statement I gather that the deferred income advantage which IBM has will never inure to the benefit of the American Treasury. Isn't that a conclusion that I must make from that statement?

Mr. JONES. No, Mr. Congressman, that is not a conclusion you should make.

Mr. VANIK. Let me ask you whether this statement is in error.

Mr. JONES. No; the statement is not in error.

Mr. VANIK. What do you have to say about it, then?

Mr. JONES. Most of that undistributed earnings is in major countries such as Germany, France, the United Kingdom and Japan. In a rental business it is necessary to reinvest a minimum of 55 percent of your earnings in the business.

When it says "undistributed earnings," it means that we are taking that money and reinvesting it in rental equipment. That is what that is.

Mr. VANIK. Tell me about the IBM World Trade Corporation. Is that an American corporation?

Mr. JONES. That is an American corporation registered in the United States, yes. That is in New York State.

Mr. VANIK. I have to go back to Mr. Kendall, unfortunately, because I happened to pick up this article in the paper this morning about the acquisition by Pepsi of Rheingold. I see where Pepsi has picked up 82 percent of the stock of Rheingold.

In the 82 percent stock acquisition of Rheingold, was there any purchase of Rheingold stock made by foreign subsidiaries of Pepsi?

Mr. KENDALL. Not to my knowledge.

Mr. VANIK. One of the questions I am concerned with is how the untaxed accumulated income of a foreign subsidiary might be used to assist an American multinational company in the acquisition of a stock of a company which it seeks to acquire in the United States.

Can you assure me that there was no involvement by foreign subsidiaries of Pepsi in the acquisition of stock of Rheingold in the United States.

Mr. KENDALL. Not to the best of my knowledge.

Mr. VANIK. Because I can see where this accumulation of this reserve might be used in such acquisitions. I am glad to be reassured that there is not this kind of movement, because it could provide a way where the foreign accumulated resources might be poured into acquisitions in the United States and then withdrawn and go back into the foreign depositories in which these moneys are held.

I have one other question. I didn't want to let our friend from Boeing leave without asking him this. I am, of course, glad about the progress and technology of our American aviation industry.

I think it is one of the plusses we have. One of the questions I would ask is, a month or so ago, Boeing sold a plane or two to the Japanese airlines and got a line of credit from the Export-Import Bank on a 6 percent loan.

My question is: How can we justify giving a foreign airline a 6-percent loan to buy your product when an American company, any of the other American trunk lines, has to go to the money market and pay 10 percent?

This creates an unfair advantage for the foreign airlines. They travel the same routes in many situations with some of our American carriers. How can we justify Export-Import Bank loans of 6 percent for the same thing a competitor has to pay 10 percent for in the United States?

Mr. WILSON. I would first like to say the Export-Import Bank has been of great assistance.

Mr. VANIK. They called it the "Bank for Boeing."

Mr. WILSON. Other things have had names like that that are equally misleading. The bank has been very beneficial and I think deserves a

great amount of credit for the favorable surplus we have in the business.

We would like to see any action taken to help domestic or foreign carrier to purchase our products. I think it should be noted, however, that taking the investment tax credit when it is available makes the interest rate much more comparable to the 6 percent that might be implied by the full prime rate plus 1½ or 2 percent.

Mr. VANIK. You have bought Melsat out in the Japanese deal. Don't they give their carriers special advantages? We had to fight for landing rights and equality and fight all the way to bring a plane in.

It was almost a plane for plane deal. We will take every plane you let land in New York.

Mr. WILSON. I understand there are problems that certainly exist in that regard. I am sure they have been worked on by the appropriate people. We try to sell airplanes to anyone who will buy them.

Mr. VANIK. I understand that. It is not your problem, and it is not your fault the Export-Import Bank may be discriminating against American business. That brings me to a question.

In all of the trade matters, the fundamental question is usually not the nontariff barriers, the negotiable treaty, the real question is where can we get credit for purchases. The area in which we compete is on the basis of credit.

I think we should have a centralized control of credit policy. I feel this would be an essential part of the legislation, so that we could have a uniform policy that would apply credit.

I think it is absolutely indefensible in the United States to let foreign operations or foreign subsidiaries or anything else have a credit advantage, have interest rates at lower rates on anything that is competitive in the United States. I do not think it is sound policy.

Do any of you want to comment on the credit aspects of our trade policy? Well, all right. I feel there ought to be that kind of umbrella. There is one other thought I have, and that is that we ought to have in this bill a provision for providing consumer protection.

I think we need specific language to deal with the consumer interest so we can look out for the rights of the American consumer in any trade decisions that might have an effect on prices.

It doesn't affect the problems of export that any of you have talked about, but it does have a great effect on agricultural exports because I feel agricultural exports can reach a point where they can inordinately raise the price of food in America.

Thank you very much.

Mr. WILSON. Conversely, when trade is restricted from coming in, it raises the price to the consumer here.

Mr. VANIK. That is right. I would suspect you would support the removal of import quotas that are restrictive. These are some of the things you talk about negotiating away, the tariff barriers that have operated to restrain trade.

The CHAIRMAN. Mr. Burke?

Mr. BURKE. I would like to get back to that unemployment situation. You gentlemen have indicated that the multinationals are not contributing toward unemployment that might result in the passage of this legislation.

Would you favor an amendment that would extend unemployment out to 52 weeks in any state in the Union where the unemployment figures were higher than the average employment in the nation?

Mr. KENDALL. I certainly would not want to answer that question without examining it and looking it up because I am not sure I understand the impact.

Mr. BURKE. This deals with the adjustment assistance. Under the provisions of the bill we are dealing with here, there is a cutback in unemployment compensation on the length of time. It will pay up to 26 weeks.

You and I know from the experiences since the 1962 Trade Act was passed that there has been a great disruption in many industries. Higher unemployment has taken place. Some of them are in special areas.

Up in Massachusetts we have been hit hard by the imports of textiles, shoes and electronics. We have also had in addition to that, of course, a helping hand from the Administration just announcing the closing down of military installations up there in Rhode Island and Massachusetts, which will more than likely bring our unemployment up to above 8 percent.

Don't you believe that when the Federal Government enters into a policy that causes a disruption and higher unemployment that they ought to be part and parcel of paying the unemployment benefits as a result of that disruptive practice that they have engaged in?

In other words, if they come in and allow the glutting of the market of electronics more than they are right now and textiles and shoes, then my area of the country is going to be real hard hit by the provisions of this bill.

Yet, the bill cuts back on unemployment compensation to 26 weeks. Our welfare bill is up around $1 billion. Should a region of the country that is hit hard by imports bear the full brunt or should the Federal Government, which caused this in the first place, be called upon to pay the unemployment which resulted as an effect of these problems?

Mr. KENDALL. We certainly support adjustment assistance, as we have said. As I said in replying to Congressman Gibbons earlier, I think you have to be concernd about Government action which is not necessarily caused by imports.

There could be other Government action which would bring about a similiar situation. I think the Government, yes, has to assume some responsibility. As to whether or not they should go the route and the role you are suggesting, I would not want to answer that without studying it.

Mr. BURKE. They haven't even got burial expenses here.

Mr. KENDALL. Unfortunately, that is what some people call adjustment assistance.

Mr. BURKE. I am surprised at people like yourselves representing these large international groups who are doing well. But these people back in the district have suffered untold hardship, some with so much pride they are ashamed to ask for welfare.

I read their letters every day. You people go along your happy way and say not to touch the foreign investment tax credit, don't do this or that. Then you speak glibly about the adjustment assistance here, when actually there is no adjustment assistance here.

There is nothing here for the working man or women who loses his job and whose life at home is completely disrupted as a result of the trade policies and the tax breaks and benefits we have extended to the multinational corporations.

It is about time that you people came here and started to recommend doing something for the other side of the economy and not have everything for yourselves. The good Lord provided that when you eat too much you will die.

You people will die because you eat too much for yourself. Why don't we leave the record open. We have the list of these great corporations. Some of them serve the people of my district.

Let me send in some letters and say they will support something beyond what this bill has to take care of the American worker who has lost his job as a result of our trade policies. You have an obligation. This country has to stand up. Maybe you people can survive in a world of international money, but the average guy back in my district can't.

Getting back to the devaluation of the dollar, do you think that with this rise in the price of gold there might have to be another devaluation of the dollar before the end of the year?

Mr. KENDALL. Are you asking me that question?

Mr. BURKE. Anyone on the panel.

Mr. KENDALL. I don't think there will have to be another devaluation on the dollar before the end of the year, no. As a matter of fact, I think if you look at the latest figures on trade, it is a very encouraging picture.

Mr. BURKE. This figure on trade is nothing more than a figment of the imagination. You have the funny money going and it makes figures look good. We see the interest rates rising and all the prices rising here.

How do they make up that loss over there when they have a devaluation? Where do they make it up?

Mr. KENDALL. Are you talking about a foreign country?

Mr. BURKE. I am talking about the devaluation of the dollar. How is it straightened out in a monetary way?

Mr. KENDALL. Let's take the Japanese products today. They are 35 percent more expensive than they were before they went through devaluation and ours are cheaper. The Germans are 23 percent higher, and that is why our trade balance has begun to swing around.

Mr. BURKE. As I asked Mr. Shultz last week, if this is such a good thing to do, why don't they do it again? You know yourself that the average working man in this country, the average person in this country suffers severely when there is a devaluation of the dollar.

You and I know it and we have seen examples of it right here in this country in the past 3 months. How long are the American people going to be able to carry the burdens of devaluation of the dollar?

Mr. KENDALL. Mr. Congressman, you in these halls of Congress are perhaps the biggest factor on whether or not the dollar is going to be devalued because Government spending is one of the biggest problems in devaluation of the dollar and inflation.

I think if we develop spending ceilings and we keep our spending in Government under control, and we have the work ethic in this country, which we need, then I don't think we will have any problem with the wage rates. I think with the standard of living we have and paying the

wages we do today we can compete with anyone in the world, if we keep our spending under control.

Mr. BURKE. Do you favor the increase in the Defense budget the President has recommended at $4.5 billion?

Mr. KENDALL. Yes, sir, because the cost of manpower has gone up from $5,000 to $10,000 to keep our man in uniform. You are going to a conscription army. Your military budget has gone from 44 percent to 32 percent.

You are at the same level in the '74 proposals as you were in 1968. It is manpower costs, not hardware.

Mr. BURKE. There is a difference of priorities, in other words. I would like to have it spent on health and education and you would like to have it spent on defense hardware.

You are talking about social security, too?

Mr. KENDALL. That is part of the social cost.

Mr. BURKE. How do you feel about straightening out the tax problem on social security?

Mr. KENDALL. Which tax problem?

Mr. BURKE. Instead of having it 50 percent from the employer and 50 percent from the employee, have it one-third on the employer, one-third on the employee and one-third out of general revenue?

Mr. KENDALL. I don't agree with that.

Mr. BURKE. Of course you don't because you know why, there are a lot of freeloaders who are being exempt from bearing the burdens on Medicaid, Medicare and other burdens on social security who pay nothing towards it but yet reap the profits and pay no taxes. So, you are opposed to that.

Mr. KENDALL. Yes, sir.

Mr. BURKE. Well, I am glad you are. That makes the job I have much easier. Anyway, you have not given any testimony here today, in my opinion, that would help the adjustment assistance along or give any constructive recommendations on what to do to take care of the unemployed American worker who looses his job outside of what is in the provisions of this bill.

Mr. KENDALL. No, sir, but I did comment, Mr. Congressman, that I felt that this Committee, as well as everyone else, had to do a great deal of studying on this because I think it is one of the biggest problems we have. I don't know of anyone who has come up with a solution yet.

Mr. BURKE. That is what I said. You have not come up with a solution either.

Mr. KENDALL. No, sir, I have not pretended that I have.

Mr. BURKE. I have one here to extend unemployment for 52 weeks when a state average is higher than national of unemployment.

Mr. KENDALL. I have found from experience, Mr. Congressman, that I like to look at your proposals a second time.

Mr. BURKE. I am glad you are. I am glad you are looking at that Burke-Hartke bill. It took an awful lot to get your attention, but we finally got it.

That is all, Mr. Chairman.

The CHAIRMAN. Mr. Vanik.

Mr. VANIK. Mr. Chairman, on May 2 I addressed a rather extended letter to the Honorable Elmer B. Staats, the Comptroller General. On

May 11 he sent me a reply. I would like to have the letter of inquiry and reply included in the record.

The CHAIRMAN. Without objection, the gentlemen's request is agreed to.

[The letters referred to follow:]

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., May 2, 1973.

Hon. ELMER B. STAATS,
Comptroller General, General Accounting Office,
Washington, D.C.

DEAR MR. STAATS: Prior to the Administration's testimony before the House Ways and Means Committee on May 9th on the President's trade proposals, I would appreciate it if the General Accounting Office could provide me with some assistance in answering the following questions.

(1) In H.R. 6767, the Trade Reform Act of 1973, what basis is there for the statement in the explanation to Section 502 that "agreements which have already been entered into such as the agreement with the Soviet Union signed in October, 1972" are eligible for most favored status under Title 5 of H.R. 6767?

(2) As a Constitutional question, can the President through trade negotiations overturn a law of the Congress. For example, if the Congress has enacted legislation providing for the protection of certain endangered species of animals, can the President, through most favored nation trade status and other trade agreements, provide for the importation of the fur skins of such animals?

(3) Would it be the General Accounting Office's interpretation that the language in Title 3 of H.R. 6767, relating to unfair trade practices and dumping, would, if enacted by a foreign country, result in action against the wheat subsidy program currently conducted by the Department of Agriculture? In other words, if the wheat subsidy program which is part of the United States Code were operated by, say, Canada, would Title 3 of H.R. 6767 provide for us to take action against that country to stop its export subsidy practices?

Section 1353 of Title 19 of the U.S. Code states, "nothing in this Part shall be construed to give any authority to cancel or reduce in any manner, any of the indebtness of any foreign country to the United States." Does this section prohibit, before a new act of Congress, any negotiation with a foreign country such as the Soviet Union, to reduce the debt owed that country to the United States?

Thank you very much for your assistance in answering these questions.

Sincerely yours,

CHARLES A. VANIK,
Member of Congress.

COMPTROLLER GENERAL OF THE UNITED STATES.
Washington, D.C., May 11, 1973.

Hon. CHARLES A. VANIK,
House of Representatives.

DEAR MR. VANIK: By letter dated May 2, 1973, you requested our views with respect to certain questions concerning H.R. 6767, 93d Congress, which the President submitted to the Congress and which, if enacted, may be cited as the "Trade Reform Act of 1973."

The first question you raise is:

(1) In H.R. 6767, the Trade Reform Act of 1973, what basis is there for the statement in the explanation to Section 502 that "agreements which have already been entered into such as the agreement with the Soviet Union signed in October, 1972" are eligible for most favored status under Title 5 of H.R. 6767?

Title V of H.R. 6767 is entitled "Trade Relations with Countries Not Enjoying Most-Favored-Nation Tariff Treatment." Section 502 of Title V authorizes the President to enter into certain commercial agreements. Subsection (a) thereof provides:

> Subject to the provisions of subsection (b) and (c) of this section, the President may authorize the entry into force of bilateral commercial agreements providing most-favored-nation treatment to the products of countries heretofore denied such treatment whenever he determines that such agreements with such countries will promote the purposes of this Act and are in the national interest.

With respect to that title, on page 8 of House Document 93-80, dated April 10, 1973, containing the President's message proposing this bill, it is stated in pertinent part:

> *Most-Favored-Nation Authority.*—My proposed legislation would grant the President authority to extend most-favored-nation treatment to any country when he deemed it in the national interest to do so. Under my proposal, however, any such extension to countries not now receiving most-favored-nation treatment could be vetoed by a majority vote of either the House or the Senate within a three-month period.
>
> *This new authority would enable us to carry out the trade agreement we have negotiated with the Soviet Union* and thereby ensure that country's repayment of its lendlease debt. * * * (Emphasis supplied.)

Section 502(c)(1) provides that an agreement referred to in subsection (a) or an order referred to in subsection 504(a) shall take effect only after the expiration of 90 days from the date on which the President delivers a copy of such agreement or order to the Houses of Congress, if between the date of delivery and the expiration of the 90-day period "neither the Senate nor the House of Representatives has adopted a resolution, by an affirmative vote by the yeas and nays of a majority of the authorized membership of that House, stating that it disapproves of the agreement or order." (We might point out in this regard that the standard of "a majority of the authorized membership" could require a greater number of votes in either House than either of the phrases "a majority" or "a majority of those present and voting" which are frequently used in matters such as these.)

Section 504 relates to the extension, and the withdrawal or suspension, of most-favored-nation treatment. Subsection (a) thereof provides, in pertinent part, that such treatment may be extended "to the products of a foreign country which (1) has entered into a bilateral commercial agreement and such agreement has entered into force pursuant to section 502 * * *." Thus, when the United States has entered into a commercial agreement with a foreign country and that agreement has "entered into force" under section 502, the President may, under section 504, extend most-favored-nation treatment to that country.

With respect to your question as to whether enactment of H.R. 6767 would affect the October 1972 agreement with the Soviet Union and allow the President to extend most-favored-nation treatment to that country, it does not appear to us that the language of the bill differenciates between a commercial agreement which was entered into prior to enactment of H.R. 6767 or one entered into after enactment thereof. Rather, if the subject agreement is "entered into force" in accordance with the provisions of section 502—including affording the opportunity for a "congressional veto" under the provisions of subsection (c)—the President may extend most-favored-nation treatment to that country under section 504.

Your first question is answered accordingly.

Your second question is:

(2) As a Constitutional question, can the President through trade negotiations overturn a law of the Congress. For example, if the Congress has enacted legislation providing for the protection of certain endangered species of animals, can the President, through most favored nation trade status and other trade agreements, provide for the importation of the fur skins of such animals?

Section 103 of H.R. 6767 relates to nontariff barriers to trade. Nontariff barriers include such matter as requiring products to meet certain health and safety standards or to have certain minimum information on their labels. Subsection (a) of section 103 provides in pertinent part that: "* * * It is the will of the Congress that the President take all appropriate and feasible steps within his power to reduce, eliminate, or harmonize barriers and other distortions of international trade in order to further the objective of providing better access for products of the United States to foreign markets." Subsection 103(b) provides:

> In order to further the objectives of subsection (a), the President is urged to negotiate trade agreements with other countries and instrumentalities providing on a basis of mutuality for the reduction, elimination, or harmonization of barriers and other distortions of international trade. Nothing in this subsection or in subsection (a) shall be construed as prior approval of any legislation that may be necessary to implement an agreement concerning trade barriers and other distortions of international trade.

Section 103(c) authorizes the President to take any action required or appropriate to carry out any trade agreement negotiated pursuant to section 103(b)

"to the extent that such implementation is limited to a reduction of the burden on trade resulting from methods of customs valuation, from establishing the quantities on which assessments are made, and from requirements for marking of country of origin."

Section 103(d) relates to nontariff trade barriers other than those listed in subsection (c), quoted above, and provides in full:

> Whenever the President enters into a trade agreement providing for the reduction, harmonization or elimination of barriers or other distortions of international trade, and *the President determines that it is necessary or appropriate to seek additional action by Congress in order to implement such agreement*, he may authorize the entry into force of such agreement and issue such orders as may be necessary for the United States to fulfill its obligations under such agreement, subject to the procedures contained in subsection (e). (Emphasis supplied.)

Subsection (e) provides:

(e) Order issued pursuant to subsection (d) shall be valid pursuant to this section:

> (1) Only if the President has given notice to the Senate and to the House of Representatives of his intention to utilize this procedure, such notice to be given at least 90 days in advance of his entering into an agreement;
>
> (2) Only after the expiration of 90 days from the date on which the President delivers a copy of such agreement to the Senate and to the House of Representatives, as well as a copy of his proposed orders in relation to existing law and a statement of his reasons as to how the agreement serves the interests of United States commerce and as to why the proposed orders are necessary to carry out the agreement; and
>
> (3) Only if between the date of delivery of the agreement to the Senate and to the House of Representatives and the expiration of the 90-day period referred to in subsection (e)(2) above, neither the Senate nor the House of Representatives has adopted a resolution, by an affirmative vote by the yeas and nays of a majority of the authorized membership of that House, stating that is disapproves of the agreement.

The President in his message to the Congress printed in House Document 93-80, *supra*., explains these provisions as follows:

> Secondly, I request a Congressional declaration favoring negotiations and agreements on non-tariff barriers. I am also asking that a new, optional procedure be created for obtaining the approval of the Congress for such agreements when that is appropriate. *Currently both Houses of the Congress must take positive action before any such agreement requiring changes in domestic law becomes effective*—a process which makes it difficult to achieve agreements since our trading partners know it is subject to much uncertainty and delay. Under the new arrangement, the President would give notice to the Congress of his intention to use the procedure at least 90 days in advance of concluding an agreement in order to provide time for appropriate House and Senate Committees to consider the issues involved and to make their views known. After an agreement was negotiated, the President would submit that agreement and proposed implementing orders to the Congress. If neither House rejected them by a majority vote of all members within a period of 90 days, the agreement and implementing orders would then enter into effect. (Emphasis supplied.)

A President may not through trade negotiations overturn or change a duly enacted law, absent other authority of law. However, as can be seen from the emphasized portion of the above quote, the President feels—and we agree—that the enactment of section 103 will grant him sufficient authority to allow him to enter into agreements which could, in effect, change domestic law. In other words, this provision would allow the President to limit the effect of domestic legislation with respect to certain imported products, subject only to the "congressional veto" provisions of subsection (e). In this regard we might point out that an adjustment to nontariff barriers is required to be submitted to the "congressional veto" process of subsection 103(e) only when the President, in his judgment, "determines it necessary or appropriate" to do so and that the proposed bill gives no guidelines as to how the President is to exercise the broad discretion given to him by this subsection.

As to the constitutionality of this type of arrangement, the Congress may lawfully authorize the President to abrogate certain provisions of law when he determines such abrogation to be in furtherance of the purposes of the authorizing act

and in the national interest. Whether the exercise of such authority by the President would raise a constitutional question would depend on the statute involved and the facts and circumstances in each case. For example, eliminating certain nontariff barriers on imports might result in discriminating against domestic competitors and thus raise a constitutional question.

Your second question is answered accordingly.

Your third question is:

(3) Would it be the General Accounting Office's interpretation that the Language in Title 3 of H.R. 6767, relating to unfair trade practices and dumping, would, if enacted by a foreign country, result in action against the wheat subsidy program currently conducted by the Department of Agriculture? In other words, if the wheat subsidy program which is part of the United States Code were operated by, say, Canada, would Title 3 of H.R. 6767 provide for us to take action against that country to stop its export subsidy practices?

Section 301(a) of the subject bill provides, in pertinent part, that whenever the President determines that a foreign country or instrumentality "provides subsidies (or other incentives having the effect of subsidies) on its exports of one or more products to other foreign markets which have the effect of substantially reducing sales of the competitive United States product or products to those other foreign markets;" the President "shall take all appropriate and feasible steps within his power to obtain the elimination of such subsidies" and that he may take certain other steps in response to unfair foreign import restrictions and export subsidies. If a program similar to our wheat export subsidy program was adopted by a foreign country, and such subsidy had the effect of substantially reducing sales of competitive United States wheat to foreign markets section 301(a), in our opinion, would require the President to take appropriate action against that country in an effort to halt such subsidies, taking into consideration the relationship of such action to our international obligations.

As to antidumping, section 310 of H.R. 6767 contains provisions amending the Antidumping Act, 1921, 19 U.S.C. 160(b) to provide for more expeditious investigations and decisions. The substantive law is, in effect, unchanged. If a statute similar to the Antidumping Act, 1921, as amended, were adopted by a foreign country, it could result in action against our wheat subsidy export program if our program had the effect of having United States wheat sold in that country for less than its fair value.

Also section 330 of Title III of H.R. 6767 amends section 303 of the Tariff Act of 1930, 19 U.S.C. 1303, with respect to countervailing duties. The proposed section 303(a)(1), as contained in the subject bill, provides, in pertinent part that:

> (*1*) *Whenever any country* * * * *shall pay or bestow*, directly or indirectly, *any bounty or grant upon the manufacture or production or export* of any article or merchandise manufactured or produced in such country, * * * then upon the importation of such article or merchandise into the United States, * * * there shall be levied and paid, in all such cases, in addition to any duties otherwise imposed, a duty equal to the net amount of such bounty or grant, however, the same be paid or bestowed.
>
> The Secretary of the Treasury shall determine within 12 months after the date on which the question is presented to him, whether any bounty or grant is being paid or bestowed. (Emphasis supplied.)

The first paragraph of section 303 of the Tariff Act as it would be amended by H.R. 6767 would be almost identical to the present section 303. H.R. 6767 also would amend section 303 by adding subsections dealing with the determination of the amount, if any, of any bounty or grant and the actions which may be taken with respect therewith. As the President explained this section on page 7 of House Document 93–80 *supra*., the proposed legislation would amend current countervailing duty laws "to provide for more expeditious investigations and decisions. It would make a number of procedural and other changes in these laws to guarantee their effective operations." However, the proposed section is not intended to, and, in our opinion, does not, change existing substantive law with respect to countervailing duties. Therefore, if the wheat subsidy export program currently conducted by the Department of Agriculture could be considered a payment or bestowal, directly or indirectly, of a bounty or grant upon the manufacture or production or export of wheat, and if a similar subsidy program were adopted by a foreign country, it is our opinion that section 330 of H.R. 6767—as well as existing law—would enable, but not require, the United States to take appropriate action against that country in an effort to halt the subsidy practices.

Your third question is answered accordingly.

Your fourth question is:

Section 1353 of Title 19 of the U.S. Code states, "nothing in this Part shall be construed to give any authority to cancel or reduce in any manner, any of the indebtness of any foreign country to the United States." Does this section prohibit, before a new act of Congress, any negotiation with a foreign country such as the Soviet Union, to reduce the debt owed that country to the United States?

While 19 U.S.C. 1353 precludes construing anything in Part III of Subtitle II of Title 19, United States Code, as giving any authority to cancel or reduce the indebtedness, or any part thereof, of any foreign country to the United States, there is nothing in such code provision which would prohibit the President from cancelling or reducing such indebtedness under other statutory authority if such exists.

Your fourth question is answered accordingly.

We trust that the above is responsive to your inquiry.

Sincerely yours,

PAUL G. DEMBLING,
Acting Comptroller General of the United States.

Mr. VANIK. Also, Mr. Chairman, I ask unanimous consent to insert in the record a letter I addressed to Secretary Rogers, and his response to that letter.

The CHAIRMAN. Without objection, that request is also agreed to.

[The letters follow:]

HOUSE OF REPRESENTATIVES,
Washingon, D.C., May 7, 1973.

Hon. WILLIAM P. ROGERS,
Secretary of State, Department of State,
Washington, D.C.

DEAR MR. SECRETARY: In the Department of State's testimony before the House Ways and Means Committee on H.R. 6767, the Trade Reform Act of 1973, could the Department please provide for the hearing record a complete listing of (1) all complaints, actions, or requests placed by the United States Government with GATT concerning unfair and protested foreign trade practices, and (2) all complaints, actions, or requests placed by other Governments (by name of government) with GATT concerning unfair and protested trade practices on the part of the United States Government.

In addition, with respect to Section 303(a)(2) of H.R. 6767, could you please provide further details on the meanings of the explanatory note accompanying the bill. The relevant explanation reads:

"This injury requirement (referred to in 303(a)(2)) will apply only so long as such a determination is required by the international obligations of the United States, i.e., under the GATT. A principal reason why this requirement is being introduced is that the GATT requires an injury determination generally in countervailing duty cases but the United States prior countervailing duty law was in existence at the time GATT was created and the absence of an injury requirement falls under the "grandfather clause" of the Protocol of Provisional Application. The question of injury requirements in United States and other countervailing duty statutes is currently under consideration in the GATT. The purpose of this statutory provision is to comply with the technical requirements of the GATT without prejudicing the positions that the United States may finally take on this question."

What is the United States Government's position on this issue?

In this "Year of Europe," what action in the trade and development aid field is being taken to implement the Congressional Declaration of Policy stated in Section 1942 of Title 22 of the United States Code and with respect to Latin America in particular subsection (b)(2) of that section which reads:

"the Congress hereby proposes the development of workable procedures to expand hemispheric trade and to moderate extreme price fluctuations in commodities which are of exceptional importance in the economies of the American Republics, and encourages the development of regional economic cooperation among the American Republics."

On April 27th, 1973, the *Wall Street Journal* carried a major article describing the escalation of arms and munitions sales abroad—both directly by private businesses and indirectly through government assistance. The article noted that other major industrial powers were also "pushing" such armaments sales. In

light of this situation and in light of 22 U.S.C. 1934 relating to the President authority, "in furtherance of world peace and the security and foreign policy of the United States" to limit such sales other than by U.S. Government agencies, is the United States Government contemplating any action, either through the present arms talks in Europe, at Nairobi, or elsewhere, to seek an international limitation on this growing arms race?

With regard to recent demands by OPEC to increase its tax rate on oil produced within its sphere, what is the position of the U.S. Government on the negotiations between OPEC and the multinational oil companies? As a nation which requires large amounts of foreign oil at the lowest possible cost, does our national interest necessarily correspond with multinational oil companies willing to meet demand at virtually any price?

Thank you for your assistance in answering these inquiries.

Sincerely yours,

CHARLES A. VANIK,
Member of Congress.

JUNE 12, 1973.

HON. CHARLES A. VANIK,
House of Representatives,
Washington, D.C.

DEAR MR. VANIK: The Secretary has asked that I reply to your letter of May 7 containing questions for the hearing record on H.R. 6767, the Trade Reform Act of 1973. Our responses to your questions are presented below in the order in which the questions appeared in your letter.

1. With respect to your questions concerning complaints of unfair trade practices filed with the GATT, the resolution of disputes between contracting parties is provided for under Article 22 and Article 23. Article 22 allows for consultation between contracting parties and Article 23 sets up procedures, including the withdrawl of equivalent concessions, for cases in which concessions have been impaired or nullified.

Enclosed is a list of U.S. actions and requests under Article 22 and 23 and a list of other contracting parties' requests of the U.S.

In addition to the procedures of these two GATT Articles, the U.S. and other contracting parties notified the GATT in 1970 of practices that each party believed constituted non-tariff barriers to trade. Over 100 notifications constituting thirty-eight U.S. practices were received by the GATT Secretariat; the U.S. submitted more than 300 notifications of foreign practices. These notifications form the GATT non-tariff barrier inventory and are the basic information for the five GATT working parties seeking solutions to these NTBs.

2. Foreign governments have criticized the U.S. countervailing duty statute because it does not contain an injury provision. They regard U.S. practice as an important non-tariff barrier and have suggested that an international countervailing duty code be negotiated which would require the U.S. to require a showing of injury to domestic industry before applying countervailing duties, in conformity with Article VI of the GATT. The Protocol of Provisional Application (grandfather clause) now exempts the U.S. law, which antedates the GATT, from this requirement.

The U.S. position has been that the subject of countervailing duties can only be considered in the context of a solution to the problem of export subsidies, including subsidies on both industrial and agricultural products. Present GATT provisions result in an imbalance of international obligations in that policing actions against subsidies are more strictly constrained than are the subsidies themselves. We believe that any negotiations on countervailing duties should be linked to the development of workable rules limiting export subsidies and that if a viable solution to the subsidy problem could be found, the countervailing duty issue would be largely resolved.

3. It is a continuing policy of the United States Government to seek to help the developing countries through measures in the trade field, as well as development aid. The United States has not extended special preferential trade treatment to the Latin American states, but has adhered to a policy of non-discrimination in the trade field. If the United States were to extend special preferences to Latin American countries, this could contribute to dividing the world into trade blocs and would weaken the U.S. position in seeking to have the countries of the expanded European Community phase out the special preferential arrangements which discriminate against the U.S. and Latin America in their markets. Special

concern for Latin America has, however, influenced the direction of general U.S. policy; for example, with respect to the decision to seek authority to extend generalized preferences to developing countries. It is also reflected in the framework for consultations on trade matters which has been developed within the OAS.

The Administration has proposed to Congress in the Trade Reform Act of 1973, that under specified conditions imports of a wide range of manufactures and semi-manufacturers and of selected primary and agricultural commodities from developing countries enter our market duty-free. Generalized preferences are presently being extended to developing countries by all non-Communist industrialized nations except the U.S. and Canada. (The Canadian Government has received authority from Parliament to implement a system of preferences, but has not yet done so.)

Of potentially even more benefit to Latin American and other nations' trade are the multilateral trade negotiations scheduled to begin in September 1973 and expected to cover non-tariff as well as tariff barriers to trade in both agricultural and industrial products. The U.S. and the developing countries have a common interest, for one thing, in the substantial reduction of existing barriers to trade in agricultural products.

Since the President's pledge in October 1969 to consult with Latin American on proposed trade actions, a number of trade consultations have been held bilaterally, under OAS auspices and in special groups. These discussions have related not only to proposed U.S. actions that might adversely affect Latin American exports to the U.S. but also to preparations for the GATT multilateral trade negotiations; we will also be consulting within the OAS on the progress of monetary reform negotiations.

With respect to commodity developments, Latin Americans are currently experiencing generally favorable prices for their major commodity exports, such as coffee, sugar, petroleum, wheat, cotton, and meat. This fact modifies, but does not eliminate, the need for intergovernmental cooperation in following developments and taking action, as necessary, on the problems of individual products. In general, the U.S. supports efforts to moderate commodity price fluctuations and to increase Latin American export earnings through such means as improved access to the markets of all developed countries, assistance to diversification and export development, and, where appropriate, commodity arrangements.

We have been a major participant in the International Coffee Agreement which has achieved some success in preventing excessive downward fluctuations in coffee prices. However, the Agreement has been less effective in averting sharp increases in coffee prices when actual supplies of coffee are considered by the market to be inadequate (e.g. as a result of crop destruction by frost in Brazil or drought in Central America). Another troublesome aspect of the Agreement has been the extent to which it froze the market shares of the exporting countries. Because of such problems and in view of the current market situation of tight supply and high prices, the 1968 Agreement, which expires on September 30, 1973, has been extended for two more years but all operative economic provisions have been deleted. Negotiations beginning next Fall or Winter in the Coffee Council will aim to devise a new Coffee Agreement with better economic provisions, to become effective by October 1975.

Although it is not a member of the International Sugar Agreement, the U.S. is participating in the negotiations for renewal of the Agreement. (Our own system of sugar imports is exempt from the Agreement's provisions, but usually provides foreign suppliers more favorable prices than in the world market.)

The United States has continually supported regional economic cooperation in Latin America, has extended financial assistance to such regional groupings as the Central American Common Market, the Andean Group and the Caribbean Free Trade Area, which are attempting to integrate the various national economies so that the opportunities of a broader market can stimulate development.

4. With regard to your question on international arms sales, the United States has over the years consistently taken a leading position in urging the 26-nation Conference of the Committee on Disarmament (CCD) in Geneva—the international community's principal multilateral arms control negotiating body—to focus its attention on the possibility of developing international constraints on conventional weapons transfers. In 1966, for example, the U.S. presented in the CCD six principles for consideration in formulating possible regional arrangements on the transfers of conventional weapons, and in 1970, it outlined three possible additional guidelines designed to facilitate such arrangements.

Despite repeated subsequent efforts by the U.S., no consensus has yet developed among CCD members to give specific consideration to the problem of

conventional arms transfers. Notwithstanding the absence of appreciable progress at the present time on this issue in the CCD, the U.S. fully intends to continue to urge the other CCD members to present their views on the problems to be overcome in this field as well as their suggestions on possible approaches to developing international constraints in this area. We hope that the comprehensive report on the international transfer of conventional arms, to be submitted to the Congress in July pursuant to Section 302 of the Foreign Relations Authorization Act of 1972 (P.L. 93–352) will be of assistance in furthering the discussion of possible constraints on conventional arms transfers. An interim report on this subject, dated January 1973, has already been submitted to the Congress.

5. The governments of the Organization of Petroleum Exporting Countries (OPEC) have been negotiating with the international oil companies over two major issues: adjustment of oil price levels to compensate for the latest devaluation of the dollar (in which oil prices are posted), and the nature of future working relationships between the companies and those governments. The U.S. Government has not been directly involved in these negotiations, which it has attempted however to influence through indirect means when conclusion of a mutually satisfactory agreement seemed to require such action. The U.S. Government is aware that private companies may be at a disadvantage in negotiations with governments which have the sovereign authority to impose settlements on them. It does not necessarily follow, however, that a closer government involvement would produce more satisfactory results. It might, in fact, only succeed in introducing extraneous elements and complicating the chances for achieving solutions free of political pressures. Nor would government intervention in the negotiations change the basic fact that OPEC governments have a great measure of control over the terms of trade for an absolutely necessary commodity which is in great demand by American and other consumers. In the final analysis, the real answer to this problem lies in measures which will ease our dependence on imported oil, as outlined in the President's Energy Message. Among the most important of these are those for increasing domestic production of conventional hydrocarbon sources and research and development of less conventional resources—e.g., gasification of coal. Such efforts will take time, however, to have substantial impact.

I hope the foregoing information has been responsive to your inquiry. Please continue to call on me whenever you believe I can be of assistance.

Sincerely,

MARSHALL WRIGHT,
Assistant Secretary
For Congressional Relations.

Enclosure: As stated.

Description of complaint	Country	Date	GATT article
I. Complaints by the United States under GATT:			
Residual import restraints after BOP justification removal	Italy	1960	22
Quantitative restrictions on tariff concession items	France	1961	22
Import restrictions on turkeys	Canada	1961	22
Import restraints on tariff concession items	France	1962	23
Import restraints on citrus	United Kingdom	1963	22
Quantitative restrictions on food products	Austria	1963	22
Additional duty on potatoes	Canada	1963	23
Tariff treatment	Japan	1964	22
Import restrictions on food products	West Germany	1964	22
Quantitative restraints on food products	Norway	1966	22
Import restrictions on grains	Denmark	1970	23:2
Quota restrictions no longer justified for balance of payments	Japan	1971	23
Margins of preferences	Jamaica	1971	23
EC preferences granted to Netherlands Antilles	Netherlands	1972	22
Compensatory taxes exceeding bound rates	European Community.	1972	23:2
Quantitative restrictions	France	1972	23
Dollar area quotas	United Kingdom	1972	23
Rebate of certain taxes on exports	Italy	1972	23
Tax practices on exports	Belgium-Netherlands-France.	1972–73	23
II. Complaints against the United States under the GATT:			
Restrictions on dairy imports	Netherlands	1952	23
Quantitative restrictions	Uruguay	1961	22
Export subsidy on unmanufactured tobacco	Malawi	1970	23
DISC	European Community.	1972	23

The CHAIRMAN. Are there any further questions? If not, we thank you for your lengthy appearance before the committee. We trust we have not caused you to lose too much time. You have been very helpful.

Mr. KENDALL. Thank you. I appreciate your inviting us. I appreciate the courtesy with which we have been treated today. I think all of you have been very kind to us.

[The following letter was received for the record:]

IBM WORLD TRADE CORPORATION,
New York, N.Y., May 23, 1973.

Hon. WILBUR D. MILLS,
House Ways and Means Committee,
Longworth House Office Building,
Washington, D.C.

DEAR CHAIRMAN MILLS: I would like to thank you and the members of the Ways and Means Committee for giving me the opportunity to testify on pending trade legislation last week. The Congress certainly faces a difficult and critical job this year in determining future U.S. trade and investment policies.

During the hearings, a number of the Committee members asked me questions which I wanted to answer more adequately for the record in this letter.

Congressman Vanik asked me why our annual report stated that one out of eight jobs in IBM's U.S. plants are supported by exports, while I had told the Committee in my testimony that one out of five jobs in IBM's U.S. plants was accounted for by business between the parent company and IBM World Trade. As I stated to the Senate International Trade subcommittee on March 1, we had previously used a deliberately conservative estimate since the computation is difficult to make. After the publication of our annual report, we completed a more thorough review which yielded the figure I gave the Committee.

Second, Congressman Vanik also asked me about the statement in IBM's annual report regarding the undistributed earnings of foreign subsidiaries. The $1.7 billion mentioned in the report represents the cumulative earnings over a period of many years reinvested abroad, much as we reinvest in operations in the United States. While it is true that these reinvested earnings have not been subject to U.S. taxes, there are two key points the Committee should understand. First, foreign taxes have been paid on these earnings, at about the same effective rates as in the U.S.; overall, we have not enjoyed a tax advantage overseas. Second, these reinvested earnings have ultimately contributed to the U.S. economy in terms of the contributions to the balance of trade and balance of payments I mentioned in my testimony. It should also be pointed out that our overseas business contributes to U.S. tax revenues in a number of ways—through taxes on the profits on our exports and on the dividends paid to our American shareowners, for example.

I realize that some members of Congress believe that there should be no tax deferral for American firms operating abroad. In my opinion, the net effect of such a change would be to make American business less competitive in foreign markets with foreign firms, thus weakening further America's international trade position.

Third, Congressman Conable asked me if I thought that the U.S. was headed toward a high technology economy with dangerous implications for unskilled workers. The economy has shown tremendous flexibility in terms of the composition of the labor force. Between 1950 and 1970, for example, the economy needed and got a faster rate of growth in the supply of white collar workers than of blue collar workers. In fact, the number of professional and technical workers increased 2½ times.

I believe the answer to the upgrading of job skills we need is three-fold:

(1) Improvement and extension of training programs to increase skilled manpower and worker mobility.

(2) Restructuring of our educational system so that it equips students for the types of job opportunities that will be available.

(3) An increase in job opportunities by stepping up the fight against discrimination.

If we can implement programs along these lines, the growth of employment in high technology areas will present us not with a danger, but with an opportunity to improve educational levels and standards of living for many people.

Finally, related to this matter, Congressman Burke asked for our recommendations as far as a better adjustment assistance program is concerned. As I said in my statement, I believe the key to a successful program is to provide people with training for specific jobs. This means we need better mechanisms for identifying job opportunities and the redesign of training programs for workers.

I hope these more detailed answers are helpful to the Committee. Once again, I appreciated the opportunity to testify and I'd be glad to meet with you or any members of the Committee if I could be of any further help.

Sincerely yours,

GILBERT E. JONES,
Chairman, IBM World Trade Corporation.

The CHAIRMAN. Our next witness is Mr. Kurt Orban, president, American Importers Association.

If you will introduce those at the table with you, the Chair will recognize them.

STATEMENT OF KURT ORBAN, PRESIDENT, AMERICAN IMPORTERS ASSOCIATION, ACCOMPANIED BY GERALD O'BRIEN, EXECUTIVE VICE PRESIDENT, AND N. DAVID PALMETER, COUNSEL

SUMMARY

1. The numerous quota bills referred to this Committee for consideration should be rejected since they would confer unmerited windfalls on those industries that obtain them, with no requirement that they meet the standards and criteria that apply to all sectors of our economy.

2. H.R. 6767 contains many of the essential elements of a sound trade policy; however, significant amendments are needed.

3. Throughout the bill excessively broad authority is conferred upon the President. It is important, both for constitutional and policy reasons, that Congress restrict this delegation, through standards and criteria, particularly:

(*a*) The President should not be given unlimited authority to raise tariffs,

(*b*) The President should not be given broad advance power—but only specific, limited advance authority—to negotiate the elimination of nontariff barriers,

4. The escape clause requirement that increased imports be caused in major part by tariff concessions should be retained.

5. The escape clause requirement that imports be the major cause of injury should be retained.

6. In determining whether an industry is suffering serious injury, the Tariff Commission should be required to consider the entire industry, and not just a portion thereof.

7. The market disruption concept should be stricken from the bill.

8. The Tariff Commission investigation period should remain at six months.

9. The President should have the discretion to refrain from imposing both dumping and countervailing duties in the national interest.

10. Innocent American importers should not be required to pay dumping duties for the violations of the Antidumping Act committed by others.

11. No countervailing duty should be imposed unless there is material injury to an American industry.

12. Section 337 of the Tariff Act of 1930 should be repealed.

13. The President should not be empowered to impose import restraints for balance of payments purposes unless a serious balance of trade deficit also exists.

14. Section 402 of the bill is a sweeping delegation of undefined authority to the President to impose import restrictions. It is unwise, constitutionally unsound, and, therefore, should be stricken.

15. The bill should recognize the import industry as a $55 billion industry, with a reported 1.2 million employees, by providing reasonable safeguards to assist the import industry in coping with problems caused by the imposition of new import restraints.

Mr. ORBAN. Mr. Chairman and members of the committee, my name is Kurt Orban, president of Kurt Orban Co., Inc., Wayne, N. J. My company is an importer, exporter, distributor of steel and machinery, and also a domestic manufacturer of building materials. I appear here in my capacity as president of the American Importers Association (AIA), 410 Lexington Avenue, New York City. I am accompanied by Gerald O'Brien, executive vice president of AIA and N. David Palmeter of the law firm of Daniels & Houlihan, Washington, D.C.

The American Importers Association is a nonprofit organization formed in 1921 to foster and protect the importing industry of the United States. As the only association of national scope representing American companies engaged in the import trade, AIA is the recognized spokesman for importers throughout the Nation.

Mr. Chairman, I have written a statement which I will summarize for the record.

The CHAIRMAN. Without objection, that will follow your oral statement, Mr. Orban.

Mr. ORBAN. We welcome the opportunity to present our views on H.R. 6767, the Trade Reform Act of 1973.

We generally support H.R. 6767 as a bill containing many of the essential elements of a sound trade policy; however, we believe there are serious defects in the bill and will, therefore, propose specific amendments.

We shall address ourselves to H.R. 6767 because we understand that this bill is the committee's main concern. There are other bills calling for import quotas that have been referred to this committee. Obviously, we are opposed to all of them. Quotas of any kind are a drastic remedy, to be used only in extreme circumstances. Quotas confer unmerited windfalls on those industries that obtain them. They are horribly difficult to administer fairly; they result in economic dislocation and end in price gauging of the consumer.

The last two years have been difficult ones for the American economy. We have witnessed two devaluations of the dollar, the first balance of trade deficits in this century, unprecedented inflation, and the first peacetime wage and price controls in our history. These events have stimulated a healthy dialogue about our economy, what is wrong with it, and what is right with it, and where we should go from here. These events also have brought into sharp focus certain basic principles of international trade.

Certain rhetoric views imports as an evil that must be tolerated in order to enable foreigners to buy American exports. The reverse is true; we export in order to pay for the imports which we need and want.

While individual workers, firms and industries quite properly look upon exports as a desirable means of growth, we must recognize that to the nation as a whole exports reduce the supply of goods in the domestic market, and thus may contribute to inflation. The reverse is true of imports because imports increase the supply of goods in the American market, widen the consumer's freedom of choice and contribution to the control of inflation.

Does this mean that we should discourage exports? Far from it. Exports are the cost that we must pay for imports, and that we should attempt to minimize that cost. But we can do this best through the profitable expansion of exports from the many strong and efficient sectors of the American economy. We are keenly aware of the interdependence between imports and exports and we support all provisions intended to strengthen American export performance.

Events that have occurred since this committee last discussed trade legislation in 1970 have dramatized the economic impact of international trade. We have witnessed attempts to control the export of such U.S.-produced materials as hides, logs and ferrous scrap because increasing demand has raised the price for these products in the United States. We understand that the textile industry—not satisfied with the extraordinary protection it already has received—has suggested that controls be placed over the export of cotton.

Two years ago, in May of 1971, the Department of Agriculture insisted before the Tariff Commission that it was necessary to prevent interference with the price support program for milk to place import quotas on a wide variety of cheese. Yet earlier this year the Department informed the Commission that it was necessary to increase these quotas by 50 percent in order to fight inflation. Late last year the Department informed the Commission that an increase of nearly 1,400 percent in the quota for nonfat dry milk was necessary in order to stave off severe shortages in the United States.

It is abundantly clear that the consumer pays for every import control, as demonstrated by our experience with quotas in such diverse fields as oil, steel, textile, and apparel products. Generally, we believe that the proposed bill pays too little attention to the interest of the consumer.

In my own industry, steel products, the principal foreign suppliers, Japan and the European Community, have, under pressure from the U.S. Government, voluntarily restrained their exports of steel and steel products to the United States since early 1969. The results of these restraints were predictable. From 1969 to 1972 the wholesale price index for steel mill products rose by 21.4 percent, or roughly double the increase of 11.2 percent for all industrial commodities, and more than double the rate of increase on steel mill products in the preceding 3-year period. During the 4 months ending in April, the official price of steel mill products has risen at the annual rate of 8.0 percent. The true market price has risen much more because of all kinds of hidden increases.

I would like to outline briefly at this point AIA's major points regarding the proposed legislation. These are discussed in technical detail in our written submission.

Throughout the bill excessively broad authority is conferred upon the President. It is important that Congress restrict this delegation, through standards and criteria, particularly:

(a) the President should not be given unlimited authority to raise tariffs, and

(b) with respect to nontariff barriers, section 103(c), the President should be given specific, limited advance authority—to negotiate their elimination.

The escape clause requirement that increased imports be caused in major part by tariff concessions should be retained.

The escape clause requirement that imports be the major cause of injury should be retained.

In determining whether an industry is suffering serious injury, the Tariff Commission should be required to consider the entire industry and not just a portion thereof.

The new concept of market disruption should be stricken from the bill. The maximum Tariff Commission investigation period should remain at 6 months. If they can do it faster, fine, but they should not be placed under time pressure which might force too hasty a determination.

The President should have the discretion to refrain from imposing both dumping and countervailing duties in the national interest. Innocent American importers should not be the ones required to pay dumping duties for the violations of the Antidumping Act committed by others. No countervailing duty should be imposed unless there is material injury to to an American industry. None of these instruments—antidumping, countervailing duties, escape clause—should apply to goods which are already under quota restrictions. The consumer is the one who would pay the price.

The President should not be empowered to impose import restraints for balance of payments purposes unless a serious balance of trade deficit also exists. How can we expect our trading partners the concept that they must accept continuing trade deficits with us to pay for our tourism overseas, military operations and the buying up of the industries? Should the American import industry be made a scapegoat for balance of payment deficits not related to trade at all?

Section 402 of the bill is a sweeping delegation of undefined authority to the President to impose import restrictions. It is unwise, constitutionally unsound, and therefore, should be stricken.

The bill should recognize the import industry as a $55 billion industry affecting the employment of 1.2 million American workers, by providing reasonable safeguards to assist the import industry in coping with problems caused by the imposition of any kind of new import restraints.

If new countries are added to the list of most favored nations we would like to see this done without a specific three year limitation but rather subject to suspension or termination with reasonable notice by the President if he considers it in the national interest.

To conserve the committee's time, these points are highly abbreviated. I would like to elaborate on just two of them. the "market disruption" concept and "safeguards" for the import industry.

AIA categorically opposes this market disruption concept and submits that there is no justification for its remaining in the bill. First of all, the criteria for market disruption as defined in section 201(f)(2) has absolutely no relation to the question of whether imports are in fact the cause of injury to a domestic industry. This incredible concept of prima facie evidence effectively removes the burden on a petitioning industry of showing that its problems are indeed imports and not completely different ones.

How would this work in practice? There is a dangerous probability that the quasi-factual, highly ambiguous criteria of the market dis-

ruption concept will tend to become a definition, not of causation—to which it has no sensible relation in any event—but of serious injury itself. The broader, industry-wide investigation of serious injury will fade away, even though still part of the law. At the very least, the burden of proof will shift from those who seek to obtain extraordinary relief to the importer and to an already over-worked Tariff Commission. Indeed, the provision is so ill-advised procedurally that, given the proposed 90-day period for a complete investigation the prima facie presumption would have to be rebutted even before it is established or all the facts are known.

Finally, even apart from the market disruption formula's pernicious effects on the import industry, it is highly dangerous internationally. While the policies of the United States do not necessarily determine what other nations do, other nations are considering "safeguards" of their own. Our market disruption formula could well became the new de facto international system. It clearly would be a two-edged sword—particularly because our best manufacturing export performers usually are industries and companies producing newer products which penetrate markets quickly and rapidly displace more traditional foreign-made products.

For all of these reasons, the market disruption formula should be stricken from the bill.

Finally, I would like to stress that the import industry is a $55 billion industry affecting 1–2 million American jobs. We are an industry like any other and we deserve to be treated like any other American industry. We must have import industry safeguards in this legislation.

It the Government changes the groundrules and if this results in serious injury to any other industry, then that industry should have time to adjust. When the rules change for our industry we must also have time to adjust. Title VII should be amended to include a provision exempting pre-existing contracts from new import restrictions and that such restrictions shall become effective not earlier than 90 days from the date of their announcement. This extremely short period is the very minimum necessary for importers to begin to liquidate their businesses in an orderly fashion and to adjust to the new restrictions.

The sudden imposition of the 1971 surcharge will illustrate the problems. Goods in transit, goods strike-bound in the west coast ports, goods in production on firm, noncancellable contracts all were subjected overnight to the surcharge.

Since these goods could not be turned back in any practical way the balance of payments gained nothing from the overnight imposition. What did happen was utter turmoil in the import industry and as of this day people are still litigating about who should pay what out of those surcharges. A surchange announcement with adequate notice would have been just as effective for the balance of payments without the unnecessary hardships.

United States trade policy has been adrift since the late 1960's. The President has been without needed authority to act. Meanwhile, in the aftermath of worldwide tariff reductions under the U.S.-led Kennedy round negotiations, U.S. exports have more than doubled. But, in the face of a perplexing recession, combined with inflation, imports increased at an even faster rate.

The European Economic Community has become a giant in world trade. A dynamic Japan has become the third largest economy in the world. A number of developing countries have begun to "take off" economically. An over-valued dollar has been reduced twice in relation to other currencies.

As a result of these rapid changes certain myths have gained acceptance. Among these:

Our trading partners are closing their doors to our exports while we maintain an open door policy. The fact is that U.S. trade restrictions (directly imposed or extracted by "voluntary" agreement from our trading partners) now affect a larger volume of trade in manufactured goods than the import restraints of either the European Community or Japan.

Imports are responsible for U.S. unemployment. The fact is, imports have little to do with unemployment rates in the U.S. economy. The U.S. Department of Labor has been studying this question by tracing the impact of imports on jobs in 190 industries during the 1965–69 period when imports had been growing at an abnormally high rate. We understand that its findings show that during the same period when imports might have accounted for 117,000 lost jobs about 2 million new manufacturing jobs were created.

The United States cannot compete internationally. The fact is that despite rapidly increasing imports, U.S. exports during 1967–72 grew at a compound annual rate of 9.5 percent, far greater than the 5.8 percent growth of the domestic economy as reflected in the gross national product. Clearly, exports are among the more dynamic sectors of our economy.

These myths must be recognized as such if this nation is to sustain its world economic leadership and insure a better standard of living for all its citizens. This means that international trade barriers must be reduced, not increased. Nobody has to "lose" by this policy so long as it is accepted as a national policy that the costs of keeping America strong and competitive must be shared by all, particularly in the form of greater expenditures for more effective adjustment assistance. Everybody will lose, however, if we decide we can no longer compete and resign ourselves to protecting our weaknesses at the cost of abandoning our strengths.

Due to time limitation our oral presentation had to be condensed to the most essential points. I would be happy to answer any questions the committee may have about our industry.

Thank you very much.

[The prepared statement follows:]

STATEMENT OF KURT ORBAN, PRESIDENT, AMERICAN IMPORTERS ASSOCIATION, INC.

Mr. Chairman and Members of the Committee:

My name is Kurt Orban, President of Kurt Orban Company, Inc., Wayne, New Jersey. My company is an importer, exporter, distributor of steel and machinery, and also a domestic manufacturer. I appear here in my capacity as President of the American Importers Association (AIA), 420 Lexington Avenue: New York City. I am accompanied by Gerald O'Brien, Executive President of AIA and N. David Palmeter of the law firm of Daniels & Houlihan, Washington, D.C.

The American Importers Association is a non-profit organization formed in 1921 to foster and protect the importing business of the United States. As the only association of national scope representing American companies engaged in the import trade, AIA is the recognized spokesman for importers throughout

the nation. At present, AIA is composed of nearly 1,000 American firms directly or indirectly involved with the importation and distribution of goods produced outside the United States. Its membership includes importers, exporters, import agents, brokers, retailers, domestic manufacturers, customs brokers, attorneys, banks, steamship lines, airlines, insurance companies, and others connected with foreign trade.

We welcome the opportunity to present our views on H.R. 6767, the Trade Reform Act of 1973.

INTRODUCTION

We shall address ourselves to H.R. 6767 because we understand that this Bill is the Committee's main concern. There are other bills, calling for import quotas, that have been referred to this Committee. Since these bills call for import quotas, AIA's position is obvious—we are opposed to all of them. Quotas of any kind are a drastic remedy, to be resorted to only in extreme circumstances. Legislated quotas confer unmerited windfalls on those industries that obtain them, with no requirement that they meet the standards and criteria that apply to all sectors of our economy. Those industries that are the subject of special quota bills should be governed by the standard of the general legislation this Congress enacts for everyone else.

We generally support H.R. 6767 as a bill containing many of the essential elements of a sound trade policy; however, we believe there are serious defects in the bill, and will, therefore, propose specific amendments during the course of this testimony. We believe that H.R. 6767, properly amended, can contribute significantly toward the achievement of vital economic goals:

To control inflation.
To stimulate economic growth.
To expand job opportunities.
To regain a healthy trade balance.
To balance our internation payments.
To restore world confidence in the value of the dollar.

These are important goals for all Americans—as producers and as consumers, whether farm or factory or office workers, service industry workers, civil servants, or educators. The action that this Committee and the Congress takes on trade legislation will have a profound impact, for good or ill, on this nation's ability to achieve these goals.

The last two years have been difficult ones for the American economy. We have witnessed two devaluations of the dollar, the first balance of trade deficits in this century, unprecedented inflation, and the first peacetime wage and price controls in our history. These events have stimulated a healthy dialogue about our economy, what is wrong with it, and what is right with it, and where we should go from here. These events also have brought into sharp focus certain basic, though often ignored, principles of international trade.

Traditional rhetoric views imports as an evil that must be tolerated in order to enable, or induce, foreigners to buy American exports. But traditional rhetoric is not compatible with elementary economics, which holds that the reverse is true; we do not import in order to export; rather we export in order to pay for the imports we need and want.

While individual workers, firms, and industries quite properly and legitimately look upon exports as a desirable means of growth, it must be recognized that to the nation as a whole exports reduce the supply of goods in the American market, and thus contribute to inflation. The reverse is true of imports because imports increase the supply of goods in the American market, widen the American consumer's freedom of choice, and make a significant contribution to the control of inflation.

Does this mean, therefore, that we should discourage exports? Far from it. It is true that exports are the cost that we must pay for imports, and that we should attempt to minimize that cost. But we can do this best through the profitable expansion of exports from the many strong and efficient sectors of the American economy in order to pay for the increasing amount of imports that American consumers want and need. In short, expanding world trade, on both the export and the import sides, yields the maximum benefit to all of our citizens.

Events that have occurred since this Committee last discussed trade legislation in 1970 have dramatized the price impact of international trade. We have witnessed attempts to control the export of such U.S.-produced materials as hides, logs, and ferrous scrap, because increasing demand has raised the price for these products in the United States. We understand that the textile industry—not sat-

isfied with the extraordinary protection it already has received—has suggested that controls be placed over the export of cotton. Two years ago, in May of 1971, the Department of Agriculture insisted before the Tariff Commission that it was necessary to prevent interference with the price support program for milk to place import quotas on a wide variety of cheese. Yet earlier this year, the Department of Agriculture informed the Commission that it was necessary to increase these quotas by 50 percent in order to fight inflation in this country. Late last year, the same Department informed the Commission that an increase of nearly 1,400 percent in the quota for non-fat dry milk was necessary in order to stave off severe shortages in the U.S. economy.

It is abundantly clear that the consumer pays for every import control, as demonstrated by our experiences with quotas in such diverse fields as oil and textiles and apparel products. The textile market provides an example of the effects of import restraints on U.S. price levels. Since the enactment of voluntary quotas on wool and manmade fiber textile products in October, 1971, the wholesale price index for wool products has risen by 40.5 percent, while that for manmade fiber textile products has risen by 15.8 percent. The price increases on wool and manmade fiber textile products during the first 18 months of the quota's operation were approximately 500 percent and 200 percent, respectively, of the increases for all industrial commodities. As the U.S. economy has gained momentum in recent months, the inflationary tendencies in the textile sector, which were greatly aggravated by the quota restraints, have become more severe. In the most recent month, April, 1973, prices for wool textile products rose by 1.6 percent, while those of manmade fiber textile products rose by 3.0 percent. These increases are equivalent, on an annualized basis, to price increases of 20 percent for wool textile products, and 30 percent for manmade fiber textile products.

In 1970, the President rejected the majority report by his Cabinet-level oil import policy committee that the oil import quota program be eliminated. Instead of accepting the views of then-Secretary of Labor Shultz and the majority, the President adopted the minority view of then-Secretary of Commerce Stans that the program be retained. We have recently seen the Administration, faced with impending fuel shortages, forced to reverse its policy and adopt the position it rejected three years ago.

In my own industry, steel products, the principal foreign suppliers, Japan and the European Community, have, under pressures from the U.S. Government, voluntarily restrained their exports of steel and steel products to the United States since early 1969. The results of these restraints were predictable. From 1969 to 1972 the wholesale price index for steel mill products rose by 21.4 percent, or roughly double the increase of 11.2 percent for all industrial commodities, and more than double the rate of increase on steel mill products in the preceding three year period (1966–69). During the 4 months ending in April, the price of steel mill products has risen at the annual rate of 8.0 percent. The true market price has risen much more, because of all kinds of hidden increases.

In these circumstances, we submit that Section 2 of H.R. 6767, the statement of purposes itself, is deficient. While this is hardly an operative section of the bill, we believe that it is a gross oversight to exclude from those stated purposes a need to protect American consumers from the inflationary impact of import controls and to promote wider freedom of choice for consumers in the marketplace.

TITLE I—BASIC AUTHORITY FOR TRADE AGREEMENTS

Tariff Authority

Section 101 of H.R. 6767 provides the basic trade agreement negotiating authority to the President. While prior legislation typically contained provisions authorizing the President to reduce tariffs within specified limits, Section 101(2) would permit the President not only to reduce tariffs, but to apply *additional* duties "as he determines to be required or appropriate to carry out any such trade agreement." We believe that this authority is excessively broad, and should not be delegated by Congress to the President in this form.

With the reduction of most customs duties over the years, there exists for most items a reasonable limitation on the President's authority to negotiate tariffs downward. Zero is an effective limit. However, H.R. 6767 would authorize the President to raise duties without any limit whatsoever.

We believe that authority to raise duties as part of a trade agreement is a needed element in the powers which the President must possess. However, we

believe that it is not only constitutionally unsound for the Congress to delegate to the President unlimited authority to raise tariffs, but exceedingly unwise policy as well. We would propose, therefore, that Section 101(2) be amended to provide that in no event may the President increase duties as part of any trade agreement beyond the level set by Congress in the Tariff Act of 1930, the Smoot-Hawley tariff rate. We find it hard to believe that anyone seriously could suggest that the President should be allowed, without any standards or criteria, to go beyond the highest tariff set by Congress in our history. Smoot-Hawley is high enough for anyone. We believe that this should be a principle in the entire bill. By delegating to the President the authority to set duty rates at any level between zero and Smoot-Hawley, the Congress would be delegating far more authority than it ever has before. We do not believe that it should delegate anything beyond this.

Nontariff Barrier Authority

Section 103 authorizes the President to negotiate with foreign countries for the reduction, elimination, or harmonization of nontariff barriers and other distortions of international trade. This is a needed authority to eliminate, or reduce, not only the overt nontariff barriers of the United States and its trading partners, but also to deal in an appropriate manner with those nontariff barriers which have been erected for legitimate domestic purposes, both in this country and abroad, that have the unintended effect of impeding international trade.

We believe, however, that Section 103(c) is far too broad a delegation of power to the President. This section would authorize the President in advance to take any action required or appropriate in the implementation of a trade agreement providing for alterations of "methods of customs valuation," "quantities on which assessments are made," and "requirements for marking of country of origin." The section-by-section analysis of the bill suggests that this authority is requested for dealing with the American Selling Price, the "Final List," simplification of methods of valuation and the wine-gallon/proof-gallon basis of duty assessment. We believe that it is entirely proper, and desirable, for the President to be authorized in advance to deal with these specified customs problems.

The American Selling Price system of customs valuation, for example, has acquired a symbolic significance as an indicator of this nation's good faith in negotiating nontariff barriers far beyond its importance as a trade restriction. The Final List, whatever its original justification, has outlived its usefulness, and presently is only a needless, complicating impediment to a rational system of valuation. The wine-gallon/proof-gallon basis of duty assessment is clearly unfair and unreasonable. These nontariff barriers, the details of which are well known to this Committee and to the Congress, lend themselves to prior delegation of authority.

However, the language of Section 103(c) unnecessarily authorizes the President to go far beyond the specific problems for which the authority is requested. For this reason, we suggest that Section 103(c) be amended to confine the President's advance authority to the specific subjects for which it is requested. This would limit the President in no practical way, inasmuch as it would provide for advance authority to deal with those problems for which he has requested the authority. It would, however, insure a Congressional voice in all other areas—a voice that Section 103(c) in its present form does not provide.

We believe that the methodology of Sections 103(d) and (e) is a reasonable way in which to deal with other nontariff barriers. In essence, this procedure would require that Congress be notified at least 90 days before any agreement is entered into to abolish other NTB's, and provides for a 90-day period, after the agreement is signed, during which the agreement could be vetoed by resolution of either House. The alternatives to this methodology are unsatisfactory; it would be unwise, if not unconstitutional, to furnish the President a blank check to deal with all NTB's beyond the limited, specific authority we recommend for Section 103(c). On the other hand, the *ad referendum* procedure is cumbersome and complicated. Something more is needed to provide appropriate assurances to our trading partners that our negotiators have reasonable authority over the subject matter of the negotiation, and that a reasonable, fair agreement will, in fact be accepted by the United States. Sections 103(d) and (e) provide these assurances, while leaving the final determination and control where, under our system, it belongs: with this Committee and with the Congress.

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Hearings

Chapter 2 of Title I provides for hearings and advice concerning negotiations, with Section 113 providing specifically for public hearings in which any interested persons would have an opportunity to present their views regarding the items on which *duties* would be raised or lowered. However, there is no requirement that interested persons have an opportunity to present their views regarding *nontariff barrier* negotiations. We believe it is unwise to omit any requirement that domestic manufacturers, American exporters who face foreign nontariff barriers, and American importers should be given an opportunity to present their views. Therefore, Chapter 2 of Title I should be amended to require hearings in the nontariff barrier area as well as the tariff alteration area.

TITLE II—RELIEF FROM DISRUPTION CAUSED BY FAIR COMPETITION

Chapter 1 of Title II provides for significant changes in the procedures and standards by which domestic industries may obtain relief from import competition. We believe that a number of amendments are necessary to this title of the bill.

"Safeguard" or "Escape Clause"?

First, it is significant that the shorthand term being used for import relief for industries is now "safeguard" rather than "escape clause." In our view, this is an unwise and unnecessary departure from past policy. Since the first Reciprocal Trade Agreements Act in 1934, the basic premise of our trade policy has been that Smoot-Hawley tariff rates, or in special cases 150 percent of the Smoot-Hawley rates, are enough. The premise has been that these rates were the ground rules laid by the Government and that if an industry suffers as a result of a change in these ground rules by Government action, then, and only then, is it entitled to relief. In other words, an industry was allowed to escape from reduction in duties, but it was expected that an efficiently run industry would be able to adjust behind the highest tariff rates in our nation's history.

AIA has no quarrel with the sound principle that if Government alters the ground rules under which an industry operates, and inadvertently causes serious injury, the industry is entitled to a temporary restoration of the status quo to allow adjustment. But H. R. 6767 would abandon this principle by totally eliminating the requirement that increased imports be caused by prior tariff concessions. The result is that it need not be Government action that causes serious injury, but inability to compete in a normal market on the part of the industry involved. At a time when the consumer's need for imports has been so dramatically shown in the marketplace, we believe that the abandonment of the need to show that increased imports have been caused by tariff concessions is a violation of the spirit, (and probably the letter) of Article XIX of the GATT, is a regressive measure impeding an efficient United States economy, and is an unfair burden to place on the American consumer who must pay for it all.

We realize that many who favor a liberal trade policy disagree with us on this point. This Committee has been told time and time again over the years that the casual link to concessions has been the stumbling block to relief for deserving industries. Indeed, it is true that in 18 of the 25 escape clause cases decided under the Trade Expansion Act of 1962, negative votes were cast by members of the Tariff Commission based on this principle. While it may be true that the casual connnection as interpreted in some cases by some Commissioners was unwarrantedly rigid, we believe these statistics at the very least prove the absence of any need to tamper with the rest of the escape clause should the Commission adopt the popular view that the casual link should be abandoned.

We believe further that any difficulty that may have been occasioned is not due to the linkage between increased imports and concessions, but to the test of "major part." At the very least, we believe the linkage between tariff concessions and increased imports should be retained, requiring that tariff concessions be the "primary" rather than the 'major" cause of the import increase.

Clearly, if the concession linkage has been the hurdle, its removal also eliminates any justification for further changes. This is particularly true of the diminution of the necessary causal links between increased imports and serious injury from the "major cause" to the "primary cause." As the Committee knows, a shorthand definition of "major cause" has been 51 percent, or greater than all other causes combined. Section 201(f)(1) defines primary cause as "the largest single cause." In theory, a cause that is a minor percentage of the total causes could be the largest single cause. Such a weakening of the statutory criteria,

particularly if combined with the removal of the link to tariff concessions, would in fact open the gates to import restrictions even in cases where it could be demonstrated that such restrictions would be of little or no help to the complaining industry. If a tariff reduction had not been the cause of increased imports, and particularly if increased imports have not been the major cause of injury, then what good would import restrictions be for an industry that is suffering injury due to other causes, such as mismanagement, or labor difficulties? Such relief should at least have the virtue of being directly related to the needs of the industry, since American exporters may suffer retaliation, American importers may lose their business, and American consumers must pay the bill.

This Committee, and all of us concerned with trade, know that there is a strong propensity on the part of industries and workers in every country of the world to put an undue emphasis on the difficulties they face from import competition. If the industry believes that it is being injured, and there are imports in the market for whatever reason, there is a strong tendency to blame the imports without further ado. American exporters suffer from this prejudice in many markets of the world. We do not believe that the trade legislation of the United States should further the growth of this prejudice by making it the policy of the greatest trading nation in the world.

Effective Import Relief

That import-restricting relief be directly related to the needs of the industry seems to us a reasonable proposition. Yet Section 201(c) of the bill moves in the opposite direction. That provision requires the Tariff Commission, in making its determination regarding serious injury or threat thereof, to consider, among other elements, "the inability of a *significant* number of firms to operate at a reasonable level of profit." This provision would divert the Tariff Commission's inquiry from the effects of imports on an entire industry to only a portion—and in some cases only a very small portion—of an industry. It is a rare industry which does not include some unprofitable firms and a significant proportion which are not operating "at a reasonable level" of profit, whatever that may mean. In a vigorous competitive environment, it is not uncommon for a single firm or a small group of firms, through marketing innovations or technological breakthroughs, or simply superior management, to obtaina disproportionate share of an industry's profits, while a substantial proportion of firms, perhaps even a majority, operate at far below desired or expected levels of profitability. Indeed, in any given year, approximately one-third of the nation's manufacturing corporations earn no profit. In 1970, the most recent year for which data are available, the Internal Revenue Service reports that 38.2 percent of all manufacturing corporations reported no profit.[1]

Even in situations were one-third of an industry is suffering serious injury from import competition, restrictions on imports would amount to a windfall for the other two-thirds. Moreover, in most industries, import relief often would not be of much aid to the injured third. While import competition may exacerbate the weaknesses of the marginal companies, the real difficulty of these firms is their inability to compete successfully with their domestic counterparts.

We submit, therefore, that before import restrictions are invoked, an industry, and not just a portion of it, should be found to be suffering serious injury, the word "significant" should be deleted, and existing statutory language maintained: "inability (of an industry) to operate at a reasonable level of profit."

Market Disruption

Directly related to the question of whether import relief would in fact be of any value to American industry, is the market disruption concept employed in Section 201(b)(5) and defined in Section 201(f)(2). Section 201(b)(5) provides that "If the Tariff Commission finds serious injury or the threat thereof, a finding of market disruption shall constitute *prima facie* evidence that increased quantities of imports of the like or directly competitive articles are the primary cause of such injury or the threat thereof."

AIA categorically opposes this market disruption concept and submits that there is no justification for its remaining in the bill. First of all, the criteria for market disruption as defined in Section 201(f)(2) (that imports of a like or directly competitive article are substantial, that they are increasing rapidly both absolutely and as a proportion of total domestic consumption, and that they are offered

[1] U.S. Department of the Treasury, Internal Revenue Service, *Corporation Income Tax Returns*, 1970, (Preliminary), IRS Pub. 159 (10–72).

at prices substantially below those of comparable domestic articles), has absolutely no relation to the question of whether imports are in fact the *cause* of injury to a domestic industry. This incredible concept effectively removes the burden on a petitioning industry of showing that it is indeed imports, and not its own inefficiency, or outside factors such as labor difficulties over which it has no control, that are causing its trouble. The presence of substantial quantities of imports in the domestic market, that are increasing rapidly and are offered at lower prices, can, to be sure, be indicative of injury. But to say this is far from saying that these factors should rise to the dignity of *prima facie* evidence that they are the cause of such injury or threat thereof.

This provision is particularly objectionable when one considers how it is likely to work in practice. There is a dangerous probability that the quasi-factual, highly ambiguous criteria of the market disruption concept will tend to become a definition, not of causation—to which it has no sensible relation in any event—but of serious injury itself. The broader, industry-wide investigation of serious injury will fade away, even though still part of the law. At the very least, the burden of proof will shift from those who seek to obtain extraordinary relief to the importer and to an already over-worked Tariff Commission. Indeed, the provision is so ill advised procedurally that, given the proposed 90-day period for a complete investigation (that we will discuss below), the *prima facie* presumption would have to be rebutted, even before it is established or all the facts are known.

Finally, even apart from the market disruption formula's pernicious effects on importers, it is highly dangerous internationally. While the policies of the United States do not necessarily determine what other nations do, other nations are considering "safeguards" of their own. Our market disruption formula could well become the new *de facto* international system. It clearly would be a two-edged sword—particularly because our best manufacturing export performers usually are industries and companies producing newer products, which penetrate markets quickly and rapidly displace more traditional foreign-made products.

For all of these reasons, the market description formula should be stricken from the bill.

Tariff Commission Investigation Period

Section 201(d)(2) makes a further unnecessary and unwise change in existing law. This section would require the Tariff Commission to make its determination no later than three months after the date on which a petition is filed, unless prior to the end of the three-month period, the Commission makes a finding that a fair and thorough investigation cannot be made within that time, in which case the Commission would receive an additional two months.

As an organization which has witnessed the difficulty that the Commission has had in making fair and thorough investigation within the present six-months time period, AIA cannot imagine how a fair and thorough investigation can be made in less time. Moreover, while there have been many complaints not only from domestic industries, but from import interests as well, about unwarranted delays in such proceedings as antidumping cases, we are aware of no evidence even suggesting, let alone proving, that the present six-month period for the Tariff Commission is unduly long. An industry investigation by the Tariff Commission looking toward an alteration of United States international commitments at the expenses of American businessmen and American workers, and at the far greater expense of American consumers, should not be made with ill-advised haste. In our view, there is no other way to describe such a drastic reduction in the already too short time the Tariff Commission has within which to complete its investigation. This pernicious provision can only lead to hasty and superficial Tariff Commission proceedings.

The Tariff Commission as an arm of the Congress has been described as essentially a fact-finding agency. Rather than shorten the time within which the Commission must act, and accordingly reduce its effectiveness as a fact finding agency, we believe that a sound trade bill should take greater advantage of the Commission's many resources. We believe that Congress should require the Commission, within a six-month investigation, to afford interested parties an opportunity to present relevant information, and to furnish, as part of its public report to the President, information on the items listed in Section 202(c).

This section requires the President, in determining whether to provide import relief, to take into account (in addition to such other conditions as he may deem relevant): the probable effectiveness of import relief; the efforts being implemented by the industry concerned to adjust import competition; the effect of

import relief upon consumers, including the price or availability of the imported article and a like or directly competitive article produced in the United States, and upon competition in the domestic market for such article; the effect of import relief on United States international economic interests; and the impact upon United States industries and firms as a consequence of any possible modification of duties or other import restrictions which may be required for purposes of compensation. These are all factors that should be considered in any determination to provide import relief. H.R. 6767 quite properly would require the President to consider these factors. He should have the benefit of the Tariff Commission's determinations in doing so.

Quota Relief

Section 203 authorizes the President to provide import relief for industries that have met the criteria of Section 201 and provides for the continuation of this relief for a five-year period.

We believe that if the import relief provided is in the form of quotas, the quotas should be limited to three years, with a phase-out to begin after the first year of quotas. The shorter time period for the application of quotas is justified on the grounds that quotas constitute an absolute limitation on the amount of foreign goods that can enter the U.S. market and, therefore, are a much more severe sanction against the American importer. Since results should be expected more rapidly under quotas, their duration should be shorter.

Adjustment Assistance

Chapter 2 of Title II provides for adjustment assistance for workers adversely affected by import competition. This is one of the more innovative and sound—and yet, disappointing—provisions of the Trade Expansion Act of 1962.

It was recognized in 1962, and H.R. 6767 recognizes, that the government has a special responsibility to workers who suffer hardship as a result of increasing imports. The nation as a whole benefits from increased imports, but no group of workers should be made to bear the full burden of the costs of a program whose great benefits enrich us all. Increased international trade does not need sacrificial victims.

AIA shares the disappointment of all concerned that the 1962 adjustment assistance provisions did not live up to expectations. We are even more concerned, however, that the adjustment assistance provisions of H.R. 6767 do not go far enough.

H.R. 6767 not only unwisely reduces adjustment assistance benefits for workers, it totally eliminates any possibility of adjustment assistance for firms. While the adjustment assistance program for firms has not been a notable success, we believe that it is short-sighted to deprive the President of this option in appropriate cases.

We applaud the relaxation of the criteria for eligibility of adjustment assistance that H.R. 676 would provide, but believe that the benefits themselves should be increased. We do not pretend to be experts in the area of manpower retraining and unemployment compensation. But while conceding that the details of such proposals should be left to the experts, AIA suggests that adjustment assistance benefits for workers should be far more generous than those proposed in the bill.

Employees of Importers

Finally, American workers who lose jobs because of import competition are not the only workers who suffer through the dislocations caused by government action in the field of international trade. American importers also have many employees. When import restrictions are imposed as a result of government action, these workers suffer just as much as do American production workers when the impact is the other way. Accordingly, AIA submits, that adversely affected employees of importers should also be covered by the adjustment assistance program.

TITLE III—RELIEF FROM UNFAIR TRADE PRACTICES

Retaliation Authority

Chapter 1 of Title III authorizes the President to respond to unfair foreign import restrictions and export subsidies to third countries. This section corresponds to Section 252 of the Trade Expansion Act, with several important differences.

Section 301(b) of the bill provides that in determining what action to take under subsection (a), the President merely "shall *consider* the relationship of such action to the international obligations of the United States. . . ." We believe that this is far too cavalier a way of treating our international obligations. Congress should not delegate to the President the discretion only to "consider" these obligations. Rather, this Committee should amend Section 301(a) to provide that the President be *bound* by the international obligations of the United States. We are unaware of any international commitments that would prevent the President from taking the action authorized in Section 301(a) in appropriate circumstances.

Section 301(c) of the bill simply requires the President to "provide an opportunity for any interested person to bring to his attention any foreign restrictions, acts or policies" of the kind referred to in subsection (a). AIA submits that this weak provision affords too little opportunity, not only for domestic industries to present their views, but for the presentation of views by importers who would be adversely affected by any action taken. This is particularly true regarding Section 301(a)(3) which permits restrictive action against the products of a country engaged in subsidizing its exports to third markets. The bill should be amended to require the President to provide hearings for all interested persons who would be affected by action under Section 301.

The American Importers Association has long been on record as being opposed to foreign barriers to United States exports, and have communicated these views to our suppliers overseas. We believe that the President should be armed with suitable tools seeking an elimination of foreign barriers to trade, and therefore support the thrust of Section 301. Since importers bear the brunt of any retaliation taken against foreign exports, we believe that it is legitimate for us to request appropriate standards and criteria, for the exercise of such authority, and suitable procedures in reaching decisions under the Section. Quite specifically, we believe that before Section 301 authority is exercised, findings should be made by the Tariff Commission that there is a direct relationship between the foreign trade barrier and an adverse effect upon United States exports. Further we believe that the effect on United States exports must be substantial. We also believe it important that hearings and evidence be adduced before the Commission in the processes of making such findings.

Antidumping Act

Chapter 2 of Title III would amend the Antidumping Act of 1921. Section 310 of the bill would amend the Act by writing into law the time limit of 6-months (and 9-months in more complicated cases), already contained in Treasury Regulations. This Committee is no doubt well aware of complaints from domestic industries of the unreasonable delays that occurred in the processing of antidumping cases in the past. What the Committee may not be aware of is that importers generally joined in these complaints. After all, it is the importer's business that is disrupted, and sometimes eliminated, by the mere bringing of an antidumping case. The uncertainty that prevails in the market place from the announcement of an initiation of an investigation until its conclusion is often more disruptive to our members' business than the actual finding of dumping itself.

Nevertheless, despite the importer's keen interest in prompt and fair disposition of antidumping cases, we believe that it is unsound policy to write rigid time limits into law, particularly when these time limits already are provided in Treasury Regulations. We are aware of no demonstrated need for statutory enactment of these time limits. Accordingly, we recommend that this provision of the bill should be eliminated.

There is in our view a fundamental inconsistency between the proposed amendments to the Antidumping Act and the proposed amendments to the Countervailing Duty Act.

We believe there are sound policy reasons why discretion should be included in the Antidumping Act to parallel the bill's proposals in the Countervailing Duty Act. As the Antidumping Act now stands, and as H.R. 6767 would leave it, there is no room for the exercise of any element of discretion in the national interest. The present Act, and H.R. 6767, would require the imposition of dumping duties even if they would "result in significant detriment to the economic interests of the United States" or even if quantitative limitations were "an adequate substitute for the imposition of a duty." AIA submits that it is an extremely unsound trade policy that would require such consequences. The

trade laws of the United States should in every instance provide for this type of discretion.

Finally, there are important amendments that we believe should be made to the Antidumping Act in order to make its administration fair and equitable to all concerned.

First, the Act should be amended to permit foreign exporters to reimburse importers for the amount of dumping duties assessed. Perhaps the most unfair aspect of the Antidumping Act is that the American importer pays for the foreign exporter's violation, even though the importer not only has no control over the price his supplier charges in the home market, he very often does not even know the home market price. Simple equity would dictate that the party guilty of the violation should be required to pay the penalty. Treasury's practice of assessing the duty against the importer, and not permitting reimbursement from his supplier, is both unreasonable and unjust. Such an amendment would in no way frustrate the purpose of the Antidumping Act, which is to eliminate the price differential (where the statutory tests are met) between the home market and the U.S. market. A single payment of the duty does this, no matter what party to the transaction pays it.

In its July, 1971 recommendations for changes in the Treasury Department's antidumping regulations, AIA proposed that in calculating fair value, allowances for differences in circumstances of sale be made in accordance with generally accepted accounting principles. To our amazement, Treasury rejected this reasonable proposition.

Nowhere does the Antidumping Act or the Treasury Regulations require that the calculations made by the Bureau of Customs, which essentially are accounting calculations, be made in accordance with generally accepted accounting principles. No doubt this requirement was not written into the Act in 1921 based on the reasonable assumption that such principles would be used. The fact is, as many of our members have learned to their sorrow, Treasury does not necessarily employ generally accepted accounting principles. Yet these principles are the basis on which the commerce of our country is conducted, taxes collected, and profits and losses calculated. We believe an amendment to the Antidumping requiring that Treasury calculations be made in accordance with generally accepted accounting principles is not only necessary, but can receive no sound objection from any reasonable person.

Finally, in its 1971 submission to Treasury, AIA proposed a wholly new procedure, independent of any dumping investigation or proceeding, which would enable importers and exporters to obtain advisory opinions as to the pricing of imported merchandise prior to the importation so as to insure compliance with the provisions of the Act. Treasury rejected this proposal. We believe that H.R. 6767 should be amended to include it. Such a procedure would further the purposes of the Antidumping Act by making foreign manufacturers congnizant of dumping implications when pricing their merchandise, and should avoid many timely and costly proceedings under the Act. We submit that it is better for American manufacturers if dumping never occurs, and they never suffer injury from such practices, rather than have the practice occur and have relief granted at a later date. Such a provision would protect exporters and importers from Antidumping Act prosecutions, and American manufacturers from injury as a result of unintentional dumping.

Countervailing Duty Act

Chapter 3 of Title III makes a number of amendments in the Countervailing Duty Act. It would permit the Secretary of the Treasury to exercise discretion in the event that the imposition of such duties would result in significant detriment to the "economic interests of the United States," or in the event that quantitative limitations already in effect are an adequate substitute for the imposition of a duty. While we believe that the absence of such discretionary authority in existing law is a serious defect, we believe that the discretion should be in the hands of the President, to be exercised only in the national interest. Nothing short of the national interest should interfere with a countervailing duty; no one other than the President should be authorized to make that determination. This national interest exemption, as we have said, should apply to the Antidumping Act as well.

Section 330 would make other significant changes in the Countervailing Duty Act. Specifically, it would extend the coverage of the Act to nondutiable merchandise. Countervailing duties would not be imposed on nondutiable merchan-

dise, however, unless the Tariff Commission finds that an industry in the United States is suffering material injury as a result of bounty-fed imports. To this extent, the amendment to the Countervailing Duty Act is consistent with United States international trade obligations, and with sound trade policy. If subsidized exports are causing material injury to a United States industry, AIA believes that countervailing duties normally should be imposed. However, the proposed amendments to the Countervailing Duty Act do not extend the material injury finding requirement to dutiable items. AIA believes that there is a serious question as to whether failure to extend the material injury requirement to dutiable items is not a violation of our GATT obligations. At present, the United States is excused from complying with the GATT requirement that material injury be found only by reason of our "grandfather rights". We believe that so significant an amendment to the Act, to cover goods not otherwise covered, brings those "grandfather rights" into serious question.

However this may be, we believe the absence of a material injury requirement for dutiable goods is not sound trade policy. Just as there is no sound reason for *not* imposing a countervailing duty on nondutiable, bounty-fed imports that are causing material injury to a United States industry, there is no sound reason to impose such a duty on dutiable goods *if no material injury is being caused.* To the extent that non-injurious United States imports receive subsidies from foreign governments, the citizens of the United States receive the benefit of lower prices. In these days of inflation and balance of trade deficits, the United States should not require American consumers to pay more for imported goods than they otherwise would, when those imports are in no way causing material injury to a United States industry. Accordingly, AIA believes that the material injury requirement should apply to all countervailing duty actions, regardless of the dutiable status of the goods involved.

Amendment of Section 337 of the Tariff Act of 1930

Section 350 would amend Section 337 of the Tariff Act by entirely taking away the jurisdiction of the Tariff Commission with respect to unfair acts and unfair methods of competition, except in patent cases. We think that this change reflects a sincere effort to remedy defects in the present law, but that it does not sufficiently do so, and the proper course of action is simply to repeal Section 337.

Section 337 now provides for the exclusion of articles the importation of which is found to be unfair and injurious to an efficient U.S. industry, by decision of the President after Tariff Commission hearing, and with an appeal from the Tariff Commission to the Court of Customs and Patent Appeals on questions of law. It has been utilized almost entirely in cases of alleged patient infringement. It is seriously defective for many reasons. The most important are:

1. The issues of patent infringement and patent validity are inextricably related, since the scope of the patent's claims must be construed in light of the prior art in order to avoid invalidity, and any narrowing of those claims directly affects the question of infringement. However, the Tariff Commission has no authority to pass on validity.

2. The application of the law has discriminated against imports by conclusively presuming patent validity where the courts would insist on determination of the patent issues, including validity, before granting even preliminary relief.

3. The Tariff Commission will not suspend proceedings pending a court case and the importer is required to try cases at the same time in both the Tariff Commission and a court.

4. Judicial review is probably unavailable under a 1962 Supreme Court decision that the Court of Customs and Patent Appeals cannot pass on cases which are subject to further administrative review.

5. Neither the Tariff Commission nor the President is an appropriate authority to determine rights, and resolve disputes that are purely private.

6. Entry under bond, where a preliminary exclusion order is issued, bears no relation to damages for infringement.

The proposed new Section 337 would be limited to patent cases, and would omit the economic tests and the Presidential action. The Tariff Commission would simply pass on the issue of infringement, and, if found, issue an exclusion order. If the issue of validity were being tried in a court case, the importer would be forced to put up bond in order to enter the goods. H.R. 6767 would not remedy the first three defects listed, and would leave a purely private controversy to be tried by six commissioners who cannot make a legally decisive determination.

This is hardly a satisfactory procedure. Section 337 should be repealed, permitting the regular patent laws to function in this area.

The President has also recommended that the Federal Trade Commission be given what is essentially the present jurisdiction under Section 337 with respect to all unfair acts other than patent infringement. On this, which will no doubt be the subject of hearings by a Committee other than the Ways and Means Committee, we have strong reservations. There is no indication that there is need for this jurisdiction. The Federal Trade Commission can take action at present against unfair acts, pursuant to Section 5 of the F.T.C. Act, whether they be on the part of importers or domestic sellers. There is nothing in the history of Section 337 or of the F.T.C. Act to show that there is need for any additional remedy.

TITLE IV—INTERNATIONAL TRADE POLICY MANAGEMENT

Balance of Payments Authority

Section 401 of H.R. 6767 authorizes the President to take action regarding imports in response to both surplus and deficit conditions in the balance of payments. Section 401(a)(1) authorizes the President to impose an import surcharge or quotas on imports in order to deal with a serious United States balance of payments deficit.

We submit that this authority is far too broad, for it authorizes the President to take these severe measures in the event of a balance of payments deficit, even if that deficit is not caused by imports, indeed, even if there is a balance of trade surplus. The President should not be authorized to take such drastic action to correct a balance of payments deficit in situations where a trade surplus exists. Moreover, there is no sound reason for taking import restrictive measures in these circumstances unless both a serious balance of payments deficit and a serious balance of trade deficit exists. We believe that Section 401 should be amended accordingly.

Furthermore, Section 401 grants permanent authority to the President. This is both unnecessary and unwise. This sweeping authority clearly is in the nature of an emergency power, as are wage and price controls. Just as the President is required to justify the need for wage and price controls before he obtains authority by the Congress in that area, so he should be required to justify the need for this balance of payments action authority, and then only for a temporary period.

In addition, to the extent that Section 401(a)(1) would permit imposition of an import surcharge or import quotas on specific items, hearings should be provided for all interested parties.

Section 402 is an obscure provision, whose meaning has not been explained to us, despite numerous conferences with legal counsel. Presumably, it is designed to prevent the so-called "snap back problem" when a trade agreement is terminated by another country. According to the section-by-section analysis, this authority is needed to maintain trade agreement concession rates in the absence of an agreement. AIA has no quarrel with this policy, but we fail to understand why the sweeping grant of authority contained in Section 402 is necessary to provide it. The snap-back problem can be dealt with by a single amendment to the present Section 255 of the Trade Expansion Act, that would be re-enacted as Sections 408 and 409 of H.R. 6767. Section 402, as it stands, is so broad that, in our view, it could be used to justify evasion even of the emasculated, erstwhile escape clause, i.e. "the safeguard" provisions of Section 201, and virtually any other restrictive action the President chose to take. There is no demonstrated need for this sweeping Presidential authority. It is both unwise and constitutionally unsound, for Congress to delegate such broad power to the President. Section 402 should be eliminated.

Section 410 of Title IV provides for public hearings in connection with agreements made pursuant to the authority of this Title. Section 401(1) properly provides for these hearings in advance of renegotiation of duties pursuant to Section 403, and exercise of the compensation authority pursuant to Section 404. However, Section 410(2) merely provides for a hearing within 90 days *after* action taken by the President under Section 402 and under the termination authority contained in Section 408. We submit that a hearing after action has been taken is no hearing at all. Congress should require the President to provide for public hearings in which all interested persons shall have a reasonable op-

portunity to be present, to produce evidence, and to be heard prior to any action taken under any section of Title IV, not just those dealing with renegotiation and compensation.

TITLE V—TRADE RELATIONS WITH COUNTRIES NOT ENJOYING MOST-FAVORED NATION TARIFF TREATMENT

The proposal in Title V to extend most-favored-nation treatment to Communist countries can contribute to the normalization of our political and economic relations with those nations. We share the hope of the President that this may lead to further relaxation of international tensions, and contribute to world peace.

Title V provides for extension of MFN treatment for three-year renewable periods. Since the purpose of Title V is to promote more enduring commercial relationships with the Communist countries, we believe that this three year period is needlessly restrictive. It would create enormous uncertainty for businessmen, with a consequent impediment to trade. We believe that indefinite extension of MFN treatment is warranted, subject, of course, to Presidential authority to deny or revoke such treatment for reasons of national security.

TITLE VI—PREFERENCES

Title VI of H.R. 6767 provides for a generalized system of preferences for developing countries. Again, this Title includes far too broad a delegation of authority to the President. The bill should define "a developing country" in order to make clear to all, and to remove the determination from every day political process, those countries that are entitled to preferential treatment. This has been done in other areas, for example, in the Interest Equalization Tax. There is no reason why it cannot and should not be done with regard to generalized preferences.

TITLE VII—GENERAL PROVISIONS

Delegation

Section 701 authorizes the President to delegate his authority to the heads of such agencies as he may deem appropriate, and provides further that agency heads may in turn delegate to the head of any other agency.

We realize that a certain amount of delegation is necessary for the efficient operation of any program. Nevertheless, we believe that the language of Section 701 may be broader than necessary. Specifically, we believe that the section should require that in any situation where Presidential discretion is called for, that authority should not be delegated. This would apply, for example, to the President's determination of appropriate relief under the "escape clause" or safeguard provision of Section 201, to the proposed change from Treasury to Presidential discretion in the Countervailing Duty Act, and to the proposed parallel provision in the Antidumping Act.

Customs Court Action

H.R. 6767 is, we believe, an appropriate bill to contain a simple measure designed to rectify a basic problem faced by importers when Customs refuses entry of goods. When an importer is assessed a higher duty than he thinks is proper, it is desirable that the issue be resolved with reasonable promptness. However, speed is not critical when the question is solely one of money rather than entry of the goods. Adequate time can be permitted for full administrative consideration, with thorough judicial review thereafter. This is the normal pattern in our legal system.

There are, however, cases where extended administrative consideration would make judicial review impossible. If Customs officers exclude merchandise from entry or delivery, the importer cannot always wait months for administrative reconsideration, plus an even longer period for a full-scale trial and decision by the Customs Court. An importer with an unresolved duty issue can assume the financial risk, and continue his imports, but an importer whose product is refused entry altogether must suspend his business until the conclusion of judicial proceedings. Apart from the expense of warehousing in bond, the merchandise may be perishable, or, when quotas are involved, the quota period may run out. Under present law, the importer has no real access to judicial review in such cases. We believe that an adequate judicial remedy is needed, particularly since the Administration appears to be contemplating more quotas, or "voluntary" restraints.

Effective judicial review can only be accorded in these situations by vesting jurisdiction in the Customs Court to entertain an action, on a proper showing of urgency, while there is still time to afford effective relief. The most convenient device for this purpose is the action in the nature of *mandamus*, long available to the district courts in most fields of administrative law under Section 1361 of the Judicial Code. With similar jurisdiction in the area of its specialty, the Customs Court should be empowered, by the "all writs" provision, Judicial Code 1651, to make such interim and temporary orders as it may find appropriate to keep the issue alive for judicial determinaton.

The absence of any means of securing effective judicial review in emergency cases, notably those involving the exclusion of merchandise, is a conspicuous deficiency in the present scope of judicial review customs issues. We propose that this deficiency be remedied by adding the following provision to the Judicial Code by H.R. 6767:

> The Customs Court shall have the original jurisdiction of any action in the nature of mandamus to compel an officer or employee of the United States or any agency thereof to perform a duty owed to the plaintiff under any provision of law with respect to the entry of merchandise into the United States, notwithstanding any other section hereof.

Importer Safeguards

The import industry in the United States is a $55 billion industry, reportedly employing 1.2 million people. We believe that Title VIII should contain a safeguard provision explicitly recognizing the import industry's contribution to the American economy, and providing reasonable safeguards to assist the import industry in coping with problems caused by the imposition of new import restraints.

We have made clear our view that if the government, through modification of customs treatment, effectively changes the ground rules under which a U.S. industry operates, resulting in serious injury, that industry should be entitled to a temporary restoration of the status quo in order to adjust. We do not believe it is too much to request that when government changes the rules under which importers operate, they too be given a reasonable period within which to adjust.

Specifically, we submit that Title VII should be amended to include a provision exempting pre-existing contracts from restrictions imposed under the provisions of this bill. The concepts of reliance and predictability are central to our system of law and justice. The imposition of quotas and higher duties, after businessmen have entered into agreements in reliance on existing customs treatment, destroys predictability and is completely unfair to importers. We submit that a provision exempting pre-existing contracts from newly-imposed import restrictions will not place an undue burden on the beneficiaries of the relief, but simply will allow importers to adjust or phase out their businesses in a resonable manner.

Just as time to adjust to government action is necessary for injured American industries, so it is essential for importers. The imposition of new controls often is disatrous to this industry and its employees. For this reason, we request that no new import restriction be effective until the expiration of 90 days from the date of its announcement. This extremely short period is the minimum necessary for importers to begin to liquidate their businesses in an orderly way, and adjust to the new restrictions.

THE U.S. AND WORLD TRADE

United States trade policy has been adrift since the late 1960's. The President has been without needed authority to act. Meanwhile, in the aftermath of worldwide tariff reductions under the U.S.-led Kennedy Round negotiations, U.S. exports have more than doubled. But, in the face of a perplexing recession combined with inflation, imports increased at an even faster rate.

The European Economic Community has become a giant in world trade. A dynamic Japan has become the third largest economy in the world. A number of developing countries have begun to "take off" economically. An over-valued dollar has been twice reduced in relation to other currencies.

This is a rapidly changing world—a world whose complexity had led to many myths:

—Our trading partners are closing their doors to our exports, while we maintain an open door policy. *The fact is* U.S. trade restrictions (directly imposed or extracted by "voluntary" agreement from our trading partners) now affect a

larger volume of trade in manufactured goods than the import restraints of either the European Community or Japan.

—Imports are responsible for U.S. unemployment. *The fact is*, imports have little to do with unemployment rates in the U.S. economy. The U.S. Department of Labor has been studying this question by tracing the impact of imports on jobs in 190 industries during the 1965–69 period, when imports have been growing at an abnormally high rate. We understand that its findings are:

Of the 190 industries, only 37 showed any job decline;

The Of the 37.11 were virtually unaffected by imports;

The remaining 26 felt the impact of import competition, and reported 117,000 jobs lost over the 4-year period;

This job loss represented 0.5 percent of total manufacturing employment in 1969;

During that same 4-year period, about 2 million *new* manufacturing jobs were created.

U.S. multinational corporations are exporting jobs. *The fact is* that every study of which we are aware shows that multinational corporations increased their U.S. employment at a rate far above those firms which are purely domestic, and have increased their exports at rates far above the national average.

The United States cannot compete internationally. *The fact is* that despite rapidly increasing imports, U.S. exports during 1967–72 grew at a compound annual rate of 9.5 percent, far greater than the 5.8 percent growth of the economy as reflected in the Gross National Product. Clearly, exports are among the more dynamic sectors of our economy.

These myths must be destroyed if this nation is to sustain its world economic position and insure a better standard of living for all its citizens. This means that international trade barriers must be reduced, not increased. Nobody has to "lose" by this policy, so long as it is accepted as a national policy that the costs of keeping America strong and competitive must be shared by all, particularly in the form of greater expenditures for adjustment assistance. Everybody will lose, however, if we decide we can no longer compete, and resign ourselves to protecting our weaknesses at the cost of abandoning our strengths.

The CHAIRMAN. Thank you, Mr. Orban, for your statement.

Are there any questions of Mr. Orban?

Mr. CORMAN. Mr. Chairman.

The CHAIRMAN. Yes, Mr. Corman.

Mr. CORMAN. Thank you, Mr. Chairman.

Mr. Orban, you discussed the quota relief. This, of course, is a question the committee has considered at length particularly in 1970. Quotas will be imposed. I am sure, or they would not be asking for them.

Does the American Importers Association have any recommendation as to how quotas will be managed to insure fairness of quantities available?

Mr. ORBAN. From our experience, sir, the administration of quotas presents enormous problems. It is something that could possibly be done fairly for six months or a year, but if the quotas run for any length of time they almost inevitably breed a granddaddy rule as far as new people entering the business is concerned. They have the tendency that the goods under quota go into the high priced brackets and away from the low priced brackets.

One of our members, for instance, who imports children's clothes from Korea and Taiwan reported that the children's sizes were no longer available because the quotas were by the dozen and the low priced sizes were no more available and the manufacturers simply switched to those items where they could get the most money per dozen and still remain within their quotas. We just do not see any way that these quotas can really be administered for the long run in a fair and workable way without hurting the consumer in the American market.

One other thing that happens with the quotas is that new people who want to get into a given business in the foreign countries will have to buy quotas from existing manufacturers, and of course all this raises the cost to the consumer. We just don't see any way that they can be administered fairly for more than a year or so.

Mr. CORMAN. It seemed to me that there would be a danger that very large importers, if we went to a first come-first serve basis as the Secretary indicated in his plan, could purchase the available qouta and remove from the importing community a significant number of smaller importers, and once they are removed they would no longer be in competition. So even if you had something like from 1- to 5-year quotas, assuming that very large entities would absorb all of it, isn't there a danger that we then eliminate all substantial competition in that field?

Mr. ORBAN. Yes, sir, that is a very definite danger, and without being able to document it right at this moment I am certain that this is happening every day.

Mr. CORMAN. I believe your group is involved in oil importing, our problems of licensing and so forth in that field.

Mr. ORBAN. We have members who are involved in oil importing but we do not have anyone here who could testify with any expertise on that.

Mr. CORMAN. Thank you very much. You have been very helpful.

We really don't buy at home to sell abroad, it is the other way around. I don't think we have to argue that.

The CHAIRMAN. Mr. Duncan.

Mr. DUNCAN. Do you believe in fair trade in addition to free trade?

Mr. ORBAN. Yes, sir.

Mr. DUNCAN. And don't you think it should operate both ways, that we should have the right to sell our products on the free market?

Mr. ORBAN. Yes. We definitely endorse the removal of trade barriers against U.S. exports.

Mr. DUNCAN. Would you agree with the other witnesses who preceded you that we do not have free trade today?

Mr. ORBAN. I would agree with them.

Mr. DUNCAN. Thank you, sir.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Gibbons.

Mr. GIBBONS. Yes, sir.

Very briefly, is there anyone on the panel who can describe the impact of the voluntary steel import quotas on this country?

Mr. ORBAN. I guess I could.

Mr. GIBBONS. How about giving me a rundown on it. These agreements have rather adversely affected my people and I want to see what it has done to others.

Mr. ORBAN. The effect has been somewhat similar to the textile quota situation where the foreign countries that subscribe to the voluntary quota upgraded products that they sold in the market here and also raised their prices. They found that if they could only sell X number of tons in any event, they would be rather foolish to fight each other for the business. The result was that prices for all imports rose, and of course the domestic industry which no longer had the restraint of competing imports for more than a fraction of its tonnage also felt quite free to increase prices to the extent that the market would bear it and

of course the market will bear it much easier if there is no effective competition.

We have seen an enormous increase in pricing and we have seen a disappearance from the import market of the more ordinary steel products such as the cheapest grades of wire rod, cheap grades of reinforcing bars, the cheapest grades of sheet and plate and instead the foreign steel companies are trying their best to sell those products for which they get the highest return.

Mr. GIBBONS. Have you heard any of the domestic fabricators complain that they cannot get steel from U.S. producers?

Mr. ORBAN. At the present time there is a real problem for many fabricators who try to place orders with the domestic producers but of course with business being good the domestic producers service their own fabricating facilities first and the independent comes after.

Mr. GIBBONS. If ever.

Mr. ORBAN. If ever.

Mr. GIBBONS. Thank you.

Mr. CLANCY. Mr. Chairman.

The CHAIRMAN. Mr. Clancy.

Mr. CLANCY. Just one question. How do our import figures in tons of steel compare in 1972 with 1968?

Mr. ORBAN. There is a tendency for 1972 to go down in tonnage. The first month or two was off against the 1971 calendar year—excuse me. I was getting confused there. I was talking of 1973.

In 1972 it was relatively high. Most of the countries just about used their quotas. They overshipped the quotas in some specialty steels. The primary reason for that being so, was that the quotas were only concluded toward the middle of the year and by that time shipments had either been made or contracts were on the books.

Mr. CLANCY. Was the total tonnage down from the year 1968 in 1972?

Mr. ORBAN. The total tonnage in 1972 was down from 1968, yes, sir.

Mr. CLANCY. How much decrease did we experience?

Mr. ORBAN. In terms of tonnage the decrease was about 15 to 20 percent.

Mr. CLANCY. Thank you very much.

The CHAIRMAN. Mr. Orban, isn't it true that both Japan and the European Common Market are now shipping steel products into the United States well below what appears to be the annual quota?

Mr. ORBAN. At the moment that is very true, yes, sir.

The CHAIRMAN. Is there a shortage of steel throughout the world?

Mr. ORBAN. Yes.

The CHAIRMAN. Steel products?

Mr. ORBAN. Yes.

The CHAIRMAN. That is my understanding.

Any further questions?

If not, again we thank you, Mr. Orban, and those at the table with you.

Mr. ORBAN. Thank you.

The CHAIRMAN. Our next witness is the Honorable Charles P. Taft, general counsel, Committee for a National Trade Policy. I believe you are accompanied by Mr. David J. Steinberg, executive director.

You both have appeared before this committee on other occasions.

STATEMENT OF HON. CHARLES P. TAFT, GENERAL COUNSEL, COMMITTEE FOR A NATIONAL TRADE POLICY, ACCOMPANIED BY DAVID J. STEINBERG, EXECUTIVE DIRECTOR

Mr. TAFT. This is the 28th anniversary of my appearance before this committee on trade bills. You are the only one here, I think, that was present at that time.

The CHAIRMAN. Yes, sir.

Mr. TAFT. I am not sure I would like to have Mr. Knudson or Mr. Reed back here. Mr. Knudson especially made it a hard afternoon for me and kept me here about 4 hours at that time.

The CHARMAN. I remember the colloquy.

Mr. TAFT. I was representing the State Department then.

I think I must register, however, my very great sorrow and regret at the absence of Mr. Hale Boggs who was here. I think he was present at all my other appearances before this committee.

The Committee for a National Trade Policy has for nearly 20 years been a leading advocate of a freer world economy. The committee is a broadly based organization supported by businesses large and small, by trade associations and by individuals as citizens and consumers. It speaks for no special interest, only for what it regards as the "national" interest, and that explains our name. We have dedicated ourselves to this single standard.

The time has come for a new effort, particularly by the industrialized countries, to lower and hopefully remove artificial and controllable distortions of international trade and up-date the ground rules of fair international competition as laid down in the General Agreement on Tariffs and Trade. Our committee has urged legislation to advance these objectives. We have opposed legislation that would impair them. We are, therefore, in basic support of the liberal trade authorization in the administration trade bill and totally oppose the trade-and-investment controls of the Burke-Hartke bill.

We have submitted with our testimony a pamphlet we produced on the Burke-Hartke bill which has gone to each of the members of the committee, I think.

Our reasons for opposing the Burke-Hartke bill—the bill as a whole and its various parts—are summarized in our widely circulated booklet "Hartke-Burke in a Nutshell." If the Smoot-Hawley bill was bad for 1930, then the Burke-Hartke proposition is even worse for 1973.

I might say one of the main reasons for that is because, beginning with the reciprocal trade agreements on the reduction of tariffs, quotas were omitted completely as any kind of a remedy for anything, and to go back to quotas again is certainly a step backward rather than the forward step begun with the reciprocal trade agreements program of 1934.

The Burke-Hartke bill is damaging to workers, businesses and communities dependent on the international movement of goods and capital; damaging to the creation of new and better jobs for our expanding labor force; damaging to our more than 200 million citizens as consumers; damaging to the future of an innovative and successful private enterprise system; damaging to U.S. credibility and influence in world councils; damaging to the health of the Free World economy; damaging to the aspirations of workers around the world; and damaging to the total national interest.

We basically support the President's trade message and the administration trade bill because in general they serve the objective of more and better jobs, the best interests of consumers, a more innovative and successful private enterprise system, U.S. effectiveness in world councils, dependably freer world trade, a stronger world economy, indeed the overall national interest.

The bill's negotiating authority is clearly a step in the right direction. We think that some of the other provisions should be improved to make the bill a more effective instrument for the "more open and equitable world trading system" as highlighted in the President's trade message to Congress.

In international economic terms the trade bill should convincingly reflect our national determination to attack the widest range of trade distortions. Both the tone and substance of U.S. trade policy should be addressed, not just to certain foreign practices we find particularly irritating, but to what Chairman Mills and others have called a "grand design" of freer and fairer international trade. I hope that the period ahead in trade negotiations will be dominated by a far-reaching effort to program a much more open world economy.

Confrontations on particularly controversial issues may be inevitable and they should not be shunned. But there is a much better chance of success in getting what we need and merit if our tactics on these stickiest issues are part of a clear, convincing and over-arching strategy capable of exciting the widest interest and winning the widest support. A dependable, far-reaching, liberal trade policy is the one best calculated to stimulate the best performance from our economy, including innovation, productivity, export promotion, work attitudes and efforts to fight inflation.

In domestic economic terms both the bill and other policy instruments, such as a dependable commitment to full employment, should ensure that a trade policy that is essential to the national interest is not built on sacrifice of the living standards and job opportunities of Americans whose jobs might be dislocated by such a policy. If freer trade is good for consumers, as we believe it is, it must be made good for all consumers. If it is good for the Nation, as we believe it is, it must be made good for every State in the Union and every community.

With these standards in mind, we invite congressional attention to the following ways we believe the bill could be made a more effective vehicle for achieving the announced trade policy objectives.

INDUSTRY ADJUSTMENT POLICY

Our committee has long advocated a coherent, comprehensive adjustment policy providing domestic-economic remedies for import-related damage to workers, firms and communities. The trade bill disappointingly omits the existing authorization of assistance to import-damaged firms and does not provide for the general industry adjustment policy urgently needed to backstop consistently and progressively freer trade. By this omission there is also less basis on which we can persuade other countries, most of which also lack such policies, to avoid import controls against us as a "safeguard" against injurious import competition.

The only policy vehicel in the bill, and in existing law, for dealing with industry-wide import problems in the escape clause. Its primary

instrument is trade restriction. We urge as the primary instrument of industry assistance a balanced policy of constructive aid to ailing industries and communities that have convincingly proved their need for government help. Such a policy would deal with the real problems and real needs of the affected industries and communities.

U.S. policy, both present and prospective, provides no identifiable mechanism for coherent, coordinated government attention to industrial (including agricultural) adjustment problems that have not escalated into "serious injury." There even may be policy inequities that materially impair the competitiveness of the affected industry. Ways should be found to correct such inequities before they seriously aggravate the industry's adjustment problems. Certainly recourse to import controls in "serious injury" situations should itself trigger comprehensive attention to the industry's real problems and real needs—a policy framework for whatever import restrictions may be instituted, and a framework for precluding import controls at a later time.

Such an industry assistance policy could serve as the framework for escape clause or other forms of import relief to an ailing industry. The criteria for imposing such trade restrictions should be tightly drawn so as to make trade controls, if needed at all, only a marginal part of a balanced policy of constructive help.

ESCAPE CLAUSE

On the escape clause itself, the proposed phasing out of escape clause relief is commendable. However, the criteria for invoking trade restrictions are too permissive. They open the door to extensive pressures for import controls. Petitions for "import relief" would probably increase substantially, as would the flow of injury findings to the White House, which has enough to do now. The loosened criteria and the administrative burden at the Tariff Commission would, in combination, tend to generate these results. The President would be exposed to formidable pressures to do what these petitions are aimed at securing—restriction of the imports in one way or another.

We applaud the bill's requirement that, in deciding escape clause cases, the President must consider consumers, international economic interests and other significant factors. The President also, however, should be required to make definitive public findings on these considerations. The only time the President is required by the bill to explain his decision in an escape clause case is where he does not provide import relief. He must then report to Congress "stating the considerations on which his decision was based." We believe the same requirement should apply to decisions to impose import restrictions. In addition, we urge the Congress to make sure that the rights of international trade, retailing and consumer interests fully to present their case, including the right to cross examination, are fully protected.

The various forms of trade restriction authorized in the escape section would hamper effective planning by importers, by exporters (to the extent that retaliation takes place in one way or another) and by U.S. manufacturers to whom sections 806.30 and 807 of the U.S. Tariff Schedules are important aids in keeping competitive at home and abroad. The businessmen and many thousands of U.S. workers whose import-export operations and jobs are directly or indirectly

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affected by escape clause or other trade restrictions are just as much entitled to "safeguards" as anyone else.

Import restriction procedures should therefore be used with the greatest caution. Suspension of 806.30 and 807 could in fact be deleted as a remedy. It is based on the erronous assumption that such foreign processing would ipso facto be transferred to a U.S. plant. It certainly does not follow at all.

The following are additional ways the "import relief" section of the bill should be improved.

At least some link to a trade agreement concession should be retained. "Primary cause of injury" (the standard proposed in the bill) should be amplified to require, not just that imports be the largest single factor (as required by the bill), but a substantial cause of injury and significantly greater than any other cause.

The bill's definition of "market disruption" as prima facie evidence of injury should be tightened so as not to stifle legitimate and healthy competition. The Tariff Commission might find that imports were not the primary cause of injury, but there is a danger that the proposed statistical criterion of prima facie injury from imports might be interpreted to shift the burden of proof from the petitioning industry to importing and consumer interests. The burden of proof should remain on the petitioning industry to prove that imports were the primary cause of the alleged injury.

We also recommend that the industry's effort to adjust to foreign competition should be considered in the Tariff Commission's evaluation of the petition, not just (as the bill implies) when the President acts on cases that reach the White House.

Authority to impose tariff and quota restrictions in escape clause cases should not be unlimited. We propose that the role of the Tariff Commission include recommendations on the degree of import control necessary to help the affected industry solve its problem. The bill should require that every effort be made to phase out import quotas more rapidly than tariff increases.

ADJUSTMENT ASSISTANCE

We endorse the bill's easing of eligibility criteria for adjustment assistance to workers. The procedures in current administration of this program call for simplification, but we regret the bill's limitation of the Tariff Commission's role to conducting investigations at the Secretary of Labor's request without being called upon to assess the results of its investigation.

We question the adequacy of the unemployment compensation authorized in the bill, particularly in low-wage states. The Amtrak model proposed by the United Auto Workers deserves attention as a possible standard to be used in adjustment assistance to workers. If this is not suitable, an approximate alternative should be sought. We also recommend that adjustment assistance be authorized, not only to firms and communities injured by imports, but also to workers, firms and communities injured by the restriction of imports. Beyond this legislation the nation needs an adjustment/conversion strategy addressed to all forms of dislocation, including injury that may result from the shifting of a production line from a U.S. plant to facilities abroad.

RETALIATORY AND BALANCE-OF-PAYMENTS IMPORT CONTROLS

Adequate standards, indeed international standards involving the General Agreement on Tariffs and Trade or the International Monetary Fund, are needed for recourse to import controls for retaliatory or balance-of-payments purposes. This is particularly important with respect to balance-of-payments import controls invoked against particular countries. Import control as a balance-of-payments device seems unsound and probably ineffective in the first place, at least for the United States. It is the wrong approach even for dealing with trade account disequilibrium.

The right road to international monetary adjustment is not through an arsenal of trade restrictions penalizing "surplus" countries where the "deficit" country may itself not be making a suitable contribution to solving the disequilibrium. Besides a suitably flexible system of exchange rates and adequate reforms in domestic policy, the right approach is emphasis on a multilateral, enforceable commitment to an "open world economy" involving all the developed countries and entailing accelerated schedules for the "surplus" countries. U.S. trade policy should be seeking such a "grand design" as a fundamental reform whose time has come. But this is not the game plan today.

If import controls are imposed for balance-of-payments reasons, the President should be required to report to Congress—through oral testimony by the Secretary of the Treasury before appropriate congressional committee—no less frequently than every 90 days on progress being made toward removing such restrictions.

Retaliatory import restrictions should not be unlimited—as provided in the bill—but commensurate with the impact of the foreign barriers considered unreasonable. The President should be required to "give due regard" to U.S. international obligations in deciding on retaliatory action. The administration says it is intended that the President will "depart from international obligations only in rare cases where adequate international procedures for dealing with unjustifiable or unreasonable action are not available." The language of the bill should at least come close to the same standard.

NATIONAL SECURITY

One of the reforms desirable in trade legislation concerns the national security provisions of existing law. The administration's trade bill continues intact the present national security provisions. We suggest that, where the President finds that imports are impairing the national security stake in dependable supplies of the particular product, he should develop a special assistance program to strengthen this sector of the mobilization base. At present (and as envisaged in the administration's trade bill) the only action the President is required to take if he finds impairment is restriction of the imports. Import controls may be necessary, but they should be very selective, to the extent needed at all, and should be only a marginal part of a balanced assistance policy aimed at coherent objectives and emphasizing domestic economic remedies. Finally, we recommend that the President should report to Congress every year on the progress of this industry assistance program.

NONTARIFF BARRIERS

I think I should comment apart from this statement that one of the most difficult problems in this area is finding out what foreign nontariff barriers U.S. companies are required to comply with. Many firms are very reluctant ot give any kind of testimony that has any chance of publication because of what it may do to them in the foreign country. So information is often quite hard to get.

Mr. Corman referred to State or local buy American laws. They are clearly unconstitutional.

We applaud the administration's determination to attack the thorny thicket of nontariff barriers. The United States has for too long lacked adequate legislation on this important subject. We support the advance authorization to negotiate and implement agreements affecting customs valuation, country of origin markings and certain other customs matters. Authorization to convert nontariff barriers into tariff equivalents, to be negotiated just as regular tariffs would be, may be productive in handling some of these issues. The provisions for accountability to Congress on nontariff barrier agreements requirnig ad referendum congressional sanction are thoughtful approaches to the need for congressional approval of nontariff barrier concessions that have not been previously authorized.

We have doubts, however, that these procedures, and the related uncertainty of Congress implementing all or even most of the nontariff barriers agreements requiring subsequent congressional approval, are conducive to negotiating or implementing the scale of nontariff barrier agreements we ought to be striving for.

An industry adjustment policy of the kind we have proposed would facilitate more extensive and dependable progress, not only toward removing nontariff barriers, but toward ensuring deliberate, constructive attention to the real needs of industries for whose benefit such trade barriers may have been intended in the first place.

Such an industry assistance policy would permit the following procedure regarding nontariff barriers. Congress would authorize the President to negotiate agreements to reduce or remove nontariff barriers. This authorization would include a mandate to the President that, whenever he reduces or removes a nontariff barrier affecting a U.S. industry which claims it cannot operate effectively without this or equivalent government assistance, the President must (in cooperation with the industry and to the extent that Government help is needed) formulate a special adjustment policy with respect to that industry, emphasizing domestic economic remedies.

If the President finds that he needs additional legislation to implement such a policy, he would be required to seek such legislation at the earliest opportunity. This would provide Congress an opportunity to assess the adequacy of the assistance intended for that industry.

TARIFF PREFERENCES TO DEVELOPING COUNTRIES

The long-delayed step to fulfill this commitment is made inadequate by the exemptions required by the bill and also by loosening of the escape clause criteria. The exemption of products covered by special import controls in understandable. What unreasonably weak-

ens the tariff preference proposal is (a) the absence of any deliberate effort to phase out those import controls, (b) the quantitative limits restricting the eligibility of supplying countries, (c) the burdensome requirement calling on the President to judge whether particular industries in particular developing countries need such preferences, and (d) the overly permissive "import relief" criteria capable of penalizing foreign producers impressively successful in attracting American consumers to their products. Also, unlike the escape clause, there is no deliberate effort to phase out the "orderly marketing agreements" now in effect.

These shortcomings in the authorization of tariff preferences to the developing countries should be carefully reviewed for correction. This is, among other things, a foreign policy issue of very high priority.

CONSULTATION WITH CONGRESS

In his trade message the President said: "I invite the Congress to set up whatever mechanism it deems best for closer consultation and cooperation to insure that its views are properly represented as trade negotiations go forward."

An effective mechanism for such consultation and cooperation is crucial for progress in trade negotiations and for congressional action to implement agreements reached. For this purpose, and also to insure adequate consultation between the President and Congress on industry adjustment measures pursuant to the new dimension of an effective trade policy proposed above, a joint "select committee" should be formed. The chairman and Mr. Long have already either prepared or introduced bills on that subject. This was drafted before we knew that, but this was our suggestion.

Alternating chairmen: the chairman of the House Ways and Means Committee and the chairman of the Senate Finance Committee. Other members, or their alternates, would include the chairmen of the following committees: House—Labor, Banking, Agriculture, Foreign Affairs, Interstate and Foreign Commerce, and Interior; Senate—Labor, Banking, Agriculture, Foreign Relations, Commerce, and Interior.

ANNUAL REPORT OF THE PRESIDENT

In addition to the report required in the bill (the same kind required in existing legislation), the bill should also require the President to report annually to Congress on the progress of national adjustment and conversion across the board and on the international competitive position of the American economy. Such a vehicle for better understanding of these issues, which was first proposed by the Committee for a National Trade Policy in the 1962 trade hearings, would contribute immeasurably to the more dependable free-trade policy so urgently needed.

SUSPENSION OF IMPORT RESTRICTIONS FOR ANTI-INFLATION OR BALANCE-OF-PAYMENTS REASONS

This authority to suspend import restrictions is commendable in principle. We doubt seriously that it should be restricted to an arbitrary percentage of total U.S. imports and also to situations where, in

the President's judgment, the suspension would not injure workers or firms. (The intention not to suspend restrictions in the latter situations is stated in the administration's explanatory statement.)

Suspension essential or helpful to the overall national interest should not be sacrificed to the short-run interest of certain firms or workers, whose needs should be dealt with by domestic policies addressed to the imperatives of their particular situations. A coherent industry adjustment policy of the kind proposed in this testimony would augment the flexibility the President seeks for dealing with inflation or persistent balance-of-payments surpluses through suspension of import controls.

OTHER BILLS

I do have a few comments on other bills that are pending. Although it is a new matter, we have not discussed it at length, we would oppose the bill to make the Special Trade Representative subordinate and accountable to the Executive Director of the Council on International Economic Policy.

One of the most important elements that was involved in the 1962 legislation was the insistence of Congress that he should report directly to the President. We want to reemphasize that judgment of Congress at that time, and strongly recommend that the Special Trade Representative should report directly to the President.

We support the bills that would suspend import duties on meat and zinc. The duty suspension on meat should cover all imported meats. Such bills would be helpful as an anti-inflationary measure. We strongly support the bill that would repeal the 1964 legislation triggering quota controls on meat imports. The President's recent suspension of these quotas is not enough. There is a world shortage of meat and mere suspension of the quotas does not provide a firm basis for a stepped-up commitment of foreign supplies to the U.S. market. The fact that over 90 percent of imported meat does not compete with U.S. production but supplements U.S. supplies going into hamburgers, hot dogs, and luncheon meats should convincingly complete the case for repealing this import control legislation on meat.

I might just add that I really think that Congress should look into the FDA ban of DES as a food additive for beef and sheep. It seems to be done on the most inadequate testimony. I am not referring now to any effects on human conception. I am not involved in that one. But as a supplement to meat, it has a perfectly extraordinary result in the reduction of feed and the addition of weight, and there are only minimal, infinitesimal traces that are found in beef cattle as a result of using DES. There is no reason for any such ban on that one and I hope Congress is going to look into it.

With that final remark on contraception, I think I better stop.

The CHAIRMAN. Thank you Mr. Taft, for your very fine statement.

[The following was submitted for the record:]

"HARTKE-BURKE" IN A NUTSHELL

What It Is and What To Do About It

COMMITTEE FOR A NATIONAL TRADE POLICY, INC.
WASHINGTON, D. C.

JANUARY 1973

This critique was prepared by David J. Steinberg, Executive Director of the Committee for a National Trade Policy.

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Copies of this booklet are available without charge from:

Committee for a National Trade Policy
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INTRODUCTION

Officially it's the Foreign Trade and Investment Act of 1973—H.R. 62 in the U.S. House of Representatives and S. 151 in the U.S. Senate. Conceptually it's the AFL-CIO's answer to the growing fear of its members over the U.S. job implications of rising imports of goods and exports of capital. "Save our jobs" is its theme—an appeal which opponents of such legislation may rightly adopt as their own standard.

Concern for job security, job seniority, and the protection of hard-won fringe benefits and pension rights is a natural and noble impulse that deserves respectful recognition. The workers who harbor these concerns are fellow citizens and consumers. They are part of the "main" we call the "national interest."

This impulse of concern for livelihood and living standards, and for the future of job opportunities, has unfortunately expressed itself in impulsive disregard of how damaging this kind of legislation would be

- to fellow workers with a huge job stake in the freest movement of goods and capital to and from other countries,
- to the creation of new and better jobs for our expanding labor force,
- to our more than 200 million citizens as consumers,
- to the future of an innovative and successful private enterprise system,
- to U.S. credibility and influence in world councils,
- to the health of the Free World economy,
- to the aspirations of workers around the world,
- to the total national interest.

The basic thrust of the bill is comprehensive government control—restrictive regulation—of imports of goods and exports of capital and technology. It is not advocated as the sole answer to the nation's high unemployment. But it does not qualify as even a part of a soundly conceived answer to a serious national problem. Instead of ensuring constructive

attention to the needs of our economy in the '70's and beyond, it chauvinistically attacks the nation's international economic transactions as a scapegoat. Its blunderbuss barrage imperils the geese that lay the golden eggs.

Enactment of such a bill would be a disaster—not only because of the damage it would do to our economy and our policy goals at home and abroad, but also because, touted as aid to American business and labor, it would divert attention from the steps that urgently need to be taken to deal effectively with the adjustment needs of our economy in a rapidly changing and increasingly competitive world.

The bill must be vigorously opposed. But marshalling a "No" vote is only part of what must be done. Urgently needed is a constructive, credible, responsible response to the fears that inspired this bill.

HIGHLIGHTS OF THE BILL

Import Restrictions

1. The bill would impose quotas on all imports that are not now subject either to quantitative import restrictions or export-control agreements with supplying countries. Exemptions would include goods not produced in the United States, and products where the competing U.S. industry "has consistently failed to make technological innovations required to remain competitive with foreign producers." Quotas in the first year would be limited to average annual imports of the various product groupings in 1965-69. Product quotas would be set on a country-by-country basis, with provision for the shift of unfilled quotas from the shortfall country to either new or historical suppliers. Quotas in subsequent years would be raised or lowered to maintain the base-period ratio of imports to domestic production, or to meet special situations (for example, a finding that imports are "inhibiting the production of any manufactured product" and hence should be cut even more).

This kind of proposition neglects the importance of imports to consumers and producers, to jobs and productivity, and to the nation's earning power in the world market. It would set off a trade war.

2. Authority to set these controls (final authority except for Presidential decisions on the reallocation of unfilled quotas) would be delegated to a 3-member Foreign Trade and Investment Commission, consisting of spokesmen for industry, labor and the public. The Commissioners would have 6-year staggered terms. The new agency would replace the Tariff Commission and assume various trade-policy functions now administered by the Commerce, Treasury and Labor departments (e.g., anti-dumping and anti-subsidy proceedings).

The Commission would be a trade "czar" even the President might have difficulty disciplining. Constituting the Commissioners as spokesmen for three different constituencies (industry, labor and the public) establishes a troika system unsettling and totally undesirable as a device for trade-policy administration in the total national interest.

3. In addition to setting the import quotas described above, the Commission would also have final authority (subject only to judicial review) to decide escape-clause cases (involving claims of industry-wide import injury). Findings of injury, and hence the need for government help, would not (as the law now requires) be subject to Presidential decision. (The President would retain discretionary authority only in deciding whether to grant adjustment assistance to individual firms or groups of workers.) Quotas would be the only remedy for industrial injury from imports. Moreover, the criteria for determining the contribution of imports to an industry's problem would considerably ease the injury test.

The bill would thus increase the use and the scale of import restriction as a remedy for a problem that may not bulk large in an industry's economic difficulties. The overall national interest would be neglected.

The establishment of quotas on all imports would appear to limit substantially the role of the escape clause as a basis for import control. But this device,

with greatly attenuated standards and beyond the influence of Presidential action in the interest of the nation as a whole, would be a prolific instrument for cutting imports considerably below even the 1965-69 level.

4. The bill would streamline anti-dumping and anti-subsidy procedures. Some of the proposed changes may have merit, but whatever merit they possess is overwhelmingly offset by the faults of the rest of the bill.

Taxing U.S. Firms Abroad

The bill would tax in the year they are earned the earnings and profits of U.S. corporate subsidiaries abroad, even if not repatriated.

Although this is the practice followed in taxing U.S. business income at home, it would in many cases handicap the operation of U.S. companies abroad in competition with foreign companies operating in those countries and benefiting from special tax treatment by their home governments. U.S. subsidiaries compete with those companies, not only in the host countries, but in markets around the world. International ground rules are needed on the taxation of firms engaged in international trade. The need and way to get U.S. firms to accelerate the repatriation of foreign earnings deserves study. This bill is the wrong approach to the reforms that may be needed. Its trade provisions would seriously impair the chances of negotiating these and other reforms in the code of fair international competition.

The bill would repeal the Federal tax credit (a direct credit against the company's U.S. tax) now given U.S. companies for payment of foreign taxes on income earned abroad from production or from patent royalties. Other tax provisions would slow allowable depreciation rates in foreign operations.

Current tax laws affecting U.S. investment abroad invite review and possibly reform. But the sweeping proposals in this bill, like its import-control provisions, do not reflect careful, responsible appraisal of the role of U.S. foreign investment as a vehicle for expanding U.S. exports, as a generator of more and better U.S. jobs, as a source of income for use at home, and as a major "plus" in our balance of payments. The bill's clear intent is to impede and impair U.S. investment abroad on the false assumption that investment abroad inherently displaces investment at home, that the products these companies would be deterred from producing abroad would be produced at home, and that foreign companies would not capitalize on these investment opportunities.

Controlling Capital Outflow

1. Another provision against U.S. foreign investment would authorize the President to prohibit any transfer of U.S. capital to another country whenever in his judgment "the transfer would result in a net decrease in employment in the United States." The President is also authorized to prohibit any holder of a U.S. patent from manufacturing the patented product abroad, or licensing its use outside the United States. when in his judgment "such prohibition will contribute to increased employment in the United States."

These provisions impair vitally needed business flexibility, encumbering corporate decision-making with the need to justify foreign investment in every instance to the satisfaction of government officials who would be required to make detailed studies of the job implications of such proposals. The bill seems to rest on a narrow, defeatist assumption regarding the ability of the United States to provide economic security for all its citizens consistent with the freest exchange of goods and services with the rest of the world. It also overlooks the extent to which restrictions on the flow of U.S. technology abroad could generate foreign restrictions on the flow of foreign technology to the United States.

2. The bill would delete Sections 806.30 and 807 of the U.S. Tariff Schedules. These sections permit U.S. firms shipping goods abroad for further processing to pay tariffs on the products reentering the United States only for the value added abroad.

Claims that shipments to lower-wage countries for further processing or assembly amount to a net ex-

port of jobs have not been substantiated. Such foreign shipments by U.S. manufacturers permit these companies to market competitive products at home and abroad that might otherwise not be profitable. Many U.S. jobs depend on this practice. To the extent that job dislocation may occasionally result from the shifting of production from a U.S. plant to a foreign plant, there should be a domestic adjustment program to deal constructively and fairly with the problems of the affected workers.

Marking Regulations

The bill would require that all goods containing foreign-made components be "clearly marked in a conspicuous place as legibly, indelibly and permanently as the nature of the article or container will permit . . . to indicate to an ultimate purchaser in the United States the English name of the country or countries of origin of the foreign made components." The same requirement would apply to the advertising of such products for sale in the United States.

Such a marking requirement would in many cases pose serious problems in the production and merchandising of products for sale in the U.S. market. One reason, among many, is the fact that there may be components from many countries, all of whom would have to be listed, and such listing would in some cases mar the appearance of the product. Another reason is that even the inclusion of one foreign-made component would require identification of the country-of-origin of that component, without telling the consumer the extent to which foreign-made components have been used. If the proponents of such a regulation are bent on deterring the American consumer from purchasing products with foreign-made components (or, put differently, want to help consumers who wish to "buy American"), they should attempt to persuade the consumer to purchase products clearly marked as 100 percent U.S.-made, rather than impose burdensome marking regulations calculated to divert the consumer from fundamentals like price, quality, design and the value of the warranty.

GENERAL COMMENTARY

In his statement supporting the bill, the leading Senate sponsor said "we face an international trade crisis which threatens the livelihood of most Americans and the status of this country as a world industrial leader." We do indeed face such an international trade crisis—from the Hartke-Burke bill itself. It would threaten the livelihood of countless Americans whose jobs depend on imports and exports in one way or another, on the foreign earnings of their employers, or on the foreign earnings of customers of their employers. It would threaten the status of this country as a world industrial leader.

The Senator deplored application of "the textbook theories of the thirties and forties" to the realities of today's world economy. What he advocates as a new theory of international trade would severely hamper, not only trade and investment, but the ingenuity and innovativeness so necessary to success in today's world—hurting, not only business, but also workers and consumers. Tying the level of imports to its ratio to U.S. production in a particular base period would tie the hands of the American enterprise system, and hamstring the efforts the United States must make to develop a better and more secure world for all its people.

He criticized present trade and tax laws for not requiring that free trade also be fair trade. More needs to be done, surely, toward achieving this worthy goal. But the Hartke-Burke bill would weaken U.S. leverage in the effort that must be made to maximize fairness in international trade—indeed to raise labor standards throughout the world trading system (a goal that is commendably high in labor's priorities).

He said that the new trade policy established by this bill would be based on recognition that we must "remain industrially self-sufficient." Industrial self-sufficiency has never been a fact of American economic life. To make it an objective now would be fanciful, indeed fantasy.

He said that "American consumers want to know where the imported unit and its parts were made

and not be fooled by an American brand name on the front." Some Americans may have this preference, and deceptive marking, to the extent it exists, should be stopped. But it is fair to say that most American consumers are probably interested primarily, if not entirely, in quality products at fair prices and adequately guaranteed.

He said that "Americans want to know that the price they pay is related to the cost of the product—not a windfall for importers and retailers." It would be healthy for American consumers to insist on getting their fair share of the price advantages of lower production costs abroad. But the Senator's concern over the possibility of windfall gains for some businessmen is hardly consistent with his implicit neglect of the windfall gains his import quotas would provide American producers who don't need government help.

The Senator said that the key word in this bill is "production." But the bill seems hardly calculated to improve the quality, productivity and level of U.S. production, and the ability of the United States to sell its products to a rapidly expanding and increasingly discriminating world market.

The leading sponsor of the bill in the House of Representatives said "the United States needs new and realistic solutions for the problems of today's rapidly changing world economy." He is right. But what he proposes, while distinctly new, is distressingly unrealistic. "Realism," he says, "demands that America try to answer questions Americans have a right to ask: What is the impact on jobs? What is the effect on the American standard of living? What kinds of jobs will my children have if America's productive base is continually lost? How can America remain a first-rate industrial power?" He is right. These questions, and more, should be asked. They demand carefully reasoned, constructive answers and the Government's determination to translate these answers into definitive, dependable policy. Supporters of the Hartke-Burke bill have produced faulty answers which, if converted into national policy, would set the nation on a perilous course.

The opening sentence of the bill's Preamble states that "in order to accomplish the domestic and foreign policy goals of the United States, it is necessary to promote and maintain a fully employed, innovative and diversified production base in the United States." Those who understand the need for the freest movement of goods and capital, and for a constructive adjustment policy to backstop it, should endorse this opening sentence of the Hartke-Burke bill—but urge rejection of the rest of it as incapable of achieving these worthy objectives, in fact constituting a formidable barrier to their achievement.

On reintroducing his bill in the 93rd Congress (January 1973), the leading Senate sponsor said America must be put "back on the path to a world of free and fair trade." Right direction . . . wrong vehicle. The vehicle he offers would shift U.S. policy and the U.S. economy into reverse.

Congressional sponsors of the Hartke-Burke bill contemplate attaching pieces of it to other legislation, and using the bill in whole or in part as leverage to get other types of trade-and-investment controls on the statute books. Such compromises are also contemplated by legislators who are not sponsors of this bill—even by some regarded as supporters of freer trade. These alternatives are, in fact, the greatest danger of all. Protectionist compromises should be no less vigorously opposed than the Hartke-Burke bill itself.

Mobilizing maximum opposition to Hartke-Burke concepts is essential, but not enough. There is still the question of America's need for a coherent, dependable adjustment policy—including the essential ingredient of full employment—providing adequate protection for those citizens whose jobs and standards of living may be adversely affected by a policy that serves the best interest of the nation as a whole. Such a policy is urgently needed NOW to prevent loss of ground in the timeless campaign for truly freer world trade, and to backstop the new, free-trade initiative whose time has come.

Are there any questions of Mr. Taft?

Mr. GIBBONS. I just want to thank him for his stirring statement. I very well appreciate his standing and giving his statement; I think it is very effective.

Let me ask you one question.

Mr. TAFT. May I interrupt simply to say that I sat down the first couple of times I testified here until I saw George Harrison testify and he told me that you always should stand up in front of the Ways and Means Committee.

The CHAIRMAN. It was not a rule in those days but we liked it.

Mr. TAFT. Well, the committee said alright to it, but I am not sure that Mr. Harrison's reasons were quite that.

Mr. GIBBONS. You pointed out the conflict between the Special Representative for Trade Negotiations and the office I will call the international economic office that Mr. Flanigan heads. Now what is your opinion about who ought to be on top in this little rivalry that we have here?

Mr. TAFT. Well, there is no question that the President in his own office has to have someone who handles much of the details on any kind of trade matters. I can well understand that. At the same time I think it is even more important that the Trade Representative should have access to the President at any time that he has any matter important enough to talk to the President about. Now that is not an easy line to draw, I agree.

I have been a U.S. Government administrator. I know you need to have channels in your office for any one of a group of subjects that you are responsible for. But if you have an area which is so important that it involves the health and the welfare and the economic soundness of your entire country, the person who is doing the negotiating ought to have direct access to the President. I would rather not be personal about it because I don't think that is always involved.

Mr. GIBBONS. I'm not trying to be personal about it, either.

Mr. TAFT. Yes, I don't know Mr. Flanigan. I have no opinion about him.

Mr. GIBBONS. I used his name because I cannot remember the exact name of the office that he holds down there. There was nothing personal about my question. I am not personally acquainted with the gentleman.

Do you think that we ought to follow the lead that some other countries have taken? They have really combined all the economic powers that these people exercise. Their trade negotiator and the man who handles their international economic policy are all under one man so that they know who to report to and who to request information from. I find that in the U.S. Government when you try to ask a question about trade you have got to go to so many people to get an answer that it is a little confusing. Do we need—I would not call it a trade czar or economic czar but—do we need one person who is the final arbiter before you get to the President?

Mr. TAFT. Well, your trouble is that you have one Department of Government which in the past at least has been felt to be the center of protection, and that is the Department of Commerce. That perhaps is unfair, but the gentleman who headed that part of the Department

of Commerce went over to the American Tariff League after he left the Government, and that perhaps was significant.

One the other hand, you have the Secretary of Agriculture who has an area which creates all kinds of difficulty in dealing with trade matters as we know. It is pretty hard for a big Government to have one person that is going to be put in and all of a sudden overrule Commerce or Agriculture.

Mr. GIBBONS. Or State or Treasury.

Mr. TAFT. That is right. Well, I would say in my experience in government which was in the State Department for over a year, that the greatest handicap really for the State Department, in attempting to do coordination even, was the Treasury Department in war time because then you got into all the problems of exchange and financing. The Treasury sent representatives to various places. I remember particularly its sending someone to the coast of north Africa who just paid no attention to anybody, didn't even ask them. I am just afraid that in a Government of our size you are not going to be able to get one person who is going to be able to give you all the answers; but if he is a person who is handling the details and if he reports directly to the President, he has a better chance than any other way. That is a bureaucratic judgment.

Mr. GIBBONS. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Clancy.

Mr. CLANCY. Thank you, Mr. Chairman.

Mr. Chairman, this is my first opportunity to welcome my former colleague to this committee and I certainly appreciated his presentation.

Mr. TAFT. Our former mayor also.

Mr. CLANCY. Yes.

I just have one question.

Mr. TAFT. Both of us.

Mr. CLANCY. Yes we, both served as mayor.

I have one question, Mr. Taft. What would you like to see done if this bill is enacted to eliminate the nontariff barriers?

Mr. TAFT. I don't think you can do anything but negotiate on them; I really don't. This is a totally new area, you see, because, while we worked on nontariff barriers, there has never been specific authority to do so. That is why it is a brand new field and I don't think I could give you a definite remedy on it except to authorize the President to negotiate with close control by Congress over where he comes out. Our testimony has a proposal on how to proceed.

Mr. CLANCY. Do you feel this is our greatest hinderance in regards to opening up additional markets for American products?

Mr. TAFT. Well, if you accumulate a whole range of devices, put them into one bag, I would say yes; but it is hard to put a finger on just one and say that is it. It is like saying is is simply the variable levy on agricultural goods in France, for instance, or now I guess the Common Market. But when you put them all together in a great big package, we are guilty of quite a few of them in this country and I don't doubt we will hear about it if we start to negotiate on nontariff barriers. Congress has to be in on it to find out what we are doing on our end of it, not only what we are getting from them on the other side.

Mr. CLANCY. You approve then of the provisions in this bill that would require the reporting as far as negotiations are concerned?

Mr. TAFT. On nontariff barriers?

Mr. CLANCY. Yes.

Mr. TAFT. Yes, I would.

Mr. CLANCY. Thank you very much.

The CHAIRMAN. Any further questions?

If not, again we thank you very much for your very fine testimony.

Mr. TAFT. Thank you.

The CHAIRMAN. Our next witness is Mr. Philip O. Geier, first vice president, National Machine Tool Builders Association, accompanied by Mr. James A. Gray, executive vice president.

Glad to have you with us, Mr. Geier.

STATEMENT OF PHILIP O. GEIER, JR., FIRST VICE PRESIDENT, NATIONAL MACHINE TOOL BUILDERS ASSOCIATION, ACCOMPANIED BY JAMES A. GRAY, EXECUTIVE VICE PRESIDENT, AND JOHN S. KOCH, COUNSEL

SUMMARY

While NMBTA is concerned over the inroads into the U.S. market made by foreign competition, particularly in certain machine tool lines, it believes that in the long run free trade—assuming reciprocity, fair trading practices on all sides and adequate Governmental authority to deal with emergency situations—is both inevitable and desirable. NMTBA is convinced that a return to protectionist trade policies would result in retaliation by our trading partners and ultimately deprive the U.S. of appropriate participation in expanding world markets.

With respect to the basic provisions of the Administration's trade bill, the NMTBA.

1. Favors the grant of broad tariff and non-tariff barrier negotiating authority to the President. It also favors the grant to him of powers unilaterally to retailiate against countries maintaining unfair or discriminatory barriers to U.S. exports.

2. Favors the Administration's proposal for liberalization of the "escape clause."

3. Favors the Administration's proposals for improvement in our antidumping and countervailing duty statutes and also recommends that consideration be given to additional improvements in these laws.

4. Favors the grant of Presidential authority to adjust import levels in connection with serious balance of payments problems or as a counter-inflation device.

5. Favors the grant of authority to grant MFN to Communist countries.

6. Opposes the Administration's proposals with respect to the taxation of foreign source income.

7. Urges Congress, in the interest of promoting productivity and enabling U.S. manufacturing industries to compete at home and in world markets, to retain the capital recovery provisions of the 1971 Revenue Act and to authorize a further reduction in depreciation lives, to the full 40% recommended by the President's Task Force on Business Taxation.

Mr. GEIER. Mr. Chairman, I am also accompanied by Mr. John S. Koch of Covington & Burling, Washington, D.C.

Mr. Chairman, I have a prepared statement. I would like to stand for three reasons. First, I come from the same town as Charlie Taft. It is right next to the Mason-Dixon line and southern gentlemanliness ekes across the river. Second, I think it is proper to stand in front of this group. Third, I have been sitting down a long time today and I am glad to get up here. So with your permission, I would like to stand.

Mr. Chairman, members of the committee, my name is Philip O. Geier, Jr. I am chairman of the board of Cincinnati Milacron Inc., and first vice president of the National Machine Tool Builders Association on whose behalf I am testifying. The NMTBA is a trade association representing more than 300 companies producing machine tools in the United States and, in some cases, abroad. These companies, which operate manufacturing plants in 29 industrial States and provide employment for more than 90,000 persons, account for more than 80 percent of U.S. production of machine tools. Machine tools as you know, are the vital machines that cut and bend and form metal, are the "master tools" of industry, the machines required to produce all others. They are essential to both a peacetime and a wartime economy and have a significant effect in improving the productivity of all American manufacturers.

We are pleased to have the opportunity to express our views on the administration's trade bill and certain related proposals. NMBTA last testified before this committee on tariffs and trade matters in 1970. We also testified in 1968, on which occasion it was also my pleasure to speak for the industry.

In 1968 and 1970 we expressed concern over the significant inroads into the U.S. market made by foreign machine tool producers and suggested that consideration be given to changes in the law that would tend to prevent imports of particular machine tool lines from rising significantly above 10 percent of domestic consumption. We also urged a number of other initiatives relating to foreign trade, including renewed efforts to secure the removal of nontariff trade barriers abroad, greater governmental assistance to exporters, liberalization of the "escape clause" and improvements in the tax treatment of capital investment. In connection with the latter point, it will be recalled that at the time of our 1970 appearance the investment credit had been repealed and the machine tool industry was in the depths of one of the worst depressions in its highly cyclical history.

We testify today in basic support of the administration's trade proposals—other than those dealing with the taxation of foreign source income. In supporting the administration's bill we do not mean to suggest that we are no longer concerned over the increasing share of U.S. machine tool purchases supplied by foreign producers, particularly in certain product lines. We are concerned. As the tables set forth in the appendix to this statement show, while machine tools overall still show a positive trade balance, the United States has again become a net importer of certain machine tool lines, including lathes, milling machines and boring machines. Of even greater concern is the increase in imports of certain types of machine tools as a percent of domestic consumption. For example, in 1972 imports of boring machines accounted for 25 percent of U.S. purchases, as appears from the chart on page A–2 and table 7 on page A–6.

At the same time, however, we are persuaded that in the long run the free movement of goods and capital over international frontiers is both inevitable and desirable—assuming reciprocity, fair trading practices and adequate governmental authority to deal with emergency situations. We are also convinced that a return to protectionist trade policies would only result in retaliation and would ultimately lead to the United States denying itself full and advantageous participation

in the benefits of an expanding world economy. Those benefits, and the degree to which the machine tool industry has so far failed to tap them, are suggested by the chart on page A–1, which shows our industry's relatively flat export curve in relation to the expanding machine tool market outside the United States.

Against that background we now turn to the principal provisions of the administration's proposal.

1. PRESIDENTIAL NEGOTIATING AND RETALIATORY AUTHORITY

The administration bill would confer upon the President broad authority to negotiate away such U.S. tariffs as survived the Kennedy round negotiations of the 1960's.[1] It would also empower the President, subject in most cases to a congressional veto procedure, to agree to reduce or eliminate what our trading partners may regard as U.S. nontariff trade barriers to their exports. The point of such concessions would be to enable us to obtain equally meaningful concessions from our trading partners, particularly in the area of nontariff trade barriers which have so often proved such effective obstacles to U.S. exports.

We believe that international negotiation offers the greatest likelihood of our obtaining significant concessions from those countries and trading blocs that maintain tariff and more importantly, non-tariff barriers against our products. Accordingly, we would confer upon the President the authority he requests.

On the theory that sticks as well as carrots can frequently be useful negotiation tools, we also endorse the provisions of section 301 of the administration's bill, which would authorize the President unilaterally to raise or impose tariffs or other import restrictions against any country that engages in unjustifiable, unreasonable or discriminatory practices affecting U.S. exports.

2. LIBERALIZATION OF THE "ESCAPE CLAUSE"

In our 1970 testimony before this committee we urged that the "escape clause" of the Trade Expansion Act of 1962 be liberalized to make it a realistic vehicle for relief by industries and by workers suffering serious injury from increased imports. We are pleased that the administration's bill would apparently accomplish this purpose.

With respect to the adjustment assistance provisions of the bill, we have no quarrel with the recommendation that adjustment assistance be limited to workers and not be made available to firms, and further we believe that assistance to workers disadvantaged by import disruption should be generous. We are opposed, however, to the trade bill's becoming a first step toward the federalization of State unemployment insurance. That is a proposal that seems to us to be considerably beyond the scope of these hearings and one that many in our industry would oppose.

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[1] Machine tools currently fall under one of three different tariff classifications—TSUS item 674.30 (machine tools for cutting or hobbing gears); TSUS item 674.32 (boring, drilling and milling machines, including vertical turret lathes); and TSUS item 674.35 (other machine tools). The pre-Kennedy round rates of duty for these three tariff classifications were 20 percent, 12 percent, and 15 percent, respectively. Today they are half that level, or 10 percent, 6 percent, and 7.5 percent, respectively.

3. UNFAIR IMPORT PRACTICES

There are two international trading practices that are generally recognized, both in national and international law, as unfair and unlawful. The first is dumping, a form of international price discrimination. The second is the practice of Governments' directly or indirectly subsidizing exports. We endorse those provisions of the administration's bill that would make our antidumping and countervailing duty statutes more effective by imposing statutory timetables for the completion of investigations and make certain other procedural protections. Delay in enforcement has in the past been one of the major deterrents to aggrieved U.S. industries' initiating proceedings under these statutes.

We would also urge that you give consideration to related provisions of H.R. 328 and perhaps other bills, which contain provisions that include additional improvements in these areas. For example, H.R. 328 would require the Treasury to complete investigations in 6 months while the administration's bill would permit Treasury to take as long as 1 year. H.R. 328 also includes provisions that would permit judicial review of adverse Treasury Department or Tariff Commission decisions on the petition of a complaining domestic industry as well as an aggrieved importer.

4. BALANCE OF PAYMENTS AND COUNTERINFLATION AUTHORITY

The administration's bill would also give the President broad powers to impose temporary restrictions on imports in response to serious balance of payments problems and temporarily to ease import restrictions as a counterinflationary devise. As we understand it, these would be essentially emergency powers. So viewed, we approve the grant of authority as necessary, desirable and in the national interest.

5. MOST FAVORED NATION TARIFF TREATMENT FOR COMMUNIST COUNTRIES

The world military, political and economic situation has changed considerably since the cold war days in which some of our present trade laws were developed, including the prohibition against the grant of most-favored-nation treatment to Communist countries. The administration has encouraged the expansion of trade with the Soviet Union and at the same time has made a major breakthrough in an effort to begin normalization of relations with the Peoples Republic of China. But the ability of Communist countries to purchase in the West depends to a considerable degree on their ability to sell here. For that reason we favor enabling the administration to negotiate trade agreements with Communist countries that, subject to certain conditions, would afford them the same access to our markets as that enjoyed by our non-Communist trading partners. The conditions relate essentially to the need for protection against possible abuse by Communist countries of their economic power as state monopolies. We believe that the provisions of the administration's bill limiting trade agreements with Communist countries to 3-year periods, the power of the President to withdraw MFN and the provisions that reduce the burden on a complaining U.S. industry in an "escape clause" proceeding would satisfy these needs.

6. TAXATION OF FOREIGN SOURCE INCOME

As indicated earlier, our basic endorsement of the administration's trade proposals does not extend to those relating to taxation of foreign source income. The Secretary of the Treasury has testified, as various government and private studies have shown, that foreign investment by U.S. firms has been beneficial to the American economy and specifically that it has in fact improved the U.S. balance of trade position and added jobs to the U.S. economy. We are gratified by the Secretary's testimony as we are by the administration's opposition to comprehensive revision of our laws relating to the taxation of foreign source income, such as repeal of the foreign tax credit, advocated by some.

But we do not believe that even the changes in the taxation of foreign source income recommended by the administration are warranted, and we urge their rejection. Under the administration's proposal U.S. parent corporations would be subject to current taxation on the earnings of foreign subsidiaries operating in countries offering "tax holidays" or other inducements to new investment. Apparently, what would constitute a "tax holiday" or other inducement to trigger this provision of law would be left to Treasury determination. Once the provision came into play and the parent was taxed on current earnings of the subsidiary, however, termination of the "tax holiday" or other inducement would not relieve the U.S. parent of its obligation to pay taxes currently on the unrepatriated earnings of the subsidiary.

The administration's proposal apparently rests on two assumptions. The first is that when a company invests in a foreign country that offers tax incentives to investment, the sole or controlling decision in the investment decision must have been the existence of the incentive. The second is that it is the obligation of U.S. tax law to neutralize any such "distorting" influences on business decision-making.

The fact is that in virtually all cases a decision to invest in a particular country is not the result of a particular tax incentive program but a corporation's assessment of numerous and diverse market, commercial and legal considerations. To penalize an American company by taxing it currently on the unrepatriated earnings of a foreign subsidiary enjoying some form of tax advantage in its country of operation, far from providing a neutral climate for business decision-making, would introduce reverse distortions. It would also, of course, place U.S. firms at a significant disadvantage in relation to competing firms of other nationalities whose governments do not deny them the benefits of such local tax advantages as may otherwise be open to them. As such, it would of course impede our ability to compete with our overseas trading partners on equal terms.

Similarly, we do not believe there is any justification for currently taxing the foreign earnings of a controlled corporation which operates in a country with significantly lower income tax rates than the United States and whose exports to the United States exceed 25 percent of its total production. First, we think such a provision could have significant and arbitrary consequences in a variety of situations that cannot be foreseen. More basically, however, we would oppose such a provision because, once again, it would operate to disadvantage U.S. corporations in relation to their foreign competitors. If the tax

laws of country X operate to give companies located there an undue advantage with respect to the U.S. market, the problem, if it is one, calls for a tariff solution which would apply equally to all companies operating in country X, not solely to the subsidiaries of U.S. companies.

With respect to the administration's third proposal, we are opposed to any new restrictions or limitations on the availability of the foreign tax credit. More particularly, we do not think that the failure of particular foreign countries to allow losses recognized under U.S. law justifies an exception to the general principles now applied and approved by the administration.

I would like to stress again that most foreign investments are made to reach new markets. The overseas operations of U.S. corporations contribute importantly to industrial growth in both developing and developed countries. In addition, as already noted, they create U.S. jobs, provide taxable income to our Government and can contribute significantly to the betterment and growth of free world trade, economic stability, and peace.

In my judgment overseas plants usually enable a U.S. manufacturer to support a longer, more effective overseas marketing organization, which markets all the products of the company irrespective of the source of manufacture. The company and its products become better known in overseas markets, and better coverage and better technical sales efforts result. These lead to greater sales overseas of highly sophisticated machinery products manufactured only in the United States. I should also not fail to mention that overseas manufacturing operations normally result in the shipment from the United States of sophisticated complex parts and subassemblies to overseas plants. All of these factors make for additional U.S. employment.

There is another point I would make. Encouragement of direct foreign investment in the past has reduced the pressure for continued high level foreign economic aid. Foreign aid, both military and economic, has since World War II been a significant negative factor in our balance of payments. These considerations also support leaving the foreign tax credit untouched.

7. THE RELEVANCE OF U.S. LAWS APPLICABLE TO CAPITAL RECOVERY

As suggested, we agree with Secretary Shultz that our tax laws should not be used as a club to inhibit foreign investment. On the other hand, we may share with those who would use our tax laws in that manner one common, overall objective—to see the United States remain the industrial leader of the world, a nation with an industrial plant sufficient to supply its basic peace and wartime needs, a provider of ample and rewarding industrial job opportunities. To achieve these goals we must be able to compete in world markets on an equal basis.

In this connection I call the committee's attention to our recent testimony, presented by NMTBA's president, Mr. John E. Barbier, on the capital recovery provisions of our Federal tax laws. Without minimizing in any way the importance of new and enlightened, and in our opinion necessary, international trade legislation, I with to reiterate Mr. Barbier's conclusion that, in the long run, America's success in world markets, its ability to attain its economic goals at home

and its future as an industrial nation depend most importantly on one thing—its productivity. Winning the productivity war means lower unit costs, lower prices, increased exports, less dependence on imports, more industrial job opportunities, a positive effect on our balance of trade and balance of payments.

Of all the governmental policies that bear on our ability to increase productivity, none is more important than tax policy applicable to capital recovery. Tax laws that encourage investment in modern and efficient machinery and equipment—machinery to increase productivity—constitute, in our judgment, the single most effective way our Government can assist U.S. companies in their efforts to compete at home and in world markets.

No group of individuals occupies a more important and influential position with respect to these matters than the members of this committee. Accordingly, let me close my testimony by, once again, urging that the 7-percent job development credit and the ADR system of depreciation remain as permanent features of our tax law. We also urge a further reduction in permissible depreciation lives, from the 20 percent authorized by the 1971 Revenue Act to the 40 percent urged by the President's task force.

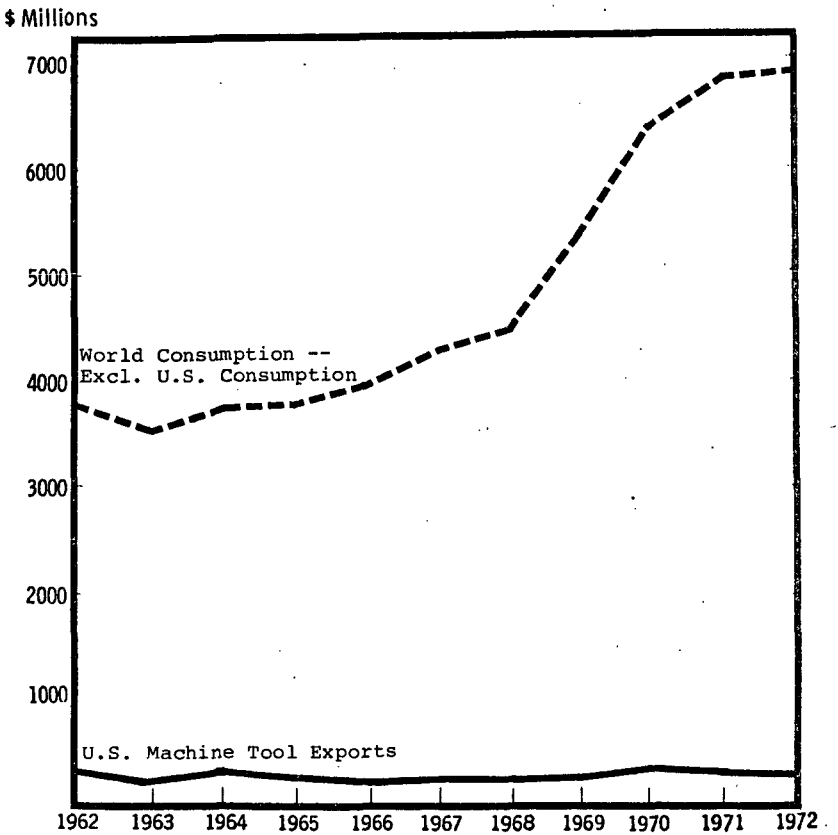
Gentlemen, enactment of the administration's trade bill would be an important step toward open, equitable and fair international trade. As such it would offer benefits for all the people of the world. But if the bill were enacted and if at the same time there should be a whittling away of the capital recovery provisions of the 1971 Revenue Act, we are convinced that the net effect on U.S. manufacturers' ability to compete at home and in world markets would be negative. America needs new trade legislation an dwe support it fully; but it also needs a system of capital recovery as good as those of other industrial nations.

Mr. Chairman, I thank you for the opportunity to appear before your committee.

[Attachments to the prepared statement follow:]

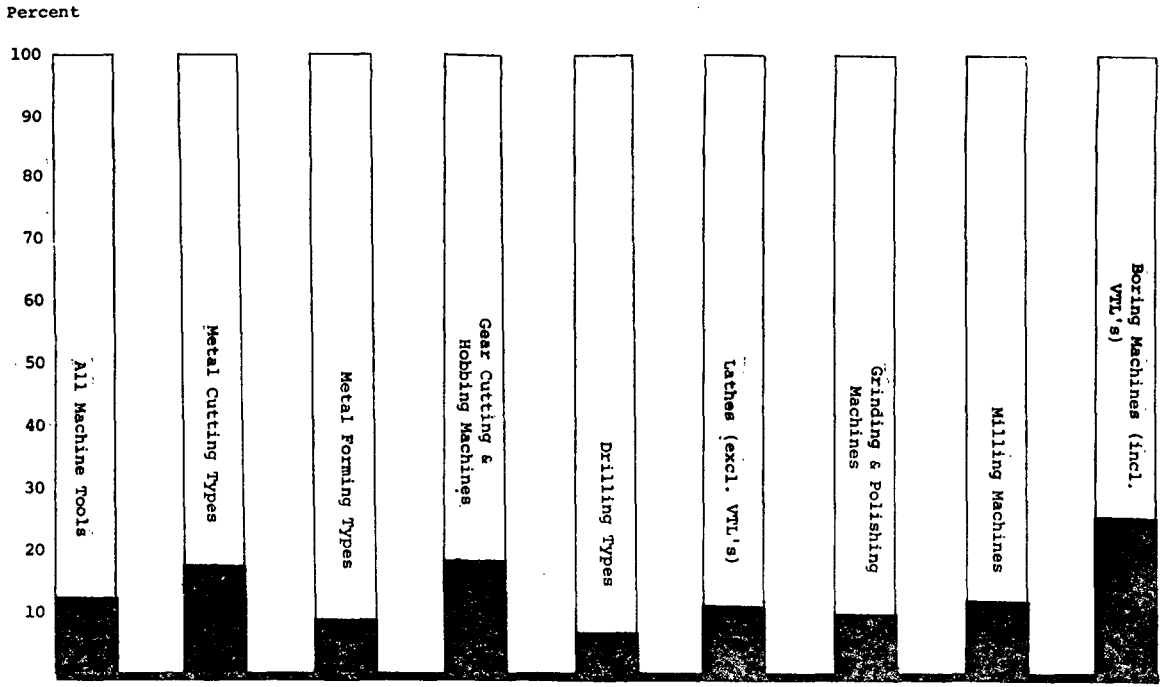
World Machine Tool
Consumption - excl.
U. S. Consumption

U. S. Machine Tool
Exports



Source: U. S. Dept. of
Commerce - McGraw - Hill

1972 U.S. MACHINE TOOL IMPORTS AS A PERCENTAGE OF U.S. MACHINE TOOL CONSUMPTION, BY TYPES (BASED ON DOLLAR VALUE)



Sources: U.S. Dept. of Commerce: Shipments - Current Industrial Reports, Metalworking Machinery (M35W); Exports - M35W, Bureau of the Census; Imports - FT 135, Bureau of the Census

TABLE 1

ALL MACHINE TOOLS (Excl. parts and attachments)
Exports from, and Imports into, the United States, 1964-1972

YEAR	Exports UNITS	Exports Dollars (Million)	Imports UNITS	Imports Dollars (Million)	Balance Dollars (Million)
1964	14,110	$198.6	24,298	36.6	$162.3
1965	12,475	171.2	32,152	56.3	114.9
1966	14,634	173.2	61,679	117.8	55.4
1967	12,861	194.1	64,710	178.1	16.0
1968	11,462	174.5	52,053	163.6	10.9
1969	13,083	181.5	52,330	156.1	25.4
1970	15,061	232.8	53,806	131.8	107.0
1971	13,634	191.0	68,941	90.1	100.9
1972	11,765	162.8	49,659	114.0	48.8

Source: Bureau of the Census, U.S. Department of Commerce
Imports FT 135; Exports M35W

TABLE 2

METAL CUTTING MACHINE TOOLS (Excl. parts and attachments)
Exports from, and Imports into, the United States, 1964-1972

YEAR	Exports UNITS	Exports Dollars (Million)	Imports UNITS	Imports Dollars (Million)	Balance Dollars (Million)
1964	10,577	$151.4	16,845	$ 30.6	$120.8
1965	9,137	127.1	23,600	48.1	79.0
1966	11,425	126.7	54,235	104.7	22.0
1967	10,037	143.9	53,356	153.5	(9.6)
1968	8,109	121.2	42,979	142.0	(20.8)
1969	9,098	135.6	41,398	132.8	2.8
1970	11,099	185.8	46,202	104.7	81.1
1971	8,854	133.2	36,264	70.8	62.4
1972	8,677	112.6	42,070	82.5	30.1

Source: Bureau of the Census, U.S. Department of Commerce
Imports FT 135: Exports M35W

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TABLE 3

LATHES (Excl. vertical turret lathes and all parts and attachments) Exports from, and Imports into, the United States, 1964-1972

YEAR	Exports UNITS	Exports Dollars (Million)	Imports UNITS	Imports Dollars (Million)	Balance Dollars (Million)
1964	1,633	$ 28.2	6,083	$ 8.9	$ 19.3
1965	1,322	20.1	8,736	14.2	5.9
1966	1,131	18.6	14,819	37.2	(18.6)
1967	1,083	18.7	15,654	47.7	(29.0)
1968	683	15.3	11,452	38.1	(22.8)
1969	673	16.8	13,241	38.0	(21.2)
1970	842	29.3	12,082	27.9	1.4
1971	774	24.0	6,252	17.8	6.2
1972	520	19.2	5,578	22.9	(3.7)

Source: Bureau of the Census, U.S. Department of Commerce
Imports FT 135; Exports M35W

TABLE 4

MILLING MACHINES (excl. parts and attachments) Exports from, and Imports into, the United States, 1964-1972

YEAR	Exports UNITS	Exports Dollars (Million)	Imports UNITS	Imports Dollars (Million)	Balance Dollars (Million)
1964	507	$14.8	656	$ 3.3	$11.5
1965	398	8.8	1,128	6.1	2.7
1966	338	10.2	3,405	17.4	(7.2)
1967	399	16.8	5,715	31.4	(14.6)
1968	304	12.1	5,428	30.6	(18.5)
1969	348	6.7	4,710	26.3	(19.6)
1970	456	12.2	2,047	13.4	(1.2)
1971	276	11.8	986	7.9	3.9
1972	416	5.3	1,441	7.5	(2.2)

Source: Bureau of the Census, U.S. Department of Commerce
Imports FT 135; Exports M35W

TABLE 5

BORING MACHINES - Including Vertical Turret Lathes
(excl. parts & attachments)
Exports from, and Imports into, the United States, 1964-1972

	Exports		Imports		Balance
YEAR	UNITS	Dollars (Million)	UNITS	Dollars (Million)	Dollars (Million)
1964	283	$8.7	313	$ 3.8	$ 4.9
1965	174	4.8	394	6.1	(1.3)
1966	183	5.3	692	12.8	(7.5)
1967	177	4.8	937	21.0	(16.2)
1968	147	4.4	1,057	19.4	(15.0)
1969	121	6.2	797	21.0	(14.8)
1970	158	8.1	2,223	22.8	(14.7)
1971	139	3.8	808	11.6	(7.8)
1972	71	3.0	1,083	13.6	(10.6)

Source: Bureau of the Census, U.S. Department of Commerce
Imports FT 135; Exports M35W

TABLE 6

DRILLING MACHINES (excl. parts and attachments)
Exports from, and Imports into, the United States, 1964-1972

	Exports		Imports		Balance
YEAR	UNITS	Dollars (Million)	UNITS	Dollars (Million)	Dollars (Million)
1964	737	$7.9	1,255	$ 1.5	$ 6.4
1965	612	4.2	1,864	2.3	1.9
1966	494	4.6	3,732	5.1	(0.5)
1967	685	7.2	5,304	7.6	(0.4)
1968	724	4.7	5,403	10.1	(5.4)
1969	1,153	5.6	6,146	6.0	(0.4)
1970	1,353	5.5	5,690	4.3	1.2
1971	672	5.0	4,744	2.9	2.1
1972	587	4.4	8,223	4.3	0.1

Source: Bureau of the Census, U.S. Department of Commerce
Imports FT 135; Exports M35W

Table 7

U.S. MACHINE TOOL IMPORTS AS A PERCENTAGE OF U.S. MACHINE TOOL CONSUMPTION, BY TYPES (BASED ON DOLLAR VALUE*) 1964-1972

	1964	1965	1966	1967	1968	1969	1970	1971	1972
All Machine Tools	3.5%	4.2%	7.1%	9.6%	9.6%	9.4%	9.1%	9.4%	10.2%
Metal Cutting Types	4.1	5.0	8.7	11.1	10.7	10.7	10.3	10.9	10.7
Metal Forming Types	1.9	2.2	2.9	5.2	5.7	5.5	6.3	6.3	9.0
Gear Cutting & Hobbing Types	4.5	8.2	5.5	9.4	9.2	7.0	14.6	21.3	18.7
Drilling Types	2.3	2.8	4.8	6.2	13.8	8.8	6.2	7.0	7.7
Lathes (excl. Vertical Turret Lathes)	5.0	6.2	12.2	13.1	11.2	12.3	11.7	10.6	11.1
Grinding & Polishing Machines	3.4	3.4	5.8	6.8	7.6	8.0	8.2	9.3	9.5
Milling Machines	2.9	4.3	8.3	12.6	12.1	12.9	12.0	15.7	12.1
Boring Machines (incl. Vertical Turret Lathes)	5.5	6.5	10.8	15.7	17.8	22.1	29.7	26.6	24.7

Sources: U.S. Dept. of Commerce: Shipments - Current Industrial Reports, Metalworking Machinery (M35W); Exports - M35W, Bureau of the Census; Imports - FT 135, Bureau of the Census

*/ Dollar values based on total machine tool shipments.

TABLE 8

WORLD MACHINE TOOL CONSUMPTION
(excl. U.S. consumption)
U.S. Machine Tool Exports

Year	World Consumption excl. U.S. Consumption ($ million)	U.S. Exports ($ million)	U.S. Exports as % of World Consumption excl. U.S. Consumption
1962	$3,750.1	$216.1	5.8%
1963	3,576.3	144.4	4.0
1964	3,707.4	198.6	5.4
1965	3,736.9	171.2	4.6
1966	3,932.6	173.2	4.4
1967	4,286.2	194.1	4.5
1968	4,448.7	174.5	3.9
1969	5,329.8	181.5	3.4
1970	6,352.9	232.8	3.7
1971	6,786.1	191.0	2.8
1972	6,882.1	162.8	2.4

Source: U.S. Dept. of Commerce, Bureau of the Census; McGraw-Hill.

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TABLE 9

ALL MACHINE TOOLS (Excl. parts and attachments)
Imports into the United States, by Country of Origin, 1964-1972
(in millions of dollars)

Country of Origin	1964	1965	1966	1967	1968	1969	1970	1971	1972	1972 Increase over 1964 - Percent
West Germany	$12.6	$19.4	$35.3	$50.6	$51.6	$47.1	$46.7	$30.8	$39.2	211.1%
United Kingdom	6.1	7.8	17.2	32.9	29.1	24.4	20.5	11.4	15.0	145.9%
Japan	2.0	4.8	17.3	26.2	19.6	17.9	14.7	9.8	14.7	635.0%
Italy	2.2	5.3	11.8	22.2	17.2	20.5	10.3	7.7	7.6	245.5%
Canada	1.2	2.6	4.4	6.8	6.4	8.2	6.0	7.0	7.0	483.3%
All Others	12.2	16.4	31.8	39.4	39.7	38.0	33.6	23.4	30.5	150.0%
TOTAL	$36.3	$56.3	$117.8	$178.1	$163.6	$156.1	$131.8	$90.1	$114.0	214.0%

Source: Bureau of the Census, U.S. Department of Commerce, Imports FT 135

The CHAIRMAN. Thank you very much for your very fine statement. Are there any questions?

Mr. Clancy.

Mr. CLANCY. Thank you, Mr. Chairman.

Once again I want to take this opportunity to welcome Mr. Geier to this committee. It is my first opportunity to do this and I just want to say, Mr. Chairman, that Mr. Geier is one of the reasons why we have the recognition as a fine community.

It is a pleasure to have you with us, Mr. Geier.

Mr. Geier, you have testified that domestic tax laws that encourage investment in capital recovery promote productivity. Are you talking about productivity as it relates to the machine tool industry or is it something other than that?

Mr. GEIER. I was talking about both, but my emphasis was that it affects all American manufacturing. If they have modern efficient machine tools, they can pay the high labor rates that we should pay in this country and still keep their unit costs under control. My statement referred to all American manufacturing that uses machine tools, which includes practically everybody.

Mr. CLANCY. Today we have had testimony to the effect that direct foreign investment increases exports in some industries. Do you subscribe to that position?

Mr. GEIER. Yes, Congressman Clancy, and in my testimony I pointed out that it could help American exports in two ways. When a company has overseas operations it can afford to support a marketing organization of greater size and greater capability than it could afford to support if it did not have overseas manufacturing operations. Not only does this marketing organization have better coverage, but it can be a higher grade, more technically trained. Also, by having overseas operations a company becomes better known and its products are better known, all of which lead to the sale of U.S. built equipment overseas at a greater rate.

One final point, in our particular company's case, I would say that 10 percent of our employment that relates to machine tools since 1934 has been composed of people working on parts and components for our overseas operations and they would not have had jobs had we not had those overseas operations.

Mr. CLANCY. And these are products that you export to the foreign countries?

Mr. GEIER. The substantial assemblies and components are the sophisticated portions of the machinery that we send over to our European manufacturing facilities to be incorporated in the finished machine.

Mr. CLANCY. Thank you very much.

The CHAIRMAN. Mr. Duncan.

Mr. DUNCAN. Mr. Geier, what is the state of the machine tool industry in general at this time?

Mr. GEIER. The machine tool industry at this time is a very busy industry. New orders and backlogs are up considerably. In contrast to the situation two years ago when we were desperate for business and had to unfortunately lay off some of our personnel, the situation is completely turned around. We have called back all of the people that we were forced to let go. On an industrywide basis, I understand

that we were able to get back only about 60 percent of those that we were forced to lay off. As a result, we are training absolutely green people into highly skilled jobs.

Mr. DUNCAN. Has this DISC program had any favorable effect on your present prosperity? You were here testifying for the DISC or your industry was.

Mr. GEIER. I don't think it has had a great deal of effect. It has been helpful but I would not call it a significant effect.

Mr. DUNCAN. Do machine tool products produced in foreign countries generally sell for less on world markets than the U.S. manufactured product?

Mr. GEIER. If you are talking about the general commodity type machine tools, that is a very accurate statement because all machine tools have a very high labor content in manhours. On the more sophisticated machine tools the overseas machine tools in general sell at lower prices but the gap is not as great with the commodity machine tools.

Mr. DUNCAN. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Gibbons.

Mr. GIBBONS. One question, Mr. Chairman.

After we get through the painful transition of changing to the metric system, do you think that your industry will be helped or hurt by the transition?

Mr. GEIER. I think you have to answer that question, Congressman Gibbons, in two steps. First of all, the metric system, I think, is inevitable. We are going to go that way. Some of our larger customers, for example, the large automotive companies, would like us to make metric and only metric machines today. We do supply those to them. Unfortunately, roughly the same type of machine goes to medium and small sized companies, which really would face exorbitant immediate costs of measuring tools and that sort of thing within the factories that are now based on the inch system. I think they are going to have to come to that sometime. Long range I think we will benefit.

Today when we design a new model both the inch and the metric dimensions will be put on the drawings. If the same model is made on one of our overseas plants, the same drawing will serve.

Up until 10 years ago people had a tremendous investment in machine shops and jigs and fixtures and that sort of thing. With the advent of numerical control and computer control machine tools, it has been possible for our customers, and we ourselves in making the machine tools, not to invest in these machining fixtures and jigs. So the transition of the American general manufacturing industry to the newer types of equipment is very flexible. If you want to go from metric to inch, you put a different gadget in the control of the machine. It is going to make it very easy. It would be difficult today until we go through this transition because people would have to discard their very expensive inch tools. I don't mean machine tools, I mean jigs and fixtures.

Mr. GIBBONS. But, on balance, you think it would be a good thing?

Mr. GEIER. I think eventually we are going to come to it. I think for the smaller medium sized shops it will be a difficult transition but they will have to face it some day. It is a slow transition. I think we will have to furnish both types of tools.

Mr. GIBBONS. Thank you.

The CHAIRMAN. Anything further?

Any other questions?

Thank you again for your very fine statement.

Mr. GEIER. Thank you.

The CHAIRMAN. Mr. Karl G. Harr, Jr., president, Aerospace Industries Association of America.

STATEMENT OF KARL G. HARR, JR., PRESIDENT, AEROSPACE INDUSTRIES ASSOCIATION OF AMERICA, ACCOMPANIED BY MARSHALL GARRETT, DIRECTOR OF INTERNATIONAL SERVICE

SUMMARY

1. AIA favors H.R. 6767.
2. AIA recommends:
   (*a*) U.S. Government place trade on equal footing with other aspects of foreign policy.
   (*b*) Government use influence to insure that aerospace products can compete on basis of cost and quality instead of any other factors which can come into play.
   (*c*) Government work toward reciprocal elimination of all tariff and non-tariff barriers confronting aerospace products.
   (*d*) Government institute review of domestic policies affecting international trade and investment.
3. Title I of H.R. 6767—AIA favors giving President all powers necessary for upcoming negotiations. Aerospace products of such importance as to warrant negotiation of aerospace tariff and non-tariff barriers on a singular industry basis.
4. Title II—Tariff Items 806.30 and 807 should not be suspended nor should that be a Presidential option.
5. Title III—Support countervailing duty changes.
6. Title IV—Support giving President power to deal with serious balance of payments and inflation situations.
7. Title V—Most Favored Nation status should be granted to all East European and Asian non-market economy countries with which we have trade agreements.
8. Title VI—Support preferential tariffs for lesser developed nations, provided any resulting inequities could and would be handled through countervailing duty process.

Mr. HARR. Thank you, Mr. Chairman.

With me is Mr. Marshall J. Garrett, the director of the international service of our association.

With you permission I will read a very brief statement.

The CHAIRMAN. With the understanding that your entire statement will appear in the record as though you had read all of it. Will that be agreeable?

Mr. HARR. Yes, sir.

The CHAIRMAN. Fine.

Mr. HARR. I am Karl G. Harr, Jr., president of the Aerospace Industries Association of America, Inc. AIA represents 51 of the Nation's leading manufacturers of aircraft, spacecraft, missiles and their components. We appreciate this opportunity to be here today to speak in favor of H.R. 6767.

Aerospace products have long been one of the nation's largest commercial exports. Over the past five years our industry has sold almost $24 billion worth of civil aerospace products and services, of which $13 billion worth, or 53 percent, were exported. I have had to make a change on that because although the $19 billion figure that was in the draft

was accurate for our new aircraft sales it was not comparable to the $13 billion worth of exports.

Expressed in terms of impact on the national economy as a whole, these civil export sales provided full-time employment for more than 67,500 aerospace employees and 107,500 employees in other manufacturing and service industries, for a total for more than 175,000 American jobs a year. In 1972, U.S. exports of civil aerospace products and services totaled $2.9 billion and represented six percent of all U.S. exports. An additional $900 million worth of military aerospace products and services were exported.

There have been several reasons for our success in exporting aerospace items. For instance, we have enjoyed a large domestic market for both commercial and military products which our foreign competitors have not always had. Furthermore, there has been brisk competition between domestic suppliers which resulted in superior products. As have some but not all of our competitors, we have had the ability and opportunity to apply military research and development to commercial ventures. The support of the Export-Import Bank in providing essential credits and guaranteeing loans from private banks for our foreign customers has also been an invaluable aid and there are many other historical reasons dating from World War II which have contributed.

These and any other factors notwithstanding, our progress would have been much less impressive without a relatively free and open trading environment.

The members of our association recommend that the U.S. Government promote freer and fairer world trade by working along the following lines:

Give greater governmental priority to overseas trade and investment policies and place them on a more equal footing with other aspects of U.S. foreign policy.

Use Government influence to insure that U.S. aerospace products are permitted to compete fairly in foreign markets on the basis of cost and quality and not be affected by other factors which often come into play.

Because aerospace products represent high cost units with such a significant impact on national trade and payment balances, the Government should work toward a reciprocal elimination of all tariff and non-tariff barriers confronting such products.

Institute a review of those domestic policies which affect foreign trade and investment, repealing those laws which hinder the development of world trade and issuing administrative directives which would simplify and encourage world trade.

Overall we are committed to policies which would preserve the competitive position of the United States in the world's marketplaces. The Trade Reform Act would appear to be an important step in that direction.

Insofar as the specific provisions of the bill are concerned, we support title I, giving the President broad authority to negotiate adjustments in tariff and non-tariff barriers. Executive branch authority to negotiate with our trading partners in Geneva this fall is an essential prerequisite to achieving the acceptance of our position by the other members of the General Agreement on Tariffs and Trade (GATT).

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As I have said, the aerospace industry recommends the total elimination of duties on all aerospace products, both foreign and domestic, on a reciprocal basis with all nations having similar statutes. We also urge the mutual elimination of duties on all aerospace products, both foreign and domestic on a reciprocal basis with all nations having similar statutes. We also urge the mutual elimination of non-tariff barriers restricting free and equitable marketing opportunities.

Inasmuch as aerospace is one of the few elements of the trade picture consistently in a state of surplus, with a total surplus of more than $10 billion in the 1970–72 period, it is of such importance to the U.S. trade balance as to warrant negotiation of its trade and investment concerns on a singular industry basis. We would urge strongly that this course be taken with respect to aerospace products and feel that this legislation would enable such a priority to be assigned.

Title II contains changes relating to import relief for industries seriously injured by increasing imports and would provide new adjustment assistance for displaced workers. We recognize that support of this type must be provided and feel that the proposed legislation is responsive in this respect.

However, the section giving the President the option of suspending tariff items 806.30 and 807 as a means of import injury relief is of some concern to us. As you know, these tariff items provide for duty-free entry, except for value added, of products manufactured abroad using components furnished by U.S.-based companies. This has been seized upon as an issue by some who feel that import injuries have resulted from the use of so-called "cheap" foreign labor. They claim that jobs performed out of the country would otherwise have gone to American workers. This allegation completely ignores the fact that the decision to process outside our borders was based on the desire and need of the American firm to remain competitive in a frequently marginal profit situation.

In other words, as reported by the U.S. Tariff Commission (T. C. Pub. No. 339), if the manufacturing is not done in this manner, it either will not be done at all or the components will be produced locally instead of in the United States. This would result in a real loss of American jobs—those of an estimated 37,000 workers involved in manufacturing the components used in overseas assembly and in end-processing items thus assembled.

This is a difficult area and these are difficult decisions to make. Nevertheless we respectfully submit that tampering with these carefully devised provisions would be a mistake and would result in an even more serious deterioration of the employment situation in a number of such industries.

In title III we strongly support the amendments to the countervailing duty law, particularly those provisions which would make non-dutiable goods subject to such regulations. We would also agree with giving the President the option of not levying countervaiilng duties where such action is deemed to be in the national interest. All such changes will be essential in dealing with non-tariff barriers and indirect government assistance which benefit our foreign competitors. Such provsions represent an important safety-valve which may not be used but which should be available.

Title IV giving the President certain powers to enable him to deal with serious balance of payments and inflation situations seems reasonable to us. We would support it.

In our view, title V, empowering the President to grant most-favored-nation treatment to imports of countries which receive column 2 duty rates, should be approached from a strictly practical and pragmatic viewpoint. Under the terms of the General Agreement on Tariffs and Trade (GATT), each member must grant every other member trading terms and concessions equal to the most favorable offered any country. In terms of tariffs on aerospace items, for example, the most favorable duty is 5 percent. For non-MFN countries, this duty becomes 30 percent on airframes and 35 percent on engines. Moreover, many European countries, our competitors for those non-MFN markets, grant MFN treatment not only to members of GATT but also to non-members in exchange for guaranteed, planned increases in impact levels.

New market areas for a broad range of aerospace products are emerging in Eastern Europe and China. Without most-favored-nation we cannot compete effectively for such markets. It is simply good business for our national balance of payments, our balance of trade and our economy as a whole to grant most-favored-nation status to all East European and Asian non-market economy countries with which we have trade agreements. We would strongly urge that the President be given the authority to do so when he feels the time is appropriate. The 3-year renewal provision in this bill would seem to provide sufficient motivation for such countries to conform to whatever other conditions might be involved.

We also concur with title VI, provided that any resulting inequities could and would be handled through the countervailing duty process under title III.

This concludes my comments on specific portions of the bill. Overall we think it is a strong, effective piece of legislation which will do much over the years to discourage or alleviate disadvantageous trading situations which penalize U.S. exports.

Although they are not related to this particular legislation, we have prepared two appendices outlining certain foreign practices which adversely affect the competitiveness of U.S. aerospace products, and certain actions which could be taken by the U.S. Government, in addition to this bill, to insure a continued high level of aerospace exports. With your permission, Mr. Chairman, we will submit these appendixes for the record.

Thank you for this opportunity to testify on this much needed legislation. We will now try to answer any questions you or the members of the committee may have.

The CHAIRMAN. Without objection, the appendixes will be included at this point in the record.

[The appendixes follow:]

APPENDIX A

ACTIONS OF FOREIGN GOVERNMENTS WHICH REDUCE COMPETITIVENESS OF U.S. AEROSPACE PRODUCTS

For the past decade the United States aerospace industry has operated successfully in a relatively free and open world market environment. It is essential to the economic viability of the aerospace industry and to the redressment of

the United States balance of payments that this equality and freedom of marketing opportunity be maintained. There are several matters which may restrict the continuance of this freedom of trade for aerospace products. These should be brought to the attention of the United States foreign trade negotiators for their consideration in the forthcoming international trade and investment talks.

DIRECTED PROCUREMENT

Where a foreign government owns or effectively controls both its aerospace industry and airlines, or any other end-users of aerospace products for that matter, it often directs that the purchase of equipment be from domestic suppliers. Such directives preclude purchase of less expensive or more appropriate equipment from abroad. The aerospace industry can account for losses approaching $2 billion in export sales of commercial transports as a direct result of such practices over the past 8 years. With the trend toward a consolidation of the aerospace companies in the European Community and the anticipated emergence of a large aerospace industry in Japan, we are concerned that our sales opportunities in these vital market areas may be restricted to a damaging extent if such directed procurement is allowed to continue.

OFFSET REQUIREMENTS

Foreign governments and foreign government-owned industries, are, to an increasing degree, demanding various forms of offset concessions from the U.S. aerospace industry as a quid pro quo for U.S. aerospace sales. These concessions can take the form of sharing production, purchasing or arranging for a third party to purchase goods and services within a foreign country, providing technical and industrial assistance and education, making equity investments and supporting foreign developments.

Offsets generally result in an added product cost to the prime manufacturer which can seldom be passed on to the customer. There is no similar restraint imposed by the U.S. Government on commercial sales by foreign aerospace companies. In many cases the U.S. provides compensation to the country through existing programs, however, individual U.S. companies cannot count such concessions or compensatory programs as credits to their specific programs.

The Aerospace Industries Association recommends:

When U.S. Government assistance in dissuading foreign governments from imposing noneconomic offset requirements is not effective, the U.S. Government should play a major role in assisting companies in meeting offset obligations.

APPENDIX B

Recommendations for U.S. Government Action In Addition To Trade Reform Act of 1973

TAXES

The tax system should neither aid nor hinder one domestic competitor in relation to another in performing his business. Some U.S. tax regulations penalize exporters; some proposed tax changes would penalize U.S. investors in international ventures. Specifically, the Aerospace Industries Association recommends:

Retention of provisions for treating foreign taxes as credits to U.S. tax returns, rather than expenses.

Retention of the present U.S. tax treatment of undistributed profits on foreign operations.

Retention and liberalization of the provisions of DISC, since such tax deferrals only partially compensate for the competitive advantage of indirect tax rebates granted to exporters of those countries which rely more heavily on indirect taxes (e.g., value-added taxes).

Retention of the current U.S. tax tax laws allowing accelerated depreciation of foreign assets where permitted by the laws of the country involved.

EXPORT CONTROL PROCEDURES

Careful review of the export control procedures should be continued and modified, where necessary, to enable the U.S. aerospace industry to remain competitive with foreign aerospace industries. This requirement has become especially im-

portant since the detente between the United States and the Sino-Soviet bloc countries. Specifically, the Aerospace Industries Association recommends:

Elimination of a number of items unilaterally controlled by the U.S. over and above the COCOM list. Control should be exercised only on items critical to our national security.

Continued review of the COCOM list by the U.S. and participating countries. A further decontrol process should result from joint industry/Government review of the applicability of certain technology to our national security.

Simplification and revision of the administrative procedures for obtaining an export license to reduce the time required to obtain licenses.

Revision of the strict procedures and controls on aerospace parts and subassemblies which now exist on third country exports.

GOVERNMENT-SUPPORTED FINANCING IN PRODUCT MARKETING

The Export-Import Bank has assisted the aerospace industry directly by providing the credit essential for the sale of nearly half of our jet transport exports and, indirectly, by guaranteeing funds from private banking institutions. The Aerospace Industries Association recommends:

Basing of Eximbank loan policies on the long-term capital requirements of our customers. There should be no attempts to disallow loan applications because of the short-term dollar position of the customer's central bank.

GOVERNMENT-SUPPORTED R. & D.

There is a direct correlation between the level of investment in research and development (R&D) and the rate of technological advancement. Public funding of R&D for European civil aircraft has substantially increased. In order to maintain the U.S. competitive advantage in aerospace products, the Aerospace Industries Association recommends:

U.S. Government participation in funding the development and production of new civil transport aircraft should be accomplished with minimum interference with the existing competitive structure of the free enterprise system and with minimum involvement in the existing manufacturer/customer relationship. We support the creation of a national policy of federal government support for research and development programs that will, wherever possible, assure that required new technology will be in-hand on a timely basis so that new civil transport aircraft can be developed and produced by the private sector with a minimum need for federal government participation. When a foreign government subsidy of development and production programs, including the offer for sale of new civil transports at less cost, occurs, the national aviation policy should permit counteraction on the part of the U.S. government where such action is determined to be in the national interest.

Development of innovative government/industry relationships in high-cost, high-risk technological products having high return for the nation.

Establishment of an independent government financial organization, such as a "national technology bank," which would provide the private sector with financial aid, either through direct loans or guarantees, for the purpose of stimulating additional private investment in R&D for both public and private programs of national and international importance to the U.S.

INTERNATIONAL JOINT VENTURES

International joint venture decisions must balance the need to cooperate with foreign countries in order to maintain our share of their markets or promote new products development and the need to preserve U.S. domestic competition, domestic employment opportunities and a viable export industry. The Aerospace Industries Association recommends:

Clearer interpretation and elaboration of guidelines governing extra-territorial applications of domestic laws such as anti-trust and reexport controls, permitting international join ventures with foreign corporations and with foreign government-controlled industries when such cooperation is deemed consistent with U.S. trade promotion policies.

Issuance of long-term licenses for technological cooperation and export of products and services.

Passing of legislation to empower the U.S. to recompense a U.S. corporation for reasonably incurred out-of-pocket costs in the event an export license is cancelled for reasons of foreign policy.

The CHAIRMAN. Are there any questions?

Mr. DUNCAN. Just one.

The CHAIRMAN. Mr. Duncan.

Mr. DUNCAN. How does the number of employees in the aerospace industry today compare with the number a year ago?

Mr. HARR. The number when, sir?

Mr. DUNCAN. At this same time last year.

Mr. HARR. Just down a little bit or about the same, really.

Mr. DUNCAN. About the same.

Mr. HARR. We went down. We peaked at about a million four hundred thousand plus in 1968 and have come down 500,000 to about 900,000 and a few now. It is about 922,000.

Mr. DUNCAN. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Any further questions?

If not, we thank you again, Mr. Harr.

Mr. HARR. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Timothy W. Stanley, executive vice president, International Economic Policy Association.

Glad to have you with us. You are recognized, Mr. Stanley.

STATEMENT OF TIMOTHY W. STANLEY, EXECUTIVE VICE PRESIDENT, INTERNATIONAL ECONOMIC POLICY ASSOCIATION

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

Don't be alarmed if I sit down; I will still be brief.

The CHAIRMAN. With the understanding that your entire statement and materials appended to it will be made a part of the record.

Mr. STANLEY. Thank you, sir.

The written statement, Mr. Chairman, makes three main points.

First, we support the administration's requested trade legislation because it will not be possible to engage in meaningful bargaining and negotiations on current economic issues unless the President has the requested authority.

Second, we recommend that Congress and this committee in particular consider expanding the areas covered by this authority in three important respects:

(a) The negotiating authority should extend to all pending economic and financial issues, for we cannot solve our problems on the trade account alone. Two-thirds of our basic balance-of-payments deficits in the last two years have been in the Government sector, where we are spending a net of $1.5 billion in foreign exchange on account of our troop deployments in Europe alone. Much of the private third of the deficit is in the tourism and passenger transportation field. Details are in table 1 of the statement. If we limit negotiation to a commodity-by-commodity or factor-by-factor approach, we will be placed at a disadvantage vis-a-vis other countries—an experience we have already had with regard to agriculture during the Kennedy round.

(b) Negotiations regarding international trade should give adequate consideration to services, management and technology, as well as the traditional emphasis on trade in commodities.

My statement has some charts showing the relative growth of these sectors. Just to make the point quickly, since 1960, our merchandise exports have grown two and a half times, while our service account has increased about three times, and earnings from investments about three and a half times.

We think that the United States has got to increase its effort to gain a greater share of the world tourism market, particularly now that foreign tourists benefit from the exchange rates here—and we must rectify some of the discrimination in the passenger transportation field which prevents us from realizing our potential. There are many discriminatory practices affecting tourism and transportation practiced by other countries which inhibit travel to the United States, and discriminate against U.S. flag operators abroad. These must be negotiated out of existence.

(c) Negotiations should seek fair and equitable treatment for U.S. investments abroad, the principal—and currently the only real breadwinner for our balance of payments. IEPA favors continuing America's liberal policies toward foreign investments in the United States. This can mean more jobs for Americans and at least some short-run help for the U.S. payments deficit, as well as using up some of the dollar glut abroad.

However, in the long run there will be an outflow of earnings on these investments. Therefore, if we simply allow other countries to invest here, as I think we should, while we inhibit our people from investing abroad—by some overt and some subtle actions—sooner or later this one favorable factor in our balance of payments will disappear. A continued expansion of U.S. investment abroad is therefore a national necessity.

Yet there are very real forms of discrimination against American foreign investment in both the less developed countries and the developed countries such as Japan. Despite the encouraging liberalization recently announced, a number of businessmen are finding that the Japanese "system" continues to frustrate effective investment access even in some of the areas which have supposedly been liberalized.

I have appended to my statement, Mr. Chairman, a number of specific drafting suggestions applied to the administration's bill which would provide for this expansion, so I won't take time now to go into them.

The final point in our written statementis on taxation. Dr. Danielian submitted a comprehensive review of the impact which changes in taxation of foreign-source income might have on America's international competitiveness. Subsequently the Treasury has made public the administration's proposals. While one must commend the effort to limit the changes to specific areas where companies have allegedly gone abroad to enjoy favorable foreign tax rates while manufacturing for the U.S. market, there are also a number of unknowns and ambiguities as to how these various provisions would be applied in practice.

I hope that before it acts on any tax changes, this committee will have enough information to judge how the competitive position of

the United States would be affected. Moreover, philosophically, one wonders what sense it makes to prevent an American company from investing in Ireland, for example, if a German or Japanese competitor can move in and establish a plant there designed to export into the U.S. market.

Businessmen are wondering, now that Congress is considering further steps down the road of currently taxing undistributed earnings of foreign subsidiaries, going beyond the subpart F provisions, where the process of "premature taxation" will stop. As Dr. Danielian stated on April 3, a "political deal with labor or other groups is no way to settle an economic issue which would adversely affect the national interest abroad."

In conclusion, the written statement touches on the importance of the balance of payments authority in title IV, in addition to the relief provided from fair and unfair international competition. It notes that MFN treatment of the Soviet Union is something whose time appears to have come, but cautions that the problem of establishing "fair" competition with state-controlled economies will be vexing. Our statement urges that title VI, providing for generalized preferences to developing countries, should retain the caveats prohibiting eligibility where "reverse preferences" are involved or where a country expropriates U.S. investments without compensation. On this latter point we would suggest adding, "or without referring the dispute to impartial international arbitration," as a way to encourage the rule of law and the use of arbitration in investment disputes.

In summary, we think Congress, and this committee in particular, can share credit with the administration for a well-conceived and drafted bill, in view of the extensive consultations that preceded its formal submission. But we do think that Congress should go even further in authorizing the President to seek national, reciprocal and most-favored-nation treatment for the full range of modern economic interactions across national frontiers, to include services and investments, rather than simply in the area of merchandise trade. Our written statement has appended to it some specific suggestions for language in the bill to accomplish these purposes.

Thank you, Mr. Chairman.

[Mr. Stanley's prepared statement follows:]

STATEMENT OF TIMOTHY W. STANLEY, EXECUTIVE VICE PRESIDENT, INTERNATIONAL ECONOMIC POLICY ASSOCIATION

I. INTRODUCTION

In Dr. Daniellian's previous testimony before this Committee on taxation of foreign income, he reviewed the present state of the U.S. economy in relation to the world economy, the seriousness of our continuing balance of payments deficits, the heavy foreign expenditures in the government sector, the steady and growing earnings of direct investments abroad, the deficits in our trade balance, and the dim prospects that the magic of devaluation can solve our trade problems.

These topics are a fitting background for consideration of the President's trade and tax proposals and of vital importance to jobs for American workers, for American consumers and our general prosperity.

We are pleased that the Administration has decided to make specific recommendations for authority to negotiate on trade. The general authority, delegated to the President in the 1962 Trade Expansion Act, expired in 1967; since that time there has been a critical need for reform in international trade and monetary affairs. When President Nixon imposed a ten percent surcharge on imports as part of his economic program on August 15, 1971, it gave some leverage for negotia-

tion which he used up in connection with the Smithsonian agreement. In any case, his authority to raise tariffs was limited to those products which had previously been subject to tariff reductions.

Our trading partners are well aware of the President's present limited authority to negotiate regarding trade, and are not likely to engage in meaningful discussions of current economic issues unless he has the authority to bargain meaningfully and to take unilateral action, where necessary, to rectify continuing imbalances. For these reasons, we support the Administration's requested trade legislation, which wisely includes nontariff barriers along with tariff aspects.

I would like to recommend, however, that the Congress consider the following additional matters which have not been adequately reflected in the Administration's proposals:

1. Negotiating authority should extend to all pending economic and financial issues.
2. Negotiations regarding international trade should give adequate consideration to services, transportation, management, and technology as well as the traditional emphasis on trade in commodities.
3. Negotiations should seek fair and equitable treatment for U.S. investments abroad, the principal, and currently the only real breadwinner for our balance of payments. Each of these is discussed below.

II. A SINGLE UMBRELLA FOR NEGOTIATIONS

In any negotiations which the United States undertakes with major trading blocs or countries, all pending economic and financial issues should be potentially on the table. These issues include mutual security expenditures, foreign aid, investments, balance of payments adjustments, international monetary matters, freedom to travel, transportation problems, as well as trade. To limit negotiations to a commodity-by-commodity or factor-by-factor approach will place us at a disadvantage with foreign competitors. In the Kennedy Round, failure to negotiate an effective program on agricultural trade helped perpetuate the EEC's Common Agricultural Policy and the variable levies which discriminate so effectively against major American agricultural exports. The Bill contemplates an all inclusive approach to these problems in the Statement of Purposes, but does not carry it out in the authorizing sections.

In the forthcoming round, negotiations limited solely to trade in agricultural and industrial commodities may well result in serious future deficiencies in the broader international economic system, negating any advantages we might gain. We are—as we should be—pressing for a new international monetary system which will allow greater flexibility for accommodating economic, as opposed to political forces. But the U.S. balance of payments deficit, which is at the root of recent international monetary crises, is worsened each year by billions of dollars—currently over $1.5 billion in Europe alone ($35 billion worldwide)—for such politically determined priorities as common defense programs. I do not dispute such priorities; but international negotiations designed to rectify the trade balance will be an Alice-in-Wonderland game if they cannot encompass this very significant element, or the $3 billion deficit in tourism. If the Government's accounts and tourism had been in balance, for example, in 1971, there would have been virtually no deficit at all for that year in the basic balance of payments! I am not suggesting that these accounts should be in balance, but merely that it seems futile to negotiate about the areas where we hope to make gains, without also including the areas where we chronically lose most of our foreign exchange. IEPA's current balance of payments charts are included as an Appendix to illustrate the magnitudes of the various accounts.

III. NEGOTIATIONS ABOUT SERVICES, TRANSPORTATION, MANAGEMENT, AND TECHNOLOGY, AS WELL AS COMMODITIES

Lately there has been some concern expressed regarding the shift of U.S. employment to the production of services rather than goods. This shift involves factors of increased productivity, changes in demand and structural evolution of our society. The service economy trend is not exclusive to the United States; in most of the industrialized countries, especially Japan and Germany, there also has been a relative growth of the services sector as their industrial modernization has succeeded.

Thus it is logical that authority to negotiate on trade should be extended to include services, whether or not the services are ancillary to the export of U.S.

products. In enacting the DISC provisions of the Revenue Act of 1971, Congress recognized as qualified export receipts those from engineering or architectural services on foreign construction projects. President Nixon has recommended separate legislation this year which would amend the Export Trade Act (Webb-Pomerane) of 1918, to make it clear that the Act applies not only to the export of goods but also to certain cases of services, such as architectural, construction, engineering, training and management consulting, thereby exempting export associations in those categories from our domestic antitrust laws. Consideration should be given to including tourism and transportation services in such legislation.

The United States should not forego any opportunity to increase foreign exchange earnings for this country by stimulating the export of services. In 1972, of our total foreign earnings from private goods and services of $71.2 billion, 16.4 percent ($11.7 billion) represented our exports of services, including tourism, transporation, fees and royalties, construction, engineering, management, and consulting. It is important to remember that the provisions of GATT do not extend to services. Discrimination in the treatment of services, particularly transportation, is rampant. The growth of services relative to merchandise exports, is shown in the accompanying charts.

Tourism is one of the most likely categories for improvement in our continuing balance of payments deficits. Foreigners spent over $3.2 billion in travel in the United States and passenger fares to U.S. carriers for visits here in 1972, thereby accounting for one-quarter of U.S. service exports. However, U.S. travelers abroad spent almost twice as much, $6.3 billion, creating a deficit in our tourism (including transportation) account alone of $3.1 billion. In the past, the relatively high cost of tourism service in the United States has discouraged visits by foreigners; but this problem has been ameliorated by recent currency realignments and high inflation rates in foreign countries. Armed with its newly competitive prices, the United States must increase its efforts to gain a greater share of the world tourism market—in competition with other countries which are increasing their efforts to attract tourists. We must increase our promotion activities abroad, and tax concessions would be warranted to increase the activities of package tour organizers who must be able and encouraged to offer lower cost programs in previously untapped foreign markets. There are still restrictions on the amount of money citizens of many countries can take out for foreign travel. This is just as bad as a quota against U.S. exports. Freedom to travel should be one of our major negotiating objectives, just as much as elimination of nontariff barriers.

Other discriminatory factors impede our flow of service earnings from tourists and transportation. United States airlines are restricted in many countries in the number of passengers they can carry and the number of flights they can operate. They are further hampered by favored treatment for foreign-owned national airlines, foreign exchange control regulations, preferential custom services, government subsidies, higher postal rates and pooling arrangements.

Any authority to be given to the President in trade negotiations should specifically include services, tourism, management and technology, and transportation as well as commodities. Specifically, we recommend that the legislation state that one of the objectives to be sought by the exercise of the authority granted to the President is the achievement of national, reciprocal, and most-favored-nation treatment in international trade in transportation, tourism, management and technical services. As the President of Pan America put it in a recent speech, "It is important for the world to understand that American trade includes American services as well as American goods." [1]

IV. FAIR AND EQUITABLE TREATMENT FOR U.S. INVESTMENTS ABROAD

Historically, the United States has welcomed foreign investments, and most nations have followed this practice as a source of additional capital formation, technological advances, improved managerial skills, increased levels of competition, and economic and social stimulus in underdeveloped regions. The Williams Commission on International Trade and Investment Policy in its 1971 report to the President stressed the importance of foreign investments to U.S. policy:

"... We believe the principles of freedom of entry and of equitable and national treatment of foreign investments should continue to guide U.S. policy

[1] "Equality of Competitive Opportunity in a Competitive World." Remarks by William T. Seawell before the Wings Club, New York, April 18, 1973.

both at home and abroad. We should work with other nations to have these principles internationally observed, especially in Japan." [2]

Recently, however, many developed countries are becoming more concerned over the degree of foreign control of their industries and natural resources. The Organization of Petroleum Exporting Countries (OPEC) has sought to coordinate policies relating to investments for developing critical energy resources. Some of the developing states have expropriated foreign properties, frequently without compensation or through devices such as fictitious charges for maintenance, additional taxes, or excess profits which would, in effect, leave the investor as a debtor! Other countries, such as Mexico and members of the Andean Pact, would limit foreign ownership and force majority participation by the host government, its nationals, or labor.

Multinational agreements are always difficult to negotiate, and international agreement on investment and international business and the rights and duties of investing companies and host countries have usually been unsuccessful. The Organization for Economic Cooperation and Development (OECD) adopted a Code of Liberalization of Capital Movements on December 12, 1961, but the reservations maintained by many governments dilute its effectiveness. The OECD in 1963 issued its Draft Convention on the Protection of Foreign Property which has never been universally adopted. Even the World Bank's Convention establishing the International Centre for the Settlement of Investment Disputes has not been ratified by many LDC's. Notable among the absentees are all the major Latin American countries. International regulation of investments has, therefore, been left primarily to bilateral treaties, such as those of friendship, commerce, and navigation (FCN). The United States has been able to negotiate few FCN treaties with developing countries, and where treaties exist, such as with Japan, conformance can often be measured more by the breach than by compliance.

The net result is that foreign investors may establish themselves freely in the United States so long as they comply with the laws of the United States and the individual states in the same way as American firms. We would recommend no change in our liberal policies toward foreign investments in the United States. In fact, we highly favor their continuance since additional foreign investment means more jobs for Americans, will assist our balance of payments in the short term at least, and help use up the glut of American dollars that are now held abroad. In the long run, however, there will result an outflow of earnings from the United States to the foreign owners, just as the earnings of American direct investments abroad now constitute one of the few sources of foreign earnings for our balance of payments. The continued expansion of U.S. investments abroad is therefore a national necessity if we are to maintain a favorable balance on the investment account.

With liberal policies toward foreign investors, and in the absence of any binding multilateral or bilateral agreements for American investors abroad, we must devise some means of insuring reciprocal, fair, and equitable treatment for U.S. investments abroad. These U.S. foreign investments are the keystone not only to our hopes for improving our balance of payments but also to our maintenance of a fair share of world trade. Numerous studies by government agencies and private authorities have established the positive domestic employment effects of U.S. investments abroad, not only in the stimulation of exports and the effect on U.S. production and employment, but also the managerial and technical backstopping required, and the supporting employment in firms supplying services. This is by no means a zero-sum game; for the benefits to the host countries' economies and employment are also substantial.

It is for this reason that we recommend that the Trade Reform Act of 1973 make it clear that the President's authority to negotiate regarding trade and to take retaliatory action against unfair foreign restrictions should apply also to fair and equitable treatment for U.S. investments abroad. Section 2 of the draft bill (H.R. 6767), in the statement of purpose, already contains a reference to "formulation of international standards for investment and tax laws and policies." Other sections of the bill, however, should be expanded to assure the consideration of investments. Section 103 on "Nontariff barriers to trade" should be expanded to include investments and also to refer to services, transportation, management and technology. Section 301 (the revision of old section 252 of the 1962 Trade Expansion Act) providing for responses to unfair import restrictions

[2] *United States International Economic Policy in an Interdependent World*, Report to the President, submitted by the Commission on International Trade and Investment Policy, July 1971 (Washington, D.C.), p. 189.

and export subsidies, should be expanded to refer to investments and to services. In regard to the generalized system of preferences for less developed countries, the limitation in section 601 of Title VI might be amended (in reference to withholding such preferences in cases of uncompensated expropriation) to add, "unless the dispute has been referred to an international arbitration tribunal." This would be in consonance with the language of the Gonzalez Amendment to the recent laws authorizing appropriations for the internnational financial institutions, and would promote the use of available impartial arbitration mechanisms.

In short, the President should be asked to seek, and should be given authority to achieve national, reciprocal, and most-favored-nation treatment of investments through bilateral and multilateral negotiations. For the only recourse available to the United States, short of adopting unreasonable, retaliatory restrictive measures on foreign investments within our own country is to assure that negotiations on trade and other international economic matters take into consideration the treatment by foreign countries of U.S. investments.

We should negotiate not only to agree on words, but must follow up to make sure that the deeds-conform to the words. This is particiularly important in relation to Japan. On April 27, 1973, the Japanese Government announced that practically all Japanese industry is being opened, in principle, to 100 percent foreign ownership. (Previously, foreigners were limited in their investments in existing ventures to not more than 25 percent interest, and a single investor to not more than 10 percent.) Some 22 types of industries were excepted from liberalization, and restrictions on 17 of these industries are to be removed in two to three years, leaving only 5 industries which will be excluded from foreign investments—agriculture, forestry and fisheries, mining, oil, leather products and retail trade operations.

Yet the "automatic approval" of foreign investments in areas *not* subject to restrictions now appears to be frustrated in some instances by the subtle workings of the Japanese system. We know of a current case where a joint venture agreement with a Japanese partner is being blocked by other segments of the industry for competitive reasons. This raises important questions of reciprocity in fact, as well as theory. If U.S. firms were to conspire in similar fashion to block a Japanese acquisition of an American supplier, with or without the tacit consent of the Government, some people might go to jail for antitrust violations. And yet Japanese firms can apparently prevent competitive intrusions in Japan while competing in U.S. markets quite freely. In another example, Japan carefully limits the charges the American parent is able to make for major infusions of U.S. technology, thus reducing the benefits of "liberalized inward investment" in Japan below the break-even point. In other words, they take the technology but deny full payment for it. Examples can be multiplied endlessly, not only in Japan, but around the world. The problem of making different political and social systems compatible in terms of economic competition staggers the inagination, I know. And yet, if we cannot negotiate and insist on implementation of some reasonable reciprocity in investments, the United States may one day face not just the current influx of imports, but the domination of whole industry by foreign investors because they can deny American firms an effective opportunity to compete in their own markets, while they freely invest or acquire companies in the United States.

V. TAXATION

The Committee may recall that on April 3, Dr. Danielian submitted a comprehensive review of the impact which changes in taxation of foreign-source income might have on our international competitiveness.

Although today's hearing is foncused on the Administration's proposals for trade legislation, the accompanying Treasury Department proposals on taxation which were released subsequent to the Committee's hearings deserve a brief comment.

The Administration should be commended for attempting to avoid "throwing out the baby with the bath water" by concentrating its proposals on the specific areas where companies have allegedly gone abroad to enjoy favorable foreign tax rates while manufacturing goods for the U.S. market. Nonetheless, I must say that there are some important questions of principle involved.

There has not yet been time, nor is there sufficient information available about the Treasury's intentions, to estimate the actual impact of the proposals. We do not know, for example, how "manufacturing and processing" will be defined. Will it include, for example, pelletizing iron ore, or alumina which U.S. industry

must import for production of aluminum? What kinds of "public interest" exceptions will be granted? I believe that any legislation should exempt natural resource products—which are going to be in increasingly short domestic supply. In any case, Congress ought not to be asked to act in this vital area without full information on the details.

There are also doubts as to what constitutes foreign tax incentives. Numerous countries, including Great Britain, have established incentives to locate industry in depressed areas. While one would certainly hope that the "tax holiday" provisions would not be applied in such internal cases, a number of companies are concerned, and there are no specific indications from Treasury of readiness to enter into new tax treaties to cover such instances. There is also a degree of ambiguity in the special provision affecting mining losses.

I hope, therefore, that the Committee will request and obtain more detailed information in order to judge how the competitive position of the United States would be affected by the Treasury Department proposals. I would also like to request the option of submitting some more specific comments when more information is available.

There is, however, a more philosophical objection. Even if the area of demonstrable harm to U.S. competitiveness is limited, the "runaway plant" provisions would still operate to help foreign competitors. If an American firm cannot compete against foreign imports by manufacture in the U.S. market, is it in the national interest to change the tax treatment on its foreign manufacturing so that it loses still more business to a foreign competitor, whose favorable tax treatment would not be affected at all? What sense does it make to prevent an American company from investing in Ireland if a Japanese or German competitor can move in and establish a plant to export to the United States? There does not seem to be a benefit to the U.S. economy from such discrimination—we would merely give business to a foreign competitor, and enjoy neither the earnings from domestic nor foreign production.

The fact that the "runway plant" and "tax holiday" provisions apply only to new investment is not as much of a limitation as might appear, for modernization and replacement at present prices could easily reach 20 percent of the original investment, and thus subject the firm to current taxation—and for all future years in a tax holiday country. Apart from these specific ambiguities and risks, business is concerned, I am sure, at the longer range implications. Once one starts down the road of currently taxing undistributed earnings of foreign subsidiaries (going beyond the subpart (f) approach, which was designed to close specific loopholes), where will the process of "premature taxation" stop?

As pointed out in IEPA's testimony of April 3, the case made by labor and others against the U.S. multinational firm is in error in many of its basic facts;[3] as stated then, "a 'political deal' with labor or other groups is no way to settle an economic issue which would adversely affect the national interest abroad."

There might be an answer to this argument if significant additional revenue were likely to be generated for the U.S. Treasury, but this is not the case. The decline in after-tax profitability of those companies affected would probably cause them to abdicate the market to foreign firms; the loss in total profits, then, in and of itself, might offset any revenue gains. In any case, it is unlikely that other countries will allow the United States to unilaterally terminate the incentives which they have established as a matter of policy to help their own development. They are more likely simply to increase their withholding rates or impose other forms of taxation to insure that any additional taxes which have to be paid by the companies anyway come to their treasuries instead of to the United States, for most countries giving tax holidays need the investment for their own development.

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[3] Let me just add here one further example. In a pamphlet headlined "The Multi-National Corporation . . . a modern-day dinosaur which eats the jobs of American workers," the AFL–CIO selected 50 American international companies and spotted their facilities abroad on a world map. We recently contacted these 50 companies to ascertain the actual situation, because it seemed an unusual sample inasmuch as it was selected by critics of the MNC rather than its defenders. Apart from the fact that the overseas facilities listed were in error (too few as well as too many) in most cases, and that the most minor retail outlets were lumped with large factories, the pamphlet shows the United States as a blank, and the rest of the world as impacted with the red dots of American plants. The 35 firms who have responded to date total 2,746 "plants and facilities" in the United States, while accounting for 1,066 of the 1,568 facilities listed abroad in the pamphlet. Cumulatively they had almost twice as many U.S. as foreign employees, over three times as much U.S. production, and nearly three times as much capital investment in the United States as abroad. Moreover, many of the foreign establishments and employees sold or serviced U.S. exports which directly maintain U.S. jobs. Yet the impression is given in the pamphlet that these 50 firms somehow have abandoned the U.S. in search of "profits abroad," rather than expanding their markets by competing effectively overseas.

Consequently, we would again urge that Congress take the more positive approach of improving the competitive position of American industry along the lines recommended in Appendix B of IEPA's April 3 statement, rather than engaging in questionable taxation of unreceived income. Even if it can be argued that the area of impact is relatively small, by the same token, the gains in economic terms are equally small—if indeed they are gains at all. Congress, in general, and this Committee, in particular, are probably the best judges of whether the economic price being paid is worth the political "gain" of permitting a less emotional and more rational focus on broader issues of international trade and investment.

VI. CONCLUSION

These detailed suggestions (which are summarized in specific terms in Annex A) for broadening the general authorities contained in the Trade Reform Act of 1973 should not obscure our general support for the bill. There are important and useful features throughout. Among them I would especially note the importance of Title IV to deal with serious balance of payments situations, over and above the relief from domestic disruption—from fair and unfair international competition alike—and the authorization for negotiations on vital NTB's.

Title V on granting most-favored-nation treatment to the Soviet Union is also an item whose time appears to have come. I note the provisions relating to domestic market disruption from such trade, but would like to caution the Committee that there are serious problems in determining "cost" o. any item in a communist or state-trading system. One Eastern European official told us that: "In our economies, 'cost' is an arbitrary assignment of value used either to limit consumption at home or promote exports abroad!" The problems both of concept and practice are very difficult in this very vital area of cost accounting. The problem of establishing "fair" competition with state-controlled economies will be particularly vexing; and unless treated with insight and diplomacy, many acrimonious arguments may result.

Finally, Title VI, providing for generalized preferences to developing countries, does contain two very important caveats which we had hoped would be included, and which should be retained; these are the prohibition of eligibility where the country grants reverse preferences to others, or where it expropriates U.S. investments without compensation. On the latter, a reference to referring disputes to impartial arbitration could usefully be added.

I am sure that the Congress, and this Committee in particular, can share credit with the Administration for a well-conceived and drafted bill, in view of the extensive consultations that preceded its formal submission. But I do think it important for the Committee to go beyond the classical area of trade in goods to include services and investments so that the bill will apply to the full range of modern economic interactions across national frontiers. For this same reason, the Administration should be encouraged to place the broadest possible umbrella over our negotiations; only in that way can proper priorities be given to the use of our bargaining leverage, which, after all, is not unlimited.

ANNEX A

IEPA Recommendations for Revision of H.R. 6767, "Trade Reform Act of 1973"

Page 4, Section 2, Statement of Purposes, Subsection (a), after the words "economic system" in line 8, insert the words: "characterized, insofar as possible, by the application of the principles of reciprocal, national and most-favored-nation treatment for trade, including services, tourism, travel and transportation, and investments"

Page 5, Section 2(c), line 4, strike the word "and", insert a comma after the word "fishing" and add "services, tourism, travel and transportation)."

Page 8, Section 103, line 16, add the words "and investment" to the title, so that it will read "Nontariff barriers to trade and investment." Add the words "and investment" in each of the following:

Line 17 after the word "trade";

Line 18 after the words "international trade";

Line 23 after the words "nondiscriminatory trade";

Page 9, line 1, after the words "international trade"; and

Page 9, line 3, after the word "products."

Page 8, Section 103(a), line 20, strike the word "and", insert a comma after the word "fishing" and add "services, tourism, travel and transportation)."

Page 9, Section 103(b), line 8, after the words "international trade" add the words "in goods and services and investment."

Page 46, line 3, add the words "and investment" after the word "trade" so that the title will read "relief from unfair trade and investment practices."

Page 46, line 5, add the words "and Investment" after the word "Import" so that the line will read "Chapter I.—Foreign Import and Investment Restrictions."

Page 46, line 6, add the words "and investment" after the word "import."

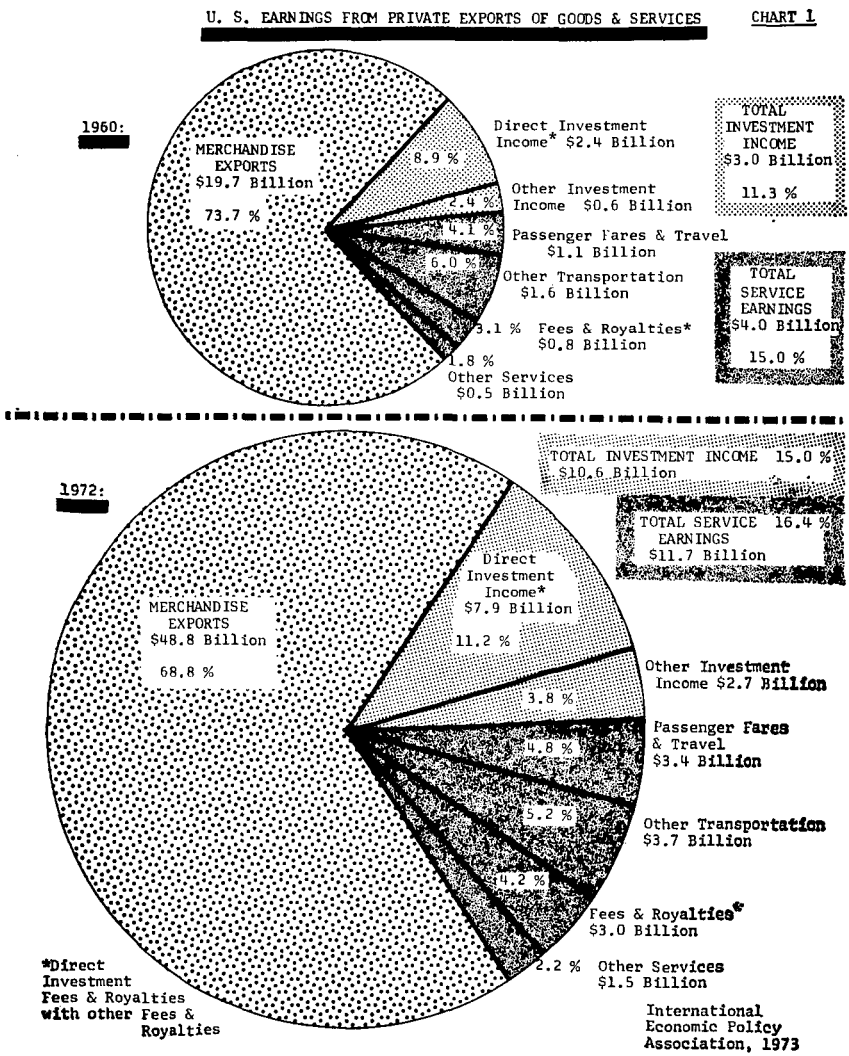
Page 46, section 301(a)(1), line 14, and section 301(a)(2), line 17, add the words "or investments" after the word "commerce" in each instance.

Page 82, line 2, section 601, under Title VI.—Generalized System of Preferences, after the word "countries", add a comma and the words "and by encouraging private investment in the developing countries."

Page 85, Section 604(a)(5), line 17, substitute a comma for the period, and add the words "or without referring the dispute to impartial international arbitration."

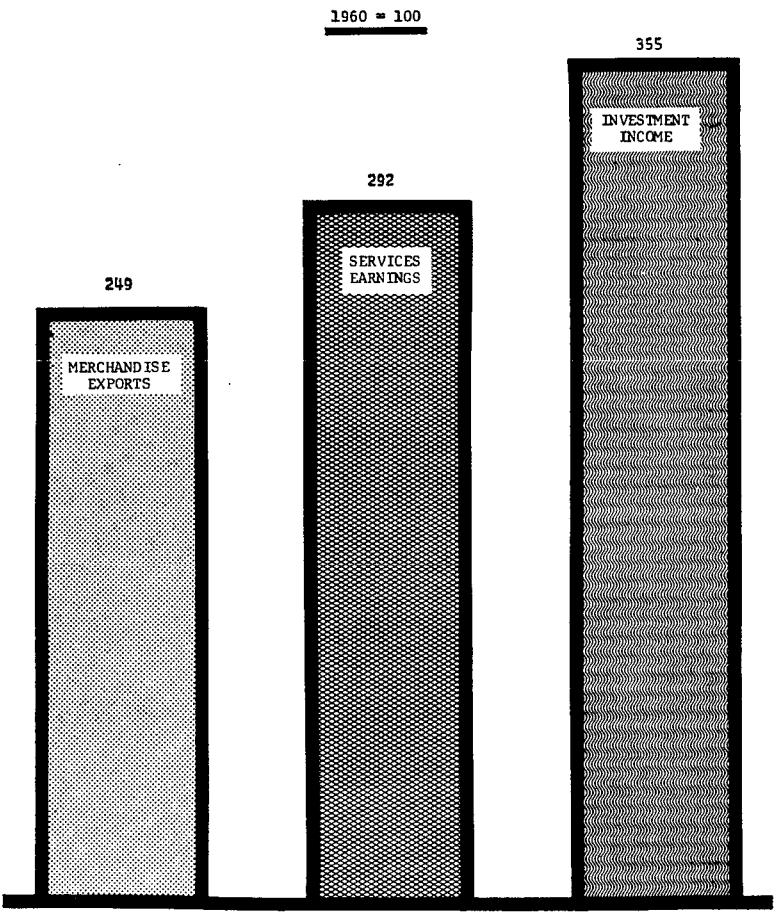
Page 93, after line 8, Section 705, definitions, insert a new subsection (10) as follows:

"(10) The term 'trade' includes commerce in commodities, services, tourism, technology, travel and transportation."



RELATIVE GROWTH, 1960-1972
MERCHANDISE EXPORTS, SERVICES EARNINGS,
AND INVESTMENT INCOME

CHART 2



International Economic Policy Association, 1973

TABLE 1.—IEPA BALANCE OF PAYMENTS SUMMARY, 1969-72, APR. 10, 1973

[In millions of dollars]

Accounts	1969		1970		1971		1972	
	Private	Government	Private	Government	Private	Government	Private	Government
Merchandise exports [1]	33,323	3,094	38,869	3,094	39,465	3,322	45,735	3,105
Income on direct investments	7,340		7,920		9,455		10,293	
Income on other investments	2,267	932	2,597	909	2,556	887	2,693	806
Direct investment capital inflow	832		1,030		−67		322	
Other long-term capital inflow [2]	3,973	192	3,325	−508	2,336	−594	5,212	365
Tourism receipts	2,361		2,696		2,882		3,200	
Other service receipts	4,295	378	4,925	383	5,257	404	6,136	413
Repayments on Government credits [3]		1,282		1,474		1,879		1,944
Military sales abroad		1,512		1,478		1,922		1,166
Total receipts	+54,391	+7,390	+61,362	+6,830	+61,884	+7,820	+73,591	+7,799
Merchandise imports	−35,796		−39,799		−45,453		−55,656	
Income paid on direct investment in United States	−518		−552		−715		−692	
Income paid on other investment in United States	−3,269	−777	−3,591	−1,024	−2,344	−1,844	−2,515	−2,684
Direct investment capital outflow	−3,254		−4,400		−4,765		−3,339	
Other long-term capital outflow [4]	−1,601	−5,032	−1,353	−5,037	−1,583	−6,041	−2,088	−5,860
Tourism expenditures	−4,487		−5,188		−5,558		−6,295	
Net remittances and other services	−4,069	−1,121	−4,579	−1,198	−4,896	−1,302	−5,395	−1,380
Gross military expenditure outflow		−4,856		−4,852		−4,816		−4,707
Total expenditures	−52,994	−11,786	−59,462	−12,111	−65,314	−14,003	−75,980	−14,631
Basic balance	+1,397	−4,396	+1,900	−5,281	−3,430	−6,183	−2,389	−6,832
Debt prepayments on Government credts		−87		+244		+225		+127
Nonliquid short-term claims	−731		−1,384		−2,362		−1,773	
Nonliquid short-term liabilities	+91		+902		−24		+139	
Unrecorded outflows	−2,470		−1,174		−11,054		−3,806	
Liquidity balance [5]	−1,713	−4,483	+244	−5,037	−16,870	−5,958	−7,829	−6,705

[1] Government financed merchandise exports listed as "Government Exports."

[2] Government liabilities exclude special financial transactions arranged to improve the balance of payments, amounting to 1969: $75,000,000; 1970: $75,000,000; 1971: $108,000,000; 1972: −$151,000,000.

[3] Prepayments of Government credits not included in IEPA basic balance, but are included in liquidity balance.

[4] Government long-term capital outflow composed of grants and long-term credits including ExImBank, but not including military grants.

[5] IEPA liquidity balance may be reconciled to Commerce Department Net Liquidity Balance by adding the special financial transactions listed above and Special Drawing Rights allocations, amounting to: 1969: none; 1970: $867,000,000; 1971: $717,000,000; 1972: $710,000,000.

Sources: Survey of Current Business," U.S. Department of Commerce, June 1972, March 1973; "Summary and Analysis of International Travel to the U.S.," U.S. Travel Service, December 1972.

The CHAIRMAN. We thank you, Mr. Stanley.

Any questions of Mr. Stanley?

Mr. DUNCAN. No questions.

Mr. CLANCY. No.

The CHAIRMAN. Thank you very much for your very fine statement.

Mr. STANLEY. Thank you.

The CHAIRMAN. Mr. Robert L. Roper, executive director, International Executives Association.

Mr. Roper, we are pleased to have you with us today, sir, and you are recognized.

STATEMENT OF ROBERT L. ROPER, EXECUTIVE DIRECTOR, INTERNATIONAL EXECUTIVES ASSOCIATION, INC.

Mr. ROPER. Thank you, Mr. Chairman.

I am Robert L. Roper, executive director of the International Executives Association. Inc. Our association is headquartered in New York City and has nearly 400 members located in the New York area as well as in various major cities throughout the United States. Our members are international business executives, of whose companies approximately two-thirds are engaged in the manufacture of products for export, with the remaining one-third in shipping, banking or other export-related services. Our association was originally founded as the Export Managers Club of New York in 1917.

SUPPORT IN PRINCIPLE FOR TRADE REFORM ACT

Our purpose here today is to express our association's support in principle of the Trade Reform Act of 1973—H.R. 6767—as a realistic approach to international trade problems. We hold that the adoption of this legislation, by giving U.S. representatives the legislative authority they need in forthcoming world trade negotiations, would lay the necessary groundwork for a much needed expansion of U.S. trade abroad; would in turn lead to correction of the U.S. trade deficit; and, finally, would provide for the expansion of job opportunities for U.S. workers to meet the growing needs of these expanding markets.

Although we support H.R. 6767 in principle as above stated, we are nonetheless concerned that the broad discretionary authority it would give the President for the liberalization of trade can, under these proposals—and the bill's statement of purposes notwithstanding—be just as easily adapted to the uses of protectionism and the erection of new trade restrictions which, we hold, would contravene the bill's avowed purposes and would redound to the detriment, rather than the encouragement, of international trade and a stronger U.S. economy.

We applaud the authority the bill would give the President to lower tariffs and nontariff barriers in the course of trade negotiations with other countries, but we strongly object to the open-ended authority this bill would grant the President under section 101 to raise tariffs in the course of such negotiations. We urge, therefore, that the authority granted the President to raise tariffs be limited specifically to use only as a form of import relief where necessary, or as a means of retaliation against foreign restrictions where other remedies are not available.

We also share the concern expressed by others with regard to the bill's "market disruption" provision in section 201 under which a "substantial" rise in imports at "substantially" lower prices would constitute prima facie evidence of injury. The provision jeopardizes the concept that the burden of proof should be on petitioner to show injury or threat of injury. Conceivably relief could be obtained unjustifiably under this section as now written without injury or threat thereof.

In a recent survey of our members, 87 percent of the respondents indicated support in principle of the Trade Reform Act of 1973; 13 percent, although expressing opposition to protectionism, took no position on this bill pro or con. None of our members indicated opposition to H.R. 6767.

Thank you very much, Mr. Chairman.

The CHAIRMAN. We thank you very much, Mr. Roper, for your fine statement and the support of your membership for your statement.

Any questions?

Thank you, Mr. Roper.

Mr. ROPER. Thank you.

The CHAIRMAN. Mr. Clifford B. O'Hara.

STATEMENT OF CLIFFORD B. O'HARA, CHAIRMAN, COMMITTEE XI (FOREIGN COMMERCE), AMERICAN ASSOCIATION OF PORT AUTHORITIES, AND CHAIRMAN, FEDERAL LEGISLATION AND GOVERNMENT TRAFFIC COMMITTEE, NORTH ATLANTIC PORTS ASSOCIATION

Mr. O'HARA. Thank you, Mr. Chairman.

Mr. Chairman, I am appearing here before you on behalf of the United States corporate members of the American Association of Port Authorities representing all the major public port agencies of the United States and also the North Atlantic Ports Association, which numbers among its members both private and public port interest along the Atlantic Coast between Maine and Virginia.

The CHAIRMAN. Mr. O'Hara, if you omit any parts of your statement, do so with the knowledge that it will appear in full as though you had delivered it in its entirety.

Mr. O'HARA. Thank you, Mr. Chairman.

I realize that the reception you may give me will be very closely related to the amount of time I can keep this down to.

RECOMMENDATIONS

The ports of the United States respectfully endorse the objectives of the Trade Reform Act of 1973 (H.R. 6767) to provide for meaningful U.S. participation in multilateral trade negotiations aimed at developing an open, nondiscriminatory and fair world economic system and expanded world trade, while establishing legitimate safeguards and assistance for American industries and workers faced with injurious foreign competition.

Conversely, the American ports vigorously urge you to reject proposals advocating the imposition of comprehensive import quotas and other severe restrictions on international commerce. Such proposals, as the pending Burke-Hartke bill—H.R. 62, the Foreign Trade and

Investment Act of 1973 as it is formally known—represent a serious threat to the very foundation of the economies of the nation's port regions where a great many people depend on the ebb and flow of exports and imports for their jobs and income.

The magnitude of import restrictions on the scale contemplated in this legislative proposal and their impacts on foreign exports to the U.S. simply preclude acceptance by other nations without retaliation against U.S. produced goods. Burke-Hartke backers may scoff at this danger of retaliation on the basis that foreign countries would fear additional export losses from escalating U.S. import barriers in successive rounds of counter-retaliation. However, when comparable protectionist legislation was last enacted in 1930, retaliatory trade barriers were soon mounted abroad and the drop in U.S. exports was calamitous. Thus, the passage of the Burke-Hartke bill or similar protectionist legislation could well trigger an international trade war, and as competitive retaliatory actions by governments provoke a chain-reaction of mounting trade restrictions, world trade would contract convulsively. Such a contraction of U.S. foreign trade would have a devastating effect on the nation's port communities.

ECONOMIC IMPACT OF SEVERE TRADE RESTRICTIONS ON U.S. PORT COMMUNITIES

In servicing U.S. waterborne commerce, ports generate significant employment and direct dollar income to the local and regional economies they serve.

For example: At the Port of New York the movement of export-import cargoes through the port has been estimated to provide the economic basis for the livelihood of one out of every four persons residing in the New York-New Jersey metropolitan area;

At a smaller city a Port of Galveston study has shown that more than 58 percent, or nearly 3 out of every 5 workers in the city of Galveston are employed in activities resulting from port operations:

Wage and salary payments from direct and secondary employment attributable to port activities in the Port of Houston equal 11.2 percent of total wages and salaries in the area;

The Tampa Port Authority has reported that one wage-earner in seven in the eight-county surrounding area is employed in port-related business;

In Virginia, one out of every eight jobs has been either directly or indirectly related to activities associated with that State's ports;

And in Seattle. where one out of every twelve jobs was related to water-borne trade in 1971, by 1980, it is projected that 20 percent of the Seattle area residents may derive their livelihood from maritime commerce.

To put it more concretely, protectionist trade restrictions would have direct adverse effects on the employment of:

Approximately 96,000 longshoremen handling waterborne export-import cargoes at the nation's ports;

Another 15,000 employees of stevedoring firms engaged in arranging for the physical loading and unloading of ships;

About 95,000 over-the-road truckmen and railroad workers transporting ocean-borne freight to and from ports;

Another 33,000 employees of local motor carriers who deliver or pick up freight from marine terminals;

Some 95,000 persons employed by export-import wholesaling organizations, export management companies, combination export managers and the like;

At least 40,000 persons employed by institutions financing international transactions and marine insurance firms;

Another 43,000 persons employed by ocean freight forwarders, customs broker, warehousers, and export packing firms;

Some 66,000 persons who work for steamship and towboat companies as headquarters staff, crews, ship brokers and agents;

Over 29,000 workers who earn their livelihood by providing maritime equipment supplies and services;

At least another 130,000 other workers who provide a wide range of essential services to shippers and traders, including occupations as divergent as those to harbor pilots, freight consolidators, government inspectors, port administrators, international trade consultants and many more.

In addition, there are nearly 111,000 ship construction and repair workers and approximately 400,000 employees of port-related or tidewater industries such as sugar refineries using imported sugar, coffee roasters, and smelters of imported metals whose jobs also depend on the general level of U.S. foreign trade.

In all, nearly 1.2 million persons in the United States owe their jobs directly to the handling, documentation, promotion and financing of foreign trade. And, while the enactment of trade restrictions, which would lead to a constriction of international commerce, would result in fewer jobs and smaller paychecks for these workers, the implications of reduced U.S. foreign trade are even more dangerous in the long run. Economists view every dollar of incremental income as capable of generating $2 of additional income. Thus, activities attributable to international trade and waterborne transportation in U.S. port regions can be viewed as ultimately responsible for providing employment opportunities for at least 2.5 million persons. On the basis of 2.5 dependents per job (the employee and 1.5 family members), a total of 6,253,000 port area residents throughout the United States—men, women and children—ultimately rely upon the waterborne commerce of the nation for their livelihood.

Gentlemen, as you formulate your recommendations for the future course of U.S. foreign economic policy, the ports of the United States urge you to be mindful of these millions of workers and their families.

We are aware that import barriers are usually advocated to "save American jobs." However, overwhelming evidence from government as well as private sector analyses indicates that trade restrictions on par with those contained in the Burke-Hartke proposal would surely cost American jobs, not save them. From coast to coast there are millions of jobs in export industries which would be susceptible to foreign countermeasures. Even considering jobs which might be gained in our import-competing industries as production is increased to replace blocked imports, economists have concluded that the U.S. economy

would suffer a net loss in employment and wage-earner income. Thus, while the ports of the United States oppose trade restrictions in their own economic interest, it is our conviction that this interest coincides with the national interest.

COMMENTS ON SPECIFIC PROVISIONS OF THE TRADE REFORM ACT OF 1973

The ports of the United States endorse the proposed Trade Reform Act of 1973, as a bold new initiative in the continuation of the bipartisan tradition of American leadership for cooperative, international trade expansion. If enacted substantially in the form presented to the Congress, it would enable the President to conduct far-reaching international negotiations which can make major advances in improving the equitability of the international trading system and give rise to substantial growth in world commerce. The United States would benefit greatly from such expanded trade as would the rest of the world.

However, while the American ports support the expressed purposes of H.R. 6767, we urge that the committee give careful consideration to those provisions of the proposed legislation which, by virtue of conveying unprecedented latitude and authority upon the President, may invite undue pressures for the protection of special interests or jeopardize U.S. adherence to its international commitments. In addition, we recommend that the committee evaluate whether adequate opportunity will be available for those affected by prospective Presidential exercise of authority under the provisions of H.R. 6767 to officially present their views concerning the impact of such actions.

NEGOTIATING AUTHORITIES

While we recognize the desirability of granting the President maximum flexibility to negotiate reciprocally advantageous trade agreements, we are concerned about the lack of limitation on Presidential authority to raise duties in the context of such negotiations. This unprecedented power could conceivably result in the increase in some duty rates to levels that would severely restrict imports with consequent serious impacts on firms and workers dependent on that trade. We would suggest some congressional limitation on this power to raise tariffs—perhaps along the traditional lines of limiting increases to no more than 50 percent of the 1930 statutory rates.

The ports of the United States support particularly the President's request for a congressional mandate to negotiate the elimination of nontariff barriers. Reductions in tariffs no longer suffice to assure the equitable expansion of international trade; agreements among trading nations to dismantle nontariff distortions of trade are essential.

SAFEGUARDS AND ADJUSTMENT ASSISTANCE

In granting the President negotiating authority for the purpose of expanding trade for the benefit of the many, we need not sacrifice the welfare of the few who might be injured by a greater flow of imports to our shores. The U.S. ports accordingly support liberalization of the escape clause to provide relief more readily to industries and workers seriously injured by competitive imports. However, we urge

the committee to carefully evaluate the desirability of incorporating the proposed special "market disruption" provision in the law. Statistical correlation between imports and domestic production might well become the substiute for the need to demonstrate serious injury from causal import competition.

We also support reform of the adjustment assistance programs available to aid workers displaced by imports. Action in the national interest to expand foreign trade entails a responsibility to assist those who might be adversely affected as a consequence. And for this reason we recommended that consideration be given to retaining the concept of adjustment assistance for firms, as an alternative remedy (besides increased import restrictions) available to the President for helping firms beset by foreign competition.

RETALIATORY AUTHORITIES

The ports of the United States are cognizant of the fact that it may at times be necessary for the United States to deal with situations where other nations fail to live up to their international trade obligations and forge unjustifiable restrictions against U.S. exports. Thus, it is proper for the President to be armed with the powers to cope with unfair competitive practices which burden or restrict U.S. commerce. We would, however, recommend three modifications in the proposed procedures governing such retaliatory action.

First, we recommend that public hearings precede any Presidential retaliatory action so as to better enable the development of a consensus as to the likely consequences of such measures on all sectors of the U.S. economy—domestic producers, exporters, importers, and consumers. Second, all interested parties, not just complainants against foreign restrictions, should be given the opportunity to be heard.

Third, we are concerned that this section of the Trade Reform Act of 1973, as well as subsequent sections of the bill, require the President to merely "consider" U.S. international obligations prior to taking action. It has been generally recognized that many of the problems inherent in the current framework of the international trading system stem not from the system itself, but from failures by member nations to abide by established rules. For example, better compliance with GATT provisions is certainly needed. It is essential, therefore, that the United States as the world's leading trading nation set an example by acting in accordance with our commitments to established international ground rules. To do otherwise would signal to the rest of the world that we no longer sustain faith in the rules so painstakingly fashioned in the post-World War II era.

TRADE POLICY MANAGEMENT AUTHORITIES

While we are not in a position to evaluate the appropriateness of the proposed criteria for defining serious U.S. balance of payments situations, we applaud the President's statement that the authority requested in this section of the Trade Reform Act of 1973 is not intended to be used to protect domestic producers from import competition. In addition, we support Presidential tariff reduction authority for the purpose of countering domestic inflation.

However, we urge that the President again act in accord with our international obligations and that such action be combined with the forum of public hearings to gage the impact on the various sectors of the U.S. economy.

NEW TRADE PROSPECTS

The U.S. ports support liberalization and normalization of commerce with Communist countries and extension of most-favored-nation treatment consistent with the national interests to these countries. In addition, we endorse the President's request for authority to extend generalized preferences to less-developed countries.

CONCLUSION

It has not been my purpose here to delve deeply into the provisions of the Trade Reform Act of 1973 or to discuss those aspects of the proposed legislation which are mainly procedural in nature.

In the considered opinion of the U.S. port industry, the administration's trade proposals represent a realistic approach to attaining world-wide, cooperative trade expansion on a fair and equitable basis. Expanding trade accelerates the exchange of goods, fosters better allocation of resources, reduces costs to consumers and helps raise living standards. Surely this Nation should not deny itself the benefits of participating in this process to the fullest extent possible.

The CHAIRMAN. Are there any questions of Mr. O'Hara.

Mr. CLANCY. I have no questions, Mr. Chairman.

The CHAIRMAN. Mr. Burke.

Mr. BURKE. I know you mentioned the Burke-Hartke bill, and, of course, that is a tender subject with me. I was wondering if you could tell me what is the percentage of people in New York City on welfare?

Mr. O'HARA. I didn't hear you, sir.

Mr. BURKE. What is the percentage of the population of the people of the city of New York on welfare?

Mr. O'HARA. I actually don't know the figure, sir.

Mr. BURKE. I understand it is around 12 percent.

I also wonder if you realize that since 1965 over 150,000 people living in teeming tenement districts of Harlem and Brooklyn, N.Y., have lost their jobs in the garment industry and the shoe industry and the handbag industry and several other.

Mr. O'HARA. I am certainly aware of the fact that there have been some dislocations, yes, sir.

Mr. BURKE. Thank you.

The CHAIRMAN. Any further questions?

Mr. GIBBONS. Mr. O'Hara, you mentioned a number of ports and I wonder if there are any ports up in Mr. Burke's district. I know there used to be a navy yard up there.

Mr. BURKE. We have Boston, Fall River, and Bedford-Providence. Indeed, the administration just administered the coup de grace. They just announced the closing of the Boston Navy Yard, the Kelsey Naval Hospital and all the installations across the Narragansett Bay into the shore of Massachusetts, so I don't think we are going to have too much activity up there in the port.

The CHAIRMAN. Thank you again, Mr. O'Hara.

Mr. O'HARA. Thank you.

The CHAIRMAN. Mr. Richard J. Wood, vice president of International Trade Club of Chicago.

Mr. Wood, we are glad to have you with us.

STATEMENT OF RICHARD J. WOOD, VICE PRESIDENT, INTERNATIONAL TRADE CLUB OF CHICAGO

Mr. WOOD. Mr. Chairman. it is a pleasure to be here.

The CHAIRMAN. You are recognized, sir.

Mr. WOOD. I am Richard J. Wood, vice president of the International Trade Club of Chicago on whose behalf I appear today.

The International Club of Chicago is the Nation's largest professional association of international trade executives with a membership of almost 800, representing some 600 firms throughout the Middle West, all engaged in international trade.

The International Trade Club of Chicago supports the intent and in general the provisions of the Trade Reform Act of 1973 with certain reservations to be presented later in this testimony.

We commend the administration's efforts to correct imbalances in our trade position as presented in H.R. 6767. We are particularly concerned that such correction be on a long-term basis without seeking solutions that have only short-term temporary benefits.

We commend the Trade Reform Act for alternatives which it offers to extreme protectionist measures contained in various bills now before Congress, some of which previously comprised the Burke-Hartke bill. We express concern, however, that even the Trade Reform Act proposes some restrictions, particularly with regard to imports which are only temporary expedients. We are concerned that current taxation of foreign earnings, of American control of foreign companies, the elimination of the foreign tax credit, and a comprehensive quota network on imports will only result in higher prices, a consequent reduction of exports, foreign retaliations, and restraint of competition at home and abroad.

All four of these effects would cause severe injury to U.S. labor, the consumer, and business, including a reduction in domestic employment.

I should like to mention the State of Illinois, which has annual exports of agricultural and manufactured products of almost $4 billion. The story of this dependence on a two-way world trade could be repeated many times throughout our Nation if a painstaking effort were made to determine the dependence of various areas of our country on exports and imports. I would like to make comment here that there is a move underway now in Illinois to try to pin this down much more specifically by product and by areas of the State.

Again I cite Illinois; 325 jobs in our State are directly related to exports. Add to this the number of people whose work represents partial or indirect employment to support exporting and the number of jobs soars to a figure of somewhere around 900,000 or 20 percent of Illinois workers.

Now on investments and multinational enterprise. The International Trade Club of Chicago urges efficient use of economic resources through cross border investments and multinational enterprise, to pro-

mote the growth of foreign direct investments and to encourage other U.S. companies to expand their operations to overseas markets.

In this regard the following conditions should be met:

1. Complete removal of foreign direct investment controls.

2. Any broad proposal to tax currently the earnings of U.S. corporate subsidiaries abroad prior to repatriation of such earnings must be vigorously opposed. Present legislation does not constitute a so-called tax deferral, instead it recognizes the foreign earnings do not come under U.S. tax jurisdiction until they are remitted and available to the U.S. shareholder.

3. The foreign tax credit providing for a credit against U.S. taxes for foreign taxes on income earned abroad must be retained; otherwise, the earnings of foreign subsidiaries of U.S. corporations would be subject to double taxation, thus placing them at a severe competitive disadvantage in foreign markets.

4. To promote the free flow of capital and stimulate foreign investments in the United States serious consideration should be given to elimination of the U.S. withholding tax on U.S. source income to nonresident aliens and foreign corporations.

TITLE V, MOST-FAVORED-NATION TREATMENT

The International Trade Club of Chicago supports the provisions of title V providing authority to the President to extend most-favored-nation treatment to imports from countries heretofore denied such treatment whenever he determines that such agreements with such countries will promote the purposes of the Trade Reform Act and are in our national interests. We refer specifically to East-West trade and trade with China.

Trade with these countries should be expanded within the bounds of reasonable strategic considerations. The negotiations should be based on a firm quid pro quo approach.

Placing eastern bloc countries and China under the most-favored-nation column of the U.S. tariff schedule would be a positive and constructive step. Failure to take such important steps can only result in business loss to competition from other countries when that business is necessary for our balance of payments position and our basic economic structure.

TITLE IV

The major reservation of the international business community represented by the International Trade Club of Chicago relates to the board authority which the Trade Reform Act would accord the President of the United States for the management of trade policy.

It is the feeling of the International Trade Club of Chicago that while the President should not be hampered by restrictions which would jeopardize his negotiating position, the proposed freedom of action could be dangerous.

Therefore, the International Trade Club of Chicago proposes that guidelines for action or provision for public hearings at which interested parties may present their views be written into the legislation.

In summary, the International Trade Club of Chicago approves in principle the Trade Reform Act of 1973 with reservations as expressed

in the testimony which has been presented. We pledge the support of our entire membership of 800 for a sound, U.S.-foreign economic policy which will expand to the highest degree possible U.S. leadership in world markets.

Thank you, gentlemen.

The CHAIRMAN. Thank you, Mr. Wood, for your very fine statement.

Any questions of Mr. Wood?

We thank you again, sir, for coming to the committee.

Mr. WOOD. Thank you.

The CHAIRMAN. That completes the calendar for today.

Without objection the committee adjourns until 10 o'clock in the morning.

[Whereupon, at 5:58 p.m., the committee adjourned, to reconvene at 10 a.m., Tuesday, May 15, 1973.]

TRADE REFORM

TUESDAY, MAY 15, 1973

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.

Our first witness this morning is the president of the United Automobile, Aerospace & Agricultural Implement Workers of America.

We appreciate very much having you with us, Mr. Woodcock.

Mr. LEONARD WOODCOCK. You are recognized, sir.

STATEMENT OF LEONARD WOODCOCK, PRESIDENT, INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW), ACCOMPANIED BY JACK BEIDLER, LEGISLATIVE DIRECTOR

Mr. WOODCOCK. Thank you, Mr. Chairman. With your permission, I would like to file the rather lengthy statement that we submitted to the committee.

The CHAIRMAN. Do you want it printed as if you delivered it?

Mr. WOODCOCK. As a supporting document.

The CHAIRMAN. Without objection, it will appear in the record at the conclusion of your oral statement.

Mr. WOODCOCK. I would like to urge the committee largely to ignore the administration trade proposals and to fashion new trade legislation in the interest of the Nation.

The UAW still supports liberal international trade policies. We are still able to convince delegates elected by the rank and file in convention of the wisdom of that course, but trade liberalization must be accompanied by measures that will protect workers and their families against victimization if we are to continue in that posture.

We need, above all, an adequate program of adjustment assistance. When a worker is displaced in the United States by imports from other countries, he loses far more than his job. He loses health care protection. He loses insurance protection and loses his private pension protection. Even if he gets a job, in the absence of a full employment policy in this country, he lives for years near the bottom of a new seniority list, subject to constant layoffs.

The administration says that unemployment protection should be the same for all, evenhanded, regardless of the reason for loss of job.

Our history, of course, is full of exceptions. When such an exception for income maintenance was made in the Trade Expansion Act, the then administration said, "This simply continues a distinction which is as old as the tariff itself."

Income maintenance up to 100 percent is a well established principle in the European Common Market. Amtrak is another exception. When Amtrak was created to take over railroad passenger operations and the railroads and the unions could not agree, a Secretary of Labor of this administration promulgated provisions providing full wage and fringe benefits applicable to a worker's former job, and any subsequent increases in those wage rates or improvement in fringe benefits for the length of time equal to the length of his previous railroad employment—for a period of time equal to the length of that employment up to a maximum of 6 years.

In addition, at his option, lump sum severance was available to him instead of income maintenance; also provisions for retraining and generous allowances for relocation to new jobs.

UAW supports this principle of being kept whole when a worker is displaced from his job as a result of trade policy which is in the national good.

The Trade Expansion Act presently provides 65 percent of the individual's wage limited by 65 percent of the previous year's national average in manufacturing. This now yields a maximum of $101 per week. For an auto worker, it is approximately 42 percent of his present wage, including overtime. It is 34 percent of his 40-hour wage, plus the value of this fringe benefits. For a tool and diemaker, it is 28 percent on that 40-hour week plus the value of the fringe benefits.

The administration's adjustment assistance proposals, of course, come in under these woefully inadequate figures. On duration, the TEA calls for 52 weeks over a period of two years for intermittent unemployment, plus an additional 26 weeks for training and for those who are over the age of 60 an additional 13 weeks.

The administration, in its evenhandedness, ties into the States, and except for seven States, there is a maximum of 26 weeks available.

The UAW has long supported realistic Federal standards for unemployment compensation. But on balance, what is proposed by this administration in its unemployment compensation proposals, as is usual where workers are concerned, is a downward leveling, and the proposal on private pension plans preserves the pattern of inadequacy. To propose nothing on pension reinsurance, pension plan terminal insurance, is indeed inexcusable.

This committee, I think, should take note that a majority of the board of directors of the U.S. Chamber of Commerce recently supported a proposal going far beyond the administration proposals for adjustment assistance.

I might say it has been my personal experience, speaking to business audiences everywhere in this country, what they are most receptive to the proposition of adequate adjustment assistance. The chamber appointed a task force to examine this question, headed by Dr. C. Fred Bergsten of the Brookings Institution. That task force unanimously agreed on what it reported to the chamber. That agreement was unanimously endorsed by a special panel of the chamber headed by former Congressman Thomas B. Curtis, and it was also unanimously endorsed by the chamber's International Committee, headed

by Kenneth W. Spang, vice president and international adviser to the First National City Corp. of New York.

The chamber's board of directors received and discussed this program at length on the 22nd of February of this year, and then voted 35 to 10 in favor of the proposal, but unfortunately, there is a requirement that such proposals must get two-thirds of the full membership of the board, which is 63, and, therefore, 35 affirmative votes fell short of the 42 required for technical full endorsement.

That program was to provide 75 percent of wages up to a maximum of $12,000; Government payment of insurance premiums to enable all dislocated workers to maintain in full their membership in all their insurance plans; a duration of 52 weeks, plus an additional 52 weeks for training purposes; and workers 55 or older to either get those income benefits or, at their option, early retirement under the age of 60 but over 55, with immediate benefits that would otherwise be available at age 62, and over 60 with immediate benefits otherwise available at age 65, and those benefits to be full benefits of private pension plans, social security and medicare.

The program also called for relocation assistance, retraining programs and Government assistance to communities adversely affected by international trade.

The UAW most urgently recommends that this committee provide for revival of the special eligibility provisions included in the Automotive Products Trade Act of 1965, which expired on June 30, 1968, and which this committee and its chairman were most instrumental in bringing into being in the first instance.

We also propose close examination of those tax loopholes that provide strong financial incentive to U.S.-based international corporations to establish foreign factories at the expense of American jobs. There must also be a provision, we believe, requiring fair labor standards in international trade. This was recently endorsed by the President's own Commission on International Trade and Investment Policy, a Commission, I note, composed mainly of bankers and industrialists.

We are also concerned with the breathtaking range of powers to be given to the President at the further expense of the Congress.

Finally, Mr. Chairman, in this vital area of trade policy, I urge this committee to give capitalism a human face.

The CHAIRMAN. Thank you very much, Mr. Woodcock, for your statement, which we will consider along with your fuller statement, that will be in the record.

[Mr. Woodcock's prepared statement follows:]

STATEMENT OF LEONARD WOODCOCK, PRESIDENT, UNITED AUTO WORKERS

I welcome the opportunity to present the UAW's position on international trade legislation in these hearings. I deeply regret, however, the necessity to call upon your Committee to reject the proposals for such legislation submitted to you by the Administration.

On behalf of the UAW, I urge you to scrap those proposals and to start afresh to develop wholly new trade legislation free from the grave defects and dangers of the Administration's bills.

The UAW is one of the few American unions—and by far the largest—that remains committed to support of liberal international trade policies. Our position can best be summarized by quoting the opening paragraphs of the resolution on "International Corporations and Foreign Trade" adopted by the delegates to our last Constitutional Convention held in April 1972 which state:

"Workers everywhere have much to gain from a rational international division of labor in which each national group of workers shares equitably in the fruits of its contribution to the world's wealth. Under those conditions, the free movement of goods among countries provides major benefits to workers, who are employed to produce goods for export, and to consumers, who enjoy lower prices based upon a sound international division of labor.

"Substantial numbers of UAW members—in the aerospace and agricultural implement industries, for example—owe their jobs to a high volume of exports of their industries' products. UAW members, together with other consumers, are able to improve their living standards when they can buy imported goods that offer price or quality advantages over domestic products. When such imports are available, domestic producers are under pressure to reduce prices, improve quality or manufacture competitive products. The Vega, Pinto, and Gremlin are being produced in the U.S. today only because of high demand for small imported cars."

The UAW's concern is not with free trade as an abstract doctrine but rather with the practical human purposes and effects of international trade. I cannot stress too strongly the relationship between our support for trade liberalization and our insistence that it be accompanied by measures that will protect workers against hardship and exploitation, contribute to improvements in their employment opportunities and living standards and maximize benefits for consumers.

In the light of those considerations, the Administration's proposals are sorely wanting.

SUMMARY OF MAJOR DEFECTS

The Administration has submitted a wide-ranging package of trade and trade-related legislation which requires examination in its entirety. Among the major reasons we find the package totally unacceptable are the following:

1. Instead of meeting the moral imperative and the urgent need for a drastic increase in income maintenance benefits for workers injured by international trade, the Administration proposes to slash the benefits that would be payable to most such workers under existing law. The majority of workers in manufacturing—those earning less than the average wage—would suffer cuts of nearly one-fourth in the benefits presently available to them if they should be displaced by imports and the benefits payable to most higher-paid workers would also be substantially lower.

2. The period during which such benefits would be available to trade-displaced workers would be radically reduced—cut, in most cases, by at least one-half and, in many cases, by far more below the duration provided under present law.

3. No provision is made to assure continuance of valuable fringe benefits essential to the welfare and security of the families of trade-displaced workers—for example, hospital-surgical-medical-drug insurance and hitherto accumulated pension credits.

4. No provision is made to aid communities adversely affected by international trade.

5. No provision is made for revival of the special eligibility provisions for adjustment assistance, included in the Automotive Products Trade Act of 1965, for workers adversely affected by the operation of the agreement between Canada and the United States governing trade in automotive products. This Committee and the House of Representative has previously recognized the need for reinstatement of those provisions which expired June 30, 1968.

6. The tax loopholes that provide strong financial incentives to U.S.-based international corporations to establish foreign factories at the expense of jobs for American workers would be left almost wholly intact.

7. No provision is made to require fair labor standards in international trade in order to prevent unfair competition based upon exploitation of workers even though the need for such standards has long been recognized and the proposal was recently endorsed by the President's own Commission on International Trade and Investment Policy—a commission composed mainly of bankers and industrialists.

8. The breath-taking range of powers that would be placed in the President's hands would represent another major step in the dangerously anti-democratic process, already carried much too far, of transferring Congressional authority to the Executive.

9. Those powers could be used either to liberalize trade or to increase protectionism. Given the unpredictability of the present occupant of the White

House and the even greater difficulty of predicting what future Presidents might do with the powers that they would inherit under the proposed legislation, Congress and the American people are being asked to buy a pig in a poke with respect to the nation's future trade policies.

I will elaborate later in this statement on the points listed above and offer a number of suggestions concerning other trade matters. First, however, I believe it would be useful to outline briefly the background out of which the UAW's position grows.

BACKGROUND

We continue to support trade liberalization even though non-North American imports today account for 16 percent of all new passenger cars sold in the United States. We have tried to help our members recognize that the import invasion results not from trade policies, as such, but rather from the vacuum left in the market by prolonged refusal of the auto corporations to produce small cars in their U.S. plants, as we repeatedly urged them to do starting as long ago as 1949. The two major corporations delayed their responses until 1970 and the third largest, Chrysler, chose to join the foreign competition rather than attempt to lick it. Instead of manufacturing small cars here that would be competitive with the bulk of the imports, Chrysler decided to import such cars from a Japanese affiliate and an English subsidiary.

The import invasion was further facilitated by the excessive prices that the American producers insisted upon charging in pursuit of maximum profits. By now the foreign producers are too deeply entrenched in the U.S. market to be easily uprooted.

The refusal of the U.S. auto corporations to enter into timely competition in product and in price with foreign producers has dealt a double blow of major magnitude to the U.S. trade balance. The U.S. auto corporations abdicated their position in the export market, where demand for large cars is severely limited—preferring, in total disregard of U.S. interests, to serve that market from their overseas plants. At the same time, their domestic product and price policies opened the door wide to a massive import invasion of the home market.

All this, of course, has had its impact on employment opportunities for American workers, not only in the auto industry but in the vast array of other industries—steel, cooper, glass, rubber, electrical products, to name but a few—that supply the auto corporations.

The Chrysler experience

Recently, the UAW has had the sad duty of trying to minimize the severe hardships inflicted upon a large group of Chrysler workers as a result of Chrysler's refusal to compete.

The workers involved had been employed in Chrysler's Los Angeles plant which was shut down in July 1971.

As late as October 1970, the plant had employed 2,308 workers in the UAW bargaining unit. By May 25, 1971, when the closing of the plant was announced, that number had shrunk to 1,188. The reason was a sharp reduction in Chrysler's West Coast sales resulting primarily from a huge invasion of the car market by imports consisting mainly of small cars. At the time the plant was shut, imports accounted for 40 percent of all new cars being sold in the Greater Los Angeles area. Presumably Chrysler felt that its small remaining volume of sales made continued operation of the plant uneconomical.

The Chrysler Corporation, of course, could have kept the workers employed by producing a small car in the Los Angeles plant to compete with imported cars. By so doing it would have helped the U.S. balance of payments while simultaneously avoiding dislocation of its workers. Chrysler chose instead to meet the problem of imports not by competing with them but by joining them.

Instead of following GM and Ford by producing a small car in the United States, it chose to import the Cricket from its British subsidiary and is investing $100 million in Mitsibishi in order, among other things, to import the Japanese-made Colt.

The UAW was faced with the task of picking up the pieces on behalf of the workers, some with more than 30 years of seniority, who suddenly found themselves displaced. Among the older workers, 187 were eligible to retire under what we call "special early retirement" which provides for augmentation of their pensions until they reach age 65 and qualify for full Social Security pen-

sions. We persuaded the Chrysler Corporation to agree to qualify another 218 for special early retirement when they reached age 55.

For the rest of the workers, we sought the opportunity to transfer to other plants. We won Chrysler's agreement to transfer them with the right to exercise their full seniority in layoffs and recalls at the plants to which they transferred. Otherwise few would have agreed to be transferred because, if they were placed at the bottom of the seniority ladder in the plants to which they moved, they would have had high vulnerability to layoffs in strange new communities after uprooting their families from the Los Angeles area.

Transfers with full seniority, however, required amendment of the UAW agreement with the Chrysler Corporation which, under the UAW constitution, required, in turn, ratification of the amendment by the Chrysler membership. We were compelled, in other words, to call upon our members in other Chrysler plants to welcome strangers into their midst at the expense of the job security of those of their fellow workers who had less seniority than the workers transferred from Los Angeles. To the great credit of our Chrysler members, they ratified the amendment. In only 10 local unions out of 102 was there a majority against it.

In all, 476 of the Los Angeles workers accepted the opportunity to transfer. The others apparently were too deeply rooted in the Los Angeles area. Some, undoubtedly, had members of their families working at jobs in that area which they did not feel free to abandon. Others may have remained because they were reluctant to break their ties with relatives and friends or because of the costs of moving.

Of those who transferred, 86 crossed the continent to take jobs in Newark, Delaware; 108 went to Belvidere, Ill.; 117 to St. Louis and 163 to Michigan, Ohio, Indiana, New York and Pennsylvania. Five applied for transfers to Canada but only 2 of them, who happened to be Canadian nationals, were admitted by the Canadian immigration authorities.

Those who did not retire or transfer received only supplementary unemployment benefits (SUB) and/or separation pay. (Even those benefits were not available to a few with less than one year of seniority.) When they no longer qualified for SUB, they lost company-paid health insurance for themselves and their families and their company-paid life insurance. Those with less than 10 years of Chrysler service also lost the possibility of receiving a deferred pension when they reach retirement age. Their years of service with Chrysler, which they can never retrace, now count for nothing toward their old age security.

Although, as noted, the plant shut down in July 1971, it was not until March 1973 that the workers were certified as eligible for adjustment assistance under the Trade Expansion Act (TEA).

Effect on UAW policy

The Los Angeles Chrysler plant is not the only one from which UAW members have been laid off as a result of imports. Workers in many UAW plants making parts and components have been similarly affected.

These incidents, combined with the highly visible inroads made by imported cars and the lack of a meaningful trade adjustment assistance program (about which more will be said below) has enormously strengthened protectionist sentiment among our members.

I am, therefore, compelled to say to you, with all the emphasis at my command, that no matter how deeply I and the other leaders of the UAW may believe in liberal trade policies, the UAW will not be able to resist the protectionist tide to which, regrettably, a large part of the American labor movement has already succumbed, unless the nation's trade policy is humanized as well as liberalized.

ADJUSTMENT ASSISTANCE

That brings me to the subject of adjustment assistance to which the first five above-listed objections to the Administration's proposals are addressed.

The need for adjustment assistance

The need for a sound program of adjustment assistance is particularly urgent in the United States because, as compared with workers in other industrialized countries, American workers are far more vulnerable to adverse impacts from foreign competition.

First, full employment policy in the U.S. is more myth than fact. The record is disgraceful. For the period 1959 through 1972, the unemployment rate in this country averaged 2.4 times as high as the weighted average rate of seven of its major trading partners—Japan, Britian, France, Italy, Sweden, Australia and West Germany. The U.S. average rate for the period was 5.0 percent. The remaining countries averaged 2.1 percent. Even Italy's average rate, at 3.8 percent, was lower than that for the U.S. West Germany averaged 0.7 percent—one-seventh of the U.S. rate. These comparisons, I should emphasize, are based upon Bureau of Labor Statistics computations which adjust the published rates of the other countries to make them comparable with those for the United States.

Persistently high unemployment, obviously, increases the danger that workers displaced by imports or because of loss of export sales will have great difficulty in finding new jobs and may end up in jobs far inferior to those they lost.

Second, the security of an American worker's family is far more dependent upon his job than is the case for workers elsewhere. This is a result of the inexcusable gaps and inadequacies of the U.S. social insurance system. American workers, through their unions, attempt to compensate for the deficiencies of public social insurance by negotiating private insurance and pension plans as part of their collective bargaining agreements with employers. Non-union firms—with exceptions, lags and usually considerable shortfalls—establish similar plans for their workers.

The United States is the only industrialized nation in either the Communist or non-Communist world that has no national health insurance program. This means that when an American worker loses his job he loses also his health insurance protection for himself and the members of his family because it covers them only while he maintains his employment relationship. Except for a handful of states, the U.S. has no public sickness and accident insurance program. Such insurance also depends upon the worker's employment relationship and he cannot qualify for unemployment compensation if illness makes him unavailable for work. Public pensions under our Social Security System are so miserably inadequate that private plans, now covering tens of millions of workers, are essential to supplement them. The same is true, although supplementation is not so widespread, of the public unemployment insurance system. Life insurance and other protections for the survivors of deceased workers are also provided under private plans.

Thus, when an American worker loses his job he and his family lose far more than his wage. They are suddenly exposed, with absolutely no protection or with outrageously inadequate protection, to a wide array of life's hazards—hazards against which governments protect workers far more satisfactorily in most other advanced countries.

Third, for very sound reasons that I need not set out here, the worker's job tenure and promotion rights in the United States are based, to a far higher degree than elsewhere, on their seniority—the duration of their previous employment relative to that of other workers in the same establishment. Thus, if a worker is displaced from a job in one firm and finds a new job in another, he falls to the bottom rung of the seniority ladder with resultant greatly increased vulnerability to layoffs and loss of promotional opportunities. It is pertinent in this connection that American employers are almost entirely free from the governmental, traditional and other inhibitions and direct restraints against layoffs that are widely prevalent in Japan and Western Europe.

Repudiation of principle

The Administration proposes to abolish the special (although seriously inadequate) adjustment assistance benefits now provided for trade-displaced workers under the TEA and to replace them with unemployment insurance benefits. President Nixon's message on the subject says, with respect to workers who lose their jobs because of international trade:

> "Some would even be eligible for largely weekly benefits than they can now receive under the Trade Expansion Act adjustment assistance program."

He somehow neglected to note that ((as will be shown below) a far larger number would be eligible only for sharply reduced benefit amounts and that *all* would suffer drastic cuts in the number of weeks of benefits potentially available to them.

The President attempted to justify his proposal by saying it would:

> ". . . make unemployment insurance protection more equitable for everyone, by assisting all workers evenhandedly regardless of the reason for their loss of job."

That statement repudiates the generally accepted principle that there is a special obligation to individuals adversely affected by actions taken in the interests of the nation as a whole. Recognition of that principle has not been confined to the Trade Expansion Act. It has been recognized repeatedly in other analogous situations including, for example, provision of special benefits for veterans, special programs for readjustment and reemployment of civilian workers displaced from military installations, special assistance to engineers displaced from defense work, and the benefits and protections provided for railroad workers displaced as the result of the creation of Amtrak.

Although some of the above programs were established during his own Administration, the President now rejects the principle of special governmental responsibility for the human consequences of governmental actions.

His specious "equity" argument was answered in a pamphlet issued by the State Department in 1962 entitled "Questions and Answers on the New Trade Expansion Act," which includes the following:

> "*Why should workers idled by imports get special benefits that are not available to workers displaced by automation or any other cause?*
>
> "The effects of foreign trade competition have never been handled by nations on exactly the same footing as domestic trade competition. The tariff itself was the earliest manifestation of that distinction. Existing producers were protected from foreign competition even though they were given no such protection from new domestic producers. The proposed adjustment provisions, therefore, simply continue a distinction which is as old as the tariff itself.
>
> "There is another factor involved in the program, however. Both the imposition of the tariff and the reduction of the tariff are deliberate governmental acts, deliberately intended to alter the conditions of competition in order to serve larger national interests. In this respect, tariff changes differ from other changes in competitive conditions. The principle behind the Trade Act provisions is that when the U.S. Government undertakes an action which, while beneficial to the nation as a whole, affects a limited segment of our population, it should be the responsibility of the Government to attempt to mitigate such impact.
>
> "There is nothing radically new about this principle; it is the same principle which has guided our legislators in assisting in the personal readjustments made necessary by military service or in assisting industry to adjust to the requirements of war production. It is, in essence, the principle that individual groups should not be expected to bear alone the burden of a policy felt to be in the interest of the nation as a whole.
>
> "Therefore, job displacement resulting from tariff reductions may merit national assistance as contrasted with job displacement arising from various other causes over which the U.S. Government exercises little or no influence."

The moral issue

With respect to trade policy, the moral issue is particularly clear. No individual has the right to seek for himself the benefits of liberal trade policies at the cost of hardships to others. He has a right to share in the gains from trade only if he is willing to share fully in the costs of obtaining them. He is entitled to ask no more sacrifice from those adversely affected by trade than he makes himself in meeting the cost of protecting them against loss. He should pay his share of the taxes required to meet that cost and they should be burdened with nothing more than their share of such taxes.

This rules out weasel-worded approaches reflected in proposals for adjustment assistance designed to protect workers against "undue hardships." Why should they suffer any hardship at all?

As a nation we repeatedly pay lip service to the principle that none should bear a disproportionate share of the cost of a policy adopted or an action taken in the general public interest. We have given practical application to the principle where property is concerned. When land is taken for public purposes under eminent domain, the owner is entitled to compensation equal to the full value of his property.

An owner of property taken under eminent domain would be outraged if offered a fraction of its value and the government body involved would be hauled into court. Yet, the Administration would offer workers only a fraction of their normal remuneration if they lose their jobs as a result of national trade policies. Unfortunately, such shabby treatment of workers has been so common that few

recognize it as cause for outrage and, unlike property owners, workers would find it futile to appeal to the courts to remedy the injustice done them.

In a real sense, the only substantial property a worker possesses is his job. What justification can there be for continuance of the double standard as between workers and property owners in cases where both are similarly affected by actions taken in the general public interest?

There is precedent both here and abroad for meeting the moral obligation to workers displaced by trade policies adopted in the national interest. The European Coal and Steel Community provides benefits ranging up to 100 percent of wages for workers displaced as a result of free trade in coal and steel among its member nations. The Rome Treaty that created the European Common Market provides for benefits equal to ful wages for certain displaced workers.

Amtrak precedent

In the United States the principle that workers should not bear a disproportionate share of the cost of actions taken in the public interest was substantially recognized when Amtrak was created to take over railroad passenger operations. Under provisions promulgated by the present Administration's then Secretary of Labor, a railroad worker laid off or downgraded as a result of the creation of Amtrak is *assured of the full wages and fringe benefits applicable to his former job, plus any subsequent increases in those wage rates or improvement in those fringe benefits for a period of time equal to the length of his previous railroad employment up to a maximum of six years.* In addition lump sum severance pay is available to those workers who prefer it to income maintenance payments, provision is made for retraining and generous allowances are payable to workers who relocate to take other jobs.

There is absolutely no reason in logic or equity why similar provision (with certain improvements suggested later in this statement) should not be made for workers displaced as a result of the nation's international trade policies.

Administration's adjustment assistance proposals

Instead, the Administration's legislation, as noted, would both repudiate the principle of special consideration for workers displaced by governmental action and drastically reduce the compensation available to trade-displaced workers. In place of the special, although inadequate, benefits provided for such workers under the Trade Expansion Act, the Administration would offer them only regular unemployment compensation modified by grossly defective legislation establishing certain federal standards for the state unemployment compensation laws, plus an almost meaningless gesture with respect to pension credits.

1. Benefit levels.—The Trade Expansion Act presently provides benefits equal to 65 percent of the individual worker's wage limited by a maximum of 65 percent of the previous year's national average wage in manufacturing. This formula, which yields a current maximum of $101 per week, today would yield the average auto worker approximately 42 percent of his weekly wage (including overtime) and, on the basis of 40 hours of work per week, *34 percent* of his total remuneration, including the value of his fringe benefits. In the case of a Ford tool and die maker, the latter figure would be *28 percent.*

The benefit formula under the Administration's proposal would be at least 50 percent of the individual worker's wage (as compared to 65 under present law) limited by a maximum equal to at least two-thirds of the average weekly wage in covered employment in the state in which the worker had been employed.

The change from 65 to 50 percent of the individual worker's wage would reduce by nearly one-fourth—23.1 percent—the benefits available to all workers earning less than the previous year's average manufacturing wage. It would cause reductions in varying lesser proportions for all other workers earning up to 30 percent more than that wage.

Because of the variations in maximum benefits from state to state that would result from the Administration's proposals, additional workers would suffer reductions in benefits as compared to those provided by TEA and inequities would be created as among workers who earned equal wages when employed. For example, the current $101 maximum benefit under TEA actually equals less than 50 percent of wages for workers in relatively high-wage industries or occupations (as illustrated by the auto worker example above). Under the Administration formula, the maximum benefit would be less than $101 in any state with an average wage of less than $151.50 per week in employment covered by unem-

ployment compensation. (The $151.50 figure takes account, to the fullest possible extent, of the upward rounding of benefits called for by the formula.) In fiscal year 1972, almost two-thirds of the states—33 in number—had average wages in covered employment amounting to less than $151.50 per week.

The inequities that would result from the Administration formula can be illustrated by referring once again to the case of the auto worker earning the average Big Three wage rate for a 40-hour week. Based on fiscal 1972 data on wages in covered employment, such a worker would be eligible for a small increase in benefits in Michigan (where average wages in covered employment are higher than in any other state except Alaska) and a sharp reduction in Georgia where there are sizeable auto plants paying wage rates identical or closely comparable to those paid in Michigan. The worker in question would be eligible for $103 a week under the Administration's proposal—an increase of $2 over the current TEA maximum—but the Georgia worker would be entitled to only $90—a cut of $11 from the TEA level.

What logic can be advanced to support the creation of such inequities among workeds displaced by international trade from the same job, paying the same wage rate in the same industry? As noted, the Administration rests its case for substituting unemployment compensation for special trade adjustment assistance on a specious equity argument—that all unemployed workers should be treated the same regardless of the cause of their unemployment. It then proceeds to advance a program that would yield different benefits in different states to workers identically situated in all pertinent respects, including the cause of their unemployment, except for the accident of the state in which they happen to have been employed. Their benefits would be determined not by their wage rates but by the wage rates paid by other industries in the state with which they had no employment relationship.

2. *Duration of benefits.*—As noted, the Administration's proposals would slash drastically the duration of benefits available to trade-displaced workors who suffer prolonged unemployment. President Nixon four years ago threatened the states that he would take action—within two years—if they did not improve the benefit provisions of their unemployment compensation laws. However, he has called for no federal standard with respect to duration. Thus, trade-displaced workers would be left to the tender mercies of the state laws whose duration provisions, in all cases, are far short of those of the TEA.

The TEA provides a flat duration of 52 weeks of benefits (which may be drawn over a 2-year period if the worker is intermittently employed) for all eligible workers who are unemployed that long. An additional 26 weeks are available for workers engaged in retraining, making a total of 78 weeks. Workers aged 60 or over at the time of displacement are entitled to an additional 13 weeks above the standard 52.

In contrast, the state laws, with few exceptions, provide *maximum* duration of 26 weeks; none provides more than 36 weeks. Except for the 7 states which provide for *uniform* duration of 26 weeks and Pennsylvania which provides for 30 weeks for all eligible workers, actual duration for individual workers may fall far short of the state maximum. Among the 42 states not providing uniform duration, more than half provide minimum durations ranging from 4 through 11 weeks. In all but 8, minimum duration is 13 weeks or less.

Even those workers eligible for the typical *maximum* duration of 26 weeks, therefore, will suffer a *reduction of 50 percent* from the standard 52 week duration potential provided by TEA and of *two-thirds* from the 78 weeks available to those engaged in retraining. (The reduction for workers engaged in retraining would be somewhat less drastic, but nevertheless severe, for workers in the 3 states that provide extended duration for retraining.)

3. *Absent federal standards.*—The UAW, together with the rest of the labor movement, has long supported federal standards for the state unemployment compensation laws as an interim measure pending creation of a national system. For reasons previously noted (i.e., the special obligations owed to workers displaced as a result of deliberate government action), standards for general unemployment compensation for irrelevant for present purposes.

It is pertinent to note, however, that the liberalizing intent of a federal standard covering benefit amounts only can easily be defeated by state legislatures if it is not accompanied by standards for duration, eligibility and disqualification. Under the experience rating system of financing unemployment compensation, which is now in effect in all states, employers have a strong incentive to minimize benefit outlays by all means available. Ths is one of the main reasons that make federal standards imperative. For employer lobbyists play each state legis-

lature off against the others with threats that plants will relocate if the state's "investment climate" is damaged by enactment of more adequate, and therefore more costly, unemployment compensation legislation. In fact, certain aspects of the unemployment compensation system have seriously deteriorated as a result of such employer pressure.

But incomplete standards could bring results worse than no standards. Thus, if legislation providing for federal benefit standards only is enacted, employer lobbyists will seek—and in many cases probably will succeed—to offset or more than offset the increased costs resulting from the benefit standards by undermining other features of the state laws.

In the absence of federal eligibility standards, employers are likely to seek amendments to the laws that would require longer duration of base period employment or higher base period wages as conditions of eligibility for benefits. This would make it impossible for many unemployed workers who can now qualify to draw any benefits at all.

In the absence of federal duration standards, employers would seek to increase the duration of base period employment or the amount of base period wages required to qualify both for the maximum duration of benefits presently provided by the state law and for any given number of weeks of benefits less than the maximum. Additional pressure would be exerted on those states which provide uniform duration to retreat to variable duration.

In the absence of federal standards limiting both the causes for which states are permitted to disqualify workers for benefits and the duration of the disqualification periods, employers will bring pressure to multiply and magnify the unjustifiable and harshly punitive disqualification provisions that are already all too common features of the state laws. The Nixon Administration proposes, in fact, to *impose a federal disqualification standard* upon the states which would compel them to deny benefits to strikers. (New York and Rhode Island are the only states that now pay benefits to strikers, and then only after extended waiting periods when the individual's unemployment can properly be presumed to be due more to economic conditions than to the fact that he went on strike.)

Under the Administration's proposals, trade-displaced workers, of course, would suffer along with all other workers from the deterioration of the eligibility, duration and disqualification provisions of the state laws likely to take place as a result of employer efforts to recapture the increased costs resulting from the proposed federal benefit standard. It is impossible to believe that the experts who drafted the Administration's proposals were unaware of the probability of such deterioration. In fact, it would not be surprising if the Administration were quietly using that probability to obtain acquiescence for its proposed benefit standard from employers who have vigorously opposed more comprehensive federal standards.

4. Lack of protection for fringe benefits.—The importance to workers and their families of fringe benefits derived from and dependent upon their employment cannot be over-emphasized. Yet, except for two proposals—one inadequate and the other almost meaningless—the Administration proposes to do nothing to protect workers against or compensate them for the loss of these fringe benefits if they should lose their jobs as a result of trade policies adopted in the interests of the nation as a whole.

According to the Bureau of Labor Statistics, the value of the average American worker's fringe benefits in 1970 was equal to 22 percent of his wages. The Chamber of Commerce of the United States (which includes a few items not pertinent for present purposes, such as relief time) puts the cost at 30.8 percent of payroll for 1971, which, of course, would be a much larger percentage of wages.

In the case of UAW members employed by the major automotive corporations, fringe benefits in 1972 amounted to approximately 40 percent of wages (including overtime and shift premium) and the value of non-payroll fringes (e.g., pensions, hospital-surgical-medical-drug insurance for the worker and his family, life and survivor insurance, sickness and accident insurance, supplemental unemployment benefits and public pensions and other forms of social insurance) is approximately $1.50 per hour worked. They would cost vastly more if an unemployed worker, assuming he had the funds, tried to buy the same protection individually.

These fringe benefits, as noted, are vital to the security of the worker and his family. When he loses his job he loses the protection they provide and faces financially naked the hazards against which they are signed to safeguard him and his family.

No adjustment assistance program can be considered acceptable unless it maintains for trade-displaced workers the fringe benefit protections they would have had if they had continued in employment.

The two provisions of the Administration's legislation that have relevance in the context of international trade deal with funding and vesting.

Funding.—A requirement for contributions to pension funds in excess of the current minimal requirement of the Internal Revenue Code, of course, would make it more likely that monies would be available actually to pay pensions to trade-displaced (as well as other) workers when they reached retirement age, assuming they had vested rights to pensions.

However, the funding requirements of the Administration's proposed legislation can only be described as anemic. They are only marginally better than the current legal requirements. They apply only to vested pension obligations and (as will be explained in more detail below) the vesting provisions of the Adminitration's proposals apply only to pension credits earned in the future. Thus, there is no requirement to accumulate funds to meet pension promises based on credits earned by an individual based upon his employment prior to enactment of the proposed legislation. For many individuals, the pension credits for which no funding would be required would stretch back over decades—45 years, for example, for a worker now age 64 who began work with a firm at age 19 and whose pension plan provides credit for his entire period of service. Moreover, the formula for funding would put off to Doomsday the full funding of even the vested liabilities of the plan.

In contrast, the Williams-Javits bill would require full amortization of all unfunded pension liabilities—whether vested or not yet vested—in no less than equal annual installments over a 30-year period from the time the liabilities were created (e.g., by initiation of a new plan or amendment to an existing plan). Thirty years reflects the norm under most existing plans that provide for funding.

The likelihood of sufficient funds being available to meet pension liabilities to trade-displaced workers, obviously, would be far less under the Administration's proposal than under the Williams-Javits bill.

Vesting.—The trade-displaced worker would receive no benefits at all, however, unless his pension rights had vested, i.e., unless (assuming funds were available) he had an unqualified right to receive a pension based on his period of work in the employment from which he had been displaced. (According to the Administration, only one-third of those covered by private pension plans are presently vested.)

Unlike the Williams-Javits bill, however, the Administration's proposal provides for vesting *only of pension credits earned on the basis of future employment* (i.e., employment subsequent to enactment of the legislation), ignoring all past service the worker may have had with the same employer which would be taken into account upon his retirement if he were not displaced from his job.

The practical effect of the Administration's approach may be illustrated by taking the case of a 60 year old worker with 40 years of pension service credit at the time of enactment of the Administration's proposal under a pension plan that provides for retirement at age 65 with full credit for each year of service but does not presently provide for vesting. If such a worker lost his job to import competition at age 63, *he would receive pension payments under the Administration's legislation based on only 3 years of service out of a total of 43 for which he had pension credit*—less than 7 percent of what his earned credits should have yielded. Under the Williams-Javits bill, in contrast, the same worker would be given full vested rights for his entire 43 years of service three years after enactment of the legislation. (The three-year lag is needed to permit plans to adjust to the new vesting and funding requirements, including renegotiation of existing agreements to conform to the proposed new legal requirements and making provision to meet resultant added costs.)

To take another example, a worker under a similar pension plan who is 50 years of age and has 25 years of service as of the time the Administration's proposal is enacted would not be required (because vesting would be applied only prospectively) to be given vested rights to the pension credits earned during those 25 years. If displaced by imports 5 years after enactment of the legislation he would be assured of a pension based upon only 5 years of service credit—equal to one-sixth of the amount which would be payable under the Williams-Javits bill. The loss would be irretrievable since, obviously, he could not relive the 25 years during which he had earned the lost pension credits.

The Administration's vesting proposals throw revealing light on the Nixon Administration's attitude toward workers' problems in general, of which adjustment assistance is one facet. Under the proposal, vesting would be based upon a so-called "rule of 50," i.e., pensions would begin to vest, starting with 50 percent of total earned credits, when the individual's age plus years of participation in a pension plan totalled 50. Uniform application of the rule would cause discrimination in hiring against older persons because the added pension costs resulting from vesting would apply immediately to a worker already 50 years old, for example, whereas the cost impact would, at least, be delayed for a newly hired younger person and might never materialize at all if he left employment before his age and years of pension plan participation totalled 50.

Instead of meeting the age discrimination problem by basing vesting upon length of participation alone, as the Williams-Javits bill does, or developing some other means to avoid discrimination that would be consistent with workers' interests, the Administration simply watered down the "rule of 50" at the expense of workers, including the older workers against whom uniform application of the rule would have created discrimination. The Administration would permit a three-year waiting period before new employees must begin their participation in pension plans, thus deferring vesting of their pension rights for an equal period, and it would make the vesting inapplicable to new hires who are within 5 years of normal retirement age.

Lack of reinsurance.—A glaring omission in the Administration's pension proposal is its *failure to include provision for reinsurance of pension benefits.* Reinsurance is provided for in the Williams-Javits bill. The absence of reinsurance from the Administration proposal would mean that trade-displaced workers could not be sure of obtaining their *vested* pension benefits even if the Administration's proposals were to be enacted.

Despite the soundest practicable funding requirements that can be devised, some pension plans are bound to terminate before sufficient funds have been accumulated to meet all pension obligations. This is because funding for past service (i.e., pension service credit accumulated before the plan was initiated) is necessarily a gradual process—generally spread over from 30 to 40 years to keep annual costs within manageable bounds. The weak funding provisions proposed by the Administration would leave a large proportion of terminated plans without sufficient monies to meet vested pension obligations.

The likelihood is obviously great that the *incidence of plan termination would be far higher among firms in industries compelled to separate workers because of foreign competition* than among the general run of firms. *Thus, pension reinsurance is vitally important for trade-displaced workers.*

The "threshold" argument

Thoroughly conscious of the gross deficiences of its worker adjustment assistance proposals—including the fact that they call for sharp reductions in benefit amounts for most workers and in duration for all workers as compared to present TEA provisions—the Administration points to the fact that the eligibility requirements in its trade bill are more liberal than the admittedly restrictive eligibility provisions of the TEA. It claims it has lowered the "threshold" that must be crossed in order to obtain benefits. Thus, its spokesmen have told us that, although the total amounts payable to individual trade-displaced workers will be lower, more workers will have access to them.

This is a totally misleading argument for two reasons. First, assuming the Administration's proposed unemployment compensation legislation is enacted, *the eligibility provisions of the trade bill will become inoperative and therefore meaningless after July 1, 1975.* In state benefit years beginning on or after that date, the eligibility of trade-displaced workers would be determined exclusively under the provisions of the state unemployment compensation laws. Those provisions, as noted, would be likely to be made more restrictive in the absence of a federal eligibility standard.

Second, the "threshold" argument assumes the only available alternatives are (a) TEA benefits coupled with the TEA's restrictive eligibility requirements or (b) substantially less adequate benefits than TEA provides with (for two years) somewhat less restrictive eligibility requirements. This is obviously a false dichotomy. *What, except a lack of concern and compassion for workers, stands in the way of reasonable benefits accompanied by reasonable eligibility requirements?*

Job search, relocation and training allowances

The job search, relocation and training allowances proposed by the Administration for trade-displaced workers are thoroughly in harmony with the pattern of grotesque inadequacy that characterizes the remainder of its adjustment assistance program.

The job search allowance is largely illusory because it would be available only if the unemployed worker were to pay 20 percent of the total expense involved. This would mean that he would have to dip into the miserly benefits offered by the Administration, or into whatever savings he might have left after the duration of those benefits had been exhausted.

The requirement that the worker bear part of the cost can be understood only as a confession that the Administration has no serious intention of working toward a full employment economy. In such an economy, the Employment Service would be able to refer the worker to a suitable job in another location. The rationale for cost-sharing by the worker would largely evaporate because with his expenses paid to be interviewed for a specific vacant job, there would be little reason to fear that he would use his job search allowance for tourism. With the cost-sharing proposed by the Administration, and with little assurance that the search would be productive, few workers would be likely to apply for the job search allowance. That, of course, would make it practically costless.

The Administration's relocation allowance proposals also would require cost-sharing by the worker and, in addition, would confine eligibility to heads of families (thus excluding single workers) who apply before they exhaust their unemployment benefits on the basis of a job or job offer obtained within that limited period. After they exhaust their benefit rights and therefore become even worse off financially, the Administration would provide no relocation assistance.

For a trade-displaced worker who is engaged in authorized training which "is provided in facilities which are not within commuting distance of [his] regular place of residence" the Administration offers "subsistence expenses for separate maintenance" not to exceed the munificent sum of $5 per day. That figure was ludicrously low when it was written into the TEA 11 years ago. The Administration, which talks so much about inflation, apparently finds it easy to forget, where workers are concerned, that the Consumer Price Index has risen by 42 percent since 1962.

Absence of assistance to communities

Certain industries are heavily concentrated geographically. Foreign competition with the products of such industires can deal devastating blows to the economies of whole communities, facing them with the prospect of becoming ghost towns. Experience has shown, however, that the federal government, through timely and coordinated action by its appropriate agencies, can revitalize communities threatened by economic disaster. Actions taken in certain communities when military installations were withdrawn from them provide outstanding examples of what can be accomplished where there is a will to do so and means are made available.

Yet, the Administration's proposed legislation makes no provision for assistance to trade-disrupted communities.

UAW ADJUSTMENT ASSISTANCE PROGRAM

As previously noted there are no reasons in logic or equity for trade-displaced workers to be given less favorable treatment than is available to workers displaced by Amtrak under provisions promulgated by the Administration's own former Secretary of Labor. On the basis of the specious argument that all unemployed workers should be treated alike, whether or not their joblessness is caused by a governmental action, the Administration now proposes to level trade-affected workers down to the benefits and duration provided under unemployment compensation rather than level them up to the benefits provided under its own Amtrak provisions, which flowed from a much more analogous situation.

The Amtrak protections, as noted above, maintain affected workers, with respect to their wages and fringe benefits, in exactly the same position they would have had if not displaced, for periods of time running up to 6 years. In addition, if a displaced worker is transferred to a railroad job at another location, he will receive full reimbursement (without cost-sharing) for all moving expenses for himself and his family, including compensation for any loss incurred in the sale of his home or any penalty paid for cancellation of his lease. If he should be furloughed within 3 years after relocating, he will receive similar

reimbursement for the costs of moving back to his original point of employment. If the worker requests retraining to qualify for a job comparable to that from which he was displaced, such training is provided at no cost to him. As noted, provision is also made for lump sum serverance payments to those workers who prefer such payments to maintenance of their incomes and fringe benefits.

UAW proposal

The railroad workers were dissatisfied with the Amtrak provisions, far superior though they are to present TEA benefits and the even less adequate benefits now proposed by the Administration. There are, in fact, certain deficiencies in the Amtrak protections which we believe should be corrected in providing adjustment assistance to trade-displaced workers. We proposed in an earlier Congressional hearing, as we repeat here, that the following modifications of and additions to the Amtrak provisions should be made in order to bring them closer to offering full equity to workers, improve their workability and avoid special hardships affecting older displaced workers:

1. The six-year limitation for maintenance of wages and fringe benefits is arbitrary. There is no reason why this protection should not continue on a time-for-time basis, without limit, equal to the entire duration of the worker's previous employment with the firm affected by foreign competition. Quite likely he might have been able to continue with that firm (and been promoted to a better job) for the rest of his life, if not for the national trade policy which caused his dislocation.

2. The worker's Social Security and unemployment compensation rights for the period during which he is entitled to maintenance of his wages and fringe benefits should be protected. He should be credited under both programs with the wages he would have earned had he remained in the employment from which he was displaced (or, if he is downgraded or placed on short workweeks, with the wages he would have earned if he had remained on his former job or worked full time). Workers on layoff would need to be credited with wages for unemployment insurance purposes only during the base period required to qualify them for benefits upon the termination of their income maintenance periods. Wages credited under either program as a result of work with other employers, of course, would be offset against the credits receivable as adjostment assistance.

3. Workers engaged in retraining under the adjustment assistance program should have their wages and fringe benefits maintained until they complete the retraining program even if the maintenance period otherwise would end earlier.

4. A relocation bonus should be paid to those workers who move from one community to another in order to obtain new employment. Such a bonus would be in recognition of the fact that relocation almost always involves hardship in the rupture of family and community ties, removal of children from the schools to which they have been accustomed, adaptation to strange new surroundings, quitting of jobs by other family members, etc. Provision for payment of such a bonus would have desirable side effects. It would induce some workers to move to new job who otherwise would be able to find no suitable new employment. Thereby, it would reduce the cost of wage and fringe benefit maintenance for them. Relocation grants, in addition to reimbursement of moving expenses, are paid under a number of European programs. The Administration bill provides for a lump sum payment (in addition to reimbursement of 80 percent of moving expenses) equal to three times the worker's average weekly wage up to a maximum of $500.

5. In lieu of the Administration's "job search" proposal, job and community "prospecting" costs should be reimbursed in full and on a somewhat different basis. When the public employment service refers a worker to a job in another community (or when it certifies as *bona fide* a job made directly to the worker), he should receive payment for travel costs to visit the establishment to investigate the offer. If he tentatively decides to accept the job, travel costs should be paid for himself and his wife (or for a woman and her husband) to visit the community involved to look into such maters as housing and schools and other community facilities. Reimbursement for such expenses would encourage worker relocations that otherwise would not occur. With respect to expenses for the spouse for "community prospecting," Sweden has found that such prior investigation of the community increases greatly the likelihood that the family, once moved to it, will remain there. Thus, the major costs of relocation are less likely to be wasted.

6. Special provision must be made for older workers whose age makes it unlikely that they will be able to obtain suitable new employment. If aged 55 or older and certified by the employment service as unlikely to be placed in suitable employment, such workers should have their wages and fringe benefits maintained until they reach age 65, the normal retirement age, regardless of their length of service with the former employer. Continuance until age 65 might be conditioned, however, on a minimum period of employment with the firm from which the workers were displaced, possibly one year.

Maintenance of wages and fringe benefits for trade-displaced workers under the UAW proposal would be conditioned, of course, upon the workers' availability for work. Refusal without good cause of offers of suitable jobs (i.e., job in the same labor market comparable in remuneration, status and skill, subject to the usual exceptions for struck work, etc., provided for under the unemployment compensation laws) should subject them to reasonable and appropriate penalties with respect to their future eligibility. We believe that it would not be improper, in addition, to require that they take retraining, *provided* that they are assured that, upon successful completion of the training, they will be placed in a suitable job, known in advance to be available, on which they will be able to make use of their training. The proviso is intended to avoid the frustration and demoralization—so common in our high-unemployment economy—that result when retrained workers find no outlet for their newly acquired skills.

Chamber of Commerce Task Force proposal

We believe that nothing less than Amtrak-type benefits, including the modifications proposed above, can be considered to be an acceptable discharge of the nation's obligations to trade-displaced workers. It is worthy of note, however, that even a majority of the Board of Directors of the Chamber of Commerce was prepared to go far beyond the Administration's proposals for adjustment assistance. *In fact, the proposal supported by the Chamber majority is far closer to the UAW's position than to the Administration's.*

The Chamber recently created a special task force headed by Dr. C. Fred Bergsten of the Brookings Institution, to develop a trade adjustment assistance program. The members of the task force unanimously agreed upon a program which was then unanimously endorsed both by the Chamber's special panel on foreign trade policy headed by former Republican Congressman Thomas B. Curtis of Missouri and by the Chamber's International Committee chaired by Kenneth W. Spang, vice-president and international adviser to the First National City Corporation of New York.

When the program was presented and discussed at a meeting of the Chamber's Board of Directors on February 22, 1973, the vote was 35 to 10 in favor. The minority invoked a technicality—a Board rule that requires approval by two-thirds of the full Board membership of 63. A mail poll was then conducted which resulted in a vote of 35 to 22 in favor—again short of the two-thirds required for adoption.

The main elements of the program supported by a sizeable majority of the Chamber's Board who voted included:

1. Benefits equal to 75 percent of the wages of displaced workers up to a maximum benefit of $12,000 per year.

2. Government payment of insurance premiums formerly paid by the companies from which the workers were laid off "to enable all dislocated workers to maintain in full their membership in all their insurance plans."

3. Duration of 52 weeks plus an additional 52 weeks for workers in training programs.

4. For workers 55 or older, the choice of either the above benefits or "early retirement, with immediate commencement of benefits (at the level otherwise available at age 62 for those retiring before 60, at the level available at age 65 for those retiring at 60 or over) under their private pension plans and the Social Security and Medicare systems."

5. Relocation assistance under which the cost of moving "should be completely financed by the trade adjustment program, as they are in the Amtrack settlement," with such assistance to be available to "all dislocated workers, not just heads of families."

6. Retraining programs (for which the workers would be required to apply) "to qualify them for suitable jobs *that were identifiable as available to use those skills when they were trained for them.*" [emphasis added]

7. Government assistance to communities adversely affected by international trade.

In the sixth point listed above, the Chamber's majority recognized, as does the UAW proposal outlined above, that where a training requirement is applied, there must be assurance of an appropriate job when training is concluded.

The Chamber document also recognized that, aside from the insurance programs mentioned in Point 3, above, there are:

> "Some other important fringe-benefit problems, such as *vesting of pensions*." [emphasis added]

It expressed the hope that these problems "may be met by changes in the relevant legislation which are already under consideration."

The Chamber document also proposed eligibility requirements far more liberal than those in the TEA—thus, in effect, rejecting the false dichotomy in the Administration's "threshold" argument which attempts to deny that improved benefits can be accompanied by relaxation of restrictive eligibility requirements.

Two further points deserve particular attention in connection with the benefit standard called for in the Chamber's document.

First, a UAW staff member who served in the capacity of adviser to the Chamber's task force was able to observe that a significant proportion of that body's members seemed sympathetic to the 100 percent level of income maintenance provided under the Amtrack agreement. They yielded, however, to arguments based upon what was referred to as the "optical effect" of setting benefits that high (i.e., that chances for adoption would be impaired) coupled with the further argument that non-taxable benefits equal to 75 percent of wages would come fairly close, in take-home pay effect, to taxable benefits equal to 100 percent of wages. This is correct for single workers in the higher wage brackets but not for workers with families, particularly large families, whose needs for income maintenance tend to be greatest. (Aside from the practical consequences, the "optical effect" upon workers' attitudes of the difference between 75 percnt and 100 percent benefits is to strengthen rather than weaken opposition to trade liberalization.)

The second point worth noting is that the Chamber document, although setting a benefit level of 75 percent of the individual's wages, fixed the maximum benefit at *$12,000 per year*.

The 75 percent individual benefit level is the same as that proposed by the Ways and Means Committee in 1970 and adopted by the House as a whole that year in HR 18970. However, that bill set the ceiling on benefits at 75 percent of the average weekly manufacturing wage. The Chamber document explained its proposed $12,000 ceiling by saying:

> ". . . the Chamber feels that it is inequitable to penalize a worker because his wage is higher than the national average for manufacturing. Every worker should receive a like proportion of his previous wage—75%, on this recommendation."

A very substantial part of the difference between non-taxable benefits equal to 75 percent of wages and taxable benefits at 100 percent, of course, would be recaptured in taxes.

Differences in duration

Other than the level of benefits, the only *major* difference between the UAW's proposals for worker adjustment assistance and those set forth in the Chamber's document relates to the duration of benefits. At first glance, it may seem that there would be enormous differences in cost as between a program that limits duration of wage and fringe benefit maintenance to one year (two years for workers engaged in retraining) as proposed in the Chamber document and the UAW proposal for time-for-time duration determined on the basis of the length of the individual's previous employment.

Although that difference can be tremendously important to workers psychologically, its practical effect would be small. It must be remembered that the difference relates not to the time for which benefits actually will be paid to all eligible workers but rather to the *maximum* period for which benefits may be payable. On the time-for-time basis, the *average* maximum duration for workers displaced from a particular plant could be either greater or less than the flat maximum periods proposed by the Chamber's task force. If only low-seniority workers were displaced, the average maximum duration could well be considerably less on a time-for-time basis. If an entire, long-established plant were shut down, the average could be considerably greater on a time-for-time basis. Overall, however, such evidence as is readily available, suggests that the differences would not be great.

For example, a recent breakdown of Ford Motor Company blue collar workers shows that 28 percent had less than 3 years of company service and more than 50 percent had less than 7 years. Displacement of more than one-fourth of the workers, therefore, would result in average maximum duration of somewhere near the middle of the range from 1 day to just under 3 years and, if as many as 50 percent were displaced, somewhere near the middle of the range from 1 day to 7 years. It is difficult to say how representative the Ford data are of industry generally but there is no reason known to us to write them off as unrepresentative.

More important, maximum duration, although all-important to the few workers who suffer prolonged unemployment, bears little relationship to actual duration of benefit payments. Even in 1971, when unemployment was abnormally high, actual duration of unemployment (according to the household survey data) was less than 5 weeks in nearly 45 percent of the cases and only 10.4 percent of the jobless remained unemployed for more than 26 weeks. Those figures, it should be emphasized, include persons with no previous work experience.

Thus, under both the Chamber task force proposal and the UAW proposal actual duration would tend to be so far below the respective maximum duration that the actual numbers of weeks of benefits paid are not apt to be much different—subject only to one qualification. The longer duration (or, more relevantly, the longer period of eligibility) that would be available to some workers on the time-for-time basis would enable them to draw benefits in recurring spells of unemployment occurring over a period of years. (Under the TEA, they presently can spread their 52 weeks of benefits over two years.) That is not likely to add greatly to costs except in periods of recession because those displaced workers who obtained permanent new jobs—probably the vast majority—would, over that same period, be acquiring seniority that would increasingly tend to immunize them from layoffs.

Cost of adjustment assistance

The Chamber of Commerce task force explored the cost of the program it proposed and concluded:

> "The total cost of the proposed program for workers would thus be well under $200 million in its first year, and rise to a long-run equilibrium level of no more than $250 million annually after 10 years. About 10% of all dislocated workers would be over 55 years old and are assumed to take advantage of the early retirement option. About 30% would benefit from on-the-job and institutional training. The rest would be able to find new jobs without such programs, assisted by the improved counseling or simply due to the inducements provided by the job test and the limited duration of compensation benefits, within an average period of six months."

In view of what has been said above about the difference between the two proposals (including tax recapture of a large part of the difference in benefit amounts), it should be apparent that the cost of the UAW's proposals would be only modestly greater than the cost of the worker assistance program prepared for the Chamber.

The Chamber document estimated the total cost of its proposed adjustment assistance program, including assistance to communities and firms as well as to workers, at a maximum of about $300 million in its first year rising to a maximum of about $350 million in the longer run. (Both these figures and separate estimates for worker assistance which they include are *additional* costs—offsetting in the case of workers, for example, the unemployment compensation benefits which they would receive in any event.)

As against the cost of adjustment assistance, the Chamber document cited an estimate that:

> "The annual costs to the US economy of present trade restrictions, both here and in other countries, total at least $4.5 billion (and are rising over time)."

Obviously, the costs of trade restrictions to the U.S. economy would be far higher if the rising tide of protectionism in the United States were to lead to increased trade barriers here and to retaliatory action by other countries. Thus, we entirely agree with the conclusion Dr. Bergsten stated last year in hearings on trade adjustments assistance held by the Subcommittee on Foreign Economic Policy of the House Foreign Affairs Committee:

"The benefits of avoiding import restrictions far outweigh the costs of a meaningful adjustment assistance program, which is a *necessary component of a policy which can do so.*" [emphasis added.]

Eligibility for adjustment assistance

There is general agreement that eligibility criteria for adjustment assistance under the TEA are far too restrictive and that the procedures required under the Act result in intolerable delays in the delivery of benefits. The delays have been so great that the benefits have been aptly characterized as "burial insurance." The defects of the pertinent TEA provisions are set out in detail in the report of the Williams Commission and the papers prepared for it, as well as elsewhere. There is therefore no necessity to review them here. There is also agreement that, while procedures under the Automotive Products Trade Act (APTA) were also needlessly cumbersome and time-consuming, the eligibility criteria under that Act were far more satisfactory than those of the TEA.

Eligibility criteria

The APTA provided, in essence, that, if there were a decline in U.S. output of the product concerned and either an increase in imports or a decrease in exports (from or to Canada), a direct relationship was presumed to exist between the dislocation and the operation of the automotive trade agreement with Canada, subject to being overcome only by a Presidential finding to the contrary.

The reasons for covering dislocation related to decreases in exports, as well as increases in exports, were cogently presented in the paper on adjustment assistance prepared for the Williams Commission by Marvin Fooks. The pertinent excerpt from his paper follows:

"The Automotive Products Trade Act of 1965 established the precedent for assisting workers and firms injured because of changing production patterns, including declining production for export. A generalized case for providing adjustment assistance to firms and workers injured by loss of export markets can be made within the confines of the national trade agreements program.

"The principle of reciprocity is an important underpinning of the trade agreements program. Reciprocity dictates that for every tariff concession granted by the United States an equivalent concession be obtained from a foreign government. The equivalent concession ostensibly is measured in terms of U.S. industry's competitive ability to export specific products. Unquestionably, the government's negotiations of reciprocal tariff reducing agreements has encouraged expanded export activity by U.S. industry. Similarly, officially sanctioned activities to stimulate export expansion have further exploited the groundwork established in part by the trade agreements program. Increased employment is associated with expanding domestic production for export. Workers employed in production specifically for export would have been elsewhere or otherwise employed had it not been in the national interest to remove barriers to trade and to expand exports.

"Workers and firms engaged in production for export have established specific stakes in their current export-related employment. Loss of particular exports is to be expected as economic conditions change just as increased imports are to be expected. A national trade and investment policy that accelerates the global reallocation of resources also accelerates the rate of economic change and causes problems of adjustment for resources previously protected by less expansionary policies.

"On the above grounds, adjustment assistance for workers formerly in export-related employment, or in employment threatened by imminent loss of exports, is justified.

"In addition, there are special situations involving loss of exports that justify provision of adjustment assistance to workers (and possibly firms). One such case involves the multinational corporation; another involves situations similar to that associated with the U.S.-Canadian Auto Agreement; and the third encompasses situations where domestic injury results as a consequence of a unilateral act by a foreign government that results in the loss of export markets."

The nature of the eligibility criteria has important bearing upon the time required to deliver benefits after application has been made. If the eligibility criteria are unduly complex, the likelihood is that considerable time will be con-

sumed in collecting the facts required to determine whether the criteria have been met in a particular case. It is therefore imperative (1) that the criteria be as simple as possible and (2) that, to the greatest extent possible, the data required for application of the criteria be collected in advance on a routine basis.

I suggest that a dislocated worker (defined as one who has been permanently separated, laid off, downgraded or placed on short workweeks) applying for adjustment assistance be deemed eligible if:

1. There has been a decrease in U.S. output of a product made by his firm accompanied by an increase in imports or decrease in exports (or both) of the product and his firm's output of the product has been reduced from a level reached within the preceding two years; and/or

2. His firm experienced a decrease in output of a product during the preceding two years which was associated with:

(a) reduced sales to a customer or customers who initiated or increased purchases of the same or a similar product from non-U.S. sources and/or

(b) a decrease in its export sales of the product or in the export sales of a customer or customers.

Criterion 1, above, is essentially the same as that applied under the APTA. Criterion 2 is needed for a variety of reasons. To give one example, the product classes used under Criterion 2 will inevitably cover a range of individual products varying in their characteristics from firm to firm and even within firms. While U.S. output of the class as a whole may be unaffected despite increased imports or decreased exports, individual variants of products within that class may be particularly vulnerable to foreign competition, e.g., foreign producers concentrating on such variants may be able to offer them at a lower price, the foreign item may have a unique characteristic that meets a special need of particular kinds of users, etc. Workers adversely affected by such forms of foreign competition should be eligible for adjustment assistance.

In addition, Criterion 2 would assure coverage of workers indirectly affected because they were employed by firms supplying materials, parts or components to other companies affected directly by increased imports or decreased exports. The Chamber of Commerce document referred to above proposed that such indirectly affected workers be covered.

If deemed necessary, the proposed criteria could be made rebuttable presumptions, as under the APTA. For example, the applicant for benefits could be held ineligible if it were found that his firm had shut down because losses on products other than those affected by international trade made it impossible to continue the business. I question, however, whether enough would be gained by making the presumption rebuttable to offset what would be lost as a result of added complexity.

Administration.—The primary problem in administering adjustment assistance is to assure that benefits are delivered promptly to those entitled to them. More reasonable eligibility criteria would facilitate prompt payment of benefits. An "early warning" system under which employers are encouraged to notify the appropriate authorities when they foresee adverse impacts from trade and under which the government collects and keeps under constant watch statistical data designed to reveal trade problems in their incipient stages would be of great help in expediting determinations of eligibility.

The criteria and procedures outlined above should make for prompt delivery of benefits in the vast majority of cases.

Situations will remain, however, where investigation is required to determine eligibility. Because prompt delivery of benefits is crucial, such investigations should not be permitted unduly to delay the beginning of benefits. Uncle Sam is big enough and strong enough to recover any payment that later may turn out to have been made improperly. I therefore would urge that payments be made immediately (1) in all cases where the worker expresses his belief that his dislocation is due to foreign trade and (2) in all other cases where preliminary examination of the facts by the employment security agency suggests a reasonable possibility that he may ultimately be found eligible for trade adjustment assistance. In order to avoid discouraging workers from making their claims for adjustment assistance, no penalty should be assessed against any worker who makes repayment with reasonable promptness (in the light of his financial circumstances) of any benefits obtained in good faith to which he was not entitled. Penalties should be imposed only where the claim clearly was made with intent to defraud the government.

Availability of data.—Provision must, of course, be made for workers and their unions to appeal determinations of ineligibility for adjustment assistance or determinations that yield lesser benefits than the worker believes he is en-

titled to receive. In order to be meaningful, the right to appeal must be accompanied by the right to access to all data pertinent to the appeal. Under the TEA and the APTA, data supplied by certain employers have been held to be confidential and, on that basis, have been withheld from the applicants. The latter were thus deprived of the ability to pursue their rights because they, obviously, were not able to rebut evidence of whose very nature they were unaware. New adjustment assistance legislation should be designed to facilitate rather than thwart efforts of workers to obtain the benefits intended for them. This requires that all pertinent data, without exception, be made available to workers and their unions.

REVIVE ELIGIBILITY PROVISIONS OF AUTOMOTIVE PRODUCTS TRADE ACT OF 1965

It is believed, although more thorough analysis is required, that the criteria proposed above would cover workers affected by the operation of the auto trade agreement between the United States and Canada. However, if there should be any basis for doubt on that score, or if any other eligibility criteria are enacted for general application, which do not clearly cover the special problems involved, the criteria provided by the APTA should be revived.

As you know, those provisions expired on June 30, 1968. As a result, auto workers now displaced from their jobs because of the operation of the Agreement must rely on the adjustment assistance provisions of the Trade Expansion Act which have proved dismally inadequate.

In 1970 the House Ways and Means Committee recommended and the House of Representatives passed a bill reviving the APTA provisions. This bill did not get past the Senate, however, and did not become law. Nothing has been done since—nor does the President's current bill include this measure. I am therefore taking this opportunity to urge Congress to reactivate these provisions. Nearly five years of change, dislocation and readjustment in the auto industry have gone by under the U.S.-Canadian Agreement without provision for workers injured in this process. It is high time that auto workers were decently and justly compensated for losses they have sustained because of policies from which the nation as a whole is supposed to have benefited. In 1965, when negotiations on the Agreement were announced, UAW President Walter Reuther issued a statement welcoming the Agreement in principle in which he said:

> "In order to achieve the more rational division of labor made possible by the agreemet, there will inevitably be some readjustment of production within and between both countries. This could result in hardship and dislocations for some groups of auto workers and their families unless effective steps are taken to tide them over the transition period.
>
> "We call upon both governments to assure that adequate protection will be provided for those who would otherwise be adversely affected by the agreement. It would be wholly improper for the auto corporations and car consumers to enjoy the benefits of the agreement while auto workers and their families bear the burden and sacrifices resulting from it."

In testifying in support of the APTA in 1965, I drew an analogy with action taken by the then Secretary of Defense, Robert McNamara, in connection with workers affected by the closure of military bases. In his press release of November 18, 1964, he said:

> "We will also protect the individual employees who are affected by these moves. We will guarantee a job opportunity for every career employee affected by a closure. If the new job opportunity requires a move to another location, the government will arrange for payment of transportation and moving expenses for the employee and his family. We also arrange for retraining at our expense and continue employees' salaries while they are being retained."

As I stated then:

> "The government's responsibility to workers affected by the closing of bases stemmed from the fact that these were government decisions made in order to achieve desired economies, reduce government expenditures of taxpayers' money, and so benefit the whole country. The position of workers adversely affected under this (U.S.-Canadian Auto) Agreement will be no different. The Agreement has been entered into because our government believed it would bring benefits to our country and to the people of our country. But, in achieving those benefits for the people as a whole, adjustments will undoubtedly have to be made within the auto industry. The whole concept of increased efficiency through greater specialization implies such adjustments.

"In short, jobs will be lost, new jobs will have to be found and other adjustments will have to be made by auto workers in this country as side-effects of an action taken by our government for the benefit of the country as a whole. Then why should not the cost of these dislocations be considered simply as one of the costs of a national benefit, to be paid for by the nation? Why should the price of progress for the many by economic loss and suffering for those individuals who, by sheer accident, happen to find their lives and work disrupted by it? We believe there would be every justification for adopting the principle that any worker adversely affected by the implementation of the Automotive Products Agreement ought to be protected in full against any consequent financial loss."

All of this is as true as it was then—and has been true every single day since July 1, 1968, when the original APTA adjustment assistance provisions lapsed.

Reallocations of production as between the two countries continue to occur. In consequence, U.S. workers have been and may continue to be injured, not only through increasing imports to the U.S. but also through decreases in the export of certain products and by reallocation of operations within this country or between the U.S. and Canada as a direct result of the operation of the Agreement. Such situations can rarely be fitted under the provisions of TEA.

Former Secretary of Labor Willard Wirtz recognized the need for continuation of the separate adjustment allowance provisions of the APTA in his testimony before this Committee in support of the proposed Trade Expansion Act of 1968:

"Special assistance provisions of the Automotive Products Trade Act were considered necessary because of these factors:

"1. The U.S.-Canadian Agreement required immediate, complete elimination of duties on certain automotive products shipped between the two countries.

"2. The transitional adjustment assistance procedures in the Act which will be extended by the bill take into account the fact that dislocation may result not only from an increase in imports from Canada, but from a loss of the exports of a specific product.

"3. Dislocations and temporary injury may occur under the Agreement as parts and component supply sources are shifted either within each country or between countries to take advantage of the lower costs and potential improvements in efficiency made possible by the Agreement and to carry out the temporary undertakings made by the Canadian producers.

"Many of the auto cases handled to date would not be covered by the proposed assistance provisions of the Trade Expansion Act of 1968, which are geared solely to injuries arising from increased imports.

"The U.S.-Canadian Agreement was an innovative action in the field of international economic relations when it was signed in January 1965. It continues to demonstrate the mutually beneficial results which two countries can achieve in improving their trade relations.

"The maximum benefits of this program have not yet been realized. The Agreement has not been in effect long enough for the rationalization program of shifts of production to be fully completed. In addition, the slowdown in United States vehicle sales in model year 1967 inhibited transfers of production among plants as well as between the U.S. and Canada. Manufacturers may be expected to continue to rearrange their production and purchasing patterns to participate more efficiently in the expanded U.S.-Canadian market.

"This promising outlook for the future carries with it the need to assure that dislocated firms or workers are not ignored while the industry as a whole continues to develop and prosper. The adjustment assistance provisions terminate July 1, 1968. We should be able to continue to offer assistance if even a few cases of dislocation should occur. I therefore urge that these special provisions be extended for three years—to July 1, 1971."

Everything he said is as relevant today as it was when Secretary Wirtz wrote it—except the date of expiration. I strongly recommend that the APTA provision for dislocation assistance be revived and extended indefinitely.

TAX LOOPHOLES FOR INTERNATIONAL CORPORATIONS

The tax elements of the Administration's package of trade proposals are nothing more than an insulting sop thrown to the growing numbers of Americans who are deeply concerned with the damaging effects of U.S.-based international corporations on our country's employment, its trade and payment balances and its political relations with other countries.

By no stretch of the imagination can the Administration's proposals be considered a serious attempt to deal with the major distortion in the allocation of the nation's investment resources due to the current system of taxation of foreign income and investment of U.S. corporations. At best they provide only partial remedies for relatively minor problems. It is understandable that U.S. corporations should invest abroad, so long as they are permitted to do so, whenever it serves their profit-maximizing purposes. It is absolutely incomprehensible, however, that our tax system should continue to provide huge financial incentives which have the effect, in many cases, of making corporate investment abroad preferable to investment at home.

Our present tax laws do just that. The incentives involved include deferral of taxes on unrepatriated profits of foreign subsidiaries, a credit for foreign taxes on profits and various tax preferences for Western Hemisphere trade corporations, less developed country corporations and investment in U.S. possessions.

Under *tax deferral*, profits of foreign subsidiaries of U.S. corporations are not taxed unless and until they are remitted to the U.S. parent corporations as dividends. They escape taxes forever if they are reinvested abroad. Withholding taxes on dividends levied by many countries further encourage such reinvestment. Even if the profits are ultimately repatriated, the taxes on them, during the period of deferral, amount to an interest-free loan from the U.S. government.

Elimination of tax deferral on foreign profits, of course, would also eliminate the excuse that was used to secure enactment of the DISC legislation that defers taxes on part of the profits of U.S. corporations' export sales subsidiaries. The argument was that the DISC deferment would reduce the advantages of foreign over domestic production for U.S.-based corporations. In other words a new tax loophole was opened to offset the harmful effects of an existing loophole, when the obvious solution was to close the latter. I urge the repeal of both types of deferrals.

The *foreign tax credit* permits U.S. parent international corporations (ICs) to reduce the amount of U.S. profits taxes they otherwise would pay by the amount of profits taxes paid to foreign governments. This may, at first glance, appear to be neutrality as between foreign and domestic investment; but it is quite different from the treatment of profits taxes levied by the various states of the U.S. State taxes are treated as deductions, which have the effect of reducing the amount of profits on which federal taxes are payable. This means that every dollar paid in state taxes saves the corporation 48 cents in federal taxes. The credit allowed for foreign taxes saves the corporation a full dollar of U.S. taxes for every dollar paid in foreign taxes (subject to certain qualifications that have only minor effect). This is so even on profits taxes paid to foreign local governmental units; which means that such taxes are given more favorable treatment than the state taxes that are their U.S. equivalent.

The net result of deferral and foreign credit combined is that the effective total tax burden on a dollar of profits received from operations abroad can be significantly less than that on a dollar received in the U.S. In these circumstances it is entirely possible for a large corporation to find it profitable to invest abroad in a project whose real productivity is less than that on investment projects available to it in the United States. Such a strong invitation to use the nation's—and the world's—scarce resources inefficiently is irrational and damaging to the general welfare. (Professor Peggy B. Musgrave, in her thoughtful paper prepared for the Joint Economic Committee, estimated that the annual loss in U.S. government revenues from tax deferral and the tax credit, in combination, may run as high as $3.3 billion—which is a measure of the size of the incentives these loopholes provide for foreign in preference to domestic investment.)

President Nixon has argued that the existing tax system is basically sound on the grounds that it ". . . permits American-controlled businesses to operate under the same tax burdens which apply to its foreign competitors in that country." He went on to say that "We should not penalize American business by placing it at a disadvantage with respect to its foreign competitors." The implict assumption here, that an increase in the share of foreign markets controlled by U.S.-based multinational corporations through their overseas production necessarily represents a net gain to the whole of the American economy, is fundamentally erroneous. As Professor Peggy Musgrave put it:

> "It should be recognized that the economic and political effects of maintaining a share of foreign markets via foreign production are very different from doing so via domestic production and export. The principal difference

lies in the effects on labor productivity and share in national income. Foreign investment may enhance the private profitability of U.S. capital but it is likely to reduce the real wage to U.S. labor as well as the Government's tax share in the profits."

The remaining tax preferences referred to above (i.e., for Western Hemisphere trade corporations, etc.) amount, in effect, to windfalls for corporations disguised as aids to economic development. Subsidies in equal amounts, in the forms of government loans, grants and technical assistance would probably be far more effective in serving the avowed economic development purpose.

Based upon her very thorough analysis of tax preferences to foreign investment, Ms. Musgrave concludes that they should be reviewed and reevaluated. Deferral, she concludes, is difficult to defend on either equity or efficiency grounds. As to the tax credit, while advancing strong arguments that would justify its complete elimination, she suggests instead that it be limited to less than 100 percent. (She cites, for instance, the Carter Commission of Canada which recommended that 50 percent of foreign profit-taxes be allowed in credit.)

President Nixon's program explicitly rejects the view that the central problems I have been discussing are serious enough to warrant legislation action. He contends " . . . there is no reason that our tax credit and deferral provisions relating to overseas investment should be subjected to drastic surgery." His proposals, therefore, are confined to relatively minor tax problems. In some cases they do not even effectively plug the comparatively small loopholes for which they are designed.

In the words of the official Treasury Summary, the elements of the President's program are:

"(1) United States shareholders would be taxed on future undistributed earnings of a controlled foreign corporation engaged in manufacturing or processing activities where the corporation makes new or additional investment and is allowed a foreign 'tax holiday' or similar tax incentive with respect to such investment.

"(2) United States shareholders would be taxed on the future undistributed earnings of a controlled foreign corporation where the corporation makes new or additional foreign investment in the manufacturing or processing of products exported to the United States market, if the income from such investment is subject to foreign corporate tax significantly lower than in the United States.

"(3) Where a United States taxpayer has deducted foreign losses against United States income, such losses would be taken into account to reduce the amount of foreign tax credit claimed by such taxpayers on foreign earnings in later years."

None of these measures is intrinsically objectionable—it is simply that they do not address the major issues. Their coverage is peripheral and their effect would be small.

Tax haven proposal.—It is a regrettably common phenomenon in the world today for underdeveloped countries in their desperate need for capital to be forced into self-destructive competition for the investment favors of ICs who are often larger and more powerful than themselves. Legislation restraining ICs from seeking or benefiting from this sort of situation can only be welcomed. However, the President's proposal contains several potential escape hatches which create grave doubts that it provides an effective answer.

In particular, the definition of tax incentives for the purposes of the proposed law is very loose. A broad range of discretion would be left to the Treasury which:

". . . would have authority to exempt tax benefits determined not to be significant in amount or effect and to make determinations prospective in appropriate cases and would be prepared to rule on the status of tax arrangements under which foreign investments are made."

Nonmanufacturing and processing corporations—e.g., construction, hotels, property development banking, etc.—are, of course, not covered at all by the President's proposal. Yet these are major activities into which investors seeking tax havens frequently move. Furthermore they are activities whose real economic returns from the point of view of the U.S. economy as a whole (and often from that of the host country as well) are most questionable. The same capital put to use in the U.S. would increase domestic employment and output.

These two points plus the statement that "the fact that there is a generally low rate of tax in a country would not be considered by itself a tax incentive" appear to provide more than enough room for the Administration to avoid any serious curtailment of most current tax-haven practices of manufacturing and

processing firms and this Administration has shown no signs that it is prepared to deal firmly with large private corporations, even when the national interest is at stake.

The "runaway-plant" proposal merely nibbles at the edge of the problem to which it purports to address itself. It completely ignores the large number of runaway plants whose direct sales to the U.S. are less than 25 percent of gross sales but which directly displace exports which would otherwise have come from the United States. A particularly important example is the auto industry. Up to the late 1940's the United States was the largest single exporter of cars in the world. Now American exports are negligible. This is almost entirely due to the global strategy of the big automobile manufacturers; far less than 25 percent of the gross sales of Ford UK, Opel, Simca, Rootes, etc. is sold to the USA yet the decision to compete in the world market for small cheap economical cars with products from overseas plants deprived the United States of the opportunity to maintain its position as a major exporter and ultimately led to the surrender of much of the home market as well. None of this activity would have been impeded in any way by the President's proposed legislation had it been in force.

Recovery of foreign losses.—Although, like the other two proposals, that concerning the tax treatment of foreign losses is not intrinsically objectionable it also ignores the major issues and addresses itself to a very minor aspect of the gaping foreign tax credit loophole. The Treasury estimates that even after ten years of operation this provision would still only bring in $172 million compared to over $3 billion which already slip through the credit and deferral loopholes every year.

Alternative proposals

The incentives currently provided by federal legislation via the tax mechanism encourage investment decisions which are often neither socially desirable from the point of view of U.S. workers and consumers nor efficient from the point of view of the world economy. To improve this situation requires a far more fundamental realignment of the system of tax incentives than is provided by the President's proposals.

Foreign investment preferences.—On balance, I am inclined to recommend repeal of all of the tax preferences for foreign investment, plus repeal of the DISC legislation, with the reservation that further study should be given to the alternatives of complete elimination or sharp reduction of the present 100 percent credit for foreign profits taxes. At the very least deduction, rather than credit, treatment should be applied to that part of foreign profits taxes which is equivalent to the tax on its foreign profits which the corporation would have paid had it operated—rather than overseas—in that state of the United States in which it would have been required to pay the highest state profits taxes. (To simplify the administration of this the Treasury could designate each year which state's law should be used in computing foreign tax deductions.) This would mean that no foreign country would have a tax advantage over any state of the United States.

INTERNATIONAL FAIR LABOR STANDARDS

Although United States policy, in theory, has favored international fair labor standards for 25 years or more, President Nixon's bill is completely silent on this important matter. The absence of an effective international code of fair labor standards has long been recognized as a problem which needs to be corrected. The Havana Charter for an International Trade Organization which was signed by representatives of some 50 nations in 1948, but not ratified by enough of the latter to make it effective, included an article headed "Fair Labour Standards" which provided in part:

> "The Members recognize that measures relating to employment must take fully into account the rights of workers under inter-governmental declarations, conventions and agreements. They recognize that all countries have a common interest in the achievement and maintentance of fair labour standards related to productivity, and thus in the improvement of wages and working conditions as productivity may permit. The Members recognize that unfair labour conditions, particularly in production for export, create difficulties in international trade, and, accordingly, each Member shall take whatever action may be appropriate and feasible to eliminate such conditions within its territory."

The U.S. government has raised the issue of fair labor standards in GATT negotiations from time to time but, apparently, has never given it the emphasis it deserves. The Roth Report, issued in 1969, spoke out strongly on the matter and concluded:

> "The United States should . . . seek, through the GATT and the ILO and possibly other international organizations, to develop international agreement upon a workable definition of fair labor standards and upon realistic means for their enforcement."

More recently, the report of the Williams Commission, a majority of whose members were bankers and industrialists and which was created by President Nixon, said:

> "The Commission therefore recommends that the United States actively support a multilateral effort to gain international acceptance of a code of fair labor standards which would include a workable definition of the concept and realistic means for enforcing the code."

Opponents of this fundamental step toward protecting the rights and livelihoods of workers in the U.S. and abroad usually argue that it would interfere with the efficient allocation of investment resources by international corporations. In fact, differences in wages, and conditions of employment are often offset by equal or greater differences in productivity. But where wide disparities in wage rates exist side by side with approximately equal productivity, or where the wage rate differences are far greater than the differences in productivity it is obvious that the low-wage employer has an unfair competitive advantage obtained by denying his workers a fair share of the wealth they produce.

In addition the exploitative aspects of foreign activities of U.S. corporations often generate anti-American attitudes among the peoples of host countries. Bitterness and resentment thus generated by the struggle of these people against particular sections of U.S. business for rights and conditions already accorded workers and citizens of the United States places strains on our country's international relations with the result that our foreign policy—which ought to be conducted on behalf of *all* Americans—is severely warped. (The recent behavior of ITT in Chile represents a dramatic but by no means isolated case in point.)

It is long past time for Congress to do whatever lies within its power to press the Administration to take the labor standards problem seriously.

While the issue cannot be dealt with definitively in legislation enacted unilaterally by the United States, there is room and need for legislative action.

Congress can and should provide (a) that any trade agreement negotiated by the President must include a fair labor standards provision substantially similar to the pertinent provisions of the Havana Charter, (b) that the President should report to Congress not later than two years afer the signing of the agreement on the criteria and machinery developed to implement the fair labor standards provision and (c) that Congress reserves the right to terminate U.S. adherence to the agreement if it is not satisfied with such criteria and machinery.

PRESIDENTIAL POWERS

No one can deny that, in order to conduct effective trade negotiations with other countries, the President must be given authority to exercise the flexibility that the bargaining process inevitably requires.

However, in the trade bill that he has submitted the President has asked Congress to grant him a range of powers so broad in scope and so far-reaching in the potential consequences of their exercise as to be truly awesome. While I am not a lawyer, it seems to me that the President is asking Congress to transfer to the White House and thus to abdicate a major share of the power "To regulate commerce with foreign nations . . ." which the Constitution unqualifiedly entrusts to Congress.

The invasions of legislative powers by the Executive under the present Administration, actual and attempted, have already been carried to frightening lengths. It is time to call a halt and the trade bill submitted by the President provides both a suitable and a necessary occasion to do so.

President Kennedy was able to conduct successful international trade negotiations without powers even approximating those now being requested by President Nixon.

The problems and dangers created by the delegation of powers requested by the President are greatly aggravated by two factors. One is the ambiguity of the legislation he has submitted. It looks both ways simultaneously—toward liberalization and toward protectionism. The powers the President seeks could be used

to move the nation's trade policy in either direction—regardless of what Congress intends. The second factor is the unpredictability of the manner in which the requested powers will be used. The present occupant of the White House is proud of the unpredictability which he has often displayed. Many of the powers he seeks, moreover, will outlast his Administration and be passed on to future Presidents whose identities cannot today be known and whose policies, therefore, are totally beyond prediction. In short, as noted previously, Congress and the American people are being asked to buy a pig in a poke insofar as the nation's future trade policies are concerned.

The powers sought by the President are so numerous that a detailed analysis of them has been impossible within the time available for the preparation of this statement. Even casual examination of a summary list of the powers in question raises serious doubts as to whether some of them should be granted at all. It seems to us that the ends sought could be achieved in a number of cases by Presidential recommendations for Congressional action as occasions arise calling for certain of the steps that the President seeks authority to take in his sole discretion. With respect to certain other powers that the President seeks, there seems to be little room for doubt of the imperative necessity for Congress to retain at least the ability to veto proposed Presidential actions.

The President himself has indicated a partial answer—I emphasize "partial"—to the problem of combining negotiating flexibility with proper Congressional control. With respect to negotiations concerning certain non-tariff barriers, he proposes to notify Congress at least 90 days before entering into an agreement, with the proviso that the agreement and orders under it would become effective only if, within 90 days after delivery of the agreement to Congress, neither the Senate nor the House has voted to disapprove them by a constitutional majority.

I consider this only a partial answer because the President's bill offers no assurance that either House of Congress will, in fact, have an opportunity to vote on such agreements. The agreements could, for example, be bottled up in Committee or parliamentary maneuvers could delay an opportunity to vote beyond the prescribed 90-day period.

I therefore urge that the proposed procedure (provided for in Section 103(e) of the Administration's bill) be rewritten for purposes of the drastically different trade legislation I hope your Committee will draft. *The procedure should assure that such an agreement will not become effective until the members of both Houses actually have voted on it and neither House has disapproved it.*

I submit that the same procedure can and should be applied with respect to a large proportion of the other powers which the Administration's bill proposes to endow the President.

I am sure the members of the Committee will want to scrutinize with the greatest care each and every one of the powers requested by the President. I urge that he be denied those of the powers he has requested which are not necessary for effective negotiations and that Congress retain ultimate control—through the device suggested above or by some other means—of the exercise by the President of any powers granted him that might be used in a manner contrary to the Congressional intent and the interests of the American people or of the world trade community.

OTHER MATTERS

Licensing foreign investments

In addition to correcting the tax incentives that promote foreign investment, the UAW has for several years been advocating more direct control in the public interest over investment abroad by U.S. corporations—largely because the immense power and concentration of that section of the corporate sector engaged in foreign investment makes it unlikely that correcting tax incentives alone will be sufficient to deal with the problem. (Over 80 percent of all foreign taxable income accrued to 430 giant corporations with assets over $250 million each—a much greater degree of concentration than exists in domestic production.) In particular the UAW urges legislation that would require licenses to be obtained for foreign investments proposed to be made by U.S. corporations, including reinvestment of profits made in foreign operations. The applicant for a license should be required to show that the proposed investment will serve the interests of the United States economically and will be free from harmful political consequences. Licenses should be conditioned on a guarantee that the applicant will compensate in full for loss of wages, fringe benefits, seniority rights, etc., any U.S. workers adversely affected by the investment, whether because of imports or because of loss of export sales resulting from the investment. The licensee

should be required, further, to conform to a comprehensive code of good behavior in relation to workers employed in the foreign operation.

Sweden already has taken the first steps toward imposing such a code on its ICs. Their corporations' investments in certain less developed countries (LDCs) are eligible for government guarantees only if they meet specified standards for workers in the host countries covering such matters as collective bargaining rights; benefits for loss of wages during illness, injury and layoff; pensions; a number of other health and welfare matters and racially non-discriminatory employment policies.

Controls on the use of foreign exchange are widely in effect among the world's governments on the sound theory that foreign exchange resources are the property of the whole nation rather than of any corporation which chooses to use them. There is no reason why the U.S. should not have a capital export licensing system as one means of applying that principle.

Financial disclosure

In a democracy it is essential that the public have access to the facts concerning the uses and abuses of great private power.

Nevertheless, despite the major impact of the ICs on the United States and the world, financial data that would facilitate the formulation of sound policies relating to such corporations are largely shrouded in mystery. Figures relating to the operations of foreign subsidiaries of ICs generally are published only if required by the host countries—which are often hesitant to do so for fear of offending the ICs. What is published, rarely goes beyond the minimum required. The methods of accounting underlying the published data seem, in at least some cases, to vary widely from country to country among the separate national subsidiaries of the same IC. Combined with problems relating to transfer prices (the prices charged each other by subsidiaries of the same IC for components or products passing from one to the other, which are often manipulated to evade foreign exchange controls or to minimize tax liabilities) lack of intelligible financial data makes it well-nigh impossible for governments and others to evaluate the economic and social consequences of the ICs operations.

I therefore urge that the SEC be directed by Congress to require all U.S.-based ICs, as well as foreign ICs operating in the United States, to publish financial data, *calculated in accordance with uniform accounting methods and with detailed breakdowns of costs, for each national subsidiary.* The published data, of course, should include the formula for determining, and the amount and nature of each of the corporation-wide costs (e.g., research costs) allocated to each subsidiary. *In particular standardization and disclosure should be required of accounting methods used in determining transfer prices for goods transported across international boundaries among subsidiaries or affiliates of international corporations*

In addition, it would be desirable for Congress to establish, as a condition for acceptance of a new international trade agreement, that such agreement include a provision requiring all corporations operating in more than one country (whether through subsidiaries or through affiliated firms in which they hold a substantial interest) to conform to disclosure requirements of the type outlined. This condition should also provide for standardization and disclosure of accounting methods used in determining transfer prices. It probably would not be feasible to include such standards in the trade agreement, as such, but the agreement should make provision for the creation of a body of experts to devise the standards and to make binding determinations in disputes arising under those standards.

Penalize refusals to compete

Legislation is required which would penalize refusals to compete. The U.S. suffers from the strange phenomenon of major industries that deliberately refuse to compete with foreign producers either in the export or the domestic market or both. As noted, the U.S. auto corporations long ago decided they would not compete for export sales with products made in their U.S. plants. They chose to serve foreign consumers from plants located overseas.

Aside from the obvious employment consequences, abdication of both the export market and a large share of the domestic market by the auto and other industries dealt multi-billion dollar blows to the U.S. balance of payments. Similar tales could be told about other U.S. industries. It seems likely this preference for investing abroad rather than competing in world and domestic markets by

home production is at least partly due to the structure of tax incentives I have been discussing. Their removal should alleviate the problem but will not necessarily eliminate it.

In order to deal with such refusals to compete, I propose the enactment of a Competition Promotion Tax which would severely penalize corporations that consistently earned excessive profits while simultaneously tolerating persistent and sizable import invasions of the U.S. market for their products. (The details of the proposed tax and an explanation of it are appended to this statement.)

Internationalization of adjustment assistance

All trading nations have a common interest in seeing to it that their trading partners provide adequate assistance to workers adversely affected by international trade. The reason is that much of the political opposition to trade liberalization in all countries arises out of workers' fears of dislocation. Congress should stipulate, therefore, that any new trade agreement the President signs must include a provision that would require all nations which adhere to GATT to establish acceptable adjustment assistance programs of the Amtrak variety which provides nearly full protection to dislocated workers.

There are precedents for such adjustment assistance already under the Rome Treaty and in the European Coal and Steel Community. In addition, the Japanese life tenure of employment in practice often serves essentially the same purpose (although without the force of law and at the discretion of the firms—which is not desirable). For example, when coal mines in Hokkaido were forced to shut down not long ago, the companies operating those mines went into the tourist business, established hotels, etc., in order to provide employment for their displaced miners to whom they had lifetime commitments.

Monetary speculation by ICS

President Nixon has opened the door to action in this area by linking trade and monetary problems in international negotiations. This committee should take this opportunity to consider including in any new trade legislation provisions designed to curb disturbances to international monetary stability resulting from currency speculation by international corporations. One way to do this, which would bring it directly within the jurisdiction of this Committee, would be to impose a punitive tax (e.g., three times the gain from the speculation involved) on profits from such speculation. Speculation for this purpose could be defined as the holding by any U.S.-based international corporation of any currencies other than dollars in excess of the amount needed to meet legitimate business obligations coming due within say the following 90 days.

CONCLUSION

In conclusion I would like to reiterate that the UAW currently supports liberalizing international trade policies but only through the means that serve the basic human purposes which are the sole legitimate objective of all economic activity. We are opposed to trade legislation which ignores fundamental human considerations. President Nixon's proposals fall into this category. I therefore strongly recommend that they be discarded and a start made on entirely new legislation to provide the necessary effective remedies for the anomalies, injustice and inefficiencies in our current policies which the President's proposals so patently lack.

APPENDIX

EXCERPT FROM TESTIMONY PRESENTED BY LEONARD WOODCOCK

PROPOSED COMPETITION PROMOTION TAX

A third factor contributing to the difficulties of the dollar and the deficit in the balance of payments is the refusal of certain American corporations to compete vigorously with foreign producers both in our domestic market and in the world market. Outstanding among these are the major automobile corporations.

Here we have an industry whose profits persistently run at rates far higher than the average for all manufacturing corporations while, simultaneously, 16 percent of its domestic market is served by imports. Where these two conditions

exist side by side, *the conclusion is inescapable that the industry is refusing to engage in price competition with imports.*

In an economy whose basic premise is competition, clear-cut refusal to compete provides ample justification for any action required to remedy the situation, no matter how drastic it may appear. I will outline below a form of tax that would give the auto industry, and other industries similarly guilty of refusal to compete with imports, a powerful incentive to change their ways. The tax, at first glance, may seem harsh but it should be kept in mind that some of the remedies for noncompetition under antitrust legislation, although infrequently applied, are even harsher. Breaking up a firm is certainly a more radical procedure than imposing a special tax designed to induce competition.

Competition Promotion Tax

The proposed tax might be called a "Competition Promotion Tax" because that would express its purpose. It would apply only to corporations in industries where:

(1) average rates of profits on net worth for the industry had persistently (e.g., over the preceding 5 years) and significantly (e.g., by 15 percent) exceeded the average rate for all manufacturing corporations; and

(2) imports of the general type of product made by the industry exceeded a specified percentage (e.g., 10 percent) of total domestic consumption during the tax year.

If both those conditions existed, the special tax would be calculated in accordance with the following formula:

$$T_s = \left(1.05 - \frac{P_a(1-T)}{P_c}\right) \times \left(\frac{C_b}{C_y}\right)^2$$

where:

T_s is the special tax rate to be applied to the corporations in question;

T is the regular corporate profits tax rate (48 percent at present);

P_a is the average before-tax rate of return on net worth for all manufacturing industry;

P_c is the before-tax rate of return on net worth of the particular corporation subject to the special tax;

C_b is the percentage of consumption accounted for by domsetic production in the base year; and

C_y is the corresponding percentage for the tax year.

Effect of tax

With such a tax in effect, the firm covered could increase their after-tax profits only by reducing their before-tax profits (which would require price cuts) or by reducing the inflow of imports or by a combination of both. The reduction of prices, of course, would contribute to the reduction of imports.

So long as the industry remained subject to the tax, none of its constituent corporations could realistically hope to obtain a rate of return as high as the average for all U.S. manufacturing firms.

The industry, however, would have two escape hatches by which to free itself from the tax—both consistent with the purpose for which it would be imposed. The tax would cease to apply if, during a period of five consecutive years, average rates of return in the industry fell to less than 15 percent above the all-manufacturing average for the same period. The tax would be removed in that case even though imports remained above 10 percent of consumption but the decrease in profit rates presumably would attest to reductions in prices, reflecting an effort to compete.

Alternatively, the firms in the industry could free themselves from the special tax by competitive actions—price reduction, quality improvement, production of less expensive models, etc.—which would reduce imports below 10 percent of domestic consumption. While no firm might be able single-handedly to reduce imports below that level, all in the industry would be impelled by the tax to try to do so and price cuts put into effect by one or more for that purpose would compel the others to follow.

The tax would have no effect (except in an extraordinarily profitable year) on firms, such as American Motors in the auto industry, whose rates of return run lower than the average rate for all manufacturing corporations. They would

pay the normal profits tax (now 48 percent) which would be the minimum rate applicable to all firms in the industry regardless of the rate computed from the formula.

The incentive provided by the tax would be extremely powerful because the formula is highly sensitive to even small changes in prices or in the level of imports. Any increase in either or both would reduce after-tax profits. Any reduction in prices or imports or both would increase after-tax profits.

The purpose of the tax is not to raise revenues but to stimulate competition against imports. It would not be inconsistent with that purpose to give reasonable advance notice to the industries concerned—to provide in the legislation imposing the tax that it not become effective until, say, three years after enactment. Such advance notice might induce the desired competitive behavior and thus create conditions under which the tax would not be payable (i.e., industry profits less than 15 percent above the all-manufacturing average, or imports less than 10 percent of consumption, or both).

The proposed tax is novel, of course. But novelty should not deter serious consideration of its merits. The phenomenon of corporations that deliberately refuse to compete is also rather novel. New problems require new solutions.

I urge this Committee to look into the possibility of this type of tax as one means to correct the payments deficit, to create additional employment in domestic industry and to regain the former share of the United States in the world market for automobiles and for other products as well.

The CHAIRMAN. As I understand, you do believe very strongly in a continuation of our efforts to enlarge our participation in world trade.

Mr. WOODCOCK. Yes, sir.

The CHAIRMAN. You want it done, however, on a basis that is completely, totally fair on both sides.

Mr. WOODCOCK. That is correct, sir.

The CHAIRMAN. And you do want protection provided within the bill, or authority to protect to the maximum extent the industries and the jobs within the United States that are all-important to us.

Mr. WOODCOCK. Yes, providing such action is undertaken without inviting or almost demanding retaliatory action.

The CHAIRMAN. I still throw the world fair in with that, too.

Mr. WOODCOCK. I accept that.

The CHAIRMAN. It must be legally done within the meaning of GATT. We will certainly take into consideration your suggestion about the adjustment assistance. I feel a little bit that the administration's proposal should be enacted as a convenient vehicle for improving the unemployment compensation benefits in our States, but I can well understand that you and others working with our working people would want us to have some special provision with respect to the loss of a job through imports. Thank you, sir.

Mr. WOODCOCK. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Schneebeli.

Mr. SCHNEEBELI. Mr. Woodcock, with respect to adjustment assistance, was it your thought that it be 100 percent of a worker's compensation, but the chamber of commerce's recommendation was 75 percent? Is this the difference between the two?

Mr. WOODCOCK. We are advocating 100 percent on a time-for-time basis.

Mr. SCHNEEBELI. What is your position on the chamber of commerce's recommended 75 percent level for adjustment assistance?

Mr. WOODCOCK. I simply draw attention to the fact that by a 3½ to 1 margin, the chamber supports provisions going far beyond what the administration has said.

Mr. SCHNEEBELI. I was interested to note that our former colleague, Tom Curtis, was the head of the chamber panel. Did he give any indication of what the cost of this might be?

Mr. WOODCOCK. Former Congressman Curtis was the chairman of the reviewing committee, not the task force itself. The chamber document estimated the cost of the adjustment assistance program, including assistance to communities and firms, as well as to the workers, at a maximum of about $300 million in its first year, rising to a maximum of about $350 million in the longer run, but the document also cites an estimate that—quoting now—"The annual costs to the U.S. economy of present trade restrictions, both here and in other countries, total at least $4½ billion and are rising over time."

Mr. SCHNEEBELI. That has also increased consumer costs as a result?

Mr. WOODCOCK. Yes; sir.

Mr. SCHNEEBELI. I don't challenge the estimate, but offhand, it seems rather low. I think it is interesting material, however, and I thank you very much for bringing it to us.

Mr. WOODCOCK. Thank you, sir.

The CHAIRMAN. Mr. Ullman will inquire.

Mr. ULLMAN. Mr. Woodcock, I want to congratulate you on taking a position in favor of liberalization of trade. I think all of us recognize that American prosperity and future jobs do depend more on an expanding trade than they do on continuing our activities now. Is that right?

Mr. WOODCOCK. That is correct, sir.

Mr. ULLMAN. You have put your main emphasis on an adjustment assistance program, have you not? Is this your main concern in the field of trade?

Mr. WOODCOCK. That is our overriding concern, yes.

Mr. ULLMAN. The two aspects of a trade program, of course, particularly in Burke-Hartke, would first relate to direct actions to restrict imports and secondly to overseas investment reforms. In your statement, you have supported changes in our overseas taxing policies, have you not? What is your position there?

Mr. WOODCOCK. Well, we think, for example, that profits made by American-based international corporations should be taxed as made, and not simply when repatriated. We think the present provision is a direct incentive to continue to reinvest those profits overseas at the further detriment of American jobs.

Mr. ULLMAN. Do you support the Burke-Hartke provisions as they relate to overseas investment?

Mr. WOODCOCK. Well, on the taxing aspects, our two views are quite similar. Our chief deviation from Burke-Hartke is on the use of quotas and the rest, which we think would lead to a retaliatory trade war to the detriment of this and all the other involved countries.

Mr. ULLMAN. You are not recommending, then, basically a Burke-Hartke approach. What you are saying is that the committee should move out independently and tackle this problem along the basic lines that you have recommended here.

Mr. WOODCOCK. That is correct, sir.

Mr. ULLMAN. Beefing up a good adjustment assistance program and making some restrictions on our overseas investment incentives. Insofar as the administration proposals are concerned, do you generally support giving the President more negotiating authority?

Mr. WOODCOCK. Well, I am ambivalent on that question. Obviously, the Executive has to have greater power to be an effective negotiator, but it seems to me that there have to be devices fashioned that can allow the Congress to have an overriding veto, or call it what you will, in normal circumstances. I don't think it can be a grant of unrestricted power.

Mr. ULLMAN. I have said that we need first to establish a strong and a far more definitive congressional policy toward trade that would appropriately limit the activities of the President; and secondly, a much more effective oversight method so that we can stay on top of what is being done and change its course if need be. Would you generally agree?

Mr. WOODCOCK. Yes, sir.

Mr. ULLMAN. Turning to another matter, the Canadian auto agreement certainly has adversely affected our balance of payments position. You do support it, however; is that right?

Mr. WOODCOCK. We strongly supported it in the beginning and contine to support it. The adverse balance of trade that Canada was suffering in 1964 of $600 million in this area was an impossible thing to continue. It has swung very much in the other direction, and the fact is that this is an import problem.

Canada has 26 percent of its car market invaded by non-North American imports; whereas, ours now is hanging in around 15 or 16 percent and falling, but this is primarily because of the higher prices that are charged for cars sold in Canada, higher prices for cars that are made in the United States but sold in Canada; I think pressure needs to be brought on the automobile companies to equalize their prices.

I would believe that the most effective way to do that would be to create a complete Common Market available to the individual as well as to the companies. We now have a manufacturers' Common Market, and if it were open to the individuals, there would be an obvious equalizing of price on the two sides of the border, and I think it would begin to work more fairly.

I shudder, Mr. Congressman, when I hear stories and am told that the United States is thinking of canceling that agreement. This industry has been so rationalized, so integrated, that it would bring chaos to both nations to try and cancel that agreement.

Mr. ULLMAN. But, in view of the $1 billion-plus annual deficit that we have with Canada, wouldn't you agree that there should be some modifications that would allow us to maintain a better equilibrium in trade?

Mr. WOODCOCK. Well, as to the problem of safeguards written into the original treaty, safeguards for Canada that is, and we are still studying this with our technical people, I would think having a total Common Market would meet that problem.

I am not saying that for sure, but I am inclined to think that, yes, the situation does need to be reviewed, but not in the atmosphere of cancellation.

Mr. ULLMAN. Finally, in view of the energy crisis in addition to the environmental crisis, do you see any significant change or need for change in the automotive industry?

Mr. WOODCOCK. Well, it seems to me to be without question that we

cannot continue to build and market cars that are getting 8, 9 and 10 miles to the gallon if those gallons are going to be costing upwards of 50 to 60 to 70 cents.

You know, the automobile industry in this country would not be building small cars today if it hadn't been for the import situation. That is what drove them finally to build small cars. Obviously, the smaller cars use less gasoline and are going to be urgent national and individual necessities because of increasing price.

Mr. ULLMAN. It is rather ironic that in our pollution control program we are forcing upon the industry less and less efficiency, less and less miles per gallon, in view of the crisis in petroleum availability. I just can't understand where we are going.

It seems to me that a lot of the automobiles we are building today just are not going to be on the road in a few years simply because we don't have the gasoline to feed them.

Mr. WOODCOCK. We have been assured by some of the companies that even with the use of the catalytic converter, with the change in engine performance that are planned for the 1975 models, that the gasoline efficiency will be greater than the present 1973 models. Of course, over time, you know, the business of having less efficiency to attain clean air at least does protect the public health.

Having air conditioners on cars reduces gasoline efficiency by about 9 percent, and sometimes more, and that is simply for individual comfort and not necessarily for public health. So if we are going to be concerned about the one, I think we should be more concerned about the other. I don't suffer too much by driving cars without air conditioners.

Mr. ULLMAN. You think we are going to have to lower our standards of comfort in some regards?

Mr. WOODCOCK. We well may have to if, in fact, the energy crisis is as bad as we are being told it is.

Mr. ULLMAN. It certainly gives me a great concern investing in an automobile to put a lot of money into an automobile that might give me 8 or 9 miles to a gallon in view of the possibility of tremendous increases in the price of gasoline, plus shortages and rationing that could very well plague us in the years immediately ahead.

Mr. WOODCOCK. This is obviously a matter for concern, sir.

Mr. ULLMAN. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Collier will inquire.

Mr. COLLIER. Thank you, Mr. Chairman.

Mr. Woodcock, you have given a very thought-provoking statement, and I am sure that once we have time to go through all of it in detail that it will add to what I think was a very fine presentation.

Mr. WOODCOCK. I sometimes think, sir, that we submit statements to be weighed rather than to be read.

Mr. COLLIER. It might surprise you. At any rate, I was interested in your remark on the catalytic reactor indicating that by 1975 it would be developed to the point where it would provide a greater efficiency, particularly in terms of the consumption of fuel. However, isn't there the further problem that the catalytic reactor, in and of itself, will have a limited life, so that after it has been in installation for a comparatively short time, it loses a great deal of its efficiency, and so, in reality, in any car that is on the street or on the highway

for a period of 6 or more months, you might have what amounts to a temporary contribution to the cause of antipollution as it affects combustible engine emissions. However, it offers no permanent relief, if what I have been told is accurate and if, in fact, this reactor does not perform for any sustained period of time without losing its efficiency.

Mr. WOODCOCK. That is the reason that we supported the industry's plea to EPA for the year's delay, and we also supported the strategy of more stringent demands in the California market requiring the catalytic convertor or reactor so that we can find out in real life what bugs are involved, rather than require that they immediately be put on all cars sold throughout the country, which could lead to a real disaster, given unexpected problems.

The UAW has had a very competent consultant, the Dean of the Engineering School at the University of Michigan, who has been advising us, because we are not ourselves competent to make judgments; but at least one of the companies seems to have supreme confidence that the catalytic converter that they themselves have converted—I am speaking of General Motors—will do the job, that it will be long lasting, that the platinum in it, for example, will have a total value of $5 and be mainly reusable in a successor convertor.

Of course, on the rotary engine, which is being worked on very hard again by General Motors, needing a much smaller converter which would fit under the hood, as opposed to the first one, which fits under the car, under the manifold, I am simply impressed by their apparent confidence that these problems are going to be met.

Mr. COLLIER. Very briefly, getting to just one other thing, it is easy, as you know, for an American consumer who is so inclined to buy a foreign-made care in this country. Contrarily, there are, as you are well aware, I am sure, more substantial barriers which make it virtually unfeasible for a foreign consumer to buy an American car.

What do you recommend in this area, or what would your advice be to our negotiators in what are likely to be the upcoming trade negotiations. I think this becomes a very, very important aspect of this inasmuch as the number of foreign-made cars, which I believe represents 300 man workhours, that is virtually exported.

In looking down the road, what would you recommend that we do to make the American automobile, if a foreign consumer wants to buy it, in line with what the American consumer pays for the same automobile?

Mr. WOODCOCK. There is substantial evidence that there is trade discrimination against American cars, but a greater hindrance to the export of those cars is that they are just not designed for Japanese streets or roads, or European streets or roads. They are much too big, and the industry made a corporate decision a generation ago to export capital and not cars.

By buying up existing companies in the overseas markets, they supply those markets by that corporation, but from overseas facilities. That battle, I think, has been lost.

Mr. COLLIER. I think certainly that is true to a great degree. On the other hand, suppose that the American autombile industry created something comparable to the Skag or Volvo or Volkswagen or Datsun or Toyota. I am sure we can agree that the barriers would still be

there if you sought to sell that type of American-made car on a foreign market.

Mr. WOODCOCK. To that extent, those barriers should be equalized, should be made fair, but I have the strong suspicion the industry doesn't particularly care. I don't think Ford wants to export the Pinto to compete with the Capri, which it builds itself, and from which it makes profits in the overseas markets.

Mr. COLLIER. Thank you, sir. Thank you, Mr. Chairman.

The CHAIRMAN. Mrs. Griffiths will inquire.

Mrs. GRIFFITHS. I am delighted to see you here, Mr. Woodcock. I am sorry that I didn't hear your first statement, but I will make sure that Mr. Burke and Mr. Hartke know what you said about the Canadian-American auto treaty because I think you are right.

I wonder, do you think it would be practicable to apply that concept to any other American products, because the only letters I have ever had on the whole business were a few from business people asking, "Couldn't something like that be done for our business?" Do you think it would be possible?

Mr. WOODCOCK. I am not sure, Mrs. Griffiths, that I understand the question.

Mrs. GRIFFITHS. Could we have the Canadian-American auto tariff in some other type of product?

Mr. WOODCOCK. I was hoping when this treaty was negotiated and became operative in 1965 that it would be the forerunner of many such treaties as between Canada and the United States, which I think would be good for both our countries.

Mrs. GRIFFITHS. I thought we could take in Mexico, too.

Mr. WOODCOCK. It is not beyond the bounds of possibility.

Mrs. GRIFFITHS. Right. It would work very well.

I am delighted also that you said something about the problem of the displaced workers. I think that one of the errors of this bill also is even to suggest that these people are just going to be treated as unemployed people generally, because that really isn't true. They are unemployed by the Government's own action.

I have a suggestion in place of putting the tax bill into this bill, of which I do not approve at all, I am not willing to vote to delegate the power to the President to levy any taxes. I don't think that the Treasury has as much ability as this committee, and I am not going to go that way. It seems to me, however, that if we could run H.R. 22, the health bill, in with this bill we would really do quite a lot.

Mr. WOODCOCK. You are appealing to my prejudices now.

Mrs. GRIFFITHS. Right. It appeals to mine, too. There is far too much inequity in what we are now doing. We could make a much more equitable situation for workers by running H.R. 22 together with this bill than we will ever create by giving the President the power to tax. I think that is the way we ought to go, Mr. Chairman.

Thank you, Mr. Woodcock.

Mr. WOODCOCK. Thank you.

The CHAIRMAN. Mr. Conable will inquire.

Mr. CONABLE. Thank you, Mr. Chairman.

Mr. Woodcock, you urged us to "reject the breathtaking powers given to the President"—I think those are your words—"in the administration proposal." I wonder if you could specify further which powers you object to?

There really is not a great deal of difference here in the powers given the President in the 1962 act except for the upside bargaining authority with respect to tariffs. Which ones do you object to particularly?

Mr. WOODCOCK. The way we read it, it goes beyond the powers granted in 1962, and not only on the upside, but also on the downside in the strong pressures going in a protectionist direction.

Mr. CONABLE. Because he can eliminate tariffs completely, is that what you consider too big a grant of power? It is that part of it?

Mr. WOODCOCK. I am more concerned about the responses to protectionist pressures than the other direction.

Mr. CONABLE. Then your objection is that it gives him too much power to be protectionist, rather than too much power to move in the direction of a liberal trade; is that correct?

Mr. WOODCOCK. Well, it goes in both directions, but I think on balance there would be more concern on the protectionist side.

Mr. CONABLE. Thank you. That tells me something.

One of the most impressive arguments that has been made here about the operations of multinational corporations has had to do with the auto industry and the reimportation of autos made abroad by some of our companies, such as the Colt and the Cricket. Yet, I take it that you do not consider this a serious threat to the American-produced automobiles, at least at this point, because of your statement that if anything, the foreign share of the market is going down. Is that a fair statement?

Mr. WOODCOCK. Well, at one point imports were no problem at all.

Mr. CONABLE. Yes.

Mr. WOODCOCK. Then beginning in the late 1950's they moved up sharply, to the range of 11 or 12 percent, and we were very concerned, but then the domestic industry began to compete and drove the penetration down to between 5 and 6 percent, where it stayed for 3 or 4 years. But then the products that had been designed to compete started to get bigger, became loaded with more equipment and thus quit being competitive, and that is when the present tide began.

We have a mixed problem here. We also have members of our union who build DC–8's, not any more, but were, and are now building DC–9's and DC–10's. If we sell one DC–10 abroad, that is the labor equivalent of 12,000 small imported cars. So that these things go in two directions.

There will be a witness here today from Caterpillar Tractor Co., which is largley under contract with UAW, whose domestic business has substantially expanded primarily because of its involvement in overseas markets and with overseas manufacturing outlets. There has been more than a proportionate rise in American jobs as a result of that investment overseas.

So this is a very complex question: Can we support a policy that would just screen out car imports to the detriment of other kinds of jobs, not simply the jobs that are represented by our union, but with the two devaluations and the rising Japanese costs, and their costs are rising at a much more rapid rate than ours? They now have a more effective automobile workers' union in Japan, largely patterned after UAW, and the balance is beginning to shift.

Mr. CONABLE. I find it very interesting, sir, that despite the balance of your view on this, and I think it is a very balanced view and you

are trying to look at the total picture, and I think that is appropriate, that you still tend to favor the tax provisions of Burke-Hartke, the effect of which would be, I suspect, very largely to eliminate the possibility of future foreign investment by American multinational corporations. Don't you see any inconsistency in that position?

Mr. WOODCOCK. No, I don't think so, sir.

Mr. CONABLE. Do you think that it is not a competitive matter, then, and that the tax provisions have very little impact on the pattern of foreign investment?

Mr. WOODCOCK. The fact is that an American-based international corporation gets a greater tax advantage being overseas than it does as between its plants scattered around the various States of the Union.

Mr. CONABLE. There you are talking about deferral, in effect.

Mr. WOODCOCK. Yes, in part.

Mr. CONABLE. It seems to me that you have a balanced position with respect to the issue of foreign investment generally, except on the tax side, and in that respect I personally feel that our major issue is competitive. I don't want to advantage the foreign multinationals at the expense of the Americans if that is the only effect of tax changes; but that is something that we are going to look into a good deal further in the course of these deliberations.

Thank you very much for your time.

Mr. WOODCOCK. If I may say, sir, when I was in Japan last October and had the opportunity to meet with the top company representatives of the Japanese automobile companies, I urged particularly on Toyota and Nissan, who have an established place in the American market, to do what the American industry does: Come over here and compete within our continental limits. And we have some hope.

Mr. CONABLE. Make domestic investment here for the purpose of assembly and manufacture.

Mr. WOODCOCK. Yes. We have some hope that Toyota and Nissan both may do that.

Mr. CONABLE. That would be fine.

Mr. WOODCOCK. We would welcome them into the UAW family, especially with some of their policies, like life tenure.

Mr. CONABLE. Thank you, Mr. Chairman.

The CHAIRMAN. And you and I have made the same recommendation. I share your hope. Mr. Landrum.

Mr. LANDRUM. Mr. Woodcock, what suggestion could you make to this committee with regard to trying to develop a trade policy that would reverse the trend in practices that we have had that has resulted in a $6 billion trade deficit? We do have a $6 billion trade deficit.

Mr. WOODCOCK. Yes. The administration is saying that the corner has been turned, and obviously devaluation—the two devaluations are going to take time to work out, and there are already corrective measures at work. Our competitors in some of these products have the advantage of the very latest technology and, since they started from scratch, they had totally all of their technology new, which is a tremendous advantage, but, as time goes by, that advantage is going to lessen.

I think if we can get fairness, if we can get, in fact, a fair two-way flow, that these problems can be worked out in an atmosphere of free international competition.

Now, we have disadvantages. Our antitrust policies are a disadvantage certainly as compared with the Japanese policy, which is so different from ours. This is a very complex field, in which simplistic answers just don't work.

Mr. LANDRUM. In your discussion with Mr. Conable just now and in the response you have just made to my inquiry, you referred to the two devaluations. You stated that many are relying on the two devaluations to help in reversing this policy that has resulted in the $6 billion deficit, but now there is some conjecture among economists of note that the second devaluation was not necessary and may ultimately be more harmful than beneficial. Do you have a view on that?

Mr. WOODCOCK. I see that speculation. I obviously have no firm conviction relative to it. I would think if we had free-floating currency, any deficiency would correct itself. I happen to be a person who has a substantial faith in the workings of a free market system.

Mr. LANDRUM. Back briefly to your response to someone—and I have forgotten who; perhaps Mr. Collier—you referred to the rotary engine. Do you have any information that would be helpful to us about the impact of—I believe it is the Mazda, the Japanese automobile. That is the automobile that has that rotary engine. Is it making any significant headway into our domestic market?

Mr. WOODCOCK. Well, I do not have the knowledge but I have the belief that General Motors has done a great deal of work on the rotary engine, which, of course, is the same type of engine as Mazda is, marketing here and will have it available next year on an optional basis in the Vega GM series; and I believe that when that is put on the market, it will have a substantial advantage as against the currently available rotary engines on an efficiency and emissions basis.

Mr. LANDRUM. You look upon it as a potential solution to both the energy crisis and the pollution standards, is that correct?

Mr. WOODCOCK. I would look upon it as an interim solution and hope that the industry would have vigorous research for still alternative sources of power.

Mr. SCHNEEBELI. Will the gentleman yield?

Mr. LANDRUM. I yield.

Mr. SCHNEEBELI. I understand from recent reports that about 20 percent of Mazdas now on the road are in the garage for repairs much of the time. This would indicate it has not been as successful as the advertising indicates. Do you have a similar report?

Mr. WOODCOCK. I don't have such a report. I have read in the press about such claims.

Mr. LANDRUM. I have read that also, and I have had some study made of it. Mr. Schneebeli, and the information given to me is that it is far less than 20 percent, perhaps more nearly 5 percent, and that the majority of those in for repair are in for reasons other than the engine or engine performance. It is maybe just one or two items of the rotary engine. I am not defending it; I am just stating the facts.

Mr. WOODCOCK. As I understand it, the problem with regard to the engine is the problem of the seals which break down under heavy use, and again I have the belief but not the knowledge that GM has found a way to lick that problem.

Mr. LANDRUM. Thank you, Mr. Chairman. Thank you, Mr. Woodcock.

The CHAIRMAN. Mr. Pettis will inquire, Mr. Woodcock.

Mr. PETTIS. Thank you, Mr. Chairman. A few moments ago you mentioned a trip that you had taken to Japan not long ago and that you were quite impressed with some of the labor practices you found there, one of which was this life tenure or the tenure program. When I was in Japan, I was quite impressed with many of these things, too.

In fact, I remember one day I walked into a plant about the time of a coffee break, and all the workers got up and sang what was the equivalent of a pep song. I found very interesting the enthusiasm that these workers had for the company they were working for. Maybe one of the things you just mentioned contributes to that.

My question is—and I am sure you are thinking about this very serious: How can we achieve the same kind of worker enthusiasm in this country that they apparently are achieving in Japan, which I think would help us a great deal in our trade problems, maybe not too much because maybe labor enthusiasm isn't a big ingredient, but how do you look upon this as a problem in American labor?

Mr. WOODCOCK. Well, I wouldn't use the verb "achieve" with regard to the labor response in Japan. I think it is a product of their whole society, of their whole cultural background. I think there is some evidence that it is beginning to break down under the impact of industrialization.

But the life tenure system itself is a product of the cultural background. There is a Japanese identity with the company that just isn't true in our country.

One of the achievements in the current—recently concluded round of bargaining in automobiles in Japan, is that they have pushed the upper limit of the life tenure system from the age of 55 to the age of 60 because, of course, when the person got to 55 and was pushed out without any governmental pension available and with an inadequate severance pay, that individual was pushed into the casual labor market. That is why they were fighting for a higher age, which is now in the automobile industry, and in some others, pushed up to age 60.

We can get the same thing in this country as a product of attitude. I was recently in a manufacturing plant in the city of Chicago, where the attitude of the workers to their company and their union was very enthusiastic. When I walked into one particular plant, I was with the export vice-president, and the workers all came down and sang our union song for me, "Solidarity," and then they turned to the export vice president and said, "Rudy, if you had a company song, we would sing that, too." That was a product of the respectful attitude that each side had for the other.

That is what is wrong with much of our industry—there is a bad attitude on the money side as against the men and women who work.

Mr. PETTIS. Do you see any difference in the attitude toward tedium in assembly line work of a Japanese versus an American worker in the same kind of a job?

Mr. WOODCOCK. Well, when I was in Toyota City and also in one of the plants in which GM has a substantial development and I first began to ask what their absenteeism rate was, they didn't know what I was talking about. They wanted to know: Did I want to know how many were off sick or on leaves of one kind or another. But the notion that people just wouldn't come to work on their own volition without permission was totally foreign. Again, that seems to be changing.

We live in a very hazardous economy in the United States. Our people don't have the protections of government that they have in all other advanced countries. If we could begin to erect some of those, like H.R. 22, you would begin, I think, to see a change of attitude.

Mr. PETTIS. I want to compliment you and the unions involved in the automobile industry in the vesting of pensions. I think this has had a great deal to do with worker enthusiasm. At least you can now move around at least within the automobile industry and not lose vesting; isn't that true?

Mr. WOODCOCK. After 10 years of service.

Mr. PETTIS. After 10 years. Don't you have also other fringe benefits that do not exist in other unions, such as medical, in the automobile industry?

Mr. WOODCOCK. No; I would think our range of fringe benefits is fairly common. I think in some particulars we may be somewhat ahead. We were the first, for example, to pioneer in the affording of protection for mental health insurance. We were told that we could never persuade our people to take advantage of the benefits, which is proving not to be true. They are. In our emphasis on family protection, I think we were pioneers, but we are not necessarily unique.

Mr. PETTIS. Back to the question of tedium and boredom and so on, I know that you have done some studies on this, and I read something somewhere recently that there were some experiments being conducted in changing jobs so that people didn't do the same thing weeks on end but got some change. How is that coming along?

Mr. WOODCOCK. Well, there are dozens, maybe hundreds, of experiments going on, and we expect to discuss this in our bargaining which is soon to begin. What we are saying and have said in our recent conventions is that we don't want a confrontation as to how to do the work. We do want an agreement to do it cooperatively with regard to the experimentation involving the union and the workers.

Some of the experiments have been successful in a psychological sense but have been unsuccessful in a cost sense. Obviously we have to operate within the parameters of acceptable cost. When you get longrun products, we have yet to find a feasible economic substitute for a way of doing it as against the continuous flow assembly line, but we should keep working at it.

Mr. PETTIS. Thank you, Mr. Woodcock.

Mr. LANDRUM. Would the gentleman yield?

Mr. PETTIS. I yield.

Mr. LANDRUM. You referred to your upcoming bargaining sessions, and I am reminded of an item I picked up somewhere that General Motors is building a table 52 feet long as opposed to the one you have used heretofore 35 feet long. What is the significance of that?

Mr. WOODCOCK. It is not only longer, sir; it is also wider, which means there will be a greater distance between us.

Mr. LANDRUM. Thank you, sir. I yield back.

The CHAIRMAN. Mr. Vanik.

Mr. VANIK. Mr. Chairman. First of all, Mr. Woodcock, I want to thank you for your fine and objective approach to the trade issue. Your observations on adjustment assistance and your proposal make more sense than the proposal submitted in the President's bill. What was the actual difference in cost between the two. Is it significant? As I read your statement, I didn't see any great significance in cost.

Mr. WOODCOCK. Well, on the full assistance, we are not competent to run cost studies and have not submitted costs. We did cite what the chamber of commerce claimed was the cost, which, of course, is 75 percent rather than 100 percent, and that ran from $300 million to $350 million on a longer-run basis. The comment, I think, was made by Mr. Schneebeli that, on its face, seemed to be somewhat low.

Mr. VANIK. Now, your statement on capital export is most valid. Today we don't even maintain very adequate records on capital export. It is difficult to determine the amount and nature of exported capital. I just can't believe that dollars invested abroad are going to create more jobs for Americans than dollars invested here in the United States.

Some of the very great enthusiastic statements we have received on the trade bill seem to indicate that these dollars invested abroad would have an even greater job-creating impact, and I just can't see that. I like what you suggest with respect to the licensing of foreign investment. I think that that would give us a measuring stick. It would give us a sense of direction, and I think it would be very helpful.

Now with respect to your proposal on the tax discrepancy between the tax advantage of the multinational over the domestic industry, have you given any thought to the idea of perhaps limiting the deferral to perhaps 10 years?

Mr. WOODCOCK. Well, obviously, since our position is that it should be taxed as made, any limit would be moving in the direction of what we considered acceptable.

Mr. VANIK. I keep reading the financial statements of the multinationals, and in practically all of them, somewhere in the annual report is a statement about their undistributed income from foreign subsidiaries. They indicate that foreign earnings will probably never be repatriated, because they will be continually reinvested abroad.

The outflow and the utilization of this foreign capital seems to be growing and seems to be having an increasingly deleterious effect on our domestic economy.

I think that your recommendation about more disclosure about the financial activities of the multinationals is a good proposal. I think, with that information, we could probably develop an acceptable and equitable form of taxing American multinationals.

What is the employment of the automobile industry this year related to the production of the industry as compared with the previous year?

Mr. WOODCOCK. Production, of course, is——

Mr. VANIK. At all-time highs.

Mr. WOODCOCK [continuing]. At record levels.

Mr. VANIK. What is that in units?

Mr. WOODCOCK. Currently we are running at the 12-million-car-and-truck year, which I don't think can be sustained for very long.

Mr. VANIK. What is the employment in the automobile industry?

Mr. WOODCOCK. Well, our dues-paying membership—which, of course, takes in other elements—is running currently around 1,400,000, which would be about 200,000 less than it was during the previous production records of 1965.

Mr. VANIK. What were those production records in 1965? How many units were there in 1965?

Mr. WOODCOCK. They would be running, as I remember, between the levels of 10 million and 11 million.

Mr. VANIK. So that you are producing today a million extra units with how many less employees?

Mr. WOODCOCK. I would guess 150,000.

Mr. VANIK. Did you ever reconcile that with the estimate that Mr. Connally made when he was Secretary of the Treasury? He had a relationship between units and jobs and promised a job increment.

Mr. WOODCOCK. That was relative to the removal of the excise tax on automobiles. Of course, Mr. Connally's estimate was based upon the totality of jobs—rubber, gas, steel, the whole question of input.

Mr. VANIK. Rather than just the automobiles.

Mr. WOODCOCK. At no time could we come anywhere near realizing that.

Mr. VANIK. So if we were led to believe here that it would create jobs in the automobile industry in the proportion he indicated, then we were in error in believing that?

Mr. WOODCOCK. Well, no, because if we had had less production, we would have had even less workers. It isn't a bad thing, obviously, when production rises faster than employment. The bad thing is what happens to those who can't otherwise find jobs. That is the problem.

Mr. VANIK. You believe that with respect to Canadian-American automobile agreement, that we should probably try to make that more reciprocal rather than drop the agreement. Your thinking is, as I understand it, that there is quite an inflow of automobiles into America of autos made in Canada, but when they go the reverse route there is a tax of as high as 12 percent. That doesn't apply, I guess, to the industries, but applies to individuals.

Mr. WOODCOCK. That is correct.

Mr. VANIK. Your thought is that if we were to correct that, it would probably put the agreement much more in balance and remove your paramount objection?

Mr. WOODCOCK. I think it would; yes, sir.

Mr. VANIK. I just wanted to ask you this question, Mr. Woodcock: What, in your judgment, has been the primary contribution to the inflation that seems to be uncontrolled at the present time? What is really going to be the great argument that workers in all industries are going to have when they begin their negotiations? What has been the prime contributor to the very heated inflationary spiral?

Mr. WOODCOCK. Of course, this inflation which still continues, I firmly believe, had its genesis in the escalation of the war in Vietnam in 1965 without corresponding physical and monetary policies being undertaken. Labor did become part of the problem in the labor cost-push sometime after that by fighting to correct its eroded position and fighting for big increases to protect itself against the future.

I think our union, in 1970, by taking the attention away from that and having the increases in years two and three of our agreement, tied to three percent reflective of the national productivity, protected by partial cost of living, was a step in the direction of economic sanity.

I think at the point the Executive order was issued on January 11, the loosening of an already loose price side and the constant discussion after that of reimposing a total freeze or rigid controls invited price escalation to try to beat the game, as it were, which I think has unnaturally inflated that; but when you get to the food problem, that is a demand-supply world situation that I don't know just what we can do about except try and increase the supply.

There are millions of acres that have been lying under water in the Midwest, obviously working against that: I certainly don't want to see the American family farmer made the victim of this because he does not have an advantage place in our economy. The rise of food prices at the farm have been way below industrial commodities over the last 20 years, and way below the advance in price-cost of services, and we just have to ride this one out.

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

Thank you, Mr. Woodcock.

The CHAIRMAN. Mr. Duncan will inquire.

Mr. DUNCAN. Thank you, Mr. Chairman.

Mr. Woodcock, you indicated that you favor 100 percent assistance; is that correct?

Mr. WOODCOCK. That is correct; yes, sir; as in Amtrak.

Mr. DUNCAN. If they received 100 percent assistance, how many of them do you think would ever go to work?

Mr. WOODCOCK. Well, it is possible to make a study as to what has happened in Amtrak and find out just how the thing has worked.

Mr. DUNCAN. 100 percent of assistance would be better than retirement, I would suppose.

Mr. WOODCOCK. Well, you know, it is dependent upon the willingness to take available and relatively equal jobs. It is not just a total grant.

Mr. DUNCAN. Would you favor some guidelines to follow?

Mr. WOODCOCK. That has to be in any such system. Otherwise, the abuses would render that kind of protection inoperative.

Mr. DUNCAN. Yesterday we had a conflict of opinion or statement by two different witnesses on the number of automobiles that were exported in the last few years. One said, that it had decreased and another said it had leveled off. Could you enlighten us on that subject?

Mr. WOODCOCK. I don't have those figures readily in my mind. The export portion of our North American production is very, very low. I don't know whether it is falling or staying relatively stable.

Mr. DUNCAN. How many did we export last year?

Mr. WOODCOCK. Well, there is some export in the jeep-type field. You are thinking now in terms of passenger cars and trucks.

Mr. DUNCAN. Yes, sir.

Mr. WOODCOCK. I won't hazard a guess as to how many, but it would be a very, very small percentage of our production.

Mr. DUNCAN. Would you have available and supply for the record the number for the past 5 years?

Mr. WOODCOCK. I am sure we can get that, sir, and we will.

[The information follows:]

Exports of automobiles and other road motor vehicles and parts (value)

	Millions		*Millions*
1968	$3, 372. 3	1971	$4, 151. 1
1969	3, 788. 0	1972	4, 796. 4
1970	3, 549. 3		

Exports of automobiles and other road motor vehicles and parts (value), excluding exports to Canada

	Millions		*Millions*
1968	$1, 226. 6	1971	$1, 369. 3
1969	1, 241. 3	1972	1, 438. 4
1970	1, 419. 3		

Source: Commerce Department.

Exports of cars, trucks, and buses (units)

	Millions		Millions
1968	545, 996	1971	601, 716
1969	559, 241	1972	623, 904
1970	486, 270		

Exports of cars, trucks, and buses (units), excluding exports to Canada

	Millions		Millions
1968	209, 827	1971	180, 560
1969	212, 592	1972	146, 988
1970	186, 878		

Source: Motorvehicle Manufacturers Association.

Mr. DUNCAN. Would you say that the decrease in foreign imports of automobiles in the past few years has been caused in part by trade barriers?

Mr. WOODCOCK. The decrease in foreign imports in cars?

Mr. DUNCAN. Foreign exports.

Mr. WOODCOCK. Foreign exports?

Mr. DUNCAN. Yes, sir.

Mr. WOODCOCK. Well, in part, but largely because the bulk of the cars produced for the North American market are unsuitable in terms of their bigness for the roads in other countries, and also the much higher prices of gasoline in those other countries and the fact that they operate on very low mileage makes them noncompetitive.

Mr. DUNCAN. Do you favor an across-the-board method of negotiating non-tariff barriers, rather than a barrier to barrier?

Mr. WOODCOCK. I won't try to appear to be an expert as to the tactics to be followed in best preserving the national interests of the United States.

Mr. DUNCAN. Every time we talk about fair trade, it is interpreted in some quarters as a move toward restrictions as opposed to free trade. If your policy of free trade is to be meaningful, do you think it has to be on a reciprocal, fair basis?

Mr. WOODCOCK. Oh, most definitely; yes, sir.

Mr. DUNCAN. Do you think we would start a trade war if we actually demanded fair trade?

Mr. WOODCOCK. Well, how the demand is couched and how it is threatened to be carried out. If it is carried out in a bullish context, obviously that would be counter-productive and won't work. It has to be firm, I think, rather than in a demand setting.

Mr. DUNCAN. When the Common Market was formed, we were told it was going to be a great, outward-looking trade group, but don't you think it has turned out to be quite an inward-looking trade organization?

Mr. WOODCOCK. It obviously has its own internal problems. The nationality consciousness is still there, and they seem to be a very protective grouping as a totality; yes, sir.

Mr. DUNCAN. Thank you, Mr. Woodcock.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Fulton.

Mr. FULTON. I have no questions.

The CHAIRMAN. Mr. Gibbons will inquire.

Mr. GIBBONS. Thank you, Mr. Chairman.

Mr. Woodcock, I want to thank you for what I think is a very constructive statement. You have certainly done a fine job in balancing the interests of your own constituency with their broader interests. I just want to commend you for the way in which the whole thing has been handled.

Let's talk about Federal standards for unemployment compensation or adjustment assistance. Would you rather have us consider the problem of the displaced worker under the umbrella of unemployment compensation, or would you rather have it just considered separately or narrowly in the realm of foreign trade adjustment assistance?

Mr. WOODCOCK. I think we would prefer the separation by foreign trade adjustment assistance as against an unnecessarily narrow and restrictive federalization of the unemployment compensation system.

Mr. GIBBONS. Just assuming that the committee would go a little further—and I don't know whether they would or not—than the President's proposal, would you still, then, rather have us go that way, or would it depend upon the distance in which we went in Federal standards for unemployment compensation?

Mr. WOODCOCK. In a sense, yes, we support totally the notion of separation of the two concepts.

Mr. GIBBONS. I noticed with interest your statement in both your longer statement and your oral statement here concerning the chamber of commerce proposal on adjustment assistance. I don't have a copy of that. I wonder whether you have a copy of it. I guess you do have a copy of it.

Mr. WOODCOCK. Yes, we do.

Mr. GIBBONS. Is it a very long document?

Mr. WOODCOCK. Whether it is short or long, with the chairman's permission, we will submit it.

The CHAIRMAN. Without objection, it will appear in the record at this point.

[The chamber of commerce proposal follows:]

ECONOMIC ADJUSTMENT TO LIBERAL TRADE: A NEW APPROACH

INTRODUCTION

The Chamber of Commerce supports a liberal trade policy for the United States. The Chamber in fact believes that liberal trade is now more important to our national interest than at any time in the postwar period, for both economic and political reasons.

Economically, the United States is likely to continue to face persistent problems of both high unemployment and inflationary pressures. The Chamber rejects the notion that unemployment can be reduced to acceptable levels only by pushing inflation to unacceptable levels or vice-versa. However, skillful public policy is needed to solve the two problems simultaneously.

Fiscal and monetary efforts provide much of the policy response, but it is too much to expect that they can do the job alone, particularly since each problem is caused in part by structural difficulties rather than inappropriate levels of aggregate demand. Selective measures are thus needed as well. One such measure is the present program of wage-price controls, which is necessary at this time. The Chamber applauds the decision of the President to substitute voluntary for mandatory controls, but notes that even the approach of Phase III violates the basic precepts of the free market which are essential to the continued success of the American economy. The controls should thus be phased out as soon as possible.

But a number of other selective measures both conform to the precepts of the market and offer the possibility of major help in fighting unemployment and inflation. One is free trade. Import restrictions levy heavy costs on our economy. The present tariff and quota restrictions were raising prices to our consumers by close to $20 billion per year before the Administration wisely liberalized the oil and meat quotas to help fight inflation. They undermine our competitiveness, by raising costs to our producers and shielding important sectors of our economy from the stimulus of foreign competition. They do not save jobs; indeed, they cost American jobs by triggering foreign barriers to our exports and by retarding the historic and natural evolution of our economy into ever more efficient and higher-wage industries. Indeed, the Chamber believes that new import restrictions would deal a devastating blow to the American economy, undermining over time both our standard of living and the basic economic system on which our nation is based.

At the same time, foreign barriers to trade continue to impede the US economy by restraining our exports in industries (including agriculture) where we possess marked comparative advantages. These barriers cost us high-paying jobs and reduce the competitive incentives to our firms and workers. Our major national interest in their reduction can be realized only within the framework of an international negotiation in which all major countries agree to renew their progress toward freer trade.

A second selective approach which can help combat both unemployment and inflation is manpower policy. The skill mix of our labor force can of course never mesh precisely with the needs of the shifting patterns of production; there will always be some unemployment. But effective manpower programs can reduce the level of unemployment by equipping workers to fill available jobs. They can reduce inflation by increasing the productivity of our labor force, and by reducing the costs of unemployment compensation. Indeed, they can represent a highly productive investment in the future of our nation.

Similar in principle to manpower training is assistance to smaller firms which also need help in adjusting to the rapid changes triggered by modern economic forces such as foreign trade. Their contribution to our overall economy can be promoted if they can be helped to improve their competitiveness in their present industry, or shift their resources into more promising endeavors.

Freer trade, manpower programs, and industrial assistance are integral components of the foreign economic policy which the Chamber believes must be pursued by the United States in the 1970s. Each is highly desirable in its own right, as just indicated, and the relationship among them is straightforward. Freer trade causes dislocation for a few in order to benefit all. The personal hardships which result are often severe, and must be alleviated. Those who are hurt by a policy which is thus pursued in the general interest should be compensated adequately for their losses, and the opportunity should be seized to enable them to increase their contribution to the national welfare. The Chamber is confident that the benefits of such a foreign economic policy to our nation far exceed its costs, as will be demonstrated in the penultimate section of this paper.

The Chamber also wishes to emphasize the importance of freer trade to the foreign policy of the United States. Economic issues now play a central role in US relations with virtually every country in the world, especially our closest allies in Canada, Europe, and Japan. New US trade restrictions could severely injure those relations. Steady progress toward freer trade could smooth them. Since amicable US relations with both Europe and Japan are an essential component of continued improvement in our relations with the Soviet Union and China, a successful and cooperative US foreign economic policy will play a central role in realizing our hopes for a generation of peace.

A NEW PROGRAM OF ECONOMIC ASSISTANCE

The concept of "adjustment assistance" to workers and firms displaced by imports was embodied in the Trade Expansion Act of 1962. The Chamber believes that the program authorized by that Act, however, is wholly inadequate:

It generates little real adjustment to economic change for dislocated workers providing only temporary supplements to unemployment compensation

Its assistance commences long after dislocation has occurred, and it delivers this long-delayed assistance far too slowly

Its level of compensation to workers for their loss of jobs is inadequate, frequently amounting to less than one-half their previous earnings

The program provides no help whatsoever for communities

There is no high-level governmental attention to the program, and no central direction to it

None of these problems are inherent in the concept of adjustment assistance. The Chamber believes that each of them must be solved in order to construct a program of economic adjustment which will enable the United States to pursue a liberal trade policy in the 1970s; and that such a program can be devised. It believes that such a program must compensate those whose skills are rendered unprofitable by trade for their losses *and*, more importantly, help them adjust into new endeavors. It offers the following proposals to that end.

ELIGIBILITY

Under the present law, firms and workers are eligibile for trade adjustment assistance only if a majority of the Tariff Commission concludes that they are suffering serious injury (or are threatened with serious injury) and that the major cause of their injury is an increase in imports which was in turn triggered in major part by U.S. tariff concessions. This formula has proved exceedingly restrictive. It ignores the vast bulk of our imports, since they are not caused by U.S. tariff concessions. It is often difficult to prove conclusively that imports are the major cause of a particular dislocation. There has been no basis for helping those affected indirectly by imports, either as suppliers to firms directly affected or living in communities whose "gross community product" is retarded. The procedures for determining eligibility and extending benefits are so cumbersome that severe delays in both are inevitable. And there has been reluctance to determine eligibility, both at the Tariff Commission and in the White House, because the identity of the criteria for "adjustment assistance" and for protection from imports under the escape clause has raised the spectre of trade wars any time that assistance is provided—although the intent of the legislation was to authorize such assistance as a clear alternative to import quotas and tariff increases.

The Chamber recommends a basic change in the eligibility criteria:

1. *Workers employed continuously by a firm for more than six months should be presumed to be eligible for assistance if layoffs affect a significant share (perhaps 5%) of those engaged in producing a product in which total domestic output and the output of their particular firm have declined, and imports of a like or directly competitive product have increased, over a representative period of time (perhaps the latest twelve months for which data are available compared with either of the two previous twelve month periods, or an average of those two periods).*

1.2 *Firms would be presumed eligible if their own output and total national output of the product declined while imports rose, and for certain forms of assistance when there was a serious threat of such developments (see pages 8–9), if the product represented a substantial share of the total output of the firm, unless the imports were generated by the firm itself.* (The combination of these two changes—reduced domestic output and increased imports for both workers and firms—of course implies a rise in the ratio of imports to domestic production. This approach is superior to formulas which would trigger assistance solely on the basis of some given increase in the import/domestic production ratio, however because such increases frequently take place for products for which total demand is growing rapidly.)

1.3 *Firms, and workers thereof, whose output declined and 50% of whose output represented inputs to product lines which themselves met this new injury test would also be eligible; other supplying firms could become eligible if they could demonstrate that their own problems were substantially due to the effect of import competition on their customers.* (In all of these cases, a "product" would be defined narrowly in order both to permit help for small groups of workers and, conversely, to avoid paying benefits to those for whom they were not justified.)

1.4 *Communities would automatically be eligible when a significant share (perhaps 5%) of their total workers have been declared eligible for the program themselves. Communities could qualify in any event by demonstrating that their own problems were substantially due to the effect of import competition.*

1.5 *In all of these cases, there would thus be a presumption that injury existed and eligibility for assistance established when rising imports and reduced output coincided. The presumptions could be challenged by the administering authority in cases where it felt that imports were not a substantial cause of the dislocation,*

as could often be the case for firms where poor management (including failure to anticipate competition from imports) was the crucial factor. (Indeed, cases can be envisaged where workers of a firm would receive full benefits whereas the firm, even if eligible, would receive for less.) Particularly for workers, however, the presumption would be realized in most cases.

Under the Automotive Products Trade Act of 1965, an analogous formula was used to provide assistance for the dislocations caused in the course of the restructuring of the North American automobile industry under the US-Canada Automotive Agreement of that year. Under that arrangement, the legal presumption was never challenged and the eligibility criteria of the adjustment program were regarded by all parties—the unions, workers, firms and US Government—as a complete success. Under the program proposed here the criteria would encompass dislocations caused by imports both from foreign-owned firms and from the foreign affiliates of US firms. It is recognized that there are problems of comparability between the present U.S. data for imports and domestic output, and that improvements in these data are needed for a wide variety of purposes, but the technical problems have been met so far and can be met in the future. The Chamber is confident that the approach can work successfully for US trade policy as a whole.

SPEED OF DELIVERY

At present, there are two routes to obtain "adjustment assistance". Under the escape clause procedures, firms and workers in an entire industry can obtain help. The process in this case takes up to six months in the Tariff Commission; a subsequent decision by the President, which may take 90 days; subsequent certification of individual firms and workers by the Departments of Commerce and Labor, respectively; and delivery of the benefits through specific agents. When individual firms and groups of workers apply for assistance, they must undergo scrutiny by the Tariff Commission for 60 days; Presidential consideration if the Tariff Commission vote is tied, as has frequently been the case; certification by the relevant Department; and then delivery. In both cases, interminable delay has been the rule.

The proposed changes in adjustment assistance eligibility criteria (we are proposing no changes in the criteria for tariff adjustment or quota relief under the escape clause) would themselves go far to speed the delivery of assistance. The simple correlation between declining output and increasing imports would be easy to verify, particularly in comparison with the complex investigation of "serious injury" and two-stage causality under present law. The dissociation between the new criteria for economic adjustment and the criteria for imposing new import restrictions would relieve concerns that the former might trigger the latter, and hence remove another impediment to a speedy delivery process.

Further steps are needed, however, both to anticipate and hence avoid dislocation caused by trade flows and to assure prompt relief when dislocation does occur. Early warning of impending dislocations is needed well before firms begin to slide competitively. The Government, which now enters the adjustment process for too late, can help in this process by improving its analytical capacity. To do this, however, the Government must get close and continuing advice from those directly affected, who are likely to first pick up the signals of impending change—the firms themselves.

2.1 *The Government should actively contact firms (and trade associations) to keep abreast of their judgments concerning trade trends, and inform firms of problems which appear to be developing. A two-way process is needed, however, so*

2.2 *that the information can be effectively utilized. Firms should actively consult the Government to check out their own individual views as they make their future investment and marketing plans.* Such information should be particularly helpful for smaller firms, who usually suffer most from import dislocation. Acting as a broker, the Government could assure the confidentiality of information of commercial importance to individual firms. In the consumer goods industries, where imports have been rising sharply, retailers—who are frequently in the best position to spot changing patterns of production and hence pending economic dislocations—should be consulted.

The objective would be to develop and share information on the outlook for foreign competition in the US market, in an effort to spot emerging trends better than could be done by individual firms on their own. Firms would then have an earlier opportunity to adjust on their own, and avoid import dislocation.

2.3 *The Chamber also recommends that firms be eligible for technical assistance from the Government, on both a grant and reimbursable basis, when the*

administering authority determines in advance of the actual manifestation of any injury that they face a "threat of serious injury" from imports. The concept of a "*threat* of serious injury" is encompassed in the present "adjustment assistance" legislation, but has been interpreted to require that the threat be imminent. Under the proposed new approach, it would encompass a much longer lead time than has been required heretofore.

The primary responsibility for early warning to workers rests with private firms, however, because it is they who face the pressure of increased competition and must make decisions to respond to it. Many US firms already give such warning, and many agree to do so under their management-labor arrangements. Several countries require their companies to give a minimum amount of prior notice to workers who are to be laid off, ranging from four to sixteen weeks.

2.4 *The Chamber views it as the responsibility of US firms to give the maximum possible advance notice to workers whom they will be laying off, and to provide them with full information concerning the available benefits under the proposed program. It urges all firms to comply with this principle.*

In combination with the speedy delivery of benefits permitted by the new assistance criteria and promoted by the new administrative machinery to be discussed below, and the improvement in compensation and adjustment aids to be discussed next, these early warning mechanisms should go far to assure workers that they would have both the time and the means to transit from present to future employment with minimum personal disruption. Indeed, early action by firms to pre-empt import penetration would if successful obviate any dislocation to workers at all. The proposed program, taken in its entirety, should thus significantly reduce their resistance to import-induced change.

COMPENSATION BENEFITS FOR WORKERS

Under present law, workers declared eligible for "adjustment assistance" receive 65% of their previous wage *or* 65% of the average manufacturing wage, whichever is less. These benefits are not taxable. There is no compensation for lost fringe benefits. Present benefits thus range from about 40% of previous net earnings (for workers with above-average wages and large fringe benefits) to as much as 70% of previous net earnings (for those workers with higher tax liabilities than fringe benefits and below-average wages), with most clustered about 50–60%.

The Chamber agrees with the judgment of the House Ways and Means Committee, the entire House of Representatives, and the Senate Finance Committee, as recorded in their passage of the Trade Act of 1970, that these levels are inadequate. Workers have invested considerable time, and often money as well, in acquiring their skills. Time, and often money, will always be required to reemploy or replace those skills to rebuild the worker's earning capacity. Individual workers should be adequately compensated for losses imposed on them by government policies, such as liberal trade, which are pursued because they serve the overall national interest.

The House and the Senate Finance Committee, in 1970, voted to provide eligible workers with 75% of their prior earnings, or 75% of the average manufacturing wage, whichever is less, non-taxable.

3.1 *The Chamber believes that 75% is a reasonable level of compensation, and recommends that it replace the present level (with a ceiling of an annual rate of $12,000 for any individual worker).* However, the Chamber feels that it is inequitable to penalize a worker because his wage is higher than the national average for manufacturing. Every worker should receive a like proportion of his previous wage—75%, on this recommendation.

3.2 *There should thus be no alternative calculation based on the national average.* The resource cost of these benefits would of course be simply their excess above the level of unemployment insurance which virtually all displaced workers would otherwise receive.

3.3 *For those few workers affected by imports who are not covered by unemployment insurance, the assistance program would have to finance all benefits.* Salaried workers, as well as those who are paid an hourly wage, would of course be eligible.

Fringe benefits now comprise a major part of a worker's income, averaging about 15% beyond money wages for all workers but amounting to as much as 30–40% for some. An important share of these benefits is not transferable as the worker moves from one firm to another, unlike the case in many countries, which greatly increases his reluctance to do so. Indeed, there is no way to provide

compensation for a number of important fringe benefits, such as guaranteed overtime pay and seniority rights, even if it were deemed desirable to do so. A number of the most important fringes, however, represent health and life (and perhaps disability and other) insurance whose lapsing could levy heavy costs on a displaced worker and his family. There should be no reduction in the level of benefits available to displaced workers under these plans.

3.4 *The Chamber thus recommends that the Government assistance program pick up whatever premiums the companies had previously been paying, at the group rate prevailing before the worker was laid off, to enable all dislocated workers to maintain in full their membership in all their insurance plans.*

3.5 *In cases where workers were enrolled in local plans which could not be maintained if they moved elsewhere to train or pursue jobs, they could join the insurance plans for employees of the governments of the states to which they had moved for the temporary period in question.* Some other important fringe-benefit problems, such as vesting of pensions, may be met by changes in the relevant legislation which are already under consideration. Older workers, who often find it particularly difficult to find a new job, could get added benefits as will be outlined below.

ADJUSTMENT BY WORKERS

The Chamber believes that economic adjustment to liberal trade should focus most heavily on helping workers adjust into fruitful new occupations as quickly as possible.

4.1 *Workers would thus have to be actively seeking employment to receive any of the compensation benefits just described.* They would cease to receive benefits once they were offered a suitable job.

4.2 *They would also have to apply for retraining programs to qualify them for suitable jobs that were identifiable as available to use the skills when they were trained for them, and join those training programs as soon as opening developed.* These two requirements would assure that the enhanced level of compensation benefits promoted, rather than deferred, the likelihood that the trade impacted worker would find new employment as soon as possible. The higher the level of employment in the economy as a whole, the less need would of course exist for the actual payment of compensation benefits—although structural problems will always exist even when aggregate unemployment is very low.

Under present trade adjustment assistance, a worker can receive compensation benefits for 52 weeks plus 26 additional weeks if he is undergoing retraining plus an additional 13 weeks if he is over 60 years of age. The Chamber believes that this period may be too long for some workers, and—in the absence of the "accept suitable employment and apply for retraining" requirement included here—reduce the incentives for them to seek new jobs. At the same time, it recognizes that the average duration of unemployment of workers who have received trade "adjustment assistance" in the past is 10 omnths. This compares with the national average of 1½–3 months, which fluctuates with the level of aggregate unemployment. It also recognizes that appropriate retraining programs are not always available immediately, and may take some time to complete. It is to be expected, of course, that workers displaced by imports—who generally come from industries which are less productive than the industries employing the "average worker," most of whose "unemployment" is due to voluntary quits as he moves from job to better job—will suffer periods of joblessness far longer than the average.

Recalling again the requirement that eligible workers accept the offer of a suitable job or apply for retraining for a job which will be available to use his new skill.

4.3 *The Chamber therefore recommends that the full compensation benefits as outlined above be paid for the durations specified in the present act, except that the extention period for workers in training programs be increased from 26 to 52 weeks* to enhance the likelihood that such training will have a full opportunity to provide real adjustment for them.

4.4 *Workers 55 or older would be eligible to receive the same benefits.* It is often much more difficult for their older workers to otbain new jobs, however, even with retraining, both because employers are frequently reluctant to hire them and because these older workers may be less adaptable themselves. And experience demonstrates that the number of older workers laid off due to imports constitutes a large share of the total problem. *The Chamber therefore recommends that older workers be offered the alternative of early retirement, with*

immediate commencement of benefits (at the level otherwise available at age 62 for those retiring before 60, at the level available at age 65 for those retiring at 60 or over) under their private pension plans and the Social Security and Medicare systems.

4.5 *The additional costs of such early retirement would be reimbursed to the private firm or Social Security system by the new Government assistance program.*

Real adjustment into new positions will often require retraining and relocation to areas where new jobs exist, in addition to proper incentives to workers to seek and accept such jobs. Such steps can be most effective in reducing the costs of dislocation if they are initiated as early as possible in the dislocation process.

Thus proposals have already been made to assure early warning of pending dislocations, to require entry into training programs for workers to qualify for the proposed compensation benefits, and to provide financial incentives (the additional period of compensation benefits) for those workers who are dislocated to stay in retraining programs. The narrow "product" definition of the eligibility criteria also enhances the potential for adjustment, by enabling workers producing the impacted product to receive (presumably on-the-job) training to fill a new position with the same (multi-product) firm. More specific measures are also needed, however, to reduce hardships to individuals and the costs to society as a whole of unemployment triggered by trade flows.

A successful adjustment program for trade-dislocated workers requires four key components. The first is early attention to the problem. Part of the success of the Office of Economic Assistance in the Department of Defense, in helping whole communities adjust to cutbacks in defense expenditures, can be traced to its early knowledge of developing problems. It would be difficult to replicate as much early warning in the private sector, of course, since the Defense Department obviously knows where defense cuts are coming. Nevertheless, the suggestions already made to provide early warning of pending problems would permit much earlier triggering of adjustment efforts including efforts to pre-empt the dislocation from occuring at all. (Such early warning would also assure timely commencement of compensation benefits when they become necessary.)

The second requirement is that job training be geared to jobs which will in fact be available when the training is completed. This suggests a focus on on-the-job training, under which the new employer receives Government payments for each new worker hired during the training period.

4.6 To utilize effectively *both the on-the-job and institutional programs, sharp improvements are needed in the Federal-State Employment Service and Computerized job-worker matching, including better statistics on "jobs available" and continuous updating of job definitions.*

4.7 *All dislocated workers should receive sharply improved counselling services*—of the type which facilitated the adjustment of workers laid off when Studebaker folded—to bring workers and jobs together.

4.8 *Workers should be authorized to use private counselling services approved by the Government and under its continuing surveillance, and reimbursed for the costs thereof.* A final requirement is conscious effort by the Employment Service to pinpoint emerging job opportunities, preferably in the same or neighboring geographical areas, which will be available to job trainees. Job searches by the Employment Service for the relatively small number of workers displaced by imports might be a particularly useful area in which trade adjustment could be a pilot program for broader manpower programs in the future, as advocated at the outset of this report, since major improvements in the Federal-State Employment Service would have to be a major part of such improvements. The effort could draw on the successful computerized job placement system maintained by the Department of Defense to direct retiring Defense personnel into civilian employment.

Third, adequate training programs are needed. There is much present criticism of the effectiveness of current manpower training programs. Few of the present programs which bear that name, however, have aimed at the kind of adjustment discussed here. Most of them have been adjuncts for the poverty program, aimed at the most disadvantaged and least skilled of all Americans. Even so, a number have achieved real adjustment—even in extremely difficult circumstances, such as Appalachia. Specific programs for specific cirmumstances have worked—the Studebaker and Armour reconversions, the Defense Department programs to smooth the adjustment to reductions in defense spending in Wichita and dozens of other locales. Manpower programs have worked effectively in other countries, where they have received a higher priority from na-

tional governments, have had longer periods of experience from which to learn, and have operated within a context of low unemployment. They have worked in individual states in our country, which have attracted firms by training workers to meet their specific job needs.

4.9. *Trade-dislocated workers should be eligible to participate in all present* ing programs can achieve adjustment to trade dislocations, however, is that workers replaced by trade flows are far superior to the participants in most *programs, and the new counselling programs must assure that workers will be aware of all alternatives available to them.*

The most important reason why the Chamber is confident that current training programs can achieve adjustment to trade dislocations, however, is that workers replaced by trade flows are far superior to the participants in most current manpower efforts—who are essentially recipients of poverty help. Trade-impacted workers have been working, often for many years and even decades. This means that they have demonstrated work skills. Even more importantly, they have a proven desire to work—the work ethic is clearly alive in this group. They are thus likely to be highly employable relative to the average participant in current manpower training programs, many of whom have little work experience or education. (A possible exception is older workers, for which special compensation provisions have already been suggested). They are superior to the average unemployed worker, who is a new entrant to the labor force or re-entrant to it after periods of absence which are often quite extended.

There is thus real reason to expect that trade-impacted workers, if given appropriate help including proper incentives, will be able to adjust effectively into new occupations. We believe that the proposals made in this report will strongly enhance that possibility. We see little risk that the proposals would create disincentives to work: the compensation benefits represent a cutback from previous earnings, their duration is limited in time, no benefits are available unless the worker meets the job test and applies for retraining. The workers involved would have already demonstrated their desire and ability to hold the job. Indeed, serious efforts to train the relatively able workers dislocated by trade flows could provide valuable lessons for the broader manpower program which, as indicated in the introduction to this report, can play a major role in helping to win the fight against inflation by upgrading the skills of our national labor force.

Fourth, adequate relocation reimbursement is needed. Efforts should be made to avoid the need for workers to move geographically to obtain new employment, because of the disruption to their lives which results. The community assistance programs discussed below should help meet that objective, as should the inducements to multi-product firms to shift workers displaced from producing their trade-impacted product to producing more competitive items. However, geographical moves will be needed in some cases.

4.10. *The costs of such moves should be completely financed by the trade adjustment program,* as they are in the Amtrak settlement, promulgated by Secretary of Labor Hodgson as part of the creation of our new national passenger railroad system. This includes the search process for a new home and the loss to the worker, if any, of selling his old home in a depressed market or breaking an apartment lease. The Homeowners Assistance Program of the Department of Defense, and the forebearance authortiy of HUD, could be mobilized to assist this effort.

4.11 *All dislocated workers, not just heads of families, should be made eligible for relocation expenses.*

In making all of these proposals, the Chamber is aware that some observers argue that special adjustment programs for trade-impacted workers are illogical, because these workers are no different from those Americans dislocated by other changes, of purely internal origin, which affect our economy. In response, it would note that the Congress has judged for over a decade that special adustment to trade dislocation is needed; the only issue would seem to be the effectiveness of that adjustment program. In addition, however, the Chamber supports the judgment of Congress. The trade adjustment issue will have to be faced head-on in the near future in the context of trade legislation alone.

The costs of an adequate liberalization of compensation benefits (such as unemployment insurance benefits) for workers dislocated by all types of economic change, and a total new manpower program, is widely regarded as excessive under present conditions. Perhaps most important, a pilot project along the lines suggested could try out the needed approaches in a policy area in which much greater knowledge is necessary. The Chamber thus feels that it is sound policy to propose a special program for trade-impacted workers.

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ADJUSTMENT BY FIRMS

This report has stressed the need for reformed economic adjustment for workers, because the Chamber believes that management should itself generally be responsible for the response of firms to dislocation from imports (as other disturbances) and that the responsibility of government to provide assistance is thus primarily to workers. There should be no compensation benefits for firms. Indeed, firms which fail to adjust to competition from imports, either by improving their ability in their present product line or by shifting to a new product line, may have to go out of business entirely. There is often a need to help smaller firms really adjust, however, as provided for under present trade legislation.

Changes should be made in the application of that legislation to firms to parallel the changes already proposed for workers. Depending on the particular case, the objective of the assistance should be to help the firm restore competitiveness in its present industry or adjust into a new line of endeavor. Despite the limited nature of the experience gained so far under the existing program, it appears that both objectives can be achieved.

The most necessary improvement in aid to firms is increasing its timeliness. Firms must adjust rapidly to avoid major losses which may undermine their positions for years, or even lead to total collapse. Most of the failures to promote firm adjustment under the present program can be attributed to its slowness to identify a problem and then provide the available assistance. Early help is more effective and cheaper as well.

The needed speedup should be achieved through liberalization of the criteria for eligibility and an improved delivery system. As already proposed, new approaches to early warning and technical assistance to firms facing a threat of future injury could play a critical role in pre-empting dislocation from imports for firms (and through them for their workers), if expert management consultants were employed at an early stage to analyze the firm's problem and propose a plan of action.

(1.2) The criteria for eligibility after most import injury has occurred would be similar to those proposed for workers: *an increase in imports coupled with a decline in output, both by a firm and nationally for the given product, if the product represented a significant share of the firm's output, would make the firm eligible for assistance with discretion to the administering authority to challenge the presumption of injury if it felt that imports were not a substantial cause of the dislocation.* Firms and workers in those firms should in fact be encouraged to apply for help together; the use of similar eligibility criteria will promote that objective.

The benefits available to firms in present legislation include eligibility for tax loss carrybacks for two years beyond normal practice, preferential access to government credit, and technical assistance to help them achieve a viable business position. These aids to adjustment should be maintained, but several should be added.

5.1 *Government guarantees should be extended—for a fee—to enable eligible firms to obtain credit from private sources.* (and possibly save money for the Government) This requires two changes from present law: *the interest* (5.2) *rate on guaranteed loans should not be tied to the borrowing rate of the Treasury.* which is obviously a far better credit risk than firms threatened (5.3) by import competition. *Guarantees should cover 100% of the private loans (instead of the present 90% ceiling) if they were arranged sufficiently early in the adjustment process to provide high promise of saving the firm.*

5.4 *Technical assistance, including consideration of mergers and sales of a firm's assets, should be expanded through additional use of private consultants approved by the Government and under its continuing surveillance, at the earlier instances made possible by the new system of early warning, the new criteria and the improved administration.*

ADJUSTMENTS BY COMMUNITIES

Communities are not eligible for "adjustment assistance" under present law. Yet many of the most severe dislocations caused by trade flows fall on those affected indirectly—the firms and people who provide services and inputs to the firms and workers who compete internationally. Indeed, communities may wither even if firms and their workers affected by imports successfully resist the new competition by moving elsewhere. The problems of direct suppliers

would bet met by the proposals made above for them to become eligible for all of the new adjustment benefits. Action is needed at the community level, however, to meet the problems of many others.

(1.4) *Communities should therefore automatically be eligible for aid under the new program when a significant share (perhaps 5%) of their workers themselves had become eligible under the new criteria applicable to them.* Even if these particular workers found jobs elsewhere, their eligibility would enable the community in which they were laid off due to trade dislocation to receive benefits—providing a means to deal with the local problems caused by (1.4) "runaway plants". *Other communities could apply for eligibility on the grounds that imports were a substantial cause of their problems.*

6.1 *Eligible communities should then receive attention of the type carried out successfully by the Office of Economic Adjustment in the Department of Defense, in recent years on behalf of the President's Inter-Agency Adjustment Committee, for over 160 large and small communities* (including entire counties) *impacted by changes in defense spending since 1961.* The primary thrust of this effort is to help affected areas mobilize their own resources effectively, and by doing so attract private resources from outside the area to add to the adjustment. (In Wichita, for example, $40 million of Federal funds played a key role attracting $700 million of private influx.)

Department of Defense sends teams of experts into impacted areas to analyze their problems and devise rehabilitation efforts. Local leaders—from business, labor, and other groups—are brought together to agree on a plan of action, assign responsibility for its implementation, and monitor (6.2) the follow-through. *Financing from ongoing Government programs* (such as Small Business Administration) has provided key seed money in cases, and *should be available under the new trade adjustment program as well.* The primary emphasis would be on technical assistance of all types, however, to help the communities to realize their own potentials for adjustment.

ADMINISTRATION

This report has stressed the need for major improvement in the administration of the program of economic adjustment for those firms and workers who suffer dislocation as a result of the maintenance of a liberal trade policy by the United States. The present program is badly fragmented; delay and lack of coordination are inherent. The Tariff Commission must first find injury from imports. In industry-wide cases brought under the escape clause, the President must then determine whether adjustment assistance is the proper remedy. (He may also break ties in cases limited to specific firms and groups of workers.) Individual firms must be certified as eligible by the Secretary of Commerce, and the process has been extremely clumsy and prolonged. Individual groups of workers must be certified by the Secretary of Labor. There is no early warning, and no early action.

7.1 *A single agency is needed to administer the adjustment program under tight time limits specified in the authorizing legislation.* It would be responsible for the participation of the Government in the new system of early warning, economic analysis, eligibility findings, packaging of appropriate benefits, delivery of benefits to firms and communities, monitoring, evaluation, publicity of results, and accountability ot the President and the Congress. (Benefits to workers would continue to be delivered through the local Employment Service, under close surveillance from the Trade Adjustment Agency.) Such an integrated approach would permit early attention to emerging dislocations and rapid delivery of the new and liberalized help to meet them.

Such an agency could closely link, in time and in the decision-making process, determinations of eligibility and packaging of benefits—instead of the sequential process of the present program, which has proved to be ineffectual. It would build on previous experience, which suggests that the best-managed Government programs are those of specialized agencies with unitary purposes—and that the worst of all worlds, adopted so far for "adjustment assistance," is to attempt to manage a unitary program by parceling out various aspects to a combination of old-line agencies and regulatory commissions. To insure full coordination of the assistance program with overall foreign economic policy, its director should be made a member of the Council on International Economic Policy (or any successor body created to coordinate foreign economic policy). To insure full coordination with overall economic policy, including structural adjustment efforts, he should also be a member of the Council on Economic Policy.

The Chamber shares the general distaste for new government agencies. Nevertheless, they may have to be created when a particular need arises.

The Chamber believes that domestic adjustment to trade flows represents such a case, (7.2) and *recommends the creation of a new government agency independent of all existing departments*, along the lines of the Export-Import Bank or the Federal Home Loan Board. It would operate with a small cadre of top-flight administrators, manpower specialists, business and financial analysts, and economists. In view of the long-run and continuing nature of the adjustment (7.3) problem *it should operate under a multi-year authorization.*

7.4 *The policy direction of the agency, within the framework legislated by the Congress, should be set by a mixed board comprising the relevant government officials* (e.g., at present, Assistant to the President for Economic Affairs, Assistant to the President for Human Resources. Secretary of Labor, Secretary of Commerce, Special Representative for Trade Negotiations) *and representatives from the private sector* (including labor union officials and corporate executives).

THE COSTS OF THE PROPOSALS

The maximum resource cost of the proposed program is estimated at about $300 million in its first year of operation. By its tenth year, the resource cost could rise to about $350 million annually as the early retirement benefits accumulated for older workers who took advantage of them. If present procedures are continued, the budgetary cost to the Federal Government would be $100 million per year higher as it replaced the state unemployment insurance funds in paying compensation benefits to trade-impacted workers (or reimbursed the funds for their payments of unemployment compensation to such workers in cases where the trade assistance program did not move quickly enough to provide payments as soon as the workers were laid off.) This is simply a substitution of one payment for another with no inflationary effect on the economy, however, since the workers would have received the unemployment compensation anyway. In addition, there would be offsetting resource gains (including tax payments) in productivity of the retrained workers and the reduced likelihood that they would ever again require unemployment compensation.

Detailed analysis of the experience of 1967–69 suggests that 60,000 annual job layoffs were directly attributable to increased imports. Imports increased very rapidly in those years, and domestic output of the imported products did not decline in all cases; so this number may err on the high side as a guide to eligibility for trade assistance in the future. On the other hand, the size of the labor force has increased since then. But 60,000 appears to be a reasonable estimate of the maximum number of workers who might be eligible for benefits under the new program as a direct result of imput flows.

Educated estimates suggest that another 20,000 layoffs annually could be attributed to the indirect effects of import increases. Under the liberalized criteria proposed, the annual number of workers laid off due to trade flows could thus number about 80,000. The following calculations will be biased on this number, implicitly assuming that none of the 80,000 find new jobs on their own. This is obviously unrealistic. Only 65–75% of the workers eligible under the Trade Expansion Act actually sought help, and the percentage of workers seeking help under liberalized criteria would undoubtedly be smaller because this group would include far better workers—who would find new jobs quickly—than were eligible under the restrictive approach of the present law. The estimated costs would thus be adequate to cover a much larger number of displaced workers (probably 100,000 or more) if some did find work on their own, as they certainly would, and are undoubtedly biased toward erring on the high side.

The Department of Labor estimates that 17½% of the dislocated workers could quickly find on-the-job training, with the Government compensating their new employers at the average current rate of $60 per week for an average of 26 weeks. 14,000 workers would thus require little or no compensation benefits, at a cost to the Government of about $22 million per year.

The other 66,000 workers would receive compensation benefits. The average manufacturing wage is now approaching $140 per week. 75% of which is $105. Unemployment insurance benefits already average $62 per week, however, so the supplementary trade benefit is only $43. To this must be added a maximum of $10 per week for Government takeover of the health, life and other insurance premiums previously contributed by the firms which laid off the eligible workers. The net economic cost of the compensation benefits is thus about $53 per week for the 66,000 workers.

It is estimated that the average duration of benefits will be 26 weeks. Under the assistance provisions of the Automotive Products Trade Act, the average duration was 20 weeks. This program took place in 1967–68, however, when aggregate U.S. employment was low and declining, and covered auto workers whose productivity (and hence potential for finding new work) was above average. It is probably too low a figure for the future program.

On the other hand, the 30-week average of the present trade "adjustment assistance" program is probably too high. Most of its experience came during 1970–71, when aggregate unemployment was very high. In addition, the workers who finally became eligible under the tight criteria of the present law are probably less productive, and hence less employable, than the average trade-impacted worker. And the early warning provision of the new program would permit an earlier start on searches for new jobs and retraining, so that fewer workers would now need the maximum duration of benefits. Thus an average benefit period of 26 weeks per worker over an entire business cycle under the liberalized criteria appears reasonable and again likely to err on the high side. The annual cost of compensation benefits to workers could thus average about $90 million.

This figure represents the *additional* payments to laid off workers above the unemployment insurance benefits they would receive anyway, and is thus the best measure of the real resource cost of the new program. Under the present trade adjustment program, the Federal Government, out of trade assistance funds, reimburses the state unemployment insurance funds for all unemployment insurance benefits paid out to these workers. Most estimates of the cost of a new trade adjustment assistance program *include* this reimbursement, which would total about $100 million for the number of workers here estimated to receive compensation benefits due to trade dislocations. (In the new approach prepared here, of course, the emphasis on early warning and early action would often enable the trade assistance program to pick up the benefits for many workers as soon as they were laid off, so standard unemployment compensation would never enter the picture.) Whether or not such reimbursement is continued, however, the real resource cost of the program is limited to the *additional* benefits which it makes available.

In addition to on-the-job training, the proposed program would include institutional training. The Department of Labor estimates that 13% (10,000) of these dislocated workers can benefit from such programs. The programs cost the Government about $2,000 per worker, so add about $20 million to the annual bill.

The Department of Labor estimates that relocation costs would amount to about $250 per worker, and that 20% of dislocated workers (16,000 annually) will relocate. This adds $4 million to total program cost.

Acceleration of Social Security benefits requires reimbursement to the Social Security Fund of about $2,600 per worker per year. The Department of Labor estimates that 20% of all dislocated workers (16,000) are 55 years or older, so this aspect of the program would add about $20 million to its total cost in the first year if even one-half of those eligible opted for early retirement. This reimbursement to the Social Security Fund would have to be paid for each worker for each year prior to the year in which he would have normally retired—probably an average of about 5 years later. By the tenth year of the program, the cost of this provision could thus rise to about $100 million annually—again assuming that one-half of all eligible workers opted for early retirement. Small additional expenditures would be required to reimburse individual firms for the early commencement of retirement benefits to workers with private pension plans.

The total cost of the proposed program for workers would thus be well under $200 million in its first year, and rise to a long-run equilibrium level of no more than $250 million annually after 10 years. About 10% of all dislocated workers would be over 55 years old and are assumed to take advantage of the early retirement option. About 30% would benefit from on-the-job and institutional training. The rest would be able to find new jobs without such programs, assisted by the improved counselling or simply due to the inducements provided by the job test and the limited duration of compensation benefits, within an average period of six months.

It is extremely difficult to estimate costs for firms and communities. The relatively few firm cases to date have cost about $2 million each. Some of the proposals made above would actually reduce Government costs per case, by substituting loan guarantees for loans, and promoting earlier—and hence cheaper—

help. On the other hand, the new eligibility criteria may well produce more cases. Until experience is gained with the new program, it will be impossible to say how much it might cost. The same is of course true of the completely new program for communities. The Chamber therefore proposes an initial budgetary ceiling of $100 million for the two together, with that figure to be adjusted in future years in the light of whatever experience is gained to that time. The total annual resource cost of the proposed program would thus rise from a maximum of about $300 million in its first year to a maximum of about $350 million in the longer run.

The annual costs to the economy of the Burke-Hartke import quotas would rise from at least $10 billion in its first year ($9 billion from the rollback of imports, $1 billion from the new proportional quotas) to over $20 billion (the $9 billion from the rollback plus about $12 billion from the proportional quotas, whose cost of course rises as time passes) after five years. The annual costs to the U.S. economy of present trade restrictions, both here and in other countries, total at least $4.5 billion (and are rising over time). All of these costs are economic; they are based on a study by Stephen Magee of the University of Chicago which will appear in the next issue of *Brookings Paper on Economic Activity*, and are very conservative because standard economic analysis cannot capture dynamic and monopoly effects. The estimates do not even attempt to include the incalculable costs of such trade measures to U.S. foreign policy and to our national security. If the proposed new program of economic adjustment to liberal trade were instrumental in permitting an elimination of present restrictions as well as avoiding the Burke-Hartke quotas, its benefits would thus amount to $15–25 billion per year plus the avoidance of major national security difficulties compared with its resource costs of $300–350 million per year.

CONCLUSION

The Chamber believes that the benefits of the proposed program far outweigh its costs. Indeed, the Chamber believes that the liberal trade policy which this program makes possible is essential for U.S. economic welfare and for the maintenance of our national security. It believes that the proposed program will work, building as it does on a number of precedents in different areas which have existed for many years, and may in fact provide a basis for much more extensive structural adjustment programs in the future which could play an even greater role in promoting the efficiency and growth of our economy. The Chamber urges the early adoption of such a program by the Congress, as part of legislation which will establish a new and constructive U.S. trade policy for the 1970s and beyond.

Mr. GIBBONS. I think it would be very helpful. It is amazing when we get the chamber of commerce and a group such as yours pretty close together on a controversial point, and I think we have found a good point of departure there at which we can start.

Let me ask you about the Canadian auto agreement, because frankly, I am often asked about it and don't really understand all that I ought to know about it.

As I understand what you said, you think the Canadian auto agreement has worked well as far as the industry itself is concerned; is that right?

Mr. WOODCOCK. Well, it so happens during the bulk of the 6 or 8 years of its existence, we have had, on balance, a totally rising market. Given a severe recession, there would be a substantial impact on the U.S. section of the industry. That is why I think the whole situation needs to be reviewed, but I want to repeat that the truly Common Market, one in which the individual consumer could influence the price, would go along way toward meeting that problem. I stand in some difficulty here, because I am elected both by Americans and Canadians to my post.

Mr. GIBBONS. I understand that. I thought I might get a more balanced answer from you.

Mr. WOODCOCK. The way, very frankly, that I tried to meet this problem in our convention in 1972 was to say we are one union but two nations, and the union in each nation was free to pursue its own national interest as it saw it.

So the UAW in Canada is bringing full pressure on the Trudeau government to protect the safeguard clauses. On this side, we need, obviously, to look at this in the light of the interests of the United States.

Mr. GIBBONS. But it is the safeguard clause, as far as the individual purchaser is concerned, that gives us the trouble; is that right?

Mr. WOODCOCK. That is our belief as to the way the solution can be found. The safeguards go to the question of Canadian content and protection for Canadian percentage as registered by the dollar volume of 1964, and so on.

Mr. GIBBONS. You mentioned that you thought there ought to be international fair labor standards worked out. Am I correct in that? I just caught a part of that in your statement.

Mr. WOODCOCK. Yes, most definitely. It seems to me that it is in the obvious interest of the United States, as having the highest labor standards in a private sense, to be pursuing that concept vigorously.

Mr. GIBBONS. Are you talking about in the field of working conditions and time of employment, talking about hours of work?

Mr. WOODCOCK. And rights of free collective bargaining.

Mr. GIBBONS. Rights of free collective bargaining. Do you think we ought to incorporate that in this trade bill this time?

Mr. WOODCOCK. Well, as we point out, the President's own Commission, made up largely of bankers and industrialists, has endorsed that concept. We certainly support it.

Mr. GIBBONS. How would you go about stating it? Would you say no product shall be imported into the United States unless it meets the international fair labor standards?

Mr. WOODCOCK. It would have to be a matter of international negotiation. It would have to be a matter of agreement incorporated in GATT, or whatever.

Mr. GIBBONS. You don't feel that would unnecessarily tear down the high standards that you have been able to achieve?

Mr. WOODCOCK. No. I think there would obviously have to be a realistic look at the problems of developing countries, not just to slap a rigid set of rules that would prevent their development.

Mr. GIBBONS. Thank you, Mr. Chairman.

Mr. ULLMAN [presiding]. Are there further questions? Mr. Brotzman.

Mr. BROTZMAN. It seems to me I have heard you testify on this before. Does your organization support the Burke-Hartke bill?

Mr. WOODCOCK. No, sir; we do not. There are some elements of Burke-Hartke that we essentially support, but the bill itself, no, we do not.

Mr. BROTZMAN. That is what my recollection was. I wanted to be sure I remembered. Thank you, Mr. Chairman.

Mr. ULLMAN. Mr. Burke.

Mr. BURKE. I want to thank you for the part support that you are giving us.

Mr. WOODCOCK. Maybe I would have phrased my answer differently if I had known you had come in.

Mr. BURKE. I was out answering a telephone call from a constituent. It was a lady who was quite talkative and it took 15 minutes to say good-bye to her.

Of course, I realize that the Burke-Hartke bill has some provisions that some people cannot support but, referring to the negotiators, Ambassador Eberle, testifying here the other day, indicated that there will be no representative of organized labor amongst that group of negotiators. Don't you believe that some part of that group of negotiators should be people who represent labor?

Mr. WOODCOCK. I would hope that at least there would be informal consultation. Sometimes when some of these things are made too formal, they get unnecessarily rigid, and I don't have any particular argument with Mr. Eberle on this approach. I am speaking now only for the UAW.

Mr. BURKE. You believe that just consultations will be enough?

Mr. WOODCOCK. As long as we are assured of that, that where our own various interests are at stake, if that were honestly carried out, I would be satisfied.

Mr. BURKE. As far as our Canadian-American relations are concerned, I agree with you in a great many ways that there is a great interdependence between those nations and we really don't have the problem in Canada that we have in the Orient as far as low wage conditions are concerned. What is the differential between the wages of the autoworker in Canada and the autoworker in the United States?

Mr. WOODCOCK. Following the introduction of the manufacturers' common market in 1967, we negotiated parity of base rates as between Canada and the United States I say "base rates" because the cost of living supplement varies according to the two indexes, and currently that variance is 9 cents an hour.

I am speaking now about the Big Three. The variance in parts supply plants is much greater because there, you see, in the Big Three we bargain with two of them, the same company at the same time on both sides of the border, and in Chrysler, for example, in fact, we have an international agreement.

Recently we concluded a referendum of our Chrysler Canadian membership and asked them the simple question: Do you wish to continue the international agreement or have a separate Canadian agreement?" And they voted, by 90 percent, in substantial turnouts, to support the continuance of the international agreement.

We will propose this year to have the cost-of-living clause be tied to a composite international index, which would be a wedding of the Canadian and American index on a weighted basis which would be about 90 percent United States, 10 percent Canadian.

Mr. BURKE. In other words, we don't really have the problem with the Canadians as far as the differential of wages as we have in the countries in the Orient, particularly countries like Korea, where they have wages as low as 10 cents an hour?

Mr. WOODCOCK. Not in the industries of which I have knowledge, no, sir.

Mr. BURKE. There is a lot in what you say, that we should handle the Canadian-American relations quite tenderly because of our border. We have a friendly border with friendly relations, and there is too much riding on Canadian-American relations and interdependence to

push through legislation that will treat them too harshly. Would you agree with that?

Mr. WOODCOCK. Yes, sir.

Mr. BURKE. As far as the adjustment assistance in concerned, as I understand this bill, it cuts down the Federal participation in weeks of benefits from 52 to 26 weeks. Do you think that 26 weeks is sufficient time to give adjustment to a worker who has lost his job?

Mr. WOODCOCK. Manifestly it is not, because normally these situations in their most critical state take place where the impact is on the given community or group of communities where the availability of other jobs is very, very poor.

Mr. BURKE. That is all, Mr. Chairman.

Mr. KARTH. Mr. Chairman.

The CHAIRMAN. Mr. Karth.

Mr. KARTH. Thank you, Mr. Chairman. Does the gentleman want me to yield?

Mr. VANIK. No; I will wait.

Mr. KARTH. Mr. Woodcock, I join my colleagues in welcoming you before the committee and particularly, I think, for your balanced approach. Too often we have witnesses here who are concerned about one thing and one thing only, and that is their job or their business or whatever it might happen to be, even though their position may be detrimental to the good of the country. I want to compliment you for your position.

Speaking about these artificial barriers that seem to get most of the attention both on the part of this committee and on the part of the administration in this bill and, more particularly, speaking about the automobile industry, the artificial barriers against the U.S.-made automobile in all of the foreign countries we are talking about is primarily to safeguard the well-being of the foreign individual, is it not—I mean by virtue of the size and by virtue of the gasoline consumption.

The size of our automobiles in European streets and highways, as you indicated, with the exception perhaps of the Autobahn, would, in fact, be injurious or potentially injurious to the safety of those people, would it not?

Mr. WOODCOCK. That is the state a which we are now but, of course, if we go back to 1948 and 1949, the U.S. industry then could have dominated the world market for automobiles, as we now still dominate the air transport market, and, in fact, at that time General Motors did begin to develop a small car to be built and marketed in this country. For some reason, they changed their minds and shipped the tools and dies and jigs and fixtures to Australia and shipped the building steel, which was hard to get, to Luton in England where it was an addition to the Vauxhall plant.

They made a corporate decision to build small cars only in other markets; this was a corporation decision, now practically impossible to turn around.

Mr. KARTH. Yes, sir. I understand that, but my point is that some of these artificial barriers are not there just for the purpose of excluding U.S. imports and to protect domestic industry. It is there, really, to protect the good and welfare of the people who are residents of those countries.

Let me ask you another question about this whole automobile business, Mr. Woodcock.

I agree completely that it is necessary for U.S. corporations to locate abroad to compete in that foreign marketplace. In many instances I don't think there would be a chance for them to compete if they didn't compete in that foreign marketplace directly and in place.

Let's get to Dodge Colt and Opel and all these other cars, the names of which escape me at the moment, that are made by U.S. manufacturers in foreign countries and imported back to the United States in competition with themselves, I assume, because the automobile industry, frankly, is not very competitive except maybe American Motors.

How do you feel about that? While we agree that the concept of making in a foreign country to compete in a foreign country is good, because if they did not then that competition would be gobbled up by somebody else in that country or from another foreign country, how do you feel about the U.S. auto manufacturers going overseas and making an automobile that is efficient, is compact, is something that many people here in America want, and making it not for the purpose of competing in the foreign marketplace, but for exportation back to the United States instead of making it here and selling it to the American people? How do you feel about that?

Mr. WOODCOCK. Well, if they were very successful with it, we would be very worried about it. Back in 1969 and 1970, Chrysler insisted the small car wouldn't sell in North America and, of course, they have been very wrong about that. They said they wouldn't develop one of their own. Instead, they made a deal with Mitsubishi for the Colt, and with their own outfit in Britain, Rootes, imported from there the Cricket, but the sales of the Colt and Cricket have been very small. They are no real problems.

The only successful import by a U.S.-based company is the Capri by Ford. Opel is no great problem. When we think about import problems, we think about Toyota, Datsun, and Volkswagen.

Mr. KARTH. But my point is that they are still making these cars overseas to really compete in the American marketplace, not the foreign marketplace, and I don't know how bad the situation is today, but I suppose when you add them all up, you are talking about quite a few hundreds of thousands of automobiles.

As a result of that, probably you are talking about quite a number, tens of thousands, of American jobs, aren't you?

Mr. WOODCOCK. Well, we have to keep in mind that of all the car-producing countries in the world, we still have the lowest percentage of import penetration, even at the lowest of 15, 16 or 17 percent. Germany itself has an import penetration of more than 25 percent from other countries; not the U.S., but other countries.

Mr. KARTH. They do a pretty good job of exporting their products, don't they?

Mr. WOODCOCK. Oh, yes; they are experts in that.

Mr. KARTH. They probably make up that difference and possibly are even on the plus side.

Mr. WOODCOCK. The strange thing is that in West Germany's home market, Ford beats Volkswagen, but in the U.S. market they yield to Volkswagen. This I cannot understand.

Mr. KARTH. One other point, Mr. Woodcock.

You talk about taxing unrepatriated earnings as they are earned. I think we have to be somewhat of the judgment that if you taxed all

unrepatriated earnings, eventually they probably would be no longer able to compete in the foreign marketplace. What about taxing part of the unrepatriated earnings as they are earned?

It is obvious, I think, that they have to reinvest some of their earnings in their foreign operations just to keep competitive, just as we expect them to invest a certain portion of their earnings each year domestically in the United States to remain competitive and to produce a good, competitive market here at home.

Have you given any thought, or has your organization given any thought, to taxing only a percentage of unrepatriated earnings as they are earned as opposed to taxation of the total unrepatriated earnings?

Mr. WOODCOCK. As a practical matter, when we stand at zero and we are asking for 100, maybe somewhere between zero and 100 would be a satisfactory answer.

Mr. KARTH. I see. I have one last question, Mr. Woodcock.

American automobile manufacturers have made more automobiles, I guess, than the rest of the world combined times ten, or maybe times 100 or 1,000, even. I don't know. It is of that magnitude, however.

Do you think our automobile manufacturers have really done everything that they could have done or should have done in terms of developing technological advancements in the automobile engine?

Mr. WOODCOCK. Unfortunately, I have to answer that in the negative to say no, I don't think they they have.

Mr. KARTH. What, in your judgment, is the reason for that?

Mr. WOODCOCK. Lack of effective competition, the fact that there is one that is price dominant and can, in fact, determine what goes on. I don't mean by collusive avoidance of the antitrust laws, but simply by the sheer economic power of General Motors.

We learned in elementary economics that the bigger the outfit, the more inefficient it got, and therefore, it breeds the seeds of its own destruction. The law of diminishing returns was repealed by General Motors long ago in its own case. They are the biggest and most efficient, and the dominant one.

Mr. KARTH. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Fulton will inquire.

Mr. FULTON. Mr. Chairman, I would like to join with what appears to be unanimous praise of Mr. Woodcock's presentation to the committee.

Mr. Woodcock, the trade deficit last year was somewhere in the neighborhood of $6.4 billion or $6.5 billion. Has anybody on your staff made any estimates of what they think it will be for this year?

Mr. WOODCOCK. I don't believe so, sir.

Mr. FULTON. Just last year, much to my pleasure, President Nixon visited the People's Republic of China, and for the year 1972 finally we had some trade relations with China that ran to about $90 million in exports from this country to China, and it is estimated that we may even approach the sum of $300 million in exports to China for 1973.

I just wondered, did you approve or do you approve of our opening diplomatic and trade relations with China?

Mr. WOODCOCK. We were very supportive, as an organization, and I personally have, the President's mission to Peking and the move toward the Soviet Union. We think it makes sense in terms of a peaceful world as well as in terms of expanding trade.

Mr. FULTON. In February 1962, this Nation terminated diplomatic and trade relations with Cuba. That year we had a trade surplus of $350 million. Based on inflation alone, since that time we would be well in the neighborhood of a half billion dollars of trade surplus with Cuba.

Do you think that we have reached a point where our Government should make overtures to open diplomatic and trade relations with Cuba?

Mr. WOODCOCK. Well, organizationally we haven't taken up that question. I personally believe, yes, we should.

Mr. FULTON. I am pleased to hear you say that. I think so, too.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Vanik.

Mr. VANIK. Mr. Woodcock, in their colloquies, Mr. Ullman and Mr. Karth discussed a problem with which I have been very much concerned, the need to get a competitive automobile that is American made that will be a low gasoline consumer. I have been waiting for 5 years for that kind of automobile because I want it to be an American product and I want it to be made by people who are members of your organization, which I feel is very important.

I think that as we get into this tight gasoline market and higher pricing, that we are suddenly, even this year, going to feel a tremendous impact and a surge toward automobiles that are going to provide more mileage for the gasoline that they consume.

I have introduced legislation to provide a graduated excise tax. I know that is a bad word for the automobile industry, but I want to suggest an excise tax on automobiles that provide low mileage and base that on their gasoline consumption. The tax would begin in 1977, so that the industry would have an opportunity to design automobiles that would provide more mileage. I introduced this proposal in the hope that it will prod the industry, who seem to get their sense of direction from the Texas Railroad Commission or from King Saud, but I would like to ask you how you feel about this kind of incentive to urge our manufacturers to design and produce an automobile which will provide greater mileage with less gasoline consumption.

Mr. WOODCOCK. Well, the resistance by the industry to more economical cars has been the profit motive. They make a lot more profit out of a big car which has a lot of weight.

Mr. VANIK. Your own workers are going to rebel at 6 miles to a gallon. They are going to start coming in there with Hondas and other things to travel.

I am thinking about what effect this great average American market is going to feel when rationing comes along, as it might, when gasoline prices get to be 50 cents a gallon. I think when that suddenly hits, we are going to find ourselves with a mad rush toward more efficient automobiles.

I saw a foreign automobile the other day that was apparently made from a converted airplane engine. It is now in mass production and it already meets the 1976 emission standards without any kind of emission control device. It is just an efficient engine.

I would hope that you would use your good offices, as you said you tried to do, to urge the industry to really give us a good product.

For example, in the temperature control devices today, they took away the vent window. Maybe they saved something on that.

Mr. WOODCOCK. I think they are going to put it back in and charge for doing it.

Mr. VANIK. That is probably part of the technique. The vent window was a way for the automobile operator to provide his own temperature control. If it was hot, he opened the vent. Today he stays in a sealed-up container. In the summer we have air conditioning. When it gets too cold, the heater goes on.

We have this competition between energy forces. In the middle of the winter, on the coldest days, the air conditioning might be on in the middle of winter. It seems to me while these are highly sophisticated comfort design features, we could save a great deal by trying to employ the forces of nature in providing automobile comfort and efficiency.

I hope that you will continue your efforts to give the industry a sense of direction, because I don't know how much longer we can face up to the energy crisis. We are using now 13 percent of the energy of the nation in the gas tanks of automobiles. I think we can reduce that by 5 percent if we would move toward a more efficient automobile-consuming device.

Mr. WOODCOCK. Of course, if we expanded the notion of America to North America, there are cars that get 19 to 21 miles per gallon, the AMC's Gremlin, the Pinto, the Vega.

Mr. VANIK. But they are still not competitive with foreign cars that give you 30 to 32 miles per gallon. They are still about 10 miles over what you can get in some of the imported automobiles.

Mr. WOODCOCK. Well, some of the very smallest, which have other disadvantages of safety problems. More needs to be done, I agree; yes, sir.

Mr. VANIK. I want the American automobile workers to ride to work in an American automobile. I would be terribly chagrined if I were to go out to Morristown or some of the other plants and drive by and see a lot of imported automobiles all over the lot, because of the gasoline crisis.

I want to thank you very much.

Mr. WOODCOCK. Thank you.

The CHAIRMAN. Mr. Gibbons.

Mr. GIBBONS. I have two brief things, Mr. Chairman.

Mr. Woodcock, I noticed on page 52 of your statement that you advocate repealing our latest tax loophole, DISC. Would you elaborate on that a little?

Mr. WOODCOCK. That ties into the notion of taxing profits as made, rather than when repatriated, because we look upon and did look upon and still look upon DISC as a second loophole made necessary by the existence of a first loophole.

Mr. GIBBONS. Are you familiar with the trade adjustment assistance hearings that were held over in the Foreign Affairs Committee last year by the Subcommittee on Economic Policy?

Mr. WOODCOCK. One of our vice presidents testified during the series of hearings; yes, sir.

Mr. GIBBONS. I am sorry I missed those hearings. Can you tell me, did you all support the proposal that was made at that time?

Mr. WOODCOCK. The general policy was approximately what I have repeated today.

Mr. GIBBONS. The legislation they were considering at that time would be legislation that was generally acceptable to you; is that right?

Mr. WOODCOCK. Yes.

Mr. GIBBONS. Thank you.

The CHAIRMAN. Are there any further questions?

If not, again, we thank you, Mr. Woodcock.

You may recall the first meeting between us after you became President when I suggested that you had some mighty big shoes to fill. I want you to know that I personally feel that you are very ably filling those shoes. You have been a great witness today.

Mr. WOODCOCK. Thank you, Mr. Chairman. You are most kind. Thank you, gentlemen, and Mrs. Griffiths.

The CHAIRMAN. Our next witness is Mr. O. R. Strackbein, president of the Nation-Wide Committee on Import-Export Policy.

Mr. Strackbein, you have been with us on so many occasions in the past. We welcome you back to the committee, and you are recognized.

STATEMENT OF O. R. STRACKBEIN, PRESIDENT, NATION-WIDE COMMITTEE ON IMPORT-EXPORT POLICY

Mr. STRACKBEIN. Mr. Chairman, members of the committee, it is true that I have been before you on a number of occasions. This committee itself was formed 20 years ago, but I have been appearing before your committee for 25 years.

As a matter of fact, Mr. Chairman, looking in the Congressional Directory the other day, I found that you were the only member of the committee at that time who is still a member today.

The CHAIRMAN. It is nice of you to remind me of that, but I would appreciate your not doing so in the future.

Mr. STRACKBEIN. On this occasion, Mr. Chairman. I would like to go back a few years in the nature of background data so that perspective may be achieved.

The first trade bill was enacted in 1934, and there have been a dozen extensions since that time.

The protective effect of our tariff during this period has been reduced some 80 percent, upward of 80 percent, so that from a level of a little over 50 percent on the average of the dutiable items, we stand at something like 9 percent today.

During a great part of this period the world was so upset by wars that no true measure of the effects of freer trade policies could be made. World War II was followed by the Korean conflict, and it was really only in the late fifties and the early sixties that definite results began to appear.

If you will bear with me, Mr. Chairman, I would like to quote from a few passages of speeches that I made 12 and 13 years ago.

One was in September 1959 before the Plumbing Brass Institute, where I said:

> We have saved a number of countries a generation of research and development by making available to them our latest technology. This is not said by way of complaint, but we should at least have sufficient insight to comprehend the probable consequences of our policies. The echoes are coming in from many directions.

As I say, this was 14 years ago. At that time the steel industry was on strike, and the steel imports for the first time in 1959 exceeded our exports.

Quoting from the same speech:

Also, it may be questioned whether steel imports will fall substantially after the strike (1959). They began rising over a year ago before the strike was called and price comparisons with the foreign product would indicate a continuation of imports at a level considerably higher than in the past.

Actually imports of steel did continue to climb and reached some 14 or 15 per cent of our market before the import restrictions were put into effect in 1969.

Again quoting:

Yes, we will live on expansion and expansion—in all directions, across national borders into foreign lands. Optimism and expansion will conquer all! So say the present- day professional optimists.

Of course no one wants a breakdown; but we can import one if we refuse to recognize the realities. Among these realities are:

1. An untenable international competitive position;
2. A heavy and stubborn deficit in our total foreign account;
3. An expansion of imports and a shrinkage in exports;
4. High domestic production costs compared with other countries;
5. A sharp uptrend in foreign productivity per man-hour;
6. A wage lag in relation to rising productivity abroad;
7. Loss of (U.S.) technological leadership among the nations;
8. Increasing trend toward mass production abroad;
9. Emigration of American capital to lower-wage countries;
10. Discouragement of expansion plans among domestic industries, especially suppliers, dedicated to the American market;
11. Increasing importation of parts and semi-manufacturers as a means of competing with imports of finished manufacture;
12. Automation as a means of improving competitive position, resulting in unemployment and failure to absorb millions of additions to the labor force.

What does all this mean?

The answer can be given by looking around us. Let me offer a few examples:

This, as I say, was in a speech given in 1959.

Steel, automobiles, typewriters, sewing machines, and petroleum are products that we were long accustomed to export while we imported little of them. These were the output of our most advanced industries in point of mass production and technology.

If imports were able to attack and take the very ramparts of our highly productive industries, what can they do and what have they already done to others of our industries?

The prospects are not bright for a pull away by this country. Not at all. The other countries now have all that it takes to catch up with us, including the creation of mass markets. The question is how their catching up is to be accomplished. Must we be torn down in the process, or can we hold our own while the other countries come up?

We need a holding defense. This can best be contrived through a combination of tariffs and quotas, by the use of which suitable shares of our market can be opened to imports while reserving the remainder for ourselves.

From another speech I made before the AFL–CIO Union Label and Service Trades Department, September 15, 1959, San Francisco, I said:

Shall we recognize the fact that we are facing something we have not faced before and take some holding action with which to buy time? . . . To bring up wages abroad—

Which was one of the things that was constantly mentioned—

will in any case be slow and we must do something in the meantime . . . or we will fall in order to meet them.

We must not be deluded into thinking that our competitive discomfiture is a passing nightmare. In the nature of things, considering all the factors on the horizon, it is an ominous confrontation, not a mirage.

Mr. Chairman, I do not wish to bore you with irrelevant quotations. But there is one more that I would like to make where I spoke before the Washington Trade Association Executives in 1959 in reference to direct foreign investment abroad, which at that time was about $38 billion and is now approaching $100 billion:

We have high wages, high employment, high profits; and these are needed to meet our high national budget as reflected in high taxes. We cannot reduce the major elements of our national income without courting bankruptcy. We cannot go back to a lower price level for that very reason.

Up to now we have managed to juggle sufficiently to avoid facing the facts. Recently it has become apparent that there must be an end to the success even of juggling.

On May 5, 1960, I said:

It took 25 years of doing, including much domestic economic legislation, a world war, a local war (Korea) and the cold war to stack up the international competitive situation as we see it today: . . .

We are on the eve of an earthquake that will shiver us to our economic foundations if we do not soon take thought and reverse some of our romantic policies. If we do not do this, the economic waters of the world will inundate us and the outflow will rend us and swirl us to the common level. We will no longer reside on a plateau, a beacon to other lands . . . Our leadership of the free world will dissolve into a sea of impotence and our ideals for building a peaceful world will be of little avail.

I confess, Mr. Chairman, that that latter part might be characterized as purple prose.

However, such a characterization might be regarded as being on a par with the one that was applied to my warning by a former member of this committee who characterized me as a prophet of doom and gloom.

Now, Mr. Chairman, I believe the principal obstacle to bringing the facts before the public lay with the press which was overwhelmingly committed to freer trade. The press, which is firmly dedicated to the right of the people to know, did not wish the same public to know enough about the results of our trade policy to question its widely heralded blessings. There was a further effective silence by the press that concealed the facts when in 1966 the Senate Finance Committee held hearings on S.J. Res. 115 which called for a revision of our official trade statistics.

The purpose of the resolution was to make these statistics a more faithful reflection of our balance of trade.

Existing statistics undervalued our imports and overvalued our exports so far as private competitive trade is concerned. This they did (1) by reporting imports on their foreign value rather than the landed cost, including freight, insurance, and so forth, and (2) by reporting as exports all the goods that we shipped under foreign aid, food for peace and those we moved because of high Federal subsidies. The result was that defenders of the faith could point to our so-called favorable trade balance and say that we are indeed competitive in foreign markets and could stand further tariff reductions.

In 1972, instead of a deficit of $6.4 billion as officially reported, it was nearer to $13 to $14 billion if the transactions had been properly reported.

Now, after more than 6 years—that is, since the Senate resolution—and after the deficit broke through even the concealing cover, we are about to have official statistics on the basis of c.i.f. import values rather than merely on their foreign value. Landed value rather than foreign value.

Mr. Chairman, in August 1971, some steps were taken to meet what had by that time reached crisis proportions. We put on a 15 percent additional duty on most imports and then devalued the dollar. This action turned out to be inadequate and recently another devaluation was announced. The average devaluation of the dollar is now over 20 percent while the yen has been up-valued close to 35 percent and the German mark somewhat less.

With respect to currency realignment, it should be said that the action was necessary but that it should not be relied on as a long-range solution. It treats all products alike, and they do not all stand on the same competitive level. Furthermore, other countries can take countervailing action at will, and unilaterally, and often do. It is therefore an unsatisfactory instrument because of the uncertainty attendant on recourse to it. Great secrecy and denials usually precede action in this field.

What is needed under the conditions we face today in the world is a restoration or near restoration of the market conditions that made possible and supported the growth of our industries and employment as we moved up the ladder to world industrial leadership.

The foundation of this highly successful system rested on recognition of the fact that consumer income must be sufficient to absorb the output of mass production. This called for higher rather than lower wages as a means of achieving lower production costs. The British had taken the opposite tack. To achieve low costs they sought low wages. Of course, they did this with the idea of producing goods at a low cost so that they could export to the markets of the world. To achieve low cost they sought low wages. Then they could export to the whole world. Henry Ford turned the formula around. Mass production would lower the costs and higher wages would assure a market for the rising output.

This system worked miracles in terms of industrial expansion. After World War II, however, we helped other countries adopt our system and, with the exception of the Communist bloc, they made amazing headway. In many instances they built new industries almost from the ground up, and by installing the most modern equipment gained astounding advances in productivity. We helped them financially and with technical assistance, as I think of course we should have done.

Their wages, however, were so low that even though they started upward more rapidly than we, they have not yet caught up, and the competitive gap has not been closed. In dollars and cents it is wider today in many instances than it was 10 or 20 years ago.

Our industry has been accused of inefficiency, and there may be some of that, but we have no bill of particulars. When our industries go abroad, carrying their managerial forces with them, they do very well. If we were so inefficient at home, how is it that the same management can be efficient abroad?

Unless the sea-change brings on greater efficiency, it would appear that they reflect no more than the going level of efficiency in this country, when they do go abroad.

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With so much of our capital moving abroad, near $100 billion to date, and with other countries increasingly well equipped and using our technology plus their own, the domestic industries remaining behind, and particularly their workers, face a different world from pre-1955 or 1960.

We built our system by replacing workers with machinery that was more productive. In those instances in which demand for the product was elastic, mass production, by lowering costs, greatly increased consumption. Before long, employment expanded beyond the level at which it stood when workers were first laid off. The automobile industry after some years employed many more workers than the buggy and wagon makers.

However, if the demand for the product is not elastic, consumption will not respond much to lower prices. Food products are an example of this class; and that is why the farm workers who were displaced by the millions because of the great rise in agricultural productivity, remained unemployed and flocked to the cities to give us our stubborn urban problem.

When coal mining made great strides in productivity, three out of every four miners lost their jobs; and they, too, remained unemployed. The price of coal remained very low but faced an inelastic demand. Recently the price has gone upward, thanks to exports and an expanded demand, but the unemployed Appalachian workers are still with us.

Mr. Chairman, we come now to a very important point.

Imports that bear an appreciable price advantage confront the domestic producers with a situation such as they would face if the demand for their product is inelastic. If they displace workers in order to become or remain competitive with imports, these workers very likely will remain displaced. Imports, if unimpeded, will prevent the expected increase in consumption of the domestic product, even though total consumption of the product does increase. Even if the demand for the product is elastic, the increased employment that formerly took place here will now occur abroad instead. With our population increase we will, under such circumstances, look in vain to the "growth industries" to come effectively to our rescue.

Agricultural exports will not fill the gap. Agricultural employment is down to a little over three million, half of what it was in 1955, and still declining. So we need not expect much help from the present agricultural exports so far as employment is concerned. These booming exports, incidentally, have lifted greatly the price of soybeans, wheat, and corn.

It is often said about import quotas that they raise prices. Of this there is proof to the contrary, but lively exports demonstrably do raise prices. Import quotas usually have the purpose of preventing prices from falling to disastrously low levels, rather than to increase prices.

I would like to offer for the record at this point two short papers, one on the import quotas and prices and the other on exports and prices.

The CHAIRMAN. Without objection, those matters will appear in the record.

Mr. STRACKBEIN. The question naturally arises what can be done to

restore the domestic market conditions so that growth industries may again flourish.

Import quotas should be used judiciously for this purpose, being used to assure the domestic producer of a predetermined share of our market, so that he can be sure that it will be his or that of his domestic competitors when they have developed the product and created a market for it. If his product is patented, the market should be his for the life of the patent while allowing imports to increase, let us say to perhaps 15 percent of the market. The domestic producer would then have restored to him the incentive the pursuit of which brought this country world industrial leadership in the first place.

With import quotas designed with conscious purpose of accomplishing this end, they will have performed their principal function. They may also be used in other instances as our agricultural quotas have been used, to prevent demoralization of the market by low-priced imports.

Such injury as may be done to domestic employment by the multinational corporations would be neutralized if total imports of a product were limited to a share of the market. Such economic benefits as these corporations bring to the developing countries could then continue.

Turning now to the proposal to vest the President with carte blanche powers to modify the tariff and impose quotas, such authorization would be an abdication of powers conferred on the Congress by the Constitution.

We do not regard this as desirable. The likely effect would be an unequal application of the law. The larger and politically powerful groups would gain accommodation while the smaller ones would be left to shift for themselves.

Another important part of the bill is adjustment assistance. It is limited to the workers. We do not believe that such assistance should be relied on as a remedy, but, if it is, industries and companies should be equally eligible with labor.

It has never been satisfactorily explained why imports should be vested with the right of eminent domain over domestic industries and their workers. Foreign competitive advantage usually is unearned in the sense that it is usually based on the simple fact of lower wages.

Our industries are legally bound to pay minimum wages that are usually higher than the average foreign wages. We should not force our industries by law into a competitive disadvantage and then sometimes come to their rescue through adjustment assistance. Rather we should prevent the injury in the first place. If we had a proper import quota system, we would have no need of adjustment system.

Mr. Chairman, I have two more relatively brief papers that I would like to submit for the record.

The CHAIRMAN. Without objection, they will appear in the record at this point.

[The material follows:]

TRADE DEFICIT AND OUR PRODUCTION-COST INFLATION

(By O. R. Strackbein, president, the Naton-Wide Committee on Import-Export Policy, April 24, 1973)

The trade deficit of 1972 at $6.4 billion was a rude reminder that governmental efforts to reverse our adverse trade trend were so far a failure. That the second

devaluation of the dollar will be effective toward restoring our trade balance is doubtful.

The deficit, it should be made known, was much wider than our official trade statistics reflected. Our competitive position has been much weaker for some years than official import and export statistics revealed. Instead of a $6.4 billion deficit in 1972 our deficit in terms of private competitive foreign trade was in the magnitude of $13–$14 billion. Yet, even on the basis of our official statistics we swung from a surplus of $4.4 billion in 1967 to a deficit of $6.4 billion in 1972. This was a swing of nearly $11 billion in five years.

In 1972 our deficit with Japan was $4 billion according to our official statistics. However, that figure leaves out of account the cost of bringing our imports from Japan to this country. Total 1972 imports from Japan are shown at $9 billion. If the freight and marine insurance costs had been added, as they should have been, the deficit would have been that much higher. These charges were in the magnitude of some 20%, so that in 1972 our deficit was nearer $6 billion than the reported $4 billion in our trade with Japan. The swingabout was rapid. Even on the official basis our deficit in 1965 was only $334 million. In 1970 it was $1.2 billion and in 1972 $4 billion.

However, there are other areas of the world where our trade deficit is also large. Canada, for example, exported $2.5 billion more to us in 1972 than we sent to Canada. This was a record deficit, and was double our deficit in 1969.

We also had a record deficit in our trade with West Germany in 1972. It was $1.4 billion compared with $800 million in 1971 and $290 million in 1970. The rise, again, was rapid.

American industry has been accused by relative inefficiency in relation to the industry in the countries with which we suffer a deficit, other than Canada. Unquestionably productivity has risen more rapidly in Japan, West Germany and Italy than in the United States, but they were playing catch-up ball in terms of technology and their progress was measured from a lower base than ours. This is also true of wage rates, which is to say they rose faster in Japan, etc., but here too, they started from a much lower base. In dollars and cents our rates went up more than in those countries.

MAJOR CAUSE OF HIGHER U.S. COSTS

American wage levels are usually blamed for our higher costs but wage increases have had causes of their own, as we shall see, quite aside from collective bargaining.

Federal budgetary outlays, combined with those of the States, and Local government, have mounted steeply in recent years. Since these outlays are outside of our productive system they inevitably increase the cost of production, just as do the outlays for national defense and veteran benefits, and, indeed all governmental expenditures.

It will therefore be enlightening to examine the trend in these outlays. The following Table gives the Federal, State and Local outlays for public social welfare programs over a period of years:

FEDERAL, STATE, AND LOCAL SOCIAL WELFARE EXPENDITURES UNDER PUBLIC PROGRAMS

[In millions of dollars]

	1950	1955	1960	1965	1970	1971
Social insurance	4,947	9,835	19,307	28,123	54,653	66,075
Public aid	2,496	3,003	4,101	6,283	16,476	21,819
Health and medical	2,064	3,103	4,464	6,246	9,568	10,620
Veterans programs	6,856	4,834	5,429	6,031	9,018	10,420
Education	6,674	11,167	17,626	28,108	50,332	55,542
Other social welfare	448	619	1,139	2,066	4,606	5,305
Total	23,508	32,640	52,293	77,175	145,350	170,752

Source: Statistical abstract of the United States, 1972, table 451, p. 278.

In 1971 the Federal share of the total combined expenditures was an estimated $92 billion or 54.1%. In 1965 it was 66.4%. State and Local outlays have risen very rapidly.

From this table we can see the sharp increase in outlays for welfare programs in this country. From 1965 through 1971 the *Federal* outlay rose from $37 billion

to $92 billion, or by nearly 150%. *State and Local* outlays increased from $39 billion in 1965 to $78 billion in 1971, or a doubling of the amount. The two combined (Federal and State and Local) rose from $77 billion in 1965 to $170 billion in 1971.

Expenditures for National Defense and Veterans Benefits also increased during this period, moving upward from $55.3 billion in 1965 to $89.1 billion in 1972. This was an increase of $33.8 million or 60%.

Expenditures for welfare programs, like those for national defense, do not directly increase the output of goods in our factories, mines or from our farms. They therefore come to rest in our economy as costs that must be borne by the goods we do produce.

The next Table will show our expenditures for National Defense and Veteran Benefits, and their relation to the total Federal budget and to the Gross National Product:

DEFENSE EXPENDITURES—NATIONAL DEFENSE AND VETERAN BENEFITS

[Dollar amounts in billions]

	1950	1955	1960	1965	1970	1972
Total Federal outlays	$43.1	$68.5	$92.2	$118.4	$196.8	$236.6
National defense and veteran benefits	$21.9	$44.6	$51.3	$55.3	$88.9	$89.1
National defense only	$13.1	$40.2	$45.9	$49.5	$80.2	$78.0
Percent of total Federal budget	30.4	58.7	49.8	41.9	40.8	33.0
National defense as percent of GNP	4.6	10.2	9.3	7.6	8.3	7.2

Source: Statistical abstract 1972, table 397, p. 248.

At the height of the Viet Namese conflict national defense represented 45% of the total Federal budget and 9.7% of the Gross National Product. The 45% had, however, declined to 33% of the total budget in 1972 and to 7.2% of the GNP.

It is possible to relate these nonproductional expenditures to the output of our industries, agriculture and mines. The next table will show the gross product of our producing operations as represented by agriculture, mining, contract construction and manufacturing:

GROSS PRODUCT BY INDUSTRY

[In billions of dollars]

	1950	1955	1960	1965	1970	1971	1972
Agriculture	20.8	19.8	21.7	25.4	30.8	26.5	29.1
Mining	9.2	12.3	12.7	13.5	16.8	54.2	57.8
Contract construction	12.7	18.0	22.7	31.6	45.8		
Manufacturing	83.8	120.8	144.4	198.5	253.2	223.2	248.3
Total	126.5	170.4	201.5	269.0	346.6	303.9	335.2

Source: Statistical Abstract, United States, 1972, table 511, p. 314; Survey of Current Business, March 1973, table 7 p. 15.

From this table we see an increase in the gross product of our producing operations from $269 billion in 1965 to $303 billion in the recession year 1971, or $34 billion. This was an expansion of 12.6% whereas the expenditure for social welfare programs, Federal, State and Local, rose by $93 billion or by 120%. If the increase in Defense expenditures is added the $93 billion grows to $127 billion or nearly four times as much as the $34 billion increase in the industrial sector. ('72 State and local expenditures not on hand).

In other words, as a consequence of these rising expenditures our industrial sector was made to carry an added burden of $127 billion in 1972 beyond the burden it carried in 1965. Except for rising productivity and population increase this burden came to rest on the industrial sector as that much additional cost of production.

In the next table the cost of our social welfare programs is compared with the gross product of the industrial sector (including agriculture, mining and contract construction as well as manufacturing):

FEDERAL, STATE, AND LOCAL SOCIAL WELFARE EXPENDITURES UNDER PUBLIC PROGRAMS AS PERCENT OF THE GROSS PRODUCT OF INDUSTRY

[Dollar amounts in billions]

	1950	1955	1960	1965	1970	1971
Gross product of industry	$126.5	$170.9	$201.5	$269.0	$346.6	$303.2
Social welfare expenditure, Federal, State and local	$25.3	$32.6	$52.3	$77.1	$145.3	$170.7
Percent of social welfare outlays to gross product of industry	20.0	19.1	25.8	28.9	41.9	56.3

Source: Statistical Abstract 1972, table 511, p. 314, p. 278, Survey of Current Business, March 1973, table 7, p. 13.

Here we merely have an affirmation of what the previous Tables demonstrated, namely that the social welfare expenditures were running very fast compared with the growth of the industrial section. This fact of itself would forecast higher costs of production. From 28.9% of the *gross industrial product* in 1965 the social welfare expenditures rose to 56.3% in 1971, a veritable doubling in the proportion.

The following Table will show (next page) the relation of Defense and Veteran outlays to our *gross industrial product:*

DEFENSE EXPENDITURES, INCLUDING VETERANS BENEFIT AS PERCENT OF GROSS PRODUCT OF INDUSTRY

[Dollar amounts in billions]

	1950	1955	1960	1965	1970	1972
Gross product of industry	$126.5	$170.9	$201.5	$269.0	$346.6	$335.2
Defense and veteran expenditure	$21.9	$44.6	$51.3	$55.3	$88.9	$89.1
As percent of gross product of industry	17.3	26.2	25.0	20.5	25.6	26.6

Source: Statistical Abstract 1972, table 397, p. 248; Survey of Current Business, March 1973, table 7, p, 15.

Our Defense and Veterans outlay was 26.6% of our industrial product in 1972.

We next combine Defense and Veterans outlays with the outlay for social welfare and compare the combination with the *gross industrial product.*

SOCIAL WELFARE EXPENDITURES, FEDERAL, STATE, AND LOCAL, PLUS DEFENSE EXPENDITURES, INCLUDING VETERANS BENEFITS AS PERCENT OF GROSS PRODUCT OF INDUSTRY

[Dollar amounts in billions]

	1950	1955	1960	1965	1970	1971
1. Social welfare and defence expenditure	$45.4	$77.2	$103.5	$132.4	$234.2	$259.8
2. Gross product of industry	$126.5	$170.9	$201.5	$269.0	$346.6	$303.2
Percent line 1 is of line 2	35.9	45.0	51.3	51.0	67.6	85.6

Source: Statistical Abstract, 1972, table 451, p. 278; table 511, p. 314; Survey of Current Business, March 1973, table , p. 13.

This table shows the 1971 expenditures for social welfare, Defense and Veterans benefits, to be equal to 85.6% of the product of industry or well over half again as high a proportion as in 1965. Naturally our production costs snowballed and our competitiveness in world markets declined.

These several tables, of course, leave out other public expenditures of our government, Federal and non-Federal. These have also increased.

Total expenditures, Federal, State and Local, in 1965 were $186.9 billion. In 1971 they had risen to $341 billion; and, of course, ran to a still higher level in 1972 and will go upward yet farther in 1973. The Federal expenditures alone in 1972 exceeded those of 1971 by $20 billion and will increase by some $35–$40 billion more in 1973, reaching some $268 billion. State and Local expenditures have also increased since 1971. These galloping increases were the forerunners of our rising deficits in foreign trade.

The effect of the outlays on production costs should, of course, have been foreseen. The increase in total public expenditures from 1965 to 1971 was $155 billion, or equal to half the total gross *industrial* product. A simplistic but quite correct conclusion would be that wages would rise in the order of 50% since those who

work at production carry the burden of the outlay for public employees. As previously noted, however, rising productivity would offset the higher costs of production to some extent.

Average wages in the manufacturing establishments did rise from $2.62 per hour in July 1965 to $3.56 in 1971. This was an increase of 36%. Output per man-hour increased from 98.3 in manufacturing in 1965 to 111.6 in 1971 where 1967 equals 100. This was a rise of 13.5% and would be expected to retard the increase in production cost attributable to wages to that extent. By March 1973 the average hourly manufacturing wage was $3.97, or still upward, as public expenditures also continued to rise. The latter, indeed, would be expected to generate the rise in wages.

EFFECT OF PUBLIC OUTLAYS ON PRODUCTION COSTS

If doubt exists about the effect of public outlays for non-productional activities, such as social welfare and national defense, it may help to use an example. Let us say that 1,000,000 are employed at producing all that we eat, wear, live in, move around in, i.e., all the consumer goods that we use plus all the capital goods needed to produce these goods; and, again, let us assume that this total employment produces $10 billion worth of such goods.

Employee compensation, let us say, would be $7.5 billion. Then let us assume further that there were no government outlays of any kind. (Actually in 1972 the number of governmental workers, Federal, State and Local was 13.29 million. The number employed in manufacturing, agriculture, mining and contract construction was 26.5 million. In other words, government workers number 50% of those employed in the private industry field).

Now make a switch and assume that alongside of the million workers in the field of production were 500,000 governmental workers. The total employment would therefore be 1,500,000 in these two groups. We would now have 1,500,000 producing what the 1,000,000 produced before, so to speak. The added 500,000 would not increase the product of the million workers, although there might be some roundabout increase in production because of governmental services. These 500,000 governmental workers, let us assume further, would be paid as much per capita as the production workers in industry. Their wages would then be $3.75 billion per year. This would bring the total wage bill to $11.250 billion ($7.5 billion plus $3.750 billion).

With the volume of goods remaining the same, or virtually so, the cost would rise 50%, more or less, if labor compensation was not to fall behind. This is to say wages must rise 50% minus the amount that productivity had increased. There was an actual increase in manufacturing wages of 36% (i.e., from $2.62 in 1965 to $3.56 per hour in 1971). Productivity, as we saw, had increased 13.5%. This must be deducted from the 50% if costs were to remain steady. The 50% would thus be reduced to some 36.5% or equal the actual wage rise. (Sources: Stat. Abs., 1972, Table 361, p. 225; Table 965, p. 585; Survey of Current Business, December 1965, p. S-15 and March 1973, p. S-15.)

Should governmental employment as assumed in the example, continue to rise, perhaps reaching 1,000,000 workers in a decade while industrial employment remained steady, the public outlay for employees would be as high as in the private industrial field. The total bill for employee compensation would then be $15 billion, and the goods produced would cost twice as much as they would if governmental employment were zero. This is simply to say that a relative increase in governmental outlay in relation to the level of production of goods, will also increase the cost of the goods. The relationship would approximate our calculation but would vary according to productivity of the workers in the private production sector. No precise mathematical relationship should be expected.

Consumer prices, moreover, rose at a similar magnitude, with some time lag as might be expected. In 1965 the consumer price index, where 1967 equals 100, stood at 94.5. In 1971 it had risen to 121.3. From there it continued upward to 128.6 in February 1973.

The increase in 1971 had been 28.3% over 1965. By February 1973 it had risen by 36%. This, once more, was in keeping with the rise in wages (taking into account the time lag of price increases) and the increase in governmental employment, which rose 33%, from 1965 to 1972. While wages had risen by 50% the accompanying rise in productivity, which was 13.5%, as already noted, should have retarded the increase in production cost. (See Stat. Abs., 1972, Table 565, p. 348, and Sur. of Cur. Bus., March 1973, p. S-8.)

IMPORT COMPETITION

As we face import competition increasing costs in this country greatly affect our competitive standing. Inasmuch as employee compensation represents from 75% to 80% of corporate cost of its product output, any factor that increases wages substantially also increases costs substantially unless productivity also increates in proportion. The cost of government greatly affects production costs for reasons already set forth.

The next Table gives the number of employees (following page) in the productional activities of the private economy and in the government, Federal, State and Local:

EMPLOYMENT, 1965 AND 1972

[In thousands]

	1965	1972
Agriculture	4,761	3,472
Mining	638	607
Contract construction	3,178	3,521
Manufacturing	18,105	18,933
Total	26,682	26,533
Government: Federal, State, local	9,942	13,290

Source: Survey of Current Business, December 1965, pp. S-12, 13; March 1973, p. S-13.

Notable in this Table is the stationary character of employment in the industrial sector (as assumed in one of our examples) (26,682,000 in 1965 and 26,533,000 in 1972), while public civilian employment increased from 9,942,000 to 13.290,000 in the same period. an increase of 3,348,000 or 33%. Public employment, in other words, rose from 37% of the number employed in the industrial sector in 1965 to 50% in 1972. Other things being equal production costs should have risen an average of 50%. subject, to repeat, to the offsetting effect of rising productivity. (From 1965–1971 employment in wholesaling and retailing and in the service industries, such as medical, hotels, laundries, motion pictures, etc., increased 24%, thus adding further cost burdens.)

CONCLUSION

The extent to which we are committed to such high governmental expenditures so long will we need restrictions on imports. These are advantaged by low foreign wages compared with our own and by the great rise in productivity in other industrial countries, guided by our technology. When our outlays for social welfare, defense, etc. rise more sharply than the foreign we suffer a competitive disadvantage. Our industries. agriculture and mines will find foreign competition insuperable as long as foreign wages continue to lag woefully, thus retarding the purchasing power at home that would reduce dependence on exports, and as long as foreign productivity continues to rise faster than ours as their technology advances toward our level.

Realignment of currencies under the circumstances should be regarded only as temporary expedients, not as long-range remedies.

If our rising public expenditures are to continue, import quotas as a means of containing the damage that imports inflict on our production represent the better instrument of regulation. Quotas may be designed to be both flexible and adjustable in keeping with needs and conditions confronting different industries. As a regulatory instrument they are the most manageable and responsive of the various alternatives.

ADJUSTMENT ASSISTANCE AS A PILLAR OF TRADE POLICY

(By O. R. Strackbein, president, the Nation-Wide Committee of Import-Export Policy, January 8, 1973)

Since 1962 when the Trade Expansion Act was passed "adjustment assistance" has been an integral part of our trade legislation.

Adjustment assistance is justified by its advocates on the grounds that any industry and its workers are entitled to governmental assistance if they are

seriously injured as the result of a law that was passed in behalf of the general good.

Under this presumption, namely, that dismantlement of the tariff was in the best interest of the country as a whole, it followed that the government should make good any consequent damage done to individual industries and their workers. Adjustment Assistance was in the nature of compensation for loss incurred, as it were, through the governmental exercise of the right of eminent domain. The principle was invoked in acknowledgment of the likelihood of serious injury to industries if tariffs were further reduced.

In view of the general acceptance of this public obligation it seems desirable to examine the premises of the basic assumption, namely that the government would be acting in behalf of the public interest in exposing important elements of our economy to serious injury; or, more specifically, by opening the channels of trade to larger volumes of imports and presumably, by increasing export opportunities. Since the benefits derived from greater exports might not come to the same industries or groups as might sustain injuries from rising imports it was all the more desirable to compensate the losers from the public treasury.

The national benefit would be enjoyed by consumers in the form of lower prices resulting from import competition, and in a roundabout way, by workers in the form of higher employment in the export industries. A higher level of foreign trade, moreover, would produce other, even if undefined, public benefits. Freer trade has long been associated in the minds of its supporters with world peace.

From such a base in logic arose the notion of adjustment assistance. In other words, the likelihood of injury from import competition was seen as supporting a claim for compensation.

The legislation (Trade Expansion Act of 1962), however, drew the criteria for eligibility so tightly that until late 1969, or for a period of seven years, no application from industry or labor won approval of the Tariff Commission. Since that late date (1969) a number of cases have been approved by the Commission and assistance has been extended to both the workers and industry. The actual outlay, however, has been modest. The Department of Labor, which administers adjustment assistance to labor, reports $18 million expended in 1970–71 fiscal year and $20 million in f.y. 1972. These totals, it should be noted, included administrative costs. The Department of Commerce, which administers the adjustment assistance extended to industry or individual companies, reports total disbursements under the program from its inception to date at $12 million and $4 million in tax allowances.

Another measure of the effectiveness of the legislation is found in the number of applications made for adjustment assistance by workers, individual companies and by whole industries, and the disposition of the cases.

Until a very recent date *workers'* cases were rejected in 80 instances, 21 cases were decided affirmatively by the Tariff Commission and 39 received equally divided votes from the Commission and were decided by the President. Of the latter the President approved all 39, which if added to the 21 affirmatively decided by the Commission bring the total approved for adjustment assistance to 60 cases compared with 80 negative decisions. (This was the status as of August 1972).

Applications made by *companies* were far fewer. Of these 22 were decided negatively by the Commission, 7 were approved by majority vote and 8 were sent to the President by an equally split vote. Of these the President has approved 5 while not having yet decided the remaining 3. Thus far the firms have been favored in 13 cases and rejected in 22, with 3 not yet concluded.

Applications by *industries* have been fewer yet. Only 25 cases have been brought. 18 were decided in the negative, 2 in the affirmative while 5 went to the President, who has acted affirmatively in 4 of the 5. The score is therefore 18 negative, 6 positive and 1 undecided.

Nearly all hands are agreed that the criteria for eligibility were too tightly drawn in the Act of 1962. Legislative proposals embodying a relaxation of the criteria have been advanced from all sides in recent years but none has been adopted.

Be that as it may, the adjustment assistance concept, which is now in the premises, should itself be examined for its inherent value or worthiness. Very little has been said about the principle on which it is based and less on its efficacy even if the criteria of eligibility were relaxed.

On the face of it, the principle of compensating private citizens for damage done to them in behalf of the public good, is sound and is widely recognized in the exercise by the government of the right of eminent domain. To say this,

however, is not to uphold adjustment assistance as a desirable or profitable practice, economically speaking.

The very approach, i.e., as if adjustment assistance did indeed represent an economically suitable remedy, betrays a failure to appreciate the genesis of our present-day discomfiture from imports.

When all the world is in the process of reinterpreting established usages, practices and even institutions because of the great changes brought by a fast-moving technology, the free or liberal trade school of economic though proceeds as if our foreign economic relations had been spared the ravages of economic change. Nothing could be more conducive to failure to meet the problems that face our economy through the channels of trade than such a negative attitude.

UNFITNESS OF ADJUSTMENT ASSISTANCE AS A REMEDY

To give point to this assertion requires an overhauling of current perspectives in the field of foreign trade and competition. It requires a brief sketch of the American development of the mass-production, mass-consumption system *which represented a unique departure from all previous capitalistc practices.*

Most briefly, we cite the American mechanical inventiveness, dedication of the American people to toil and to personal and familial advancement. Other qualities and resources assured unforeseen developments if these endowments were turned to advantage. Our democratic society provided an altered view of the "people" and the "common man" and this alteration made possible a breakaway from the caste and class system that had placed a low and virtually impenetrable ceiling over human economic development in other countries.

While we brought with us an economic heritage from Europe, and while the Industrial Revolution paved the way to industrial development in Europe and in this country, we subsequently opened new vistas that were lacking even in Britain and in its leading economists. We were not inhibited by snobbishness and the lingering feudal attitude that pressed other societies into social layers wholly antipathetic to the advancement of the "lower classes".

It was perhaps this freedom from inhibiting attitudes that opened the way and led to our hearty endorsement of competition and merit in business as well as other activities. In other words, let the best man win, regardless of social background. Monopoly, in our eyes, as a consequence soon came under a cloud as a means of perpetuating any advantage of position that was not achieved through merit and competition. Monopoly power and privilege might easily shut out developments that could be very useful and beneficial to the people as a whole, or at least to an increasing majority of them. Before the end of the century, in 1890, we adopted the Sherman Anti-Trust Act as evidence of this view.

Simply stated it meant that the benefits of our rising productivity, attributable more and more to technological advancement, should not be cornered for the enrichment of the few but should become open to all who knew what to make of it, with resulting increase of consumer participation in the enjoyment of goods.

At the turn of the century glimpses of what might come to be if we approached the great possibilities of mass production with foresight and guidelines gave rise to visions of a world such as had never been blueprinted. Leonardo de Vinci had ingenious insights into mechanics and physics at the time of Columbus, but the climate was not right, the economic milieu not in focus and the ruling attitudes of kings and princes, not ready for the system that waited four hundred more years to be given its wings in a democratic society.

The Orient. China and India, boasted populations far in excess of ours. If manpower alone counted we could not hope to surpass these vast masses of humanity in material production. Yet, by taking a different course we left not only these masses but also the European industrial nations, our very forebears, far behind.

To repeat, we had no blueprint. What we did was not premeditated but a development that proceeded with headlights and revolving searchlights, so to speak. Driven or led by freedom to do what our talents, in the guise of ambition, ignited in us, we explored, examined and tested a whole world of possibilities, with verve, enthusiasm and unquenchable hope. So rich were our natural resources, the continent presented an outlet for every form of human skill, shrewdness, and dedication. There were awaiting riches to be worked, for all who had the knack, the originality and the courage to grasp opportunities by the heel, and the energy and the patience to bring their potentials to fruition.

By some odd concurrence not elsewhere achieved in historic times, certain

precipitates, as if guided by catalytic powers in this country, produced a system of production that outside the communistic and socialistic regimes, became the model to follow. The secret had slumbered for centuries before it was perceived by American entrepreneurs; and even then its progress was hotly but no longer successfully contested. It was nothing more than such a division of the industrial product that those who produced more by use of mechanical devices would be enabled also to consume more.

In other words, instead of seeing wages as an evil to be kept down so that production costs could be kept down and profits at a maximum, it was discovered little by little that wages might be the producers' greatest friend. Wages harbored market potentials that had never been more than dreamed of. The employee was not an enemy; he was a potential market, and a richer one than all the wealth of the nabobs combined.

The formula was really very simple. Human needs, comforts, conveniences and vanities could be converted into eager customers if products designed to cater to them could be invented, designed and then produced at prices low enough to fit the popular capacity to buy. If the latter was low as it is in a chronic fashion among some billions of people, not much headway could be made. The question to be solved was how to produce higher mass income that would act as an absorbent of the goods that could become available in ever greater streams if technology were encouraged.

The chicken or egg conundrum naturally presented itself. If mass production was necessary to reduce costs who would plunge into mass production if there was no certainty of consumer response? Preparation for mass production requires a heavy outlay of capital; and it takes time to tool up.

There is only one answer, namely, risk-taking. This indeed is one of the principal justifications for the existence of the entrepreneur. If venture capital is unwilling to come forth because the doubts of success outweigh the hopes of reaping a bonanza, not much progress is possible toward bringing a greater variety of cheaper goods to consumers. The profit motive certainly finds its *raison d'etre* in this very corner. It promotes risk-taking in the hope of handsome returns. This hope persists despite an average of more than 10,000 business failures per year in this country (which is, however, a small percentage of the total).

The unique new system indeed became noted for its devotion to the production and consumption of a hitherto unbelievable variety of nonessential goods, without neglecting the essential ones. It can be guessed that over 90% of American production is devoted to making nonessential goods. Doubt about this estimate can be met by comparing our per capita income with that of India and China. The ratio is some forty to fifty to one.

This great dependence on the nonessential products creates a more sensitive economy because consumers may curtail their purchases without courting either starvation, excessive exposure to cold or a living at the bare subsistence level. Investors therefore proceed according to their confidence in the future.

We have done much in this country legislatively to overcome the excessive sensitivity of our system which had subjected it to frequent crises and depressions. Among other things we undertook to bolster wage income, since, as we began to see, they were the mainstay of consumer purchasing power. We abolished child labor, provided for minimum wages, the level of which we have raised repeatedly. Wages were to be taken out of competition as an employer's weapon. We instituted price and acreage controls for agriculture, obligatory collective bargaining and unemployment compensation as props for both farm and labor income. Next we provided a system of social security.

All these measures and others were designed to bring us to, and then maintain, full employment. Thus would producers be assured of a growing market if they should continue on the road that had become familiar from extended usage. By 1939 this road had been traveled by thousands of users. First had come perception of a probable market for a suitable product if an inventor or discoverer could devise one. Followed experimentation and development. Then, to repeat, came the launching of the product through capital investment and cost-reduction.

After World War II the other non-Communist countries decided in favor of our system and with help and guidance from us, willingly extended they soon became our competitors. Wages were thus catapulted back into use as a weapon of competition by other countries in their rivalry with us. Productivity per man-hour began to rival ours in some countries but their wages, though rising, lagged badly. The result? We could be undersold in world markets as well as in this country. With the exception of machinery, including aircraft, computers, etc., chemicals and a few other products we began to incur gaping deficits in

nearly all our other exports. An increasingly serious trade deficit overall awaited us.

Our machinery exports were, of course, greatly buoyed by the vast flow of investment capital we sent abroad. We could hold some markets only by availing ourselves of the lower foreign wages. Meantime we had since 1934 cut our tariff some 80% and imports flowed more freely into our market. Our minimum wage and other labor laws became a veritable competitive handicap.

Investment in this country was dampened because our entrepreneurs could no longer be sure that the accustomed market would be there when they became ready for it. Imports could despoil it for them. Consumers would indeed, as in the past, respond to declining prices on desirable goods that enjoyed an elastic demand, but the American entrepreneur was no longer necessarily, or for long, the beneficiary. Foreign producers skimmed the cream from our market, leaving growth industries deprived of this wonted hope.

Then the American producers, often producing overseas themselves, were confronted with the insistent imperative that they become more efficient at home. However, higher output per man-hour is the only real course to such a goal; and this calls for substantial displacement of workers. That course, we recognize, was indeed the very one pursued over the years by our entrepreneurs on their way to a mass market. A thousand dollar item was cost-cut to $500, then to $250 and then to $100, as it were. At each step people were thrown out of work but in time the rising consumption called for more workers than had been displaced. Such a course, pursued by numerous entrepreneurs, assured a broadening manpower market and, for periods of time, virtually full employment.

Now, however, this course has become counterproductive in many instances. Household electronic goods, such as radios, TV, recorders, etc. offer a good example. *While lower prices still stimulated consumption, the additional workers needed* are now largely hired overseas.

Thus is our unique system confronted with impossible imperatives: (1) it is to become more efficient, meaning displacement of hundreds of thousands of employees, as did the coal industry, and (2) it must provide full employment.

Not long ago the first course led to the second. Now it no longer does so because of import competition.

ADJUSTMENT ASSISTANCE MISSING THE POINT

This is where adjustment assistance is supposed to play its part. Yet, right off it can be seen that it cannot perform the function that formerly was performed by industry itself. Adjustment assistance can do nothing to prevent imports from despoiling a promising market in this country for new goods or goods made cheaper by new processes, new inventions or improvements. It can only, if liberally administered, hope to help an industry that has been stopped in its tracks by imports turn to something else. *It is, however, naive to think that some new invention or innovation will come to hand merely for the looking. They are not hatched in that fashion.* If they were Hitler would have beaten us to the atomic bomb.

Not only are inventions and innovations spontaneous but they cannot be scheduled. We do not find a cure for cancer by any known schedule. Moreover, why would not the same company once driven out of competition by imports of one product, be driven from pillar to post?

So, while we may become more efficient we do not get full employment today and will not come near it, except possibly temporarily, *until we restore the competitive conditions under which we developed the system before we generalized it to the world.*

The formula would not be complicated, and if understood by the remainder of the world, would be accepted as a desirable adjustment in a manner that "adjustment assistance" could not from its very nature duplicate.

Import Quotas and Prices

(By O. R. Strackbein, president, the Nation-Wide Committee on Import-Export Policy)

During the great debate on a national trade policy there is one note that comes through unmistakably from those who oppose the imposition of import quotas.

This note is to the effect that import quotas raise prices and feed the fires of inflation.

After a detailed examination of available data on this question it becomes clear that there is no substance to the claim of a cause and effect relationship between import quotas and rising prices. In order to support this assertion the evidence on the subject will be set forth herein, and it can be verified or refuted by anyone who is sufficiently interested in the subject to make the effort.

I shall trace price trends on the products on which we have import quotas compared to the price trends in general and on non-quota products that are closely related to the products on which such quotas are in effect. An example will be the comparative price trends on beef, on the one hand, and the prices on pork and poultry, on the other. Beef has been subject to a quota since 1964, until 1972 when the quota was lifted. Pork and poultry have not been subject to an import quota.

Also, petroleum and petroleum products have been subject to import quotas while coal, another, and competing fuel, has not. Steel is the beneficiary of an arrangement under which other countries restrict their exports to this country. Other metal products have no such import restrictions. Sugar is subject to an import quota while many other food products are not. The same is true of wheat and wheat flour, raw cotton and peanuts, on which imports are in effect. Textiles are subject to export restrictions by foreign countries somewhat similar to the steel restrictions.

We can make comparisons of price trends relating to these products and reach conclusions about the effect of import quotas on prices.

The qoutas of longest standing are those imposed on imports of agricultural porducts. They are usually an outgrowth of Section 22 of the Agricultural Adjustment Act.

It may be noted right here that the purpose of these quotas, such as those on wheat flour, raw cotton, dairy products and peanuts, was not, as is so glibly charged, to raise prices but to prevent the prices from falling to ruinously low levels, which they would unquestionably have done if the import restrictions had not held the line. Our price support of agriculutral products would have collapsed had these restrictions not been put into effect. Import restrictions on cheese were established when imported cheese, coming in at relatively low prices caused a heavy accumulation of domestic cheese in our warehouses because of its higher price.

The price trends on the various products that are or for a period of time have been subject to an import quota and a comparison with the trend of prices on other products are set forth under product headings below:

WHEAT AND WHEAT FLOUR

The importation of wheat and wheat flour is severely restricted in pursuance of a limitation imposed under Sec. 22 of the Agricultural Adjustment Act, in 1941. Imports are limited to a quantity that is less than 1% of our production.

Nevertheless the price of wheat (hard winter No. 2, Kansas City) has had rises and falls quite independently of the import restriction. In 1950 the price per bushel was $2.22. In 1965 the price was $2.25, or little changed from 1950. By 1960, however, the price had dropped to $2.00. If the purpose of the quota restriction was to raise the price it was singularly ineffective. By 1968 the price had shrunk to $1.46 per bushel. Then there was a turnabout, and in January 1972 the price was back up to $1.62, but still far short of the $2.25 of 1955.

These price trends may be compared with those of corn which is not subject to an import quota. The 1950 price (yellow, No. 2, Chicago) was $1.50 per bushel. By 1955 the price was down to $1.41.

The price decline continued as it did in the case of wheat. In 1960 it was down to $1.15 and in 1968 to $1.14. This was followed by a rise to $1.33 in 1970 and a decline to $1.06 in 1971. If we compare the wheat and corn prices since 1950 we find that from 1950 to January 1972 the price of wheat *dropped* 27% while that of corn dropped only 23%. *Yet it was wheat rather than corn that was under an import quota.*

From 1960 to May 1970 the price of wheat dropped from $2.00 per bushel to $1.53. This was a 23% decline. The price of corn *rose* from $1.15 per bushel to $1.30, an increase of 13%.

In 1972, of course, in response to the heavy purchase of wheat by Russia from the United States the price of wheat rose sharply. It rose from the low point of the year at $1.53 in June to $2.18 in October 1972. The price of corn (No. 3, yellow, Chicago) went from a low of $1.21 in February 1972 to only $1.31 in October 1972, after reaching $1.36 in September. Russia was buying wheat, not corn.

The rapid rise in the price of wheat cannot, however, be attributed to the existence of an import quota, but to the large Russian purchase.

(See Statistical Abstract of the United States, 1969, Table 504, p. 343; and Survey of Current Business, November 1972, pp. S-27-8.)

There is nothing in the price trends of wheat and corn that would sustain the oft-asserted view that import quotas lead to higher prices.

MEAT—BOVINE AND PORCINE

In 1964 a ceiling on imports of beef was set by law. If imports were to breach the ceiling an import quota would be triggered. In 1970 when a breach was imminent the ceiling was raised slightly. In 1971 after another breach of the ceiling a quantitative import quota was put into effect. In June 1972 the quota was set aside and it is still inoperative.

In 1964, the year the ceiling was established the price of beef, i.e., stocker and feeder steers, Kansas City, averaged $19.79 per cwt. The price rose to $25.41 in 1966, fell to $24.67 in 1967, rose to $25.90 in 1968, up to $29.30 in 1969, to $30.15 in 1970, $32.09 in 1971 and then turned sharply upward late in 1971, reaching $38.81 in July 1972 and $41.29 in September.

The 1964 price of hogs, average wholesale, all grades, Chicago, was $14.92 per cwt. In 1966 the price averaged much higher, at $22.61, followed by a drop to $18.95 in 1967. The price held at $18.65 in 1968. It rose to $23.65 in 1969, fell to $22.11 in 1970 and on down to $18.41 in 1971. As in the case of beef, the prices began rising toward the end of 1971, reaching $24.02 in January 1972 and $28.41 in September 1972. It will be noted that this was also the high point in the 1972 price of beef.

The increase in the price of beef from 1964 to September 1972 was 109%; that of pork, 90%. However, during the first two years of the ceiling on beef imports, i.e., through 1966, the price of beef rose 28% compared with a rise of 51% in the price of hogs. Beef rose from $19.79 per cwt in 1964 to $25.41 in 1966. The price of hogs rose nearly twice as much, moving from $14.92 in 1964 to $22.61 in 1966. Yet, again, beef was under an import ceiling, not pork. Moreover, the import quota on beef was lifted in June 1972, so that imports might rise and stop the price increase, but prices continued to rise, or from $37.72 in May to $41.29 in September. Hog prices went from $24.76 to $28.41 in the same period. In other words, other factors than the import quota on beef were in operation. The rise in beef was 9.4% and that of hogs 14.8% from May to September 1972. At that time both were without an import quota. Beef obviously did not respond to the removal of the quota by turning downward in price.

PETROLEUM

Petroleum and petroleum products became the subject of an import quota on a voluntary basis in 1958 and then on a mandatory basis in March 1959.

Once more there is nothing to suggest, much less prove, that the price of refined petroleum products increased more rapidly than the price of products that were not under an import quota.

Where 1967 equals 100 the wholesale petroleum price in 1969, which was the year the mandatory import quota went into effect, stood at 99.6. It rose to 101.1 in 1970, to 106.8 in 1971 and to 111.5 by October 1972. However, the All-Commodities index had risen to 120.0. That of Industrial Commodities had risen a little less sharply, or to 118.8. Thus, the price of refined petroleum products, wholesale, lagged distinctly behind the general wholesale price level.

If we compare the petroleum price increase with that of a competing fuel, namely, coal, which is not and has not been under an import quota, we encounter a great contrast. Again on the basis of 1967 the wholesale price of coal had risen to 192.4 by October 1972, compared with 111.5 for refined petroleum. Once more it may be remarked that if it is the purpose of import quotas to raise prices, something evidently went awry in another instance of an import quota.

As for petroleum prices at the wells (Oklahoma) it was $3.18 per barrel in 1969, $3.23 in 1970, $3.41 in 1971 and $3.51 in October 1972. (See Survey of Current Business, April 1970, p. S-8 and S-35; November 1972, p. S-8 and S-35). The increase was only 10.4%, or a little less than the increase in the price of the refined product.

COTTON TEXTILES AND APPAREL

An arrangement was made with Japan whereby that country undertook to restrict its exports of cotton textiles to this country, beginning January 1, 1957.

In 1961 this arrangement was superseded by the so-called Long-Term Arrangement negotiated under GATT. This Arrangement covered some 30 countries and about 90% of our total cotton textile imports. In 1972 manmade fiber textile products and wool products were brought under similar quota restrictions.

Indeed, the price of wool products had fallen well below the level of 100, going as low as 91.5 in December 1971, compared with 115.4 for all commodities. This was an instance of imposing a quota limitation on imports in an effort to prevent the price from falling to disastrous levels. It had fallen 23.9 points below the general level of commodity prices and 7.9 points below its own level in 1971. When it is said that the purpose of import quotas is to raise prices this case can be cited as a specific instance of an effort to prevent further price declines when the current price is already abnormally low.

The wholesale price of cotton products did rise after 1967, but not as rapidly as the wholesale price of All Commodities. The latter had risen to 106.5 by 1969, that of cotton products, to 104.5. In 1970 the All-Commodities index was 110.4, that of cotton products, 105.6. By October 1972 the All-Commodities index was 120.0 while that of cotton products had indeed reached higher, to 124.0. The upward trend in this price began late in 1971, when it was still below the All-Commodities level.

A heavy component of the textile products classification is apparel, including the manmade fiber and woolen apparel. In October 1972 this price still lagged at 114.8, or behind the general level of 120.0 for all Commodities. (Survey of Current Business, Apr. 1971, and Nov. 1972).

Once more we find no evidence that supports the claim that import quotas feed the fires of inflation, or indeed, lead to higher prices out of line with the price level of other goods.

SUGAR

Sugar is another product that is subject to an import quota. The quota antedates World War II.

The *retail price* of sugar in 1955 was 10.4¢ per lb. Ten years later (1965) the price was 11.8¢, an increase of 10% in ten years—not a very exciting increment for a price-raising venture. In 1969 the price was 12.4¢; and in September 1972 it reached 13.9¢. The increase since 1955 was therefore 33.6%. (Ref. Same). Yet retail prices for *all food* in selected urban areas rose from an index of 81.6 in 1965 to 118.4 in 1971, or 45%. (Statistical Abstracts of the United States, 1972, Table 571, p. 352).

Obviously the price of sugar did not outrun the price of other food products. Quite the contrary.

DAIRY PRODUCTS

Import quotas were imposed on dairy products under Sec. 22 of the Agricultural Adjustment Act in 1953. Since 1967 the price index of dairy products had risen to 120.0 by October 1972. This is the same increase recorded by the All-Commodities index, which also rose to 120.0 by October 1972. However, the index of "farm products, processed foods and feeds" had risen 123.3, or 3.3 points more than the dairy products index.

Thus, while the price of dairy products rose as much as the All-Commodities index it rose less than some other farm products and processed foods. Once more we find that the import quota on dairy products did not lead to a price increase beyond the average since 1967, i.e., within the past five years. (Ref: Survey of Current Business, November 1972, p. S-8). Why then the quota? The answer is once more—to prevent a sharp price decline or to avoid falling too far behind other prices that dairy farmers have to pay.

RAW COTTON

Raw cotton imports have been severely restricted (to less than 5% of domestic production) for many years under Sec. 22 of the Agricultural Adjustment Act. Yet, the price dropped sharply during the greater part of the years from 1951 to 1970. The average price during the 1950–55 period was 34¢ per lb. The 1959 price was still 33.2¢; in 1962 the price held at the same level exactly. In 1965 it was down to 29.6¢, followed by a sharp decline that reached 22.0¢ in August 1966. An upward trend brought the price back to 27.0¢ by December 1967. In 1968 the average price was down again, to 22.9¢. There was little recovery until 1971 when an upward trend set in carrying to 30.1¢ by December of that year. In May 1972 the price reached 35.0¢, but then fell again, sharply, reaching 24.9¢ in October 1972. The prices quoted are those for middling 1-inch, average in 12 markets of the United States (Ref: Survey of Current Business, pertinent monthly issues).

From these price trends it is obvious that the import quota did not succeed in keeping prices up. Only in 1971 did the price go above that prevailing as far back as 1959. Surely the quota as a price-raising mechanism did poorly enough. No doubt it prevented ruin of the cotton-growing industry by preventing a total price collapse and consequent ruin of the cotton farmers.

PEANUTS

Peanuts are under price support of the Department of Agriculture. An import quota was established in 1953 under Sec. 22. The price of peanuts has had little variation, following a slow upward trend that raised the 1953 price from 11.1 cents per lb. to 13.6 cents by December 1971 (est). This was an increase of 22½%, or much less than the general wholesale price level or that on food products.

STEEL

An international arrangement was achieved in 1968 under the provisions of which the principal exporting countries of steel to this country was to be limited, beginning in January 1969.

According to the Survey of Current Business for July 1970 the wholesale iron and steel price index, where 1967 equals 100, stood at 106.1 in December 1968, or immediately before the "arrangement" limiting exports to this country took effect. The price had advanced to 115.1 in 1970, but that of nonferrous metals (copper, lead and zinc, aluminum, etc.) had risen to 125, where 1967 equals 100. Yet the nonferrous metals were not subject to import quotas or foreign export limitations. In 1971 the price of the latter classification dropped to 116.0 while that of iron and steel rose to 121.8. By October 1972, however, the iron and steel prices reached 128.9 while nonferrous metals had reached only 117.3. The price of steel had also outrun the durable goods index which had reached only 121.7.

If we compare iron and steel prices with those of lumber we find the latter far outstripping the iron and steel level. Lumber prices reached 166.1 in October 1972, representing a rise more than twice that of iron and steel since 1967. Leather prices had reached 153.3, hides and skins, 270.8. Nonmetallic mineral product prices almost kept pace with iron and steel, i.e., 127.3 compared with 128.2. Concrete products reached 127.2. Yet none of these products, lumber, leather, hides and skins, nonmetallic mineral products or concrete products were under import quotas or were parties to an arrangement such as iron or steel under which foreign countries limited their exports to this country.

The iron and steel industry had not shown a profit increase since the increase in prices through 1971. Indeed the profits were well below those of previous years and below those of the durable goods industries. In 1968 the durable goods industries had a profit of 5.1% of sales (after taxes), the steel industry 4.6%. In 1970, the durables profit was 4.0%, iron and steel, 2.5%. In 1971 the two percentages were repectively 4.2% and 2.5%. Profits on the basis of stockholders equity in 1970 and 1971 were less than half those of all durable goods, or 9.3% and 9.7% in 1970 and 1971 for the durable and 4.3% and 4.5% for iron and steel. (Statistical Abstract, 1972. Table 777, p. 483). The data were derived by the Federal Trade Commission and the Securities and Exchange Commission.

Similarly profits of the textile mill products industry have been less than half of those of the nondurable goods industries.

Thus it can be seen that import limitations under which these industries have operated did not lead to exorbitant profits, nor indeed to normal profits. To say that their price rises fed the fires of inflation are therefore unfounded.

CONCLUSION

This review completely dispels the cry so frequently heard that import quotas give rise to inflation. This is simply no ascertainable relation between import quotas and higher prices. All fair comparisons demonstrate the contrary.

Exports and Domestic Prices

(By O. R. Strackbein)

We are constantly told that import quotas result in higher prices to the consumers. That this claim is not borne out by the facts does not in the least temper the unsubstantiated statements.

On the other side of the ledger, there is clear evidence of the effect of heavy exports on domestic prices. We have only to look at our exports of *wheat* to Russia as a striking example.

Coal exports produced upward pressure on the price of coal. In 1960 exports of bituminous coal were 36 million tons. The wholesale price index stood at 95.6, where 1967 equals 100. In 1970 exports had lifted to a high point of 71 million tons, or almost double the 1960 exports. The price index had risen to 150.0 compared with the all-commodity index of 110.4. There is no import quota on coal, and we import very little. Although exports subsided to approximately 55 million tons in 1971 and 1972, the price continued to rise, reaching 205.5 in December 1972. (Statistical Abstract of the United States, 1972, Tables 1088 and 562; Survey of Current Business, January 1973, p. S–8.) The 205.5 level of the coal price index for December 1972 compares with 122.5 for the all-commodity index. Higher energy costs contribute to the rise in the general price level.

The price of *wheat*, No. 2, hard and dark, winter (Kansas City), in June 1972 was $1.53 per bu. After the huge sale to Russia the price escalated above $2 per bu. by September and reached $2.60 in December, 1972.

Such a rise was naturally reflected in the price of bread and other bakery products.

Corn exports also rose sharply in 1972. They went from 511 million bu. in 1971 to approximately 876 million bu. in 1972. The price, No. 3 yellow (Chicago) was $1.21 in December 1971. By the end of 1972 it had risen to $1.53.

Corn is the principal feed on which cattle is fattened for slaughter. The price increase of beef to the housewife is therefore attributable in part to the increase in corn prices. The rising prices of poultry and eggs also reflected to some extent the higher prices of corn and other grains. (See Survey of Current Business, Jan. 1973.)

Soybeans and soybean oil and meal, have come to the fore to the point where they now represent our principal single agricultural export.

In 1971 soybean exports reached $1.325 billion, compared with $1.090 billion wheat exports and $746 million in corn exports, which were the other two leading farm exports, both of them well surpassing exports of tobacco and cotton.

The price of soybeans has soared in recent months. The price has indeed doubled in 1973 over 1972. Exports rose from 294 million bu. in 1969 to 433 million bu. in 1971. (Stat. Abs., 1969, Table 929, p. 612; Ibid; 1972, Table 1004, p. 605). We exported 93.5% of total world exports of soybeans in 1971. In that year we exported 37% of our production. We produced 73% of the world's production. (Ibid; 1972, Table 1004, p. 605.)

A rise in price of soybeans and soybean oil creates an upward pressure on the price of many other consumer products and animal feeds.

The price of *footwear* has risen sharply in recent years, although there is no import quota on footwear imports. The price had risen to an index of 135.0 in July 1969, where 1957–59 equals 100, compared with an index of 115.1 for all commodities at the same date. Since 1970 the wholesale price of footwear rose to 128.7, where 1967 equals 100. The all-commodity index had risen to 122.9 or over 5 points less.

Hides and skins are the principal raw products used in the manufacture of footwear. In 1963 and 1964 we exported only a small number of cattle hides, distinctly less than a million hides each year. In 1965 we exported over 13 million hides. By 1971 the number had reached nearly 16 million hides and in 1972 reached approximately 18 million. (Sur. of Current Bus., January 1973, p. S–30.)

The price index on hides outpaced that on footwear, reaching 142 in December 1972, where 1967 equals 100, compared with 128.7 for footwear and 122.9 for the all-commodity index. Actually the price of hides and skins is very volatile, depending on the demand-supply equation. Style changes in the end product may also greatly affect the equation. In 1966, for example, the wholesale price index of hides and skins, where 1967 equals 100, was 149.5. In 1968 it was 106.1. In 1969 it went up to 124.1 and dropped to 104.4 in 1970. (Stat. Abs., 1972, Table 562, p. 345.) By the end of 1972, as we have just noted, the index was up to 142.

These examples of the price-raising effects of exports do not, of course, exhaust the list. They do support the expectation that rising foreign demands for domestic products produces a distinctly inflationary effect. The run-away prices, i.e., those that exceed the all-commodity index, can in many instances be traced to a lively export demand.

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IMPORT QUOTAS

Import quotas, on the other hand, have not, by comparison, been inflationary. One of the leading import quotas is the one on oil.

Yet, the wholesale price index on refined petroleum products had risen to only 112.4 in December 1972, where 1967 equals 100 compared with 122.9 for all commodities. The index for coal, which is a competing fuel, stood at 205.5 at the end of 1972, by contrast. Yet there is no import quota on coal, but we do enjoy a lively export trade in that product.

The wholesale price of wheat, which is protected by a stringent import quota, far more restrictive than the one on petroleum, lagged well below the level prevailing at the time the import quota was first imposed, and also well behind the general wholesale price level. The price per bushel was $1.53 (Kansas City) before the export sale to Russia was made. The price then skyrocketed to $2.60 by the end of 1972. The import quota could hardly be saddled with the cause of this price spurt.

Again, while sugar is protected by an import quota, the price from 1970–73 rose only 1 cent per lb., moving (wholesale) from $.112 in 1970 to $.122 in December 1972. There was no export demand to boost the price. The import quota on its part did not produce an inflationary effect. A strong export demand would be expected to have the same effect on the price of sugar as it did on wheat, hides and skins, coal, etc.

Those who seek to measure the cost to consumers attributable to import quotas, to be fair, should also seek to measure the inflationary effects of exports. No such effort has surfaced to date. All the emphasis, misplaced as it is, has been spent in seeking a consumer indictment of import quotas. Exports, by contrast, are absolved, without investigating, of all liability.

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

The CHAIRMAN. Thank you very much, Mr. Strackbein, for returning to the committee and giving us this statement of your views. We appreciate it very much.

Are there any questions?

Mr. Schneebeli?

Mr. SCHNEEBELI. Mr. Strackbein, you are always a very good spokesman and advocate for the position that you maintain and have maintained over a period of a long time.

Together with the chairman, I not only welcome you here, but it is good to hear your views. Thank you very much.

Mr. STRACKBEIN. Thank you.

The CHAIRMAN. Mr. Duncan.

Mr. DUNCAN. Thank you, Mr. Chairman.

Mr. Strackbein, do you think the exporting of our patents and technology has had an adverse effect on our ability to compete in world trade?

Mr. STRACKBEIN. Well, in the sense that I mentioned it here, that if our technology and patents are exported and we produce overseas, naturally the employment that in lieu of this action would have taken place here now takes place abroad, so unless we make the investment climate in this country sufficiently attractive in comparison with the investment climate abroad, we will not put to work the additional workers that are coming on the labor market every year.

Mr. DUNCAN. What are some of the products that domestic producers claim are having an adverse effect on their ability to maintain or improve their progress in the domestic market?

Mr. STRACKBEIN. Well, one certainly is the electronic industry, which is an example of an industry that has been developed during this past generation. A good part of the household electronics, as you know, a majority of those goods are now being imported, so that

the expansion, the growth has taken place abroad much more than in this country.

Had the patents remained here and had there been a restriction on the share of the market that could have been absorbed by imports of these products, that additional employment would have taken place in this country without hurting anyone else.

Mr. DUNCAN. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Collier.

Mr. COLLIER. I have just one question.

Mr. Strackbein, on the final page of your testimony you say: "Turning now to the proposal to vest the President with carte blanche powers to modify the tariff and impose quotas," and indicate that it is an abdication of the Constitutional powers of the Congress. I think we agree in reading the Constitution that it specifically says that the Congress shall set duties and tariffs.

However, as a practical matter, what mechanism or what procedure would you suggest that would enable Congress, a body of 435 Members plus 100 Members of the Senate, to establish guidelines in a manner that would make trade negotiations in any manner practical?

How would you do this?

If we cling to the powers conferred upon the Congress in the letter of the Constitution, how practically would you ever negotiate trade?

Mr. STRACKBEIN. Well, if you had the votes, a bill modeled somewhat along the lines of the Mills bill of 1970 with guidelines which would say that import quotas or tariffs or whatever the controls might be would be established if such and such conditions prevailed, would do the job. Congress would lay down the guidelines as to what conditions would bring the controls or quotas into effect, and then when those conditions do appear, then the restrictions, the controls would go into effect.

Mr. COLLIER. But have we not seen numerous occasions where a host of factors have created a new situation in a given market that you cannot anticipate at the time negotiations are being conducted?

What then would you do? Come back to Congress and say: "This has developed and a number of things have developed." And then have to wait to continue negotiations until Congress recognized what the specific problem was in that area before anyone could negotiate?

Mr. STRACKBEIN. Of course, today the Tariff Commission does take into account many factors as they are laid down in the law in determining whether or not there has been serious injury.

It appears to me that before any of these import quotas or share of the market principles were put into effect, that hearings would be held by the Tariff Commission to determine whether or not the guidelines laid down by the Congress were duly, were actually being met and then, if the Tariff Commission so found, then they would go into effect.

Mr. COLLIER. How long would it take to negotiate any type of effective trade agreements under this type of process?

Mr. STRACKBEIN. Well, this wouldn't be a matter of negotiation. This would be statutory. This would be laid down by the Congress.

Mr. COLLIER. But the Commission would have a finding to determine whether or not a given situation did comply with the law?

Mr. STRACKBEIN. That is correct.

Mr. COLLIER. So that you would have to go to the Tariff Commission.

Mr. STRACKBEIN. That is right.

Mr. COLLIER. I don't have to remind you how long it took for the Tariff Commission to act upon a case that involved the reaching of a peril point in American industry.

Mr. STRACKBEIN. Mr. Collier, in the negotiation of the textile agreement, for example, some 2 years were spent, as you may recall, just recently.

Mr. COLLIER. That is exactly what I am talking about.

Mr. STRACKBEIN. But I am not talking about negotiating. I am talking about setting down certain guidelines in which the time given to the Tariff Commission could be limited, as it is today, in their findings of adjustment assistance, and so forth, giving them 6 months, or whatever amount of time is necessary, or 120 days to make a report, and then if the finding is positive the regulations would go into effect.

Mr. COLLIER. But literally hundreds of thousands of commodities are involved in variable market situations around the world. How could Congress possibly write adequate guidelines by which our negotiators could be guided and, in the event as there always is in laws Congress writes, there is a question of the intent of Congress in interpreting it, then it would have to come back to the Trade Commission.

In the meantime there would be a stalemate on my trade negotiations. Is that a fair summary?

Mr. STRACKBEIN. Even though there are hundreds of thousands of products, most of them fall into certain categories just as they are defined by certain classes in our import statistics, for example.

You wouldn't say define every possible textile. You could have textiles as a whole, and then certain categories which are easily definable and on which we do have the import statistics and also statistics on domestic production so that these comparisons can be made without too much difficulty.

I don't say that there wouldn't be difficulties. There are difficulties in the administration of almost any law.

Mr. COLLIER. But sharing your concern with our current balance of payments and balance of trade problem, it would seem to me that this proposal that you suggest would be so cumbersome that the immediate attention to this problem would be deferred for the Good Lord knows how long.

Mr. STRACKBEIN. Well, I wouldn't anticipate that kind of delay. I would say that if the law went into effect, industries could make application to the Tariff Commission, mind you this is not a blanket quota system that I am talking about. This would be used only in those instances where there is a real need just as adjustment assistance is available to presumably everybody, but only those who have a real need for it are likely to apply to the Tariff Commission for assistance.

So that I don't think you would run into that kind of an interminable delay at all.

Mr. COLLIER. Mr. Strackbein, if the past is prolog, and I think it is, we need only look to the years from 1962 and the subsequent years in our negotiations in GATT, which weren't exactly expeditious.

Mr. STRACKBEIN. Mr. Collier, as I say in this statement, there would be no objection to this carte blanche power on the part of the Executive, except, I think experience shows just from the last 10 years

that it is only those industries that have what we call sufficient political muscle that really get accommodation, and the rest stay out in the cold.

That is the real objection.

Beyond that, of course, the Constitution does make it very clear in unmistakable terms that the Congress is to regulate our foreign commerce and collect taxes and duties.

Mr. COLLIER. Thank you.

The CHAIRMAN. Thank you again, Mr. Strackbein, for your statement.

We appreciate your coming to the committee.

Without objection, the committee recesses until 2 o'clock this afternoon.

Mr. MacGregor will be our first witness.

[Whereupon, at 12:15 p.m., the committee recessed, to reconvene at 2 p.m.]

AFTERNOON SESSION

Mr. ULLMAN [presiding]. The committee will be in order.

Our next witness today is Mr. Ian K. MacGregor, chairman of the United States Council of the International Chamber of Commerce.

Mr. MacGregor, we are happy to welcome you and your colleagues before the committee. Would you further identify them for the record.

STATEMENT OF IAN K. MacGREGOR, CHAIRMAN, UNITED STATES COUNCIL OF THE INTERNATIONAL CHAMBER OF COMMERCE, INC., ACCOMPANIED BY WILLIAM J. NOLAN, JR., CHAIRMAN, TAX COMMITTEE; AND TAYLOR OSTRANDER, VICE CHAIRMAN, INTERNATIONAL ECONOMIC POLICY COMMITTEE

Mr. MACGREGOR. Thank you, Mr. Chairman, for the opportunity to discuss these important subjects in front of your committee.

My colleagues present here with me today: on my right Mr. William Nolan, who also is chairman of the United States council's Tax Committee, and Mr. Ostrander, who is vice chairman of its International Economic Policy Committee.

Mr. ULLMAN. We would like to welcome both of you gentlemen before the Committee.

Mr. MACGREGOR. Mr. Ostrander is here in place of Mr. Nathaniel Samuels, well known to you, who also serves as the chairman of the United States council's Policy Committee. He was unable to be with us today.

I have a long statement which I would like to introduce for the record, and would therefore like to proceed from there.

Mr. ULLMAN. Without objection, your full statement will be in the record following your initial remarks. You may proceed.

Mr. MACGREGOR. Representing the United States Council of the International Chamber of Commerce, which I do today, I should describe it. The council is the U.S. division of the International Chamber of Commerce and consists of some 250 American companies with international business interests. There are 43 national committees comparable to the United States council in the ICC. For over 50 years the ICC has advocated greater freedom of trade and investment.

The U.S. council supports the President's proposed Trade Reform

Act of 1973. The council opposes the supplementary Treasury recommendations on changes in the taxation of foreign source income. The trade proposals should go forward toward improving the climate of international economic relations. The tax proposals are punitive and destructive.

The U.S. council trusts the President's authority will be used to continue to liberalize and expand U.S. trading relationships with other nations. This objective should be expressed in a preamble to the legislation.

The striking thing about the President's request for authority is the apparent care with which the whole complex variety of negotiating problems is faced. Such comprehensive authority is needed to correct the commercial and financial arrangements in U.S. economic relations with the rest of the world. We support the Administration's legislative request on trade because we believe negotiations are now essential to the achievement of harmonious and prosperous world economic relations.

In taking this position, I have canvassed 150 council trustees, whose names are listed in the annual report of the U.S. council for 1972, a copy of which I have here and ask to be inserted in the record.

[The material follows:]

The United States Council of the International Chamber of Commerce in 1972

United States Council
International Chamber of Commerce

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Chairman and
Chief Executive Officer
American Metal Climax, Inc.

Vice Chairman

J. Kenneth Jamieson
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The Procter & Gamble Company

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Peat, Marwick, Mitchell & Co.

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Senior Vice President
International Business Machines Corporation

James R. Kennedy
Vice Chairman
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President
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R. Heath Larry
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James A. Linen
Chairman, Executive Committee
Time Incorporated

Sol M. Linowitz
Partner
Coudert Brothers

Augustine R. Marusi
Chairman and President
Borden Inc.

James W. McKee, Jr.
President and
Chief Executive Officer
CPC International Inc.

J. Warren Olmsted
Executive Vice President
The First National Bank of Boston

Daniel Parker
Chairman
The Parker Pen Company

Hoyt P. Steele
Vice President
General Electric Company

Recent U.S. Council Publications
Available on Request

The Sweeping Implications of the Burke-Hartke Bill. An analysis by Judd Polk, the Council's economist, of the serious implications for international investment of recent protectionist moves in Congress. Mr. Polk examines the trade and investment aspects of the Burke-Hartke Bill, exploring the reasons for labor's protectionist mood, the response of international business, and areas for common agreement on a national policy toward American international investment.

The Limits to Growth, A Critique. A sharp critique by the Council's past chairman, Dr. A. T. Knoppers, of the now famous *Limits to Growth* report of the Club of Rome. Dr. Knoppers, himself a member of the Club of Rome, analyzes the *Limits to Growth* report and the computer model developed by the Forrester and Meadows project team, and illustrates how their computations are subject to major change by the introduction of other relevant criteria.

World Monetary Reform—A Long Way Off? A reprint of Judd Polk's article of November 13, 1972 in the *Journal of Commerce,* in which he points up the differences in national approaches which are apt to hinder monetary reform negotiations and the striking failure in present monetary reform proposals to recognize the fundamental importance of the internationalization of production and of banking structures.

World Companies and the New World Economy. A staff report by Judd Polk in which he discusses the growing internationalization of production in the postwar era, and the need to build an analytical framework to deal with the problems arising from this phenomenon.

Carnet. A basic brochure in a new edition answering such questions as: What is a carnet? Why use a carnet? How are carnets issued? What do they cost? Instructions and application forms for obtaining a carnet.

1212 Avenue of the Americas
New York, New York 10036

A Message from the Chairman

The U.S. Council of the International Chamber of Commerce provides a unique channel of expression for American business with international interests. The U.S. Council's voice is respected in Washington both by Congressional Committees and by the Executive Branch. Its participation in the work of the International Chamber of Commerce in Paris gives American business a voice in the councils of world business and industry as well.

In recent years the U.S. Council has been recognized for pioneering work in identifying the constructive role of international companies and banks in the emergent world economy.

There never was a more important time for both the U.S. Council and the International Chamber of Commerce to make their contributions to mitigating the strains and conflicts that are appearing among the major nations in matters of trade, investment and monetary policy.

The farsighted originators of the U.S. Council and of the International Chamber of Commerce must have perceived just such a role for these organizations.

While governments are wrestling with the increasingly difficult political aspects of these economic problems, the U.S. Council and the International Chamber have the opportunity to ensure that there is a greater degree of understanding among world businessmen not only of the problems involved but also of the opportunities that exist for their solution.

I hope that all the member companies of the U.S. Council will participate in the important work it will be doing in the months ahead.

Ian MacGregor
Chairman

April 16, 1973

1972: A Year of Initiatives

Dr. A. T. Knoppers, past chairman of the U.S. Council, characterized 1972 as "a year of initiatives, a kind of international preparatory period for the expanded events that lie ahead." Indeed, the year saw new advances on a variety of political, economic, and social fronts. The world watched with fascination as an American President toasted the Chinese in Peking and the Soviets in Moscow, thus symbolically marking an end to nearly 25 years of cold war with all its frustrations, waste and danger. The world economic community started a major overhaul of its monetary system while dealing with familiar problems of trade, investment, and the balance of payments. And at Stockholm, 113 nations met to begin the arduous but urgent task of understanding and protecting the human environment.

United States Foreign Economic Policy

The United States made definite progress toward greater coherence and flexibility in foreign economic policy in 1972. An important trade agreement was signed with the Soviet Union—one which the Council's immediate past president, Willis C. Armstrong, helped negotiate as Assistant Secretary of State for Economic Affairs. Further agreements seem likely in view of Soviet technological requirements and probable U.S. need for the vast energy resources of the USSR. It also seems reasonable to foresee significant trade with the Chinese in the future, with their potential market of 850 million people and vast needs.

The U.S. demonstrated its willingness to provide leadership in monetary reform in the proposals submitted by Treasury Secretary Shultz at the September meetings of the International Monetary Fund and now under study by IMF's Committee of Twenty. U.S. backing for the broader Committee of Twenty as the negotiating forum for monetary reform, as against the earlier Group of Ten, gave recognition to the broad international ramifications of decisions in this field and the desirability of having them made by all countries concerned with them. U.S. insistence on treating trade and investment as integral parts of monetary reform placed a new emphasis on the interrelated aspects of these issues.

Battle Against Protectionism Shaping Up

Despite the impressive performance of international investment and production and the development of an interdependent world economy during the past 25 years, protectionist sentiments are still strong. The new chairman of the United States Council, Ian MacGregor, called attention to this "strange dichotomy" in his acceptance speech in December. "On the one hand, our economic, industrial, and technical world has developed a global interdependence . . . On the other side of our modern schizophrenic state of human affairs is the strange and growing importance of political nationalism."

Nowhere was this dichotomy more apparent than in the spate of protectionist legislation introduced in the U.S. Congress during 1972, culminating in the proposed Foreign Trade and Investment Act, known as the Burke-Hartke Bill. Judd Polk, acting president and economist of the U.S. Council, in a paper entitled *The Sweeping Implications of the Burke-Hartke Bill*, stressed the near expropriatory effects the Bill would have, if enacted, on nearly $180 billion of American investment around the world:

> *It is apparent that in terms of producing arrangements, (investment) figures of this magnitude represent not only an extensive but an irreversible commitment, a commitment that requires further investment to support, and a commitment that could only be undone in terms of unthinkable loss of output. We are talking about output abroad that is substantial even in terms of the American GNP, and, incidentally, of foreign output here that contributes significantly to that GNP. The figures are so substantial that they raise a question as to how best to define the geographic concept of the American economy.*

Mr. Polk pointed out that in the world economy, resources are increasingly allocated on an international basis in accordance with highest-productivity criteria and that "to allocate resources on the basis of other criteria, such as the protection of a displaced industry, would remove productivity—and hence economics—as the guide to proper resource use."

Rather than imposing artificial restraints on American business in the mistaken belief that to do so will protect domestic industries and jobs, Mr. Polk said that our aim should be to "seek to resolve on a national basis the role the United States can best play in the world economy and how this role can be fulfilled with minimum cost to individuals and maximum benefit to all."

ICC Guidelines for International Investment

At the present advanced stage of internationalized production and distribution, private international investment is a major—if not *the* major—factor in the world economy. It is a particularly crucial factor for developing countries as official assistance to those countries has been declining. Different viewpoints on private international investment, however, give rise to tensions between international investors and the governments of both host countries and investor countries. That private international investment is a controversial subject, even in "investor" countries, is witnessed by the threat posed in the U.S. by the Burke-Hartke approach and, in the receiving countries, is witnessed by the recent wave of nationalizations, and restrictive legislation.

The International Chamber of Commerce, after lengthy study, has approved a set of *Guidelines for International Investment.** These are predicated on the belief that if international investment is to make its optimum contribution to economic and social progress alongside a strong and efficient domestic private sector, it is essential that there be mutual understanding between private international investors and governments on basic issues affecting their relationship. These *Guidelines* are not a rigid "code of conduct" for international investment, but are designed to facilitate consultation between investors and governments and to promote a better understanding of mutual needs and objectives.

The *Guidelines* are tripartite—addressed to investor, host government, and investor government—with specific recommendations as to how these three entities might work together more effectively. Individual sec-

*ICC brochure, December 1972, $2.00, available from U.S. Council.

tions of the *Guidelines* deal with investment policies, ownership and management, finance, fiscal policies, labor policies, commercial policies, technological matters and the legal framework for international investment.

The U.S. Council Foreign Investment and Development Committees gave their opinions and submitted recommendations at several stages during the drafting of the *Guidelines*. In endorsing them, the U.S. Council felt that they would help create a climate of mutual confidence among the parties to international investment and be conducive to an increased flow of this vital investment. Further they could play an important role in current intergovernmental consideration of multinational investment.

ICC Action on the International Monetary Situation

Immediately following the decision of the U.S. Government in August 1971 to suspend the convertibility of the dollar into gold or other international assets, the U.S. Council began an extensive examination of the consequences this decision would have for world business. This examination continued during 1972.

In April 1972 in Paris the ICC Commission on International Monetary Relations, of which Tilford Gaines, chairman of the Council's Committee on Monetary Affairs, is vice-chairman, adopted a report on the current international monetary situation. This report was later approved by the Council of the ICC, meeting in Venice in May.

With some reservations by the British National Committee, this report argued against floating exchange rates among the major industrial countries, and noted that the *de facto* floating exchange rates in the period from August to December 1971 had ". . . brought unsettled conditions . . . that disrupted day-to-day international business operations and longer-term planning." The report acknowledged that wider exchange rate margins would permit greater freedom in domestic monetary policies, and might help prevent or at least reduce speculative movements of funds, but warned that these widened bands ought not to become a means for countries in fundamental payments disequilibrium to obtain competitive advantages that distort international trade patterns.

While reform of the monetary system should continue to be based on fixed exchange parities, the report also stressed that there should be a much better functioning of the adjustment process, citing the failure of countries to make reasonably prompt adjustment of their exchange rates when they found their external payments clearly in fundamental disequilibrium as being the principal cause for recurrent currency crises.

As regards the future provision of adequate reserves, the ICC supported the continued creation of reserves through Special Drawing Rights to supplement gold. In addition, the ICC went on record as favoring a strengthening of the IMF. Finally, the ICC report emphasized that "the main condition required to support the new exchange rate structure does not lie in the details of the international monetary system but essentially in the prompt and effective use of policy measures by individual countries that will avoid inflation and assure a high degree of monetary stability."

Judd Polk explained some of the difficulties that may be expected to be faced in the coming monetary reform negotiations in an article in *The Journal of Commerce*, on November 13th. He stressed that very real differences do in fact exist among various national approaches to monetary reform in such crucial areas as the role of controls, the function of the dollar, exchange rate policies, etc. Ultimately, the crucial question being posed to nations is: "Will you accommodate your national policies to the emergence of a world money and credit system that responds to the already internationalized system of production and banking?"

"The need is not for a finer tuning of national currencies but for a world money, and this is the direction in which we should be moving," Mr. Polk stated, and added that the well-being of all nations would be best served if their authorities continue along the liberal path of international policy of the past 25 years, which has provided such manifestly attractive results in terms of prosperity and stability.

Along these lines, the Monetary Affairs Committee of the U.S. Council recently explored the outlook for creating a world central bank as a creative step going beyond the overly nationalistic issues that tend to recur in international monetary reform negotiations.

ICC and the Problem of the Human Environment

The United Nations Conference on the Human Environment, convened in Stockholm in June 1972, marked the first time the nations of the world collectively acknowledged that something had gone wrong with the way mankind has been managing its relationship with the natural world.

The International Chamber of Commerce has been particularly active in the area of environmental concerns. At its Vienna Congress in 1971, the ICC "accepted the challenge to industry arising out of the impact of technology on society" and, following this, established a high level committee of industrialists and experts to cooperate with intergovernmental organizations in the search for and implementation of new approaches and solutions to the problems of the human environment. Through this committee, the ICC helped arrange "Briefings for World Business" last spring in Paris and New York, which were addressed by Maurice Strong, secretary-general of the U.N. Conference on the Human Environment.

Just prior to the Stockholm Conference, the ICC, together with the Swedish Federation of Industries, organized a World Industry Conference on the Human Environment in Gothenberg, Sweden, where business and industry evidenced their resolve to deal constructively with environmental problems.

The secretary-general of the ICC, Walter Hill, addressed the Stockholm Conference in June, where he presented to the Conference an ICC commentary entitled, *Industry and the Environment.*

In November, at a meeting sponsored by the ICC in Paris, a number of national and international industrial organizations decided in principle to coordinate their enviromental activities in an International Center for Industry and the Environment, in association with the ICC, primarily in order to provide an interface between industry and the United Nations Environment Program. Representatives of the U.S. Council have participated actively in the preparatory work for this Center.

As keynote speaker at the annual dinner meeting of the U.S. Council in December 1972, Maurice Strong said: ". . . I am very encouraged by the interest being shown by industry, and by the steps that have been taken by the International Chamber to establish machinery for communication between industry and a new U.N. organization" in the field of environment.

The ICC and Intergovernmental Agencies

The ICC is the only business organization to enjoy the highest consultative status with United Nations agencies such as ECOSOC, UNCTAD, and the new U.N. Environmental Program. Similar consultative arrangements are maintained with such intergovernmental organizations as GATT, the IMF, and the OECD.

One of the unique consultative forums for international business is the ICC-U.N., GATT Economic Consultative Committee formed a few years ago which brings together the heads of agencies and business leaders from around the world for an annual exchange of views on major international economic issues.

Its fourth session held at ICC headquarters in Paris on January 17-18, 1973 included the participating members listed on pages 10 and 11. On the agenda for discussion were current problems in international trade and payments, monetary reform, the multinational corporation, international investment, and the environment.

The Carnet—
A Service to Business by the U.S. Council

The carnet system sharply reduces customs formalities for two categories of goods; commercial samples and professional equipment. A carnet is a customs document allowing special categories of goods to be taken at no cost across international borders. Products covered range from radar sets to musical instruments, from helicopters to mini-computers. The convenience of carnets in streamlining foreign customs procedures is making their use increasingly popular among international businessmen.

The U.S. Council became the official issuing agent for the ATA carnet in the United States in 1969, and the carnet program has grown remarkably since then. In 1970, the first full year of operations, the Council issued 330 carnets with a total goods value of nearly $5 million. In 1972, 900 carnets were issued, with a total goods value of over $12 million.

Worldwide, 103,000 carnets were issued in 1972 covering goods valued at over $750 million, under the ATA Convention, initiated and administered by the ICC.

U.S. Council Participation in USA-BIAC

A part of the official structure of the Organization for Economic Cooperation and Development (OECD), located in Paris, is its Business and Industry Advisory Committee (BIAC). The OECD consists of 23 industrialized nations including the countries of Western Europe, Australia, Japan, Canada and the United States. BIAC in turn has member organizations in each of the OECD member countries.

The USA-BIAC, the member organization of BIAC for the United States, brings together the U.S. Council, the Chamber of Commerce of the U.S.A. and the National Association of Manufacturers. This provides a direct link between a broad representation of the United States business community and the important work of the OECD in matters relating to international trade, investment, economic growth, energy and the environment. The U.S. Council serves as secretariat for USA-BIAC.

Early in 1972, on the occasion of BIAC's 10th anniversary, Emilio G. Collado, executive vice president of Exxon Corporation, was elected chairman of BIAC. Mr. Collado also became chairman of USA-BIAC at its annual meeting in April.

In addition to Mr. Collado, the U.S. Council is represented on USA-BIAC by George W. Ball, senior partner, Lehman Brothers, Edward Littlejohn, vice president—public affairs, Pfizer, Inc., Ralph Smiley, chairman, Booz, Allen & Hamilton International, Inc. and by Council chairman Ian MacGregor.

Recent developments in the fields of international trade and monetary affairs, the increasing attention being focused upon multinational investment and the initiation of international consideration of environmental problems has resulted in more active U.S. participation in the work of BIAC. USA-BIAC's subcommittees include a Committee on Environment, a Committee on Taxation and the Steering Committee on the Multinational Corporation. USA-BIAC regularly consults with the U.S. Department of State in its formulation of U.S. policy for OECD work.

ICC-U.N., GATT Economic Consultative Committee

Fourth Session, ICC Headquarters, Paris
17-18 January 1973

Co-Chairmen

Philippe de Seynes
Under-Secretary General for Economic and Social Affairs
United Nations

Wilfred S. Baumgartner
Former Minister of Finance and Economic Affairs
Honorary Governor, Bank of France
President, Rhône Poulenc SA — France

Members from Intergovernmental Agencies

Pierre-Paul Schweitzer
Managing Director
International Monetary Fund

A. H. Boerma
Director General
Food and Agriculture Organization

Wilfred Jenks
Director General
International Labor Office

Jean Carriere
Director, European Office
World Bank

Manuel Perez-Guerrero
Secretary General
United Nations Conference on Trade and Development

Raymond P. Etchats
Resident Representative in Europe
United Nations Development Program

P. Thacher
Program Director
United Nations Environment Secretariat

Olivier Long
Director General
General Agreement on Tariffs and Trade

E. van Lennep
Secretary General
Organization for Economic Cooperation and Development

Members from International Chamber of Commerce

D. Antonio Barrera de Irimo
President
National Telephone Company of Spain — Spain

Gérard Bauer
President, Swiss National Committee
President, Swiss Watch Federation
President, Interfood SA — Switzerland

Ambassador Guido Colonna di Paliano
President, La Rinascente SpA — Italy

Leonard Hynes
Chairman of the Board
Canadian Industries Ltd. — Canada

Members from ICC (continued)

Alvar Lindencrona
Chairman, Swedish National Committee
Member of the Board
The Skandia Insurance Co. — Sweden

Ian MacGregor
Chairman, United States Council
Chairman and Chief Executive Officer
American Metal Climax, Inc. — USA

Sir Duncan Oppenheim
Chairman, British National Committee
Adviser, British-American Tobacco Co. Ltd. — U. K.

Bharat Ram
Honorary President of the ICC
Chairman, Delhi Cloth and General Mills Co. Ltd. — India

Gerrit A. Wagner
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Royal Dutch Petroleum Co. — Netherlands

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Baron Hottinguer
President, ICC
President, Bankers Association
Partner, Hottinguer et Cie — France

Walter Hill
Secretary General, ICC

Carl-Henrik Winqwist
Deputy Secretary General, ICC

Wilfried Guth, Chairman
Commission on International Monetary
Relations, ICC
Member of the Board of Directors
Deutsche Bank AG — Germany

Pieter Kuin, Chairman
Commission on International Investments
and Economic Development, ICC
Chairman, Netherlands National Committee
Chairman, de Nederlandsche Bank
N. V. Amsterdam — Netherlands

Arnaud de Vogüé, Chairman
Commission on Law and Practices
Relating to Competition, ICC
President, French National Committee
Honorary President and Administrator
Saint-Gobain-Pont-à-Mousson
President, Compagnie Nouvelle des Sucreries Réunies
France

Emilio G. Collado, Chairman
Business and Industry Advisory Committee (BIAC)
Executive Vice President, Exxon Corporation — USA

Raul Sosa
Inter-American Council of Commerce
and Production (CICYP)

The ICC

For over 50 years, the International Chamber of Commerce has provided a voice for private international business. It is the only global business organization. Within the ICC, more than 80 countries are represented —countries in every continent and at all stages of economic development. There are over 40 national committees like the U.S. Council. Through the ICC, business leaders from all these countries urge national governments and intergovernmental agencies to follow policies that will achieve the goals it believes are in everyone's interest.

The International Chamber of Commerce holds as a basic tenet that solutions to the economic problems of the world can best be found in the free movement of peoples, goods, services and capital among countries at all levels of development. It advocates regular international cooperation between governments and business as a means of achieving this goal.

1973 ICC Congress in Brazil

The XXIV biennial Congress of the ICC will be held May 19-26, 1973, in Rio de Janeiro, Brazil. The Congress theme is: "The Challenge of Urban Growth to Governments and Private Enterprise." A basic statement on the Congress theme has been prepared by Harold Dunkerley, special adviser to the urban projects department of the World Bank.

A secondary theme that will come in for much discussion in the light of recent developments is "A New Framework for Trade and Payments." The chairman of the U.S. Council will be co-chairman of the Congress plenary session on this theme. The U.S. Council will present statements on both trade and monetary policy.

A series of specialized sessions will deal with such subjects of usual ICC concern as investment, environment, primary commodities, technology transfers, banking, transport and the simplification of trade documents and practices.

Plenary Session of the XXIII Congress of the ICC

Festsaal at the Hofburg, Vienna, April 1971

U.S. Council Committee Work —
The Heart of its Program.

The principal work of the Council is done by its committees. All policy statements, position papers, and legislative stands are the product of a consensus reached in one or more of these committees. It is through the U.S. Council committees that the U.S. business community influences the policies and actions of the International Chamber of Commerce.

The *Executive Committee* consists of the chairman and a representative group of the Council's trustees. The chairmen of the Council's Policy Committees sit *ex officio* with the Executive Committee. The senior trustees, men who have previously been active in Council affairs, are also valued participants in the deliberations of this committee. It meets regularly with the staff of the Council and formulates agreed positions on policy matters.

The U.S. Council has just established a new *Committee on Environment* under the chairmanship of Dr. Miles O. Colwell, vice president for health and environment for Aluminum Corporation of America.

Following are some of the important matters dealt with by the Council's committees in 1972, and the leadership of the committees at the end of 1972.

Policy Committees

International Economic Policy Committee

Chairman:	John D. Wilson Senior Vice President The Chase Manhattan Bank
Vice Chairman:	Edward Littlejohn Vice President, Public Affairs Pfizer, Inc.

This committee coordinates the various policy committees of the Council. It is also responsible for preparing a comprehensive set of U.S. Council views for the forthcoming ICC Congress in Rio de Janeiro. The members of this committee are the chairmen and vice chairmen of the five other policy committees.

Commercial Policy Committee

Chairman: E. Russell Eggers
President and Chief Operating Officer
Bendix International

Vice
Chairman: Daniel L. Goldy
President
International Systems and
Controls Corporation

This committee has been concerned with a report drafted by Jean Royer, special adviser to the ICC on international trade matters, entitled *Strengthening of the Multilateral System of Trade*. It also follows developments in U.S. trade policy.

Development Committee

Acting
Chairman: Charles S. Dennison

The committee helped prepare an ICC statement presented to the United Nations Conference on Trade and Development in Santiago, Chile, in April 1972. It also worked with the Investment Committee on the formulation of the ICC *Guidelines for International Investment*.

Foreign Investment Committee

Chairman: George W. Ball
Senior Partner
Lehman Brothers

Vice
Chairman: David J. Jones
Vice President—Finance
Exxon Corporation

Work on the ICC *Guidelines for International Investment* was a major activity of this committee in 1972.

Monetary Affairs Committee

Chairman: Tilford C. Gaines
Senior Vice President and Economist
Manufacturers Hanover Trust Company

Vice
Chairman: Alfred H. Von Klemperer
Vice President
Morgan Guaranty Trust Company
of New York

This committee continued to study international monetary reform proposals and work with the ICC on statements such as: "The International Monetary Situation," adopted by the ICC Council at its session in Venice in May, 1972.

Taxation Committee

Chairman: William J. Nolan, Jr.
Director of Taxes
American Metal Climax, Inc.

Vice
Chairmen: B. Kenneth Sanden
Partner
Price Waterhouse & Co.

Fred W. Peel
Miller and Chevalier

This committee participated in ICC studies concerning taxation of company profits and dividends as well as tax agreements between industrialized and developing countries. The committee has prepared Council testimony for Congressional hearings in 1973 on proposed changes in the taxation of foreign-earned income.

Technical Committees

Advertising Committee

Chairman: Louis T. Steele
Chairman of the Executive Committee
Benton & Bowles, Inc.

The Council's Committee on Advertising has actively participated in the ICC's preparation of two important documents: a *Code of Sales Promotion Practice* and a (revised) *Code of Advertising Practice*.

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Banking Technique and Practice Committee

Chairman: Charles J. McGee
Vice President, International Division
Manufacturers Hanover Trust Company

Vice Chairman: Arthur Bardenhagen
Vice President
Irving Trust Company

A new version of the ICC uniform rules covering bank guarantees is being formulated. The committee is also helping to revise the ICC *Uniform Customs and Practices for Documentary Credits*, first codified in 1933 and revised in 1951 and 1962.

Carnet Committee

Chairman: Meade Brunet

The committee oversees the carnet operation and sets forth guidelines for the program's growth and direction.

Industrial Property Committee

Chairman: Stephen P. Ladas
Ladas, Parry, Von Gehr,
Goldsmith & Deschamps

This committee worked with the ICC in preparing comments for submission to governments on the proposed Patent Licensing Convention designed to ease the transfer of technology to developing countries. It also dealt with International Trade Mark Registration.

Restrictive Business Practices Committee

Chairman: G. W. Haight

This committee worked with the ICC in developing a report requested by UNCTAD on restrictive practices legislation in various countries.

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Mr. ULLMAN. Excuse me, Mr. MacGregor. Because of the vote that is in process at the present time, we will have to call a recess for a few minutes. We will ask you to wait.

The committee will stand in recess.

[A recess was taken.]

Mrs. GRIFFITHS [presiding]. The committee will be in order.

You may proceed, Mr. MacGregor.

Mr. MACGREGOR. We covered titles 1 and 2 indicating the U.S. council was in support of these. May I commence again with title 3.

Mrs. GRIFFITHS. What page is that?

Mr. MACGREGOR. Page 10. I have abbreviated this quite considerably.

The U.S. council supports the President's authority to deal with unreasonable or unjustifiable restrictions which discriminate against U.S. trade. The proposed bill offers an opportunity for those who complain of such restrictions to be heard. Opportunity should be provided in the bill for United States business interests to be heard if they might be adversely affected by any protective action the President might take under the authority proposed in section 301.

We approve and support the freedom granted the President in considering international obligations when undertaking retaliatory action. To diminish potential chain effect of the retaliatory action, it would be desirable for the act to provide that international consultations be held before the President acts under such enlarged authority.

The U.S. council supports improvements in antidumping and countervailing duty cases, provided such improvements will not become instruments for raising new protective obstacles to trade.

INTERNATIONAL TRADE POLICY—TITLE IV

Balance-of-payments authority: The U.S. council generally supports U.S. proposals made to the International Monetary Fund last fall, including an adjustment mechanism, and we hope that they will be successfully negotiated in the Committee of Twenty.

Balance-of-payments adjustments ought to be taken within a modernized international monetary system rather than by unilateral trade action as proposed in title IV of the bill. Primary reliance should be placed on adjustment mechanisms under the IMF. To the extent these do not suffice or are frustrated we support the proposals of title IV. We recommend that reference to this order of priority of action be inserted in the language of section 401(a) of the proposed bill.

MOST-FAVORED-NATION TREATMENT—TITLE V

The U.S. council endorses the proposed most-favored-nation treatment under bilateral commercial arrangements with Communist countries not now eligible. The U.S. council recommended the granting of most-favored-nation treatment to the U.S.S.R. and Eastern Europe as early as 1967. We believe all parties benefit from increased trade. The Communist world has been left out of our international economy. We hope greater ties and even joint production arrangements would integrate the Communist countries into the system that has raised living standards throughout the West. Granting most-favored-nation treatment to these countries is a first step in this direction.

Counting the less developed countries, continued internationalization of production offers the best hope of integrating these countries into world markets and insuring that economic interdependence lifts their living standards.

The council believes that tariff preferences and wider markets for the products of manufacturing and semi-manufacturing industries in the less developed countries could assist in this process.

The council welcomes the provisions of title VI authorizing such preferences. Other industrial countries already offer generalized preferences to the LDC's. The U.S. council has consistently urged the United States to join in this effort. We specifically agree that preferences should not be granted to LDC's which grant "reverse preferences" to other developed countries.

In summary, the U.S. council strongly urges Congress to enact the trade provisions of the proposed Trade Reform Act of 1973.

Now I would like to make some remarks on the taxation of foreign source income, the proposals made by the Treasury. The council opposes Treasury proposals on taxation of foreign income in connection with the President's trade bill. In taking this position, I speak for a resounding consensus of the U.S. council's membership.

We strongly oppose the proposed tax provision as interpreted by the Treasury Department and urge that they be considered in conjunction with general tax legislation rather than with the trade bill.

We are sympathetic with the need to solve problems caused by tax holidays and runaway plants. The elimination of the tax deferral on foreign source income is an inappropriate way to achieve this. Elimination of the deferral, in the long run, would make U.S. business less competitive in those countries where such tax holidays are offered.

Multilateral rather than unilateral action in dealing with the tax holiday problem seems to be indicated. This is an inappropriate item for the agenda of trade negotiations.

The U.S. council believes these tax recommendations are ill-advised.

No advantage will accrue to U.S. tax revenues or balance of payments and U.S.-controlled enterprises will be placed at a competitive disadvantage, as against their foreign counterparts.

The matter of immediate taxation of foreign earnings was discussed by representatives of the U.S. council when they testified before this committee on March 15, 1973, and they stated:

"No developed country taxes earnings generated from active business of foreign subsidiaries owned by its nationals until distributed. U.S. companies located abroad, if earnings were subject to U.S. tax, whether or not distributed, such taxation would increase the cost of doing business to the extent the foreign effective rate is lower than the U.S. rate. The resulting loss in competitive position would mean a decrease in taxable income to the United States as the U.S.-controlled foreign corporations are driven out of business. Forcing companies to make current dividend distributions would only enrich foreign treasuries through the payment of withholding taxes."

The foregoing comments are also generally applicable to the tax revisions suggested by the administration in connection with the Trade Reform Act of 1973, and we request that a copy of our previous testimony on March 15, 1973, be included in the record today.

Mrs. GRIFFITHS. It will be included without objection.

[The document referred to follows:]

STATEMENT OF WILLIAM J. NOLAN, JR., CHAIRMAN OF THE COMMITTEE ON TAXATION OF THE UNITED STATES COUNCIL OF THE INTERNATIONAL CHAMBER OF COMMERCE, BEFORE THE COMMITTEE ON WAYS AND MEANS, HOUSE OF REPRESENTATIVES, MARCH 15, 1973

SUMMARY OF PRINCIPAL POINTS

1. U.S. corporations operating abroad should be permitted to use the "Asset Depreciation Range" (ADR) system to enable them better to compete against foreign corporations whose governments generally grant more advantageous capital cost recovery allowances than does the United States.

2. The repeal of the foreign tax credit or any substantial modification thereof would so adversely affect U.S. international corporations as to drive American business from the foreign scene, thus permitting foreign competitors to take over the market and causing a worsening in the U.S. balance of payments deficit.

3. The current taxation by the United States of business earnings of U.S. controlled foreign corporations would place such corporations at a disadvantage with their foreign competitors and might cause retaliatory action by foreign governments.

4. DISC was conceived as a method of furthering U.S. exports and should be given a chance to prove its value.

5. The Western Hemisphere trade corporation and Possession corporation provisions of the tax law serve desirable investment objectives and should be continued.

6. The United States should recognize, as do the Common Market countries, the values of "tax sparing" with respect to those less developed countries seeking to encourage needed investment.

7. Gross up on dividends should not be extended to operations in less developed countries.

8. The limited earned income exclusion under Section 911 should be continued.

9. Section 482, relating to the allocation of income, deductions and credits among related entities, should be modified to permit, *inter alia*, "incremental costing" on transfers of tangible property and services from the U.S. parent to its foreign affiliates.

10. The advance ruling requirement of Section 367 should be eliminated and taxable income generated by that section should be limited to that which is associated with a tax avoidance purpose.

STATEMENT

I am William J. Nolan, Jr., Director of Taxes of American Metal Climax Inc., and am appearing today as Chairman of the Committee on Taxation of the United States Council of the International Chamber of Commerce. I am accompanied by Mr. B. Kenneth Sanden, Vice Chairman of the Committee and Partner of Price Waterhouse & Co. The U.S. Council membership comprises most of the major business firms in the United States which are engaged in foreign trade and foreign operations. It represents American business interests within the International Chamber, which in turn represents the international business community in some 75 countries. As some of you may recall, our Committee on Taxation has had the privilege of presenting its views on tax matters to the Committees of the Congress on many occasions.

FOREIGN TAX CREDIT

Concern has been expressed in recent months as to the outlook for the U.S. economy as a result of high unemployment and the worsening of the U.S. balance of trade deficit. Some have suggested that U.S. foreign investment has created this situation and, therefore, should be discouraged. One proposal has been suggested in this respect that not only would discourage U.S. foreign investment but would contribute to forced withdrawal of U.S. interests from abroad because American business would no longer be able to compete with foreign owned competitors. This proposal is the repeal of the credit allowed for income taxes paid to a foreign country on income earned in such foreign country against the U.S. income tax levied on the same foreign income.

Unemployment Not Due to U.S. Foreign Investment

Although there may be disagreement on the effects of foreign investment by U.S. corporations, the preponderance of the evidence supports the fact that foreign investment generally is not made at the expense of domestic investment and that employment in U.S. plants abroad does not result in a loss of employment here. There is no question that production will flow from plants abroad: the question is who will own such plants. It is quite obvious that if U.S. interests cannot compete abroad in running such plants as a result of a severe and untenable U.S. tax burden on such foreign operations, it is clear that the owership of such plants will fall to others. This would not be in the best interests either of the United States or of American business at home or abroad.

U.S. foreign investment helps U.S. economy

U.S. operations abroad help increase our exports of capital goods manufactured here. The proceeds of these export sales and profits from foreign branch and subsidiary operations, together with fees and royalties from overseas sources, have a more favorable impact on our balance of payments than would otherwise be the case if U.S. business were shut out of foreign operations by U.S. tax laws that render it unable to compete abroad. Moreover, this inflow of profits, together with the distribution of such as dividends to individual shareholders, provides additional U.S. governmental revenues and stimulates the U.S. economy. More importantly, the need for capital goods manufactured here by U.S. operations abroad create more U.S. jobs than would otherwise be the case if the need for such purchases abroad did not exist. Inasmuch as more than 90% of the output of U.S. owned foreign firms is absorbed in foreign markets and inasmuch as such markets could not otherwise be competitively supplied by export sales from U.S. plants, U.S. employment is higher because more jobs are created here in supporting foreign operations than are lost as a result of importing a small percentage (less than 10%) of the output of American plants abroad. We believe that the Tariff Commission Report of January this year to the Senate Finance Committee fully supports this thesis.

Repeal of tax credit not answer to import problem

It is recognized that low priced imports have created problems in certain industries here and require immediate attention. Although the magnitude of such problems may be quite severe in localized areas, corrective action should be aimed at these localized problems rather than taking the form of repealing existing income tax provisions that have broader sweeping application than just to the problems at which the corrective action is directed. This would be particularly tragic in that this proposal would not cure but increase the severity of the existing problems at the expense of abandoning fair and reasonable principles which have proven sound in usage over the past 50 years. It is disappointing to the Council that some who share its concern for the hardship resulting in the affected U.S. industries are willing to propose over-kill legislative action affecting the entire U.S. economy to deal with problems of limited scope, the overall net result of which would be to worsen our economic ills by increasing unemployment, lowering productivity, continuing the inflationary spiral and forcing U.S. withdrawal from foreign markets.

We urge such proponents to zero in on these problems of limited scope with specific proposals geared to resolving such problems on a lasting basis rather than bursting into the income tax system with a shotgun approach that will permanently kill foreign markets for U.S. interests, creating more harm than good for the United States. It is recognized that existing programs for trade adjustment assistance are inadequate and should be modified promptly to assist American workers harmed by the import competition in question.

On the other hand, the Council believes there is no basis to conclude that the recent decline in our international trade position resulted largely from growth in foreign production by U.S. companies. Quite the contrary, available evidence suggests that U.S. foreign operations have contributed favorably to our international trade position, domestic employment, and balance of payments position. Accordingly, U.S. participation in foreign operations and markets should be encouraged rather than discouraged if a worsening of the present economy is to be avoided.

Repeal of foreign tax credit would kill U.S. investment abroad

Repeal of the credit for foreign taxes paid on foreign source income would be disastrous to U.S. business interests abroad. It would cut in half foreign net

income from developed countries. U.S. owned companies operating abroad would be placed at a severe disadvantage in competing with foreign owned companies, which would be unaffected by the U.S. tax action and whose home countries impose no similar tax burden on income from abroad. Forced withdrawals of U.S. businesses abroad would only be a matter of time. If U.S. companies operating abroad are to remain viable with foreign owned competitors, U.S. taxation must not put income generated from operations abroad at a competitive disadvantage relative to income flowing to foreign owned competitors. Inasmuch as foreign countries avoid double taxation of foreign earnings either by not taxing foreign source income or by allowing a credit for foreign taxes paid in respect of such foreign earnings against the home country tax, it is important that the U.S. continue its more than 50 year old policy of avoiding double taxation of foreign source income.

We know of no developed country which has taken a position adversely affecting its nationals' overseas investments as dramatic and severe as would be the introduction of double taxation through the elimination of the foreign tax credit system. In fact, as was pointed out by Mr. Glasmann at the panel discussion regarding taxation of foreign income on February 28, all our double taxation treaties with foreign countries specifically provide for the allowance of the tax credit.

Tax equity and neutrality

Historically, United States tax policy toward foreign business income has tended to achieve two major objectives: equity among taxpayers (with equity defined roughly as equal treatment for taxpayers irrespective of income source) and general tax neutrality with respect to foreign versus domestic source income (the absence of U.S. tax penalties or benefits on foreign versus domestic source income). Thus, U.S. tax policy has sought to prevent international double taxation and to minimize the role of taxes as determinants of business location.

Need to avoid confiscatory taxation

The U.S., as well as other countries, recognizes that the foreign country in which income is generated has the primary right to tax such income and in order to prevent the pyramiding of different layers of taxes on the same income, recognition is required to be given to the income tax imposed by the foreign country. Absent such recognition, confiscatory double taxation would result and foreign business operations would be eliminated. To avoid this result, as noted earlier, the industrial nations of the world have adopted one of two systems. One method is for a country to exempt foreign source income realized by its nations (as, for example, France and the Netherlands). The other method, and the one which the United States employs (as well as such countries as Japan, Mexico and the U.K.), is to tax worldwide income of its citizens or residents while allowing a credit for foreign income taxes paid. Germany follows a procedure which is a combination of both systems.

Tax credit concept

In electing the credit method of avoiding international double taxation, the United States has long recognized that foreign income tax laws might very well differ in rate and method of computation from those of the United States. In arriving at the allowable credit, U.S. taxing concepts have been applied even if the foreign country does not necessarily follow such concepts in imposing its income taxes. That is, in taxing worldwide income, the same rules for determining income subject to tax have generally applied whether the business operations were conducted in the United States or abroad. This approach by the U.S. ensures that income taxes will be paid in an amount at least equal to the U.S. income tax that would have been paid had such foreign income been earned in the U.S.

Further, in order to preclude the credit for foreign taxes from exceeding the U.S. income tax on foreign source income, the law applies one of two limitations (either the per country or the overall) to obtain this objective. The purpose of the limitation is to limit the amount of the credit to the amount of the U.S. tax on such foreign source income so as to avoid reducing the U.S. tax on U.S. source income. The general result is that the burden of income taxes on foreign source income is the higher of either the foreign or U.S. tax rate. Over the years, these concepts have not only been recognized and accepted as sound and equitable but usage has proven their value and the need for their continuance.

Deduction for State taxes

Some who urge eliminating the credit argue that it is a special preference and that foreign income taxes should be treated no differently than are state income taxes in determining tax liability to the U.S. Federal Government, i.e., as deductions from taxable income, not as credits against income tax liability. Factually, the existing foreign tax credit provision does not represent a special preference but was adopted by Congress near the outset of our income tax system as a matter of equity—specifically to correct an inequity, not to create one. Repeal of the foreign tax credit would not remove a special privilege as alleged by a few but would impose a unique and special penalty to force U.S. interests out of foreign markets, all to the detriment of the U.S. economy, employment and balance of payments. Any corporation conducting a business in a particular state, say New York, faces the same combined federal and state income tax burden whether it be a New York corporation, a Delaware corporation, or a foreign corporation.

As to tax equity and neutrality between the separate states, it is of interest to note that in the case of the individual income tax, states generally allow a credit (similar to the credit allowed by the federal government for foreign income taxes paid on income earned abroad) against their income tax for income tax paid by their residents to another state in which the income is earned. In the case of corporations, states generally only attempt to tax income earned within the state determined by applying a prescribed formula usually based on sales, payroll and property in the state.

While the principle of equal treatment of state income taxes and foreign income taxes has merit in logic, equality in this case might appropriately be effected by allowing a federal tax credit for state income taxes paid. This would end the existing degree of double taxation of the same income by the states and the Federal Government which has been a problem for many years. However, the fact that duplication in federal and state taxation exists today is no reason for further compounding the problem in the international field. As a practical matter, if a tax credit were allowed for state income taxes, the states would have less incentive to hold down expenditures, for they could continue to increase state corporate income taxes up to the federal rate with no risk of driving corporations away to states with lower income tax rates. Moreover, as one panelist stated on February 28, a credit for state taxes could result in revenue sharing with a vengeance.[1] In the case of the credit allowed for foreign income taxes experience has shown that the credit does not have this tendency because tax increases by foreign governments are borne mostly by their own nationals and this operates as an effective restraint on escalation. The current federal tax treatment accorded state income taxes, with its inequities for taxpayers, has probably been accepted because state income taxes, thus far, have been relatively low—ranging from two to twelve percent.

Retention of Credit Required

By contrast, foreign income tax rates on corporate earnings generally approach or exceed the U.S. federal rate, and to deny U.S. corporations a tax credit for income taxes paid to foreign governments would place so heavy a burden on their foreign operations as to make them unable to compete with foreign companies. As is generally acknowledged by all except a very small minority and has been so well said:

"America ninvestment would not proceed at all without the foreign tax credit because then, as the Chairman pointed out, two taxes would be imposed and the overall burden of two taxes would be so great that international investment would practically cease." [2]

As you may recall, Professor Surrey in his recent appearance before your Committee again reaffirmed the need to retain the credit. As a matter of fact, it can be said that foreign operations by U.S. interests are not being subsidized by U.S. tax savings but only exist as a result of the current tax credit system which was created to establish tax neutrality and correct an existing inequity which would have become more pronounced as tax rates increased throughout the world. Accordingly, because of the beneficial effect resulting to the U.S. economy from U.S. foreign investment, the Council strongly urges the reten-

[1] Thomas E. Jenks.

[2] Statement by Stanley S. Surrey, former Assistant Secretary of the Treasury, during Hearings before the Committee on Foreign Relations, United States Senate, 90th Congress, 1st Session on Executive J—Tax Convention with Brazil, 1967, pp. 19–20.

tion of the existing foreign tax credit system as being essential to the continuation of U.S. operations abroad.

Limitation on amount of credit

As briefly referred to earlier, under present law there are two methods permitted for purposes of computing the allowable foreign tax credit: (1) the overall limitation method or (2) the per-country limitation method. Unless the taxpayer elects the overall limitation method of computing the credit, he is required to use the per-country limitation method. The taxpayer is given a one-time election to switch from the per-country limitation method to the overall limitation method. Once the election is made to use the overall limitation method, the taxpayer must continue to use such overall method for all subsequent years unless he gets permission from the Commissioner to switch back to the per-country limitation method. If he gets the Commissioner's permission, he is then required to use the per-country limitation method for all subsequent years.

Determination of allowable credit

In the case of the overall limitation method, the earnings of the taxpayer are divided on a simple foreign versus domestic basis. Foreign income from every foreign country is added together and the aggregate of all foreign losses is subtracted therefrom to arrive at net foreign taxable income. Similarly, all foreign income taxes paid in respect of such income are also added together. Then, in general, the U.S. income tax liability arising in respect of such net foreign income before deduction for foreign income taxes paid is determined.

The mechanics of this calculation basically involves multiplying the U.S. income tax liability on worldwide taxable income by a factor the numerator of which is the net foreign source taxable income (after deduction for losses but before deduction for foreign taxes paid) and the denominator is total worldwide taxable income. A credit is allowed up to the amount of the liability so determined to be applicable to all foreign source income but only to the extent of the total foreign income taxes paid. If the total foreign income tax paid is less than the U.S. income tax on such foreign source income, the difference is paid to the U.S. Government. If the total foreign income tax paid is greater than the U.S. income tax liability on such foreign source income, then no tax is due the U.S. Government on such foreign income.

In the case of the per-country limitation, a similar computation is made but in respect of the income from each separate foreign country as distinguished from aggregating the income from all countries as a whole. Similarly, the income tax paid to each foreign country is compared to the U.S. income tax liability determined to be applicable to the foreign source income arising from each of such countries.

Basis for each limitation method

The basis for the use of the per-country limitation method of determining the allowable credit is that the income in question is deemed to be generated from operations solely within one country. The basis for the use of the overall limitation is that overseas operations of many U.S. taxpayers involving production, manufacturing, transportation, and marketing are carried on in many countries on an interrelated and integrated basis. Accordingly, in assessing the economic feasibility of such integrated ventures, it is appropriate to view the income from such as bearing an income tax burden equal to the total income taxes paid to all foreign conutries on such income.

Proposals for change in limitation methods and reduction in value of credit

From time to time, it has been urged that: (1) the overall limitation be repealed; (2) the per-country limitation be repealed; or (3) the taxpayer be required to use the method which produces the lowest credit and, therefore, the highest U.S. tax on foreign source income.

Overall method

Those who have urged the elimination of the overall limitation allege that this limitation method encourages the export of U.S. manufacturing jobs to low tax rate countries in order to permit the taxpayer to take advantage of the excess credit being generated in a high tax rate country. This allegation improperly ignores all other relevant aspects of a business decision to go overseas which generally play more of an attractive role than low tax rate countries such as proximity to source materials (such as natural resources, etc.), access to markets otherwise unobtainable, foreign trade barriers, currency controls, host govern-

ment requirements such as serving local markets with products from local plants and obtaining incentives granted only to locally incorporated companies doing business there.

In this connection. it is interesting to note the study report issued on January 16, 1973 by the Tariff Commission prepared in response to the requests of Senator Ribicoff, Chairman, Subcommittee on International Trade, Senate Finance Committee[3] which concluded (aside from the obvious one of the extractive industries being required to locate where the natural resources are geographically found) that by far the most important motivation attracting U.S. business overseas is to tap foreign markets which. in turn, absorb more than 90 percent of the output of the resulting U.S. owned firms. (page 20). The study also concludes that although varying opinions exist as to the effects of tax factors on international investment, "it is felt generally that while tax considerations always are relevant, they seldom are dominant in the MNC's decision to invest abroad." (Page 12). The Council believe that there is no justifiable basis for concluding that the overall limitation method has the effect of exporting U.S. jobs and, thus, such allegation should not serve as any sound basis for modifying existing credit concepts.

Moreover, the overall method puts an integrated U.S. international company in a better position to compete with foreign-owned worldwide competitors whose home countries grant incentives to encourage foreign investment or do not tax foreign source income in any event. This result is obtained because the taxpayer which has an economically interrelated and integrated business spread out over a number of countries is allowed to recognize the homogenous nature of all the foreign income by combining it and all the foreign income taxes paid in connection therewith and treat it as a whole which has the effect of leveling out the foreign income tax rates by averaging. This is the same position which a foreign owned competitor is in where its home country does not tax foreign source income. The disadvantage of the overall limitation is that if a taxpayer's activities in one foreign country results in a loss such loss may be wholly or in part offset against the income in another country thereby reducing the taxable income from foreign sources and consequently the amount of the credit resulting from the application of the formula of the overall limitation. Hence a loss generated in a foreign country tends to favor the per-country limitation.

In view of the substantial amount of recent comment on the need for simplification, it is worthwhile to note that the overall limitation method of determining the credit is relatively simple since it views all foreign income and taxes paid in respect thereof collectively. As a result, the overall method avoids fragmenting income at any particular stage in the case of an integrated business operation and therefore tends to minimize the complexity that could otherwise arise in respect of allocating total foreign income and expenses among different phases of business operations in several countries for U.S. tax purposes.

Inasmuch as the overall limitation method of computing the foreign tax credit reflects the economic reality of the manner in which an integrated business operation is conducted overseas, the Council urges the retention of this concept as an integral, logically necessary part of our tax structure which is needed to preserve neutrality between domestic and foreign income in our tax system.

Per-country method

Those who have urged the elimination of the per-country limitation allege that this limitation method permits a so-called "double tax benefit" where a company incurs initial losses in foreign activities. The first benefit is seen in that the foreign losses reduce U.S. taxable income in the year they are incurred. The second benefit is deemed to occur when operations turn profitable in the country in which the losses were incurred and the taxpayer is then allowed a credit for foreign income taxes he pays on such income.

As noted earlier herein. the U.S. asserts jurisdiction to tax worldwide income of its corporations. As a result in determining worldwide taxable income expenses (including losses) incurred in generating such income are necessarily taken into account in order to arrive at the income actually realized for tax purposes. Fairness dictates that if worldwide income is to be taxed, expenses related thereto should be deductible. To disallow deductions for expenses incurred in connection with foreign income would be outright discrimination against foreign source income and violate tax neutrality. As we understand it, the

[3] Implications of Multinational Firms for World Trade and Investment and for U.S. Trade and Labor, Committee on Finance, U.S. Senate.

reasonableness and appropriateness of combining profits and losses is not under attack. It is the allowance in later years of the credit for foreign income taxes paid on income subsequently generated in the foreign country where the start-up losses were realized.

Although the allowance of foreign losses as deductions from U.S. taxable income reduces the U.S. tax from what it would have been without such deductions, when income is subsequently earned to offset the prior losses in countries which allow loss carryovers, the taxpayer automatically bears a U.S. tax liability equal to the earlier reduction in its U.S. taxes resulting from the earlier losses. The only difference that might result in the amount of tax would be attributable to a timing change where the tax rate may have been increased or decreased. In such cases, of course, the amount of the resulting differential could be favorable or unfavorable to the taxpayer depending upon whether the rate was lowered or increased from the rate that existed at the time of the loss.

Even where the start-up loss is incurred in a country that does not allow loss carryovers, it is difficult to reconcile how its allowance as a deduction for U.S. income tax purposes is unfair when it represents expenses actually incurred as part of its business operations in generating income. Moreover, the subsequent allowance of the credit for income taxes paid to the foreign government on income generated in that country which was unreduced by the earlier losses under the laws of the foreign country seemingly does not violate equity and fairness because the taxes are actually paid. It does reduce the amount of confiscatory and double taxation that would otherwise result without the allowance of the credit, but is this result really bad?

As was pointed out by Congress in earlier legislative acts dealing with the foreign tax credit, the effect of forcing a taxpayer on the overall method would be unfortunate because it would discourage a company operating profitably in one foreign country from going into another country when it may expect to operate at a loss for a few years.

Since the Council believes U.S. foreign investment is good for and consistent with the best interests of the United States, and since such investment is necessarily contingent upon U.S. companies remaining competitive with foreign-owned competitors, the Council believes that both methods of computing the limitation on the tax credit should be retained and that if any changes are needed they should be directed at eliminating rather than creating international double taxation.

Reduction in value of credit

Although recognizing the need to retain the foreign tax credit if U.S. companies are to survive abroad some have suggested that its benefits should be reduced. No justification has been given by pinpointing any reduction at any specific level. Several have suggested, though, that a taxpayer should be required to compute the credit on the basis (either overall or per-country) which generates the highest U.S. tax, while a few have suggested that the credit should be treated as a preference item subject to a minimum tax.

Proposals of this nature are unfortunate and should be rejected because they undermine the fundamental principles upon which our tax system is founded; tax equity and tax neutrality. These types of proposals, and there are a variety being suggested, are merely steps toward reducing or ultimately eliminating the foreign tax credit without any substitute for avoiding double taxation leading ultimately to confiscatory results. As is generally conceded, the foreign tax credit is essential to the survival of U.S. interests in foreign markets and in view of the international trade situation, the Council believes any modifications only should be in the direction of eliminating rather than creating double taxation.

ACCELERATION OF TAXATION OF UNDISTRIBUTED INCOME OF FOREIGN SUBSIDIARIES

Because a corporation is a separate and distinct taxpayer from its shareholders for most purposes under U.S. tax law, this distinction usually results in a corporation's earnings being taxed to the shareholders only upon distribution in the form of dividends. Except for a number of exceptions introduced by Subpart F in 1962, the same rule holds true for foreign corporations owned by United States shareholders. In reply to the proposals currently before Congress to change this longstanding rule, the Council presents the following reasons in support of the continuation, in its present form of such treatment, and against the acceleration of United States tax on the income of controlled

foreign corporations. These arguments discussed in detail hereinafter may be outlined in the following manner.

1. Current taxation would significantly impair the competitiveness of U.S. owned foreign subsidiaries operating in foreign countries, with the corollary detrimental effects on U.S. based enterprises supplying raw material, intermediate goods or managerial coordination. We know of no developed country which taxes currently earnings generated from active business of foreign subsidiaries owned by its nationals.

2. Foreign incorporated subsidiaries do not have an unfair advantage over domestic corporations which must pay U.S. tax currently because:

(*a*) With respect to subsidiaries located in developed countries, the effective foreign tax rate is in line with the effective U.S. tax rate.

(*b*) With respect to subsidiaries located in less developed countries, although the tax rates are frequently lower, the risk factor is usually higher. For example, expropriation and currency remittance restrictions. Furthermore, currently taxing the earnings of foreign subsidiaries would tend to reallocate economic resources from less developed countries to highly industrialized countries. In this manner, a bias towards developed countries is introduced into the U.S. tax system. This would be in contradiction to established foreign policy.

3. A change in present tax structure might well invite severe retaliatory actions by foreign governments.

4. While foreign corporations have in some instances in the past been used to avoid U.S. tax, the Internal Revenue Code already contains sufficient safeguards to prevent such abuses, and these provisions are now being energetically enforced.

Significance of revenue gain and offsetting factors

According to a recent Treasury Department study,[4] currently taxing the earnings of foreign subsidiaries would result in increased revenue of approximately $165 million. Also, it is reasonable to anticipate that the rate of repatriation of foreign profits would not much exceed the amounts necessary to pay the additional U.S. and foreign tax, if any, on the foreign subsidiary's earnings. Furthermore, increased repatriation would result in significantly higher foreign withholding taxes which in turn would be creditable against the U.S. tax otherwise due. Such foreign taxes would only reduce the amount available for reinvestment abroad and as a result would have a long run adverse effect on the U.S. balance of payments.

In order for U.S. companies located abroad to remain competitive with other foreign companies, they must have similar business climates. Similarly in this respect would demand neutrality or equality as the role played by taxes in business decisions being made by two companies serving the same market. To the extent any one of the two companies had a lower tax burden and has less restraint on the amount of earnings that may be reinvested to increase earnings, the competitive position of the other company would be significantly reduced. This could be the fate of U.S. controlled foreign subsidiaries if their earnings were subject to U.S. tax whether or not distributed. Such current taxation would have to increase the cost of doing business to the extent the foreign effective rate is lower than the U.S. rate. The resulting loss in a competitive position would ultimately mean a decrease in taxable income to the U.S. as the U.S. controlled foreign corporation is driven out of business. The force to make current dividend distributions would only enrich foreign treasurys through the payment of withholding taxes.

Some proponents of currently taxing the earnings of controlled foreign corporations incorporate in their arguments a description of the benefits to be derived by the general U.S. public from an exclusion of U.S. companies from investment abroad. This rationale is based in part on the assumption that foreign investments to serve foreign markets by U.S. owned entities would be replaced by similar investments located in the United States to serve the same markets. The fallacy in this is the incorrect assumption that investment opportunities in foreign jurisdictions are available only to U.S. owned entities. It would be closer to reality to assume that foreign companies and foreign capital are competing with U.S. companies and U.S. capital to respond to investment opportunities

[4] "Effects of Selected Tax Provisions," Appendix D, Office of the Treasury, Office of Tax Analysis, Washington, D.C., July 20, 1972.

throughout the world and that facilities in closest proximity to the market will frequently be the more competitive due to cost considerations. Business criteria rather than tax factors will continue to govern the selection of the plant or facility that will service a designated foreign market or region. The exclusion of U.S. companies from that investment opportunity will not significantly change these results and will not affect the sum of investments made outside this country. Such an exclusion will only alter the nationality of investors and result in loss of markets for U.S. goods and services. It must be borne in mind that the competitive, say in the Common Market, is not between U.S. owned foreign corporations and U.S. domestic corporations but rather between U.S. owned businesses and foreign owned businesses.

As indicated above, basic business considerations frequently dictate direct investment overseas as the only practical means of reaching foreign markets that for a variety of reasons are not open to U.S. based industries. Some of the most obvious factors precluding penetratiton of foreign markets by U.S. based industrise are high transportation costs, currency controls, foreign trade barriers, made more effective by the creation of common markets and free trade areas, local content requirements, perishability of products, and on-site inspection requirements. The maintenance of a competitive position in the international economy is absolutely essential to the U S. economy.

Detrimental effect to U.S. economy resulting from decrease in competitiveness of foreign subsidiaries of U.S. entities

As discussed above, in many instances if American business were prevented, by the impact of the proposed change in U.S. tax law, from making foreign direct investments, it would be replaced by a foreign enterprise. Such a replacement would most likely result in a decrease in exports from the U.S. Many investments abroad by American companies actually create exports of capital goods and components directly related to the foreign investment which would also be eliminated. Thus, where local investment is necessary to establish or maintain a market abroad, domestic employment within the U.S. would be adversely affected by preventing U.S. companies from making such investments. In this connection it is significant to make comparison of the rate of increase in employment of U.S. persons by international corporations in the process of expanding their foreign investment with the rate of increase in employment experienced by all U.S. companies. A recent survey [5] by the Emergency Committee for American Trade shows that 74 leading international manufacturing corporations increased domestic employment by 36.5% during the ten-year period between 1960 and 1970 while all manufacturing firms enjoyed a 15.3% increase in U.S. employment.

It is also significant to consider the indirect benefits to U.S. exports achieved by foreign direct investments. For example, Union Carbide in a recent self study [6] found that as a result of their foreign operations there existed a substantial "pull effect." Basically, their experience indicated that when Union Carbide became established in a given geographic area usually with respect to perhaps one or two products, the presence of a vigorous sales force and servicing capability within that given area or country produced substantial increases in their other products as well, an effect which was not present when the company did not conduct overseas operations except through commission agents or other non-related brokers.

Furthermore, there cannot be any serious question as to the substantial economic changes flowing from acceleration which would adversely affect the U.S. balance of payments. The activities of international corporations have been favorable to the U.S. balance of payments. The study by Union Carbide Corporation indicates, for example, that in 1970 Union Carbide alone contributed a net trade surplus of nearly $200 million to the U.S. balance of payments. As is well known, 1971 was the worst year to date as far as the U.S. imbalance of international payments was concerned.

In 1972, the economy experienced the largest deficit in trade in the nation's history. Such a deficit can only worsen the balance of payments problems. To prevent further losses, it is absolutely necessary that the competitiveness of

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[5] "The Role of the Multinational Corporation in the United States and World Economies." Emergency Committee for American Trade, Washington, D.C., February 24, 1972.

[6] "Union Carbide's International Investment Benefits to the U.S. Economy . . .", Union Carbide, New York, N.Y., October, 1972.

U.S. industry in foreign markets be stimulated to as great a degree as possible. The 1971 DISC legislation, which is discussed later, is a step in this direction. The clear effect of any increase in taxes which applies to U.S. owned corporations operating abroad but which does not apply to foreign owned corporations operating abroad will be to reduce the profitability and competitiveness of those U.S. owned enterprises.

Comparative tax advantages of U.S. owned foreign corporations and companies

The proponents of acceleration contend that not taxing the income of U.S. controlled foreign corporations as earned rather than as remitted to a U.S. shareholder provides a "tax loophole," by enabling such shareholders to postpone or avoid paying U.S. taxes. This, they claim, gives foreign subsidiaries an unfair advantage over domestic corporations which must pay U.S. tax currently. The advocates of taxing as earned the income of U.S. controlled foreign corporations assume that the effective income tax rate in foreign countries is lower than the U.S. effective rate. This assumption is generally not valid with respect to most developed countries where the preponderance of direct foreign investment by U.S. persons is concentrated. Thus, present treatment provides no "loophole" which enables U.S. corporate shareholders to avoid paying U.S. taxes because they would pay no U.S. tax on repatriated high taxed earnings of foreign subsidiaries due to the operation of the foreign tax credit. Further, whatever incentive is available for investment in these countries would not be affected by acceleration of taxation since earnings from these countris can be repatriated without additional U.S. tax. Where there is no U.S. tax cost on repatriation, foreign incorporated subsidiaries do not have any tax advantage over domestic corporations as a result of present treatment.

Therefore, if the proponents of acceleration of taxation are correct to any extent in their allegation of a "tax loophole," they are only correct with respect to the "low tax" countries. The low tax countries of the world generally include those considered "less developed," a category which has received substantial foreign aid and foreign investment incentives from the U.S. in the past. The United States' policy decision to favor these nations remains a viable current national policy goal. Acceleration of taxation would directly contravene this goal by discouraging new private investment in less developed countries, since the low tax rates of these countries would no longer provide any incentive for investment.

As a result of the investment disincentive described above, the acceleration of taxation would tend to reallocate economic resources from less developed, low tax countries to developed, high tax countries. As a general matter, productivity and output will be maximized if taxes act in a neutral manner in the allocation of capital investment. Congress has considered it desirable to violate this principle for humanitarian and political reasons by enacting special provisions of the Internal Revenue Code with respect to the less developed countries. However, there would appear to be no valid reason for the United States to structure its domestic tax system so as to favor the industrialized high tax countries.

Possibility of retaliatory actions by foreign governments

Acceleration of taxation of foreign business income would constitute a substantial departure on the part of the U.S. from the mainstream of international economic and fiscal relationships. It would seriously violate international expectations in this regard. No other major country taxes income in this fashion and it encroaches somewhat, depending on the mechanics of the U.S. foreign tax credit and whether any changes are made therewith, upon the basically accepted theory that the country of source of the income should have first opportunity to tax it. To the extent that foreign corporations are required to remit dividends to the United States in excess of what they would otherwise consider to be economically feasible in order for the U.S. shareholders to meet their U.S. tax obligations, the level of operations in the foreign country will certainly be hindered and to the extent that internal financing had been required for further expansion, such expansion will not take place. Moreover, recognition of the impact of additional foreign tax withholding must be given. Foreign nations can very realistically complain that such constraints constitute an unwarranted intrusion into internal affairs of the foreign jurisdiction. In periods of substantial nationalistic feeling, such a suggestion could easily add impetus to any trends toward confiscation, participation, etc.

Since acceleration of taxation of income of foreign subsidiaries would have the effect of imposing full U.S. tax on all foreign operations of U.S. controlled entities, the usefulness of local tax incentives created by foreign governments for

their economics would be eliminated. The occurrence of this could well motivate these low tax countries to raise their taxes on the income of U.S. owned companies to the U.S. rate since by so doing these countries would create no further tax burden on such operations. The increase would simply mean that the foreign government rather than the U.S. would receive the increased tax.

Retaliation in other less catastrophic manners could also be anticipated. The United States is a signatory to a broad network of individually negotiated bilateral income tax treaties. It is possible that acceleration of the taxation of income of foreign subsidiaries could be viewed as interference with local affairs and, in addition, that such treatment might be regarded as discrimination against low tax areas with no compensating discrimination in areas where the existence of high domestic taxes would render minimal the effect of any current U.S. tax. This discrimination is also counter to express U.S. policy of support and aid to underdeveloped areas. In a similar vein, the U.S. through Section 931 of the Code has established a policy in favor of stimulating growth of U.S. possessions by encouraging U.S. corporations to operate there. If acceleration of taxation overrode Section 931, we would have violated this basic governmental policy as well. We have not conducted a review of the U.S. income tax treaties in this respect, but there could be some problems in this area as well.

The Internal Revenue Code already provides sufficient safeguards against possible abuses arising in connection with foreign direct investments

The Congress has recognized that there are some instances where the separateness of corporate entities should not be totally recognized. This separateness has been recognized in the jurisprudence of the United States and Great Britain, not only from a tax viewpoint, but as a matter of contractual and corporate law. However, this exceptional treatment is accorded generally only when the corporation has been used in a manner so as to unreasonably shield its shareholders from their rightful legal or tax responsibilities. In the tax area, Subpart F is a good example in this regard. When Subpart F was enacted in 1962 as an exception, it was established to eliminate what was thought to be an abuse, a pattern of artificiality, whereby U.S. corporations were able to shield from all taxation certain foreign earnings. In effect, Subpart F treats a foreign subsidiary as though it were a partnership rather than a separate corporate entity.

Section 482, Section 269, *inter alia*, are other provisions where the tax law will disregard a separate corporate entity when it is concluded that that entity is being used merely as an artifice, in disregard of the proper obligations of the shareholders. These exceptions, however, are narrow and traditionally have been restricted to the situation where the corporate entity is itself a sham or has been availed of for some unlawful or artificial goal in disregard of the normal corporate existence. Thus, for example, Section 482 does not apply unless income or deductions have been artificially adjusted between related parties. If arm's length dealings have ensued, then Section 482 has no application.

However, the present behavior of foreign incorporated subsidiaries of U.S. corporations does not on the whole present a case whereby separate corporate entities have been predominantly used to artificially shield the U.S. shareholders from their rightful level of taxation. In most instances foreign direct investments are made through foreign corporations because of sound business (as opposed to tax) reasons. Indeed the local law in many countries requires that businesses with substantial operations be locally incorporated or, in the alternative, discriminate against foreign incorporated operating companies. Furthermore, many foreign subsidiaries pay higher taxes than their U.S. parents.

The existence of adequate safeguards within the statutory framework is sufficient to prevent the use of foreign based operations to avoid U.S. taxation. For this reason there is simply no justification for such a drastic measure as subjecting all income of U.S. controlled foreign subsidiaries to immediate U.S. tax, whether or not distributed. There may be certain industries that are being unfairly affected by foreign competition. With respect to such industries, some relief may be warranted. However, any action taken by Congress should be purposefully narrow in both scope and application.

In summary, we believe that acceleration of U.S. taxation of income of foreign corporations constitute a major departure from our established concept of commercial jurisprudence. We believe that the economic effect of such repeal would be adverse and that the fiscal effects are so small as to render such action a doubtful enterprise. We suggest that simplification rather than additional complexity is the proper goal in the future development of U.S. tax policy and that a proposal such as this cannot contribute to such a goal. Further, we believe that

national jurisdictions must recognize their interdependence and must avoid the well-intentioned but self-destructive protectionist measures which hinder overall development of international trade.

EXTENSION OF ADR TO FOREIGN ASSETS

As we have noted before, United States corporations engaged in international commerce are constantly confronted with competition from other foreign international corporations in their attempt to gain a share of world trade. Not only is it important that the tax climate in the foreign country be favorable, it is necessary that the tax climate in the capital exporting country encourage foreign investment if its nationals are to have a fair, competitive opportunity. Thus, foreign international corporations can be more competitive where their governments create an investment atmosphere favorable to foreign investments. The tax laws of the capital exporting country play a very significant role in the investment climate for international companies. If one capital exporting country provides tax incentives to an investing company while another does not, and assuming for purposes of this discussion that all other conditions are equal, the first country's investors will be put in the position that they will be able to more aggressively seek and invest in new opportunities because their tax laws will enable them to realize a more favorable return on their investment.

The recently enacted "Asset Depreciation Range" ("ADR") system is designed to give United States industry more adequate and liberal depreciation allowances and at the same time remove many administrative controversies both for the Government and the taxpayer alike. As we stated in our testimony of September 16, 1971 before this Committee, we believe that ADR has brought the United States to a more realistic cost recovery system which will help in foreign competition. Although American business in the United States has been aided in its competition with foreign business by the institution of more favorable depreciation allowances on property used in the United States, American business abroad has not had this treatment extended to it and continues to operate under a substantial disadvantage with foreign competition in the area of capital cost recovery. This point was well documented in the September, 1970 report of the President's Task Force on Business Taxation which underscored the advantageous capital cost recovery benefits allowed by other developed countries under their tax laws.

Modernized industries of other nations compete vigorously for the same markets as our industries abroad do. Liberal depreciation deductions and cost allowances of foreign industries contribute significantly to the success of their enterprises. Accordingly, it is the position of the United States Council that the ADR provisions should be extended to United States overseas business and that the well being of the United States is not enhanced by the discrimination of the existing system in allowing the ADR system to be applied only to U.S. domestic operations.

The Council is well aware that the original ADR system and the regulations promulgated thereunder, did not apply to the foreign property of United States international corporations. We believe that it will serve the best interests of the United States to allow United States corporations engaged in international activities to be more competitive with their foreign competition and that the extension of the ADR system to foreign assets will go a long way towards that end.

DISC

In his "Memorandum to United States Businessmen" of January 24, 1972, Treasury Secretary John B. Connally stated the purpose of DISC as follows:

"The DISC legislation provides a straightforward method of treating exports for tax purposes in a manner more equivalent to that available to many foreign competitors. These provisions are designed especially to encourage smaller businesses, which may have had little or no export experience, to export."

DISC has been with us a little over a year. It is too soon to pass judgment on DISC; that is, to know if, over the long haul, it will cause a significant increase in exports. However, the early returns are encouraging. The interest of the business community in DISC is great, and thousands of DISC elections have been made in the past year.

We believe the DISC concept is sound and was long overdue. Our criticism of DISC is primarily that it doesn't go far enough. Our specific comments follow:

1. DISC is a good idea; in any event it should be given a much longer trial period before any thought is given to limiting its incentive provisions.

2. The provision denying DISC benefits to property finished abroad severely limits DISC.

3. The temporary tax deferral should be 100 percent rather than 50 percent.

DISC trial period should be extended

The DISC provisions were not intended to act as a U.S. tax loophole but to tip the scales in favor of U.S. based production. Certainly DISC defers the taxes on business income resulting in lower costs and increased profit incentives—it is intended to do so. However, it does so only if the business exports U.S. goods and invests the deferred profits in export related assets. The temporary cost to the Treasury must be measured against the increased U.S. taxes from all sources resulting from production in the U.S. and the favorable effect on our balance of payments problem.

There appears to be general agreement that exports should be encouraged. DISC offers a reasonable export incentive at a reasonable price. It should be given a fair chance to prove its value—an endorsement by this Congress would stimulate interest to the benefit of the economy.

The provision denying DISC benefits to property finished abroad seriously limits DISC

The benefits of DISC are denied if export property is subject to further "manufacture" abroad. Foreign activities are presumed by the Regulations to constitute "manufacture" if they account for 20 percent or more of the cost of the property. This limitation on foreign manufacture fails to take into account that frequently it is legally necessary or economic to produce a larger share of the product abroad. Any production in the U.S. should be encouraged under the basic concept of the DISC legislation and accordingly, it is recommended that the DISC provisions be amended to eliminate the foreign "manufacture" limitations. Obviously the benefits of DISC would only apply to the value of the U.S. manufactured component.

The temporary tax deferral should be 100 percent rather than 50 percent

Under the present DISC legislation tax on up to 50 percent of the DISC's earnings can be deferred so long as it is invested in "qualified export assets". We believe this limit should be raised to 100 percent for the following reasons:

1. Our trade deficit is much worse than it was when DISC was enacted over a year ago. This justifies more extreme measures. The most obvious method of adding to DISC's potency, without changing its basic form, is to increase the tax deferral to 100 percent.

2. DISC is structured so that deferral is contingent on investment in "qualified export assets". It is unlikely that funds will be so invested unless they can be profitably utilized. Hence an increase in the limit to 100 percent would cause increased deferral only where the funds were actually invested in export activity.

Summary

It is too soon to have objective evidence of DISC's impact on our exports. However, we believe DISC is good legislation and, especially considering our trade deficit, should be retained long enough to give it a fair test. Its value would be enhanced if the DISC provisions were expanded to allow greater overseas manufacture and to permit tax deferral on up to 100 percent of the export income.

WESTERN HEMISPHERE TRADE CORPORATIONS

The Western Hemisphere trade corporation (WHTC) provisions have been a part of the Internal Revenue Code since 1942. Initially enacted to encourage investment in Latin America, they also act as an incentive for exports to Latin America and Canada. The incentive, of course, is that the U.S. tax is reduced by 14 percentage points for those corporate taxpayers meeting certain stringent requirements.

The WHTC is the only income tax incentive for exports that permits a permanent reduction of income taxes. The DISC, which was enacted as an incentive for exporting, involves a deferral of taxes, not a reduction. Many foreign countries, most notably Japan, give tax incentives for exports. If the WHTC provisions were removed from the Internal Revenue Code, it would be unlikely that the United States could enact, if it wished to counter foreign governments' tax incentives for their exports, another provisions to encourage exports without running afoul

of the GATT. For this reason, the WHTC provisions, the only incentive which permits a permanent reduction of income taxes, should remain in the Code. At a time when the United States' share of the Latin American markets is falling, it would seem imprudent to remove an incentive that would keep that share from falling even further.

As to their incentive for investments in developing countries, WHTCs have not been used as frequently as they should have been primarily because of the formidable blocks in several Latin American countries against the use of foreign corportation operating branches in their countries. For example, in Brazil, it requires a decree of the Brazilian President for a foreign corporation to operate there. Further, every major change in business activity of a foreign corporation must receive additional permission. Such provisions as well as the lack of tax treaties between the United States and South American countries, and the high income tax rates in some countries have kept down the use of WHTCs. Nevertheless, the WHTTC provisions still act to encourage investment in Latin America, such encouragement being a desirable objective of Congress according to a recent report to the Senate Finance Committee.[7] The WHTC, coupled with appropriate treaty provisions, could go a long way in meeting this objective. The course for the United States should not be to do away with the WHTC but rather to complement it with proper tax and trade policies.

SECTION 931 CORPORATIONS (POSSESSIONS CORPORATIONS)

Section 931 is closely linked with the Industrial Incentives Law of Puerto Rico, which exempts manufacturing and hotel industry income. Under Section 931, a United States corporation operating principally in Puerto Rico (a Possessions Corporation) can obtain exemption from United States taxation. Because they were so closely linked, Possessions Corporations were not widely availed of until 1947 when Puerto Rico enacted its first Industrial Incentive law. Largely as a consequence of the incentive law and the industry it generated, according to the Puerto Rico Economic Development Administration, the annual per capita income of Puerto Rico rose from $279.00 in 1950 to $1713.00 in 1972.

Section 931 has obviously helped the economy of Puerto Rico. While there is no way of determining exactly how many corporations would have invested in Puerto Rico regardless of Section 931, we think it is a good presumption that absent the section, there would not have been the number of investments that were made. As a result, Puerto Rico might not have had such a dramatic rise in its economic climate. Without both the Puerto Rican exemption and the United States exemption, it is not inconceivable that Puerto Rico's economy would have needed large doses of direct cash subsidies from the United States to improve its standard of living. These subsidies would have led to problem of administration, increasing controls over spending of the subsidies, leading to an ever-increasing bureaucracy. This has been avoided or minimized through the use of Section 931.

But the job is not yet finished. At $1713 per annum, Puerto Rico's per capita income is still lower than any state in the Union. Until Puerto Rico reaches a more reasonable level of per capita income, the United States should certainly continue to use this effective way of increasing the standard of living of Puerto Ricans—all of whom are citizens of the United States.

TAX SPARING

Congress has long recognized the need to encourage investment in the less developed countries of the world. In furtherance of this objective, many tax provisions have been enacted in the hope that they will increase U.S. investments in less developed areas. Among the provisions designed specifically for investments in less developed countries are:

1. the exclusion from the interest equalization tax;
2. the more favorable computation of the deemed foreign tax credit;
3. the exemption from Subpart F income for certain investments in less developed countries; and
4. the treatment of the gain on certain sales or exchanges of stock in foreign corporations.

While Congress has provided the aforementioned incentives, it has failed to recognize one major incentive, that of "tax sparing." A less developed country,

[7] Implications of Multinational Firms for World Trade and Investment and for U.S. Trade and Labor, Committee on Finance, U.S. Senate, p. 882.

in an effort to increase capital inflow into the country will grant foreign investors many types of incentives. One of the more common incentives is a reduction or elimination of its income tax. The failure of the United States to recognize tax sparing discourages the granting of the tax incentives to U.S. corporations. France, Germany, Japan and the Netherlands, for example, do grant tax sparing either directly or by exempting foreign income from tax.

The effect of our failure to recognize tax sparing can be seen from a review of our income tax treaties. Presently, the United States has tax treaties with most of the developed countries of the world. However, there are few treaties in effect with the less developed countries. One of the basic difficulties encountered in the treaty negotiations with less developed countries centers around our refusal to grant tax sparing concessions. As such, many of the problems encountered in international commerce, which are relieved by income tax treaties, thereby permitting internaional investments, are not available for less developed countries.

The importance of a tax sparing provision to a less developed country can be seen from the consequences of the failure to enact such a provision. Under tax sparing, the less developed country imposes little or no income tax on the profits from foreign investment. The developed country, through the treaty, permits its national investor to take an income tax credit against its liability to the developed country, not only for taxes actually paid to the less developed country but also for the taxes which would have been paid if no tax concessions had been made to encourage foreign investment. Without tax sparing in the treaty, the incentive sought by the less developed country is defeated by our regular tax rules. Under our present tax law, the tax credit permitted a U.S. investor for taxes paid to a foreign country is limited to the actual taxes paid the less developed country, i.e., no benefit is given for the taxes which would have been paid to the less developed country had it not enacted any tax concessions.

As such, the amount of any reduction in taxes paid to the less developed country is paid to the United States. The less developed country, noting that its attempt at providing a tax reduction incentive has failed, increases its tax rate to that of the United States rate so as to secure for itself taxes on profit gained in the country. The United States does not gain any additional tax revenues because now the U.S. investor, by paying the tax to the less developed country, is entitled to a foreign tax credit which offsets the U.S. tax liability on the foreign source income.

Nothing is gained by such method of taxation. The United States is not benefitted in any way nor has the less developed country encouraged investment. In addition, we have contradicted the policy of encouraging foreign investment in a less developed country. Moreover, the United States investor is now placed at a disadvantage in the less developed country as compared to an investor of another developed country which has recognized tax sparing and has incorporated such provisions in its law or its treaties with the less developed countries.

The Council believes it is in the best interests of both the United States and the less developed countries to enact a comprehensive network of income tax treaties which accomplish the basic treaty purposes of providing for cooperative taxation of international transactions and also to encourage capital investments in less developed countries. This can best be accomplished by providing under our tax law a basis for "tax sparing" so as to accommodate the views of the less developed countries. This has been accomplished by most of the other developed countries of the world and the United States must join in this spirit of international cooperation aimed at increasing investment in less developed countries.

GROSS UP FOR LDCC

The Revenue Act of 1962 enacted the "gross up" provisions for dividends received from a foreign subsidiary operating in a developed country. The gross up provisions were enacted to provide similar tax treatment between operations of a foreign branch with that of a foreign subsidiary. The gross up provisions were specifically made inapplicable to dividends received from a U.S. corporation's subsidiary operations in a less developed country. The reason behind the exception was that Congress felt that the lower overall tax rate afforded by the exemption from the gross up would encourage investments in less developed countries. The need for the continuance of this exemption has recently been questioned. Legislation was proposed in the 92nd Congress to have the exemption expire as of January 1, 1974. It is the Council's view that the exemption should be continued

so that there would be no "gross up" for dividends received from a less developed country corporation. A brief review of the reasons follows:

It has been United States policy to encourage private investment in less developed countries. This policy is evident from the special tax incentives present in the Internal Revenue Code giving special treatment to investments in less developed countries. Extension of the "gross up" to less developed country corporations woud seem to be contrary to our long-standing policy of encouraging investments in less developed countries. The effect of the gross up provisions is to raise the effective tax rate on income earned in a low tax country. It must be noted that as a general rule, the tax rates in less developed countries are below our U.S. tax rate. These lower tax rates are, at least in part, designed to attract foreign investment. As a result, many of the benefits of such local incentive programs would be negated by the extension of the gross up provisions to less developed countries.

Accordingly, it is our recommendation that the present benefits granted U.S. subsidiaries engaged in business in less developed countries be continued as in the best interest of our national policy which seeks to encourage private investments in less developed countries and that the gross up concept should not be extended.

EARNED INCOME EXCLUSION

Under our system of taxation, income of a citizen or resident is taxed from whatever source derived unless a specific exclusion is provided for. A limited exclusion from gross income is available for income from personal services rendered abroad by a United States citizen where certain residence or physical presence tests in a foreign country are met, Congress has, since 1925, recognized the exclusion as a means toward increasing foreign trade by encouraging qualified personnel to be employed abroad. The expansion of international trade has increased the need for qualified professional, technical and supervisory personnel to be employed abroad. The exclusion, by reducing the tax burdens inherent in employment abroad, helps to assure a continued supply of qualified U.S. personnel willing to transfer abroad. Generally, other countries do not tax nonresident citizens on their foreign earnings.

Sec. 911 fills a gap that is not covered by the foreign tax credit. In many foreign countries a much higher percentage of revenues is collected by taxes that burden consumers than is the case in the U.S. (Such taxes as sales taxes and value-added taxes.) If a U.S. citizen lives abroad and is required to pay U.S. income tax on his full earnings he will pay two taxes—income taxes and consumer taxes, because the latter are not eligible for foreign tax credit. This problem does not exist for income taxes on business income because the burden of the VAT and other sales taxes is passed on rather than being borne by the payor of the income taxes.

The U.S. Council recommends the retention of the limited exclusion under Sec. 911.

SECTION 482

In general

Section 482 gives the Treasury broad powers to allocate income deductions and credits among related taxable entities for the purpose of either (1) preventing evasion of taxes or (2) clearly reflecting the income of a taxpayer. The Treasury exercises this power under regulations which (1) provide that dealings between related parties shall be on an "arm's length" basis and (2) set forth extremely complex rules for determining an arm's length price in given circumstances. The Treasury's enforcement activities are, naturally enough, generally confined to areas where an allocation will produce net tax deficiences. Primary among these are allocations between U.S. parent corporations and their foreign subsidiaries.

We recognize that it is a valid and necessary function of the Treasury to scrutinize transactions between related entities, especially when one entity is within its taxing jurisdiction and the other is not. However, we believe that the present regulations, coupled with present enforcement policy of the Treasury and the presumptive correctness of its adjustments, is an impediment to the international trade by U.S. companies by creating a great deal of uncertainty. To cure this situation we believe that Section 482 (or where appropriate, the regulations) should be modified to accomplish the following:

1. Charges for services by a U.S. entity for a foreign entity should in appropriate circumstances be based on incremental cost.
2. Transfer prices of tangible property should in appropriate circumstances be based on incremental cost.

3. Foreign activities should not be presumed to justify allocations of general management expenses.

4. Adjustments should not be made where the host nation and the United States have comparable tax rates.

5. "Safe haven" rules should be established in as many areas as possible to permit related parties to deal with each other with a high degree of certainty.

6. Provision should be made to protect U.S. taxpayers from double taxation which can result when income which has been taxed abroad is allocated to a U.S. taxpayer.

7. In certain circumstances the burden of proof should shift to the Treasury.

Charges for services should be at incremental cost

It is not uncommon for a U.S. based international company to perform many "service" or "support" functions for its foreign subsidiaries. These functions typically include payroll, accounting and personnel services. The Section 482 regulations provide that such services shall be paid by the foreign subsidiary at either (1) "full" cost or (2) an arm's length price, depending on the circumstances. "Full" cost (as contrasted with "incremental" or "marginal" cost) is appropriate except where an arm's length price is required. An arm's length price which includes a profit factor, is required where the service rendered is considered an integral part of the business activity of the group. (In practice, the Internal Revenue Service often considers isolated or *de minimis* services to third parties as conclusive evidence that the group is engaged in the trade or business of rendering such services.)

We believe, in the absence of unusual circumstances, that services should be priced at "incremental" (or "marginal") cost. This recognizes that as a general rule the U.S. service facilities of a U.S. international company are organized and maintained to support U.S. activities. In deciding whether it is economically feasible for a U.S. facility to service foreign subsidiaries it is the incremental rather than the average cost which is considered. In most instances a requirement that such services be priced at average cost, let alone at an arm's length price, would mean that the services could be performed more cheaply abroad. Hence, such pricing policies would result in higher costs for the foreign subsidiary and reduced employment in the United States.

We believe that the pricing of services at their incremental cost is appropriate unless the services rendered to foreign subsidiaries are of such magnitude, in comparison with the services rendered U.S. activities, that they are clearly not ancillary.

Transfer prices of tangible property should in appropriate circumstances be incremental cost

The Regulations provide that tangible personal property should be sold at an arm's length price, and that "arm's length price *normally* involves a profit to the seller." (Eemphasis added.) "Normally" in this context is read by the Treasury as "always." Unfortunately the other provisions of the pricing regulations, coupled with the presumptive correctness of the Commissioner's determination and aggressive enforcement policies, tend to support this reading. This fails to recognize that competitive pressures often dictate that goods be sold abroad at incremental cost, or close to such cost, if they are to be sold abroad at all. The intent of Congress in this regard must be clarified in order that the Regulations be modified to conform to competitive world conditions.

Foreign activities should not be presumed to justify allocations of general management expenses

In this context "general management expenses" are those of the U.S. parent which do not bestow a direct benefit on the foreign subsidiary. If the foreign subsidiary is functionally complete it could well be that none of the parent's general management expenses should be allocated to it. Expenses incurred by the parent solely in its capacity as investor should not be allocated to the subsidiary. Hence, expenses incurred in activities of a type performed by a board of directors would not be allocated. This view has been adopted by the courts (*Young & Rubicam, Inc.* Ct. Cls., 410 Fed. (2d) 1233 (1969)). To forestall further litigation we believe the Regulations should adopt this position.

Adjustments should not be made where the host nation and the United States have comparable tax rates

It is clear from the legislative history of Section 482 that it was intended to apply only when artificial pricing arrangements were invoked *for tax avoidance purposes.* If the host nation has tax rates comparable to those in the United States the tax avoidance purpose is lacking. We recommend that transfer prices be deemed presumptively correct if the effective foreign tax rate (including withholding on dividends) is 90 percent of the United States rate. (It should be noted that Subpart F is not applied where the foreign base country tax rate is 90% of the U.S. rate.)

"Safe haven" rules should be established in as many areas as possible to permit related parties to deal with each other with a high degree of certainty

The Section 482 Regulations currently provide a "safe haven" interest rate range of from 4 percent to 6 percent. If no interest is charged an interest rate of 5 percent will be allocated. In addition, where neither the lessor nor lessee is engaged in the trade or business of renting property, the parties may rely on a rental figure based generally on the lessor's out of pocket expenses plus depreciation plus an interest factor that works out to about 6 percent of the depreciated basis of the property. Conspicuous by their absence are "safe haven" rules for sales of tangible personal property. This is the area where most of the controversies arise and where the need is greatest.

We recommend that the "safe haven" pricing rules on the order of those set out in the recent DISC legislation be adopted for Section 482. More specifically, we recommend that a pricing policy which splits the profit on U.S. manufactured goods 50–50 is reasonable; is in line with DISC, and has been designated as "reasonable" by the Tax Court in recent litigation.

U.S. taxpayers should be protected from the double taxation that can result when income which has already been taxed abroad is allocated to a U.S. taxpayer

The Treasury recognizes in Rev. Proc. 64–54 (1964–2 CB 1008) that economic double taxation can occur when income which has already been taxed abroad is allocated to a U.S. taxpayer. The Rev. Proc. grants relief by permitting the foreign taxes previously paid on the allocated income to offset the U.S. tax deficiency. The Rev. Proc. is not applicable if the adjustments are deemed to result from a tax avoidance purpose. The Rev. Proc. is not effective for years after 1964. We agree with the general concept of Rev. Proc. 64–54, but we have two specific recommendations which we believe would make it more equitable: First, the applicability of the Rev. Proc. should be extended indefinitely. The requirement that the taxpayer has acted in good faith would protect against abuse. In this regard the higher the foreign tax rate the less likely there was a tax avoidance motive. Second, the benefits of Rev. Proc. 64–54 flow at the pleasure of the Treasury; there is no right to judicial review. We believe this is wrong, and recommend that the basic provisions of the Rev. Proc. be made a part of the Regulations (with the usual rights of judicial review).

In certain circumstances the burden of proof should shift to the Treasury

The pricing Regulations combine the worst of all worlds; they are extremely complex without being precise. They prescribe that one of the three pricing methods listed below be used. They are to be applied as appropriate in the following order:

1. The comparable uncontrolled price method;
2. The resale price method; and
3. The cost-plus method.

It is primarily in the implementation of the "comparable uncontrolled price" method that the presumptive correctness of the Commissioner's determination causes hardship. Often the item to be priced is a complex piece of machinery which is not sold outside the controlled group. If identical items are not sold to third parties the Regulations provide that other items may be looked to ". . . if such properties and circumstances are so nearly identical that any differences either have no effect on price, or such differences can be reflected by *a reasonable number* of adjustments . . ." (Emphasis added.)

In such a nebulous area, where almost no answer would be clearly right or clearly wrong, the presumptive correctness of the Commissioner's determination is all but overwhelming. To strike a fairer balance we recommend that Section 482 be amended to shift the burden of proof to the Commissioner upon a submission by the taxpayer of a statement of the grounds (and relevant facts) on

which he relies to establish that the transfer price in question was *fair and reasonable in the circumstances.* "Fair and reasonable" is underlined to emphasize the point that a price should be approved if it is clearly not out of line. "In the circumstances" is underlined to emphasize that "circumstances" are a major factor in establishing prices; and thus distress prices, perhaps as low as marginal costs, should be approved if the "circumstances" warrant it. The shifting of the burden of proof suggested above is similar to the shift authorized by Section 534 when a taxpayer submits "a statement of the grounds (together with facts sufficient to show the basis thereof) on which the taxpayer relies to establish that all or any part of the earnings and profits have not been permitted to accumulate beyond the *reasonable* needs of the business." (Emphasis added.) The shifting burden in accumulated earnings cases has served to protect taxpayers from ill-conceived or harassing adjustments; it has not, however, served as an effective shield for those who have clearly made unreasonable accumulations.

SECTION 367

In my testimony before this Committee in March, 1969, the U.S. Council urged that the advance ruling requirement of Section 367 be eliminated. We still strongly urge that action. The purpose of Section 367 is to prevent the avoidance of U.S. income tax which could occur if certain tax-free exchange provisions of the Internal Revenue Code were applicable, without limit, to foreign corporations. Section 367 seeks to solve the problem by denying the benefits of these provisions unless the taxpayer obtains a Treasury ruling *prior* thereto that the "exchange is not in pursuance of a plan having as one of its principal purposes the avoidance of Federal income taxes."

Our principal objections to Section 367 in its present form are two-fold: we believe the requirement that a ruling be obtained before the event should be eliminated; we also believe the taxable income generated by Section 367 should be limited to that which is associated with a tax avoidance purpose (rather than automatically taxing all segments of the exchange).

Background

The exchanges within the scope of Section 367 are:

1. The liquidation of a "controlled" (i.e., 80% owned) corporation into its parent corporation (Section 332);
2. The transfer of property by either individual or corporate shareholders to a "controlled" corporation (Section 351);
3. Certain corporate spin-offs, split-ups, and split-offs (Section 355); and
4. Certain corporate reorganizations described in Section 368 (Sections 354, 356 and 361).

These provisions recognize that shifts in the direct ownership of property with a group of controlled corporations, or between shareholders and their controlled corporation, often serve a business purpose, and that such shifts in the vehicle of ownership do not constitute taxable events. Such tax-free exchanges, however, are intended to postpone rather than eliminate a taxable event. Hence, an exchange of appreciated property to a corporation beyond the taxing authority of the U.S. government could result in tax avoidance; likewise, corporate profits earned tax-free abroad could be returned to the U.S. parent free of tax under Section 332 through liquidation of the foreign subsidiary. Accordingly, Section 367 is intended to prevent such abuses by requiring prior Treasury approval of exchanges involving foreign corporations.

Advance ruling

The advance ruling requirement is onerous for several reasons:

1. It is a trap for the unwary; in the absence of a ruling, tax is due even though the bonafides of the transfer are obvious:
2. It causes delay, and is therefore a restriction on commerce; and
3. There is no effective way to obtain judicial review of an adverse ruling.

The advance ruling requirement has been a part of Section 367 since it originated as Section 112(k) in the Revenue Bill of 1932. The reason for the advance ruling requirement is obscure. Neither the House nor the Senate Reports on the 1932 Revenue Bill give a reason for it; they do, however, suggest that the avoidance techniques envisioned were so extreme that the guilty deserve no quarter; they also suggest a simpler, less hurried day when international business proceeded at a slower pace. The only example of a potential abuse, which was common to both Reports, follows:

". . . For example, A, an American citizen, owns 100,000 shares of stock in corporation X, a domestic corporation, which originally cost him $1,000,000 but now has a market value of $10,000,000. Instead of selling the stock outright A organizes a corporation under the laws of Canada to which he transfers the 100,000 shares of stock in exchange for the entire capital stock of the Canadian company. This transaction is a nontaxable exchange. The Canadian corporation sells the stock of Corporation X for $10,000,000 in cash. The latter transaction is exempt from tax under the Canadian law and is not taxable as United States income under the present law. The Canadian corporation organizes Corporation Y under the laws of the United States and transfers the $10,000,000 cash received upon the sale of corporation X's stock in exchange for the entire capital stock of Y. The Canadian Corporation then distributes the stock of Y to a A in connection with a reorganization. By this series of transactions, A has had the stock of X converted into cash and now has it in complete control."

The Reports also state:

". . . It will be noted that under this provision a taxpayer acting in good faith can ascertain prior to the transaction, by submitting his plan to the commissioner, that it will not be taxable if carried out in accordance with the plan . . ."

The rather extreme plan of tax avoidance presented in the Reports is a far cry from the typical taxaper affected by Section 367 today, a U.S. international company trying to allocate its world-wide resources in the most productive manner. The burden imposed by the prior ruling requirement on this taxpayer is both substantial and unnecessary.

The provisions, and the history, of Section 1491 also indicate that the iron-clad prior rulings requirement of Section 367 was perhaps unintended, and in any event is unnecessary. Section 1491 was also a product of the Revenue Bill of 1932 (as Section 901). The Committee Reports clearly indicate that it was enacted as a companion measure to Section 367. Section 1491 imposes an excise tax of 27½ percent on the unrealized appreciation of stock and securities which are contributed to the capital of foreign corporations or foreign trusts unless a *prior* ruling is obtained that the transfer is not tax motivated. Such transfers would also put appreciated assets beyond the taxing jurisdiction of the Treasury. Since 1970 the interrelation of Sections 367 and 1491 has been recognized in the statute; (The courts had previously noted the interrelation) the Code now states that a transfer cannot be taxed under both sections (Section 1492(3)).

The operation of Section 1491, like Section 367, is automatic absent a prior ruling. However, Section 1494(b) provides that the tax shall be abated or refunded ". . . if after the transfer it has been established to the satisfaction of the Secretary . . . that such transfer was not in pursuance of a plan having one of its principal purposes the avoidance of Federal income taxes."

This provision has to our knowledge caused no abuse of Section 1491. There appears to be no reason why a similar relief provision should not be added to Section 367.

Section 367 Should Be Limited To "Tax Avoidance" Income

In addition to the repeal of the iron-clad prior ruling requirement, the statute should also be amended to provide that only the tax avoidance portion of an exchange will be taxed and to permit losses to offset tainted gains. (Section 367, in effect, taxes all gains while the losses remain unrecognized. Gain and loss for this purpose are computed on an item by item basis.) The inequities caused by these two facets of Section 367 are illustrated in the following example:

Assume that U.S. Corp., for valid business reasons, incorporates a foreign branch. In exchange for all the stock of Foreign Corp., U.S. Corp. transfers the following assets to Foreign Corp.: a parcel of foreign real estate used in the business having a cost basis of $100,000 and a value of $1,000,000, a second parcel of foreign real estate also used in the business having a cost basis of $1,000,000 and a value of $200,000, and investment securities having a cost of $100,000 and a value of $200,000. The real estate transfers are not made pursuant to a plan of tax avoidance; the transfer of the investment securities, however, is, for the purpose of this example, deemed to be made pursuant to such a plan. Hence, not only is a gain of $100,000 recognized on the tainted securities transfer, but also a gain of $900,000 is recognized on the transfer of the parcel of real estate which has increased in value. The $800,000 loss on the other parcel, however, is not recognized because, as the exchange did not result in a gain, it is still within the non-recognition provisions of Section 351 (i.e., no gain or loss is recognized on transfers to controlled corporations).

Therefore, U.S. Corp. has a *recognized gain* of $100,000,000 ($100,000 plus $900,000) and an unrecognized loss of $800,000.

We believe it is inequitable, and unnecessary for the protection of the revenue, to have one tainted item subject other portions of the exchange to taxation in this manner. This rationale is consistent with current Treasury Policy "Guidelines" under Rev. Proc. 68-23. Under these procedures if an advance ruling is obtained, only the tainted portion of an otherwise tax-free exchange is treated as taxable. This rule should be followed regardless of when or whether a ruling is requested on an exchange. Moreover, as a general rule, if Section 367 is invoked, losses, as well as gains, should be recognized. (Note is also made that Section 269, which gives the Treasury the power to deny a taxpayer tax benefits from a corporate acquisition made for a tax avoidance purpose, also gives the Treasury the power to allow benefits in tainted acquisitions to the extent they do not result in tax evasion or avoidance (Section 269(b)).

Recommendations

Our recommendations with regard to Section 367 are summarized below:

1. The repeal of the prior ruling requirement.
2. The payment of a "toll charge" on an exchange should be limited to the tainted portion even though a ruling is not granted (or requested) before the exchange.
3. As a general rule, if Section 367 is invoked, losses should be recognized at least to the extent they offset recognized gains. These benefits should be denied where the taxpayer clearly has not acted in good faith or where the recognition of losses would give the taxpayer a windfall.
4. All aspects of Section 367 should be subject to judicial review.

Mr. MacGregor. We question whether tax changes should be proposed in connection with a trade bill.

The Organization for Economic Cooperation and Development is considering the role of tax holidays and incentives as an element of discrimination and non-neutrality in international commerce. Recognition that the world is becoming one economic community places greater importance on the distortions caused by differences in national policies. These policies, however, must be reviewed in the proper context of the status of economic development of the country or region and its resources. In any case, we question the wisdom of imposing unilateral punitive tax treatment on the income of American-owned foreign enterprises. This is especially true as the European Economic Community approaches harmonization of its tax policies and rates.

TAX HOLIDAYS OR INCENTIVES

The United States cannot curb the practice by foreign countries of granting incentives they consider appropriate. The Treasury recommendation would penalize American investors in such countries. Tax incentives are defined so broadly under the Treasury proposal as to include the practice of every major industrialized country as well as undeveloped countries.

Regardless of the value of the foreign incentive or the benefit received, once an American enterprise has become "tainted", if you will, by accepting grants its future earnings would be forever taxable on a punitive basis.

There should be no change in the rules pertaining to the computation of the foreign tax credit.

The proposed immediate taxation of otherwise undistributed earnings may require dividend payments to the American shareholders and the net effect would be to provide additional revenues to foreign countries. Forced distribution would distort normal economic decisions and accordingly it cannot be assumed that benefits will accrue to either the U.S. Treasury or the U.S. balance of payments position.

PRODUCTS MANUFACTURED FOR U.S. MARKET

Immediate taxation on undistributed earnings of foreign investment is proposed to apply when more than 25 percent of the gross receipts are realized from the manufacture of products destined for the United States. The President would be given the authority to exempt companies engaged in a particular industry if in the public interest. This is recognition of the fact that the United States does not have a monopoly on many essential commodities and resources which Providence has placed beyond our borders.

Many plants located outside the United States supply a substantial portion of their production to the United States market. Sony, Hitachi, Panasonic, Volkswagen, Toyota, Datsun, Renault, Honda, Seiko, Omega, Hiram Walker, Beefeater, Gucci, Pucci and Valentino probably all fit that description but are foreign owned. Some plants controlled by American investors would fit in this category. U.S. imports from such plants are nominal. The proposals would ensure, however, that foreign operations producing for the United States market will all be foreign owned in due course.

It is our belief that ending foreign tax holidays or incentives should not be initiated on a unilateral basis. If they distort economic decisions by establishing improper inducements, the more appropriate remedy would appear to be through bilateral action under the GATT rules or treaty negotiations. The United States should not give up economic benefit presently available to its investors without securing other inducements in the bargain. The likelihood of such multilateral agreement is considerably lessened if the world's largest investor gives up the trump card before the hand is played.

RECOVERY OF FOREIGN LOSSES

It is difficult to take exception to the rationale applicable to the suggestions relating to the United States tax treatment of foreign losses. The matter is exceedingly technical, and U.S. taxpayers should not be placed in a less advantageous position than their foreign counterparts operating under the same conditions.

In summary, the U.S. council strongly opposes enactment of the Treasury's proposal changes in the taxation of foreign income.

In conclusion, the U.S. council supports the trade proposals but is gravely concerned about the severe damage the tax proposals would inflict on the American economy.

[The prepared statement submitted by Mr. MacGregor follows:]

STATEMENT OF IAN K. MACGREGOR, CHAIRMAN, UNITED STATES COUNCIL OF THE INTERNATIONAL CHAMBER OF COMMERCE

My name is Ian K. MacGregor. I am Chairman and Chief Executive Officer of American Metal Climax, Inc., but I am testifying today in my capacity as Chairman of the United States Council of the International Chamber of Commerce. The Council, which is the United States division of the International Chamber of Commerce, consists of some 250 American companies with international business interests. In 43 other countries there are national committees comparable to the U.S. Council in the ICC. For over 50 years, the ICC has supported policies that have brought greater freedom of trade and investment.

I am here today to express the U.S. Council's hearty support for the President's proposed Trade Reform Act of 1973. However, the Council does not support the supplementary Treasury recommendations on changes in the taxation of for-

eign source income. If enacted in the spirit of the President's presentation, his trade proposals should enable the forthcoming trade negotiations to go far toward improving markedly the currently disturbed climate of international economic relations.

In supporting the President's request for new negotiating authority, the U.S. Council expects that this authority will be used to buttress continued American leadership and achievement in the world economy, and counts on its being used generally to liberalize and expand U.S. trading relationships with other nations. Indeed, we suggest that this objective be expressed in a preamble to this legislation.

The striking thing about the President's request for authority is the apparent care with which the whole complex variety of negotiating problems is faced. Such comprehensive authority is needed in the present situation of disarray in the commercial and financial arrangements in U.S. economic relations with the rest of the world. We support the Administration's legislative request on trade because we believe the negotiations which the Act would make possible are essential to the achievement of harmonious and prosperous world economic relations.

In taking this position, I have, during the past few days, been in touch with our 150 Council Trustees, whose names are listed in the *Annual Report of the U.S. Council for 1972*, a copy of which I have here and ask to be inserted in the Record. I can assure you that the views I am stating here today represent the strong consensus of the Council's member companies.

Here are a few representative views.

A major pharmaceutical firm: "Our basic position is that of support for the Administration's proposed Trade Reform Act of 1973, which, as we understand it, is intended to seek the continued expansion of international trade and investment in an open system both with fairness and equity for the United States as well as other countries."

A western oil company: "The President's proposals represent much needed steps to strengthen our foreign trade policies and to help us resolve our foreign trade deficit problem. They also appear to provide flexible and needed authority to deal with domestic industries impaired by unfair trade practices of other countries."

A major international bank: "We strongly urge legislative approval of the Administration's trade bill, the Trade Reform Act of 1973. Such enabling legislation is imperative if the United States representatives at the forthcoming round of multilateral trade negotiations scheduled for later this year are to have the bargaining powers necessary to shape fair and meaningful agreements with our major trading partners in seeking to safeguard domestic industries from dislocations due to import competition, remove unfair and unreasonable restrictions abroad against American exports and expand the scope of international trade. The President's proposals also provide a realistic approach toward resolving some of the problems besetting the dollar and affecting the United States balance of payments position overall. We believe that the Trade Reform Act of 1973 holds out far-reaching opportunities to ease international economic and monetary tensions."

A heavy equipment manufacturer: "We support the enactment of the Trade Reform Act of 1973 substantially in the form proposed by the President. We believe that liberal policies which permit international trade unfettered by high tariffs or restrictive conditions are the policies most conducive to economic well-being throughout the world."

A regional banker: "We fully support the position of the Council urging the enactment of the trade reform bill in the spirit of President Nixon's proposals. We believe it to be essential for our government to be able to negotiate needed reforms in international fields of monetary, financial and trade practices collectively rather than separately as heretofore."

A major airline: "We enthusiastically applaud the initiative taken by President Nixon in the Trade Reform Act of 1973. We support the President wholeheartedly and commend the Congress for the immediate priority consideration which it is giving to enactment of this legislation and to assuring for the President those powers which are needed to eliminate discriminatory trade."

A mid-western agribusiness: "We urge prompt favorable Congressional action on H.R. 6767. We believe that while it grants the President extensive authorities, a grant of that magnitude is necessary in order to meet our trading partners and their negotiators on equal terms."

World economic relations at the moment are characterized by a series of difficulties that dominate the financial and commercial news and frequently constitute the daily headline stories. We are experiencing worldwide inflation, balance of payments distortions, large cumulative trade deficits or surpluses, disorderly exchange markets and fluctuating exchange rates, and disturbed conditions in major competitive commodity markets. The major impact of the new competitive strength of Germany and Japan has yet to be accommodated in the world economy. In these circumstances, it is easy to overlook how well our progress toward a free and integrated world economy has served the needs of the West since World War II. International investment has grown at double the generally satisfactory rate of growth of national economies. Global exports and imports have grown at consistently high rates averaging 8%–9% per year during the entire postwar period. Opportunity for investment abroad and thus for further penetration of foreign markets has been such that the output of American firms producing abroad is now equivalent to about one-fifth of our total domestic production.

World money and capital markets have developed at an impressive rate, capable of handling modern banking and investment requirements with great efficiency. Despite our present-day difficulties with international exchange arrangements, it is easy to forget that these markets routinely handle exchange transactions running into many trillions of dollars a year.

Present-day conditions require many changes in the system of trading and financing that was established in the immediate postwar period—a period that has now clearly come to an end. The vast growth of the world economy that was made possible by an increasingly freer system of trade and investment has created certain problems of economic and social adjustment with which it is necessary to deal wisely and effectively. The U.S. Council urges, however, that the overall importance of maintaining and enlarging the opportunities for freedom of trade and investment ought not to be undermined by the need to deal effectively with national problems of adjustment.

A very considerable world economy has already emerged. It is implicit in our communications capabilities which put virtually instantaneous world communications into our daily life. The vast data processing ability of the computer now has intercontinental input. Our managerial experience in large-scale enterprise, in which the U.S. holds a most precious comparative advantage, is the element which makes it possible to translate worldwide data into effective international producing and trading decisions. We have achieved a solid 9%–10% a year growth rate in what might be called the international sector in the world's economic makeup. This compares favorably with the achievements of the most progressive domestic industrial sectors and with those national achievements to which we have often applied the term "miracle," such as the postwar industrial resurgence in Germany and Japan.

The challenge now is to develop satisfactory new-style global instruments and institutions for the achievement of broadly based prosperity, decent labor standards and standard of living gains. The problem is to convert our postwar procedures and institutions to the new levels of productivity and prosperity that are implicit in modern communications, technology and management.

The program of multilateral trade agreements under which much of the trading word has progressively eliminated barriers to the movement of goods across national boundaries has served all parties well. Multilateral agreement among the major industrial countries on economic objectives has become more essential for the United States in view of our increasing involvement in international production as we seek the benefits of sharing in a world economy as a normal extension of our national economy. We have seen that both producing abroad behind high national barriers and closing off domestic markets from the competition of foreign firms are inherently inefficient, costly and inflationary. "Protected" production results in a lower standard of living for all than would otherwise prevail.

I would now like to touch briefly on several specific problems raised by various provisions of the proposed Trade Reform Act of 1973.

NEGOTIATING AUTHORITY—TITLE I

The U.S. Council strongly supports the granting of general negotiating authority to the President which will enable our representatives to press for a world of greater equality and liberalization of trade. We especially urge the granting

of authority and the proposed enabling procedures for action to reduce non-tariff barriers to trade.

In this connection, in recognition of the growth of the international service industries—airlines, banking, insurance, consultancy and engineering, construction, etc.,—the U.S. Council urges the elimination of exisitng restrictions on such services offered by U. S. businesses operating internationally. Such restrictions are a special case of non-tariff barrier.

"Buy national" purchasing policies are further examples of non-tariff barriers. The U. S. Council urges that the new authority for action to reduce non-tariff barriers will be used to obtain equality of access for American products in all markets, including the establishment of full reciprocity in the procurement practices of government agencies.

In accordance with our long-standing policy, the U. S. Council expects that with the expanded authority requested by the President, the United States will be able to negotiate with our major trading partners a substantial reduction of tariffs and a general lowering and, whenever possible, elimination of so-called non-tariff barriers. I should mention that business spokesmen in other national committees of the International Chamber of Commerce will be urging their own governments to take similar action.

IMPORT RELIEF—TITLE II

Escape Clause.—The U. S. Council approves the proposed easing of requirements for escape clause relief. We welcome the specific provisions that would limit to a basic 5-year period the duration of any escape clause action, and require its phasing out during this time. If compensation is not to be granted to our trading partners when escape clause action is taken, the U. S. Council strongly recomemnds that such action be taken within a multilaterally negotiated system which would subject all countries to similar limitations and disciplines when utilizing safeguards without granting compensation.

Adjustment Assistance.—The U. S. Council agrees that the eligibility requirements for adjustment assistance to workers displaced by rapidly increasing imports should be eased and accordingly supports the provisions to this effect in Title II of the proposed Trade Reform Act of 1973. While the United States as a whole benefits from the production shifts that accompany a better international allocation of resources, individual workers can be and are being hurt in this process. They should be assisted both to upgrade their skills and to find more productive employment in the economy, and to weather the transition.

We recognize that, in principle, this is as true for shifts within the domestic economy as it is for adjustment resulting from international competition. However, a strong case can be made for special consideration of the plight of workers caught in changes resulting from an improved international allocation of resources, especially since goods and capital are more mobile in today's world than is labor. In a conservative world that still holds to national sovereignties and fears labor mobility, labor conditions tend to equalize internationally much more slowly than do those of other competitive factors of production.

We would urge that the emphasis in adjustment assistance provisions—and particularly in their administration—should be on new and more productive use of resources displaced in the course of the adjustment, for example, by retraining workers.

UNFAIR TRADE PRACTICES—TITLE III

The U.S. Council supports the proposed revision of the President's authority to deal with unreasonable or unjustifiable restrictions which discriminate against U.S. trade. At present, the proposed bill offers an opportunity for those who complain of such restrictions to be heard. No such opportunity is provided in the bill for U.S. business interests—for example, importers—that might be adversely affected by any protective action the President might take under the authority proposed in Section 301.

We accept the new freedom proposed to be granted the President in considering international obligations when undertaking retaliatory action. However, in order to diminish the potential chain effect of retaliatory action, we believe it would be desirable for the Act to provide that international consultations be held before the President acts under such enlarged authority.

The U.S. Council supports the proposed administrative improvements in anti-dumping and countervailing duty cases. However, our support is based on the premise that such improvements will not become instruments for raising new protective obstacles to trade.

INTERNATIONAL TRADE POLICY—TITLE IV

Balance of Payments Authority.—The U.S. Council generally supports the proposals made by the U.S. government to the International Monetary Fund last fall, including those relating to an adjustment mechanism, and we hope that they will be successfully negotiated in the Committee of Twenty.

Balance of payments adjustments ought to be taken within a modernized international monetary system rather than by unilateral trade action as proposed in Title IV of the bill. Although primary reliance should be placed on adjustment mechanisms under the IMF or otherwise, to the extent that these do not suffice or are frustrated by the actions of others, we would support the proposals of Title IV. Accordingly, we recommend that reference to this order of priority of action be inserted in the language of Section 401(a) of the proposed bill.

MOST-FAVORED-NATION TREATMENT—TITLE V

The U.S. Council endorses the proposed provision which would enable the President to grant most-favored-nation treatment under bilateral commercial arrangements to the Communist countries that are not now eligible for such treatment under present law. The U.S. Council recommended the granting of most-favored-nation treatment to the USSR and Eastern Europe as early as 1967 in the belief that all parties would benefit from increased trade. The Council believes that the principle of most-favored-nation treatment should be extended to all countries interested in participating in world trade and we are accordingly willing to extend our original recommendation to include all the countries to which it is now denied.

As the principal national economies become more and more closely intermeshed through the internationalization of production and banking as well as trade, one of the main areas that has been left out of the internationalized world that is beginning to emerge is contact with the Communist world. We would hope that greater ties, together with new moves toward joint production arrangements, would serve to integrate the Communist countries into the system that has so spectacularly raised living standards throughout the West. The granting of most-favored-nation treatment to these countries would be a helpful first step in this direction.

GENERALIZED PREFERENCES—TITLE VI

The other main area not yet successfully linked to the steadily expanding economic growth area of Europe, North America and Japan is the Third World. The staggering problem of raising living standards to decent levels in the less developed countries, particularly in the face of their own population explosion, has found no ready answers. The continued internationalization of production probably offers the best now available hope of integrating these countries into world markets and ensuring that economic interdependence lifts their living standards.

The Council believes that granting tariff preferences and thus offering wider markets for the products of manufacturing and semi-manufacturing industries in the less developed countries could assist in this process.

Accordingly, the Council welcomes the provisions of Title VI authorizing such preferences. Other industrial countries already offer in various forms generalized preferences to the products of the LDCs. The U.S. Council has consistently urged that the United States join in this effort to ease in at least small measure the movement of the less developed countries into the trading world of the more developed countries. However, we specifically recommend that such preferences not be granted to LDC's which grant "reverse preferences" to the product of other developed countries.

In summary, the U.S. Council strongly urges Congress to enact the trade provisions of the proposed Trade Reform Act of 1973.

TAXATION OF FOREIGN SOURCE INCOME—TREASURY PROPOSALS

The Council opposes the Treasury proposals on the taxation of foreign income now under consideration in connection with the President's trade bill. In taking this position, I speak for a resounding consensus of the U.S. Council's member-

ship. Here again are a few representative views of those I have received from the chief executive officers of our member companies during the past week.

A manufacturing and overseas trading firm:

"It is our strong opinion that the tax revisions presented along with the Trade Bill are counter-productive and should be set aside as being without merit."

A large operator in extractive industry: "We are opposed to the proposed tax changes which would require foreign losses previously deducted from a taxpayer's U.S. income to be used in later years to reduce the taxpayer's foreign tax credit. In the case of American firms engaged in foreign extractive operations, this provision would discriminate more against the newly established firms than against the long established, mature companies and would add to the tax burdens of the U.S. firms *vis-a-vis* foreign domiciled companies."

A major automobile manufacturer: "We strongly oppose the proposed tax provisions as interpreted by the Treasury Department and urge that they be considered in conjunction with general tax legislation rather than with the Trade Bill."

A large mid-western manufacturer with extensive foreign operations:

"We support the objective of achieving equitable taxation of corporations regardless of their country of origin and, thus, are sympathetic with the need to solve problems caused by tax holidays and runaway plants, however, the elimination of the tax deferral on foreign source income is an inappropriate way to achieve this. Elimination of the deferral, in the long run, would make U.S. business less competitive in those countries where such tax holidays are offered. Our competitors from the common market countries and Japan, for example, would be able to take advantage of the tax holidays while U.S. companies would be discouraged from doing so and hence would be less competitive, particularly in areas where the risk of doing business is relatively high. Thus, multilateral rather than unilateral action in dealing with the tax holiday problem seems to be indicated. This is an inappropriated item for the agenda of trade negotiations.

A major domestic and international bank: "Re the proposed tax provisions outright cancellation of credit due to any type of foreign subsidies would merely make us non-competitive wtih third country industries and I suggest the Council oppose as unrealistic and detrimental to developing countries."

In short, the U.S. Council believes these tax recommendations are ill-advised. No advantage will accrue to U.S. tax revenues or balance of payments, and U.S.-controlled enterprises will be placed at a competitive disadvantage as against their foreign counterparts.

The question of immediate taxation of foreign earnings was discussed by representatives of the U.S. Council when they testified before this Committee on March 15, 1973. They stated:

"We know of no developed country which taxes currently earnings generated from active business of foreign subsidiaries owned by its nationals. If the United States were to require the acceleration of taxation of income earned by a separate corporate entity abroad, such action would undoubtedly hamper U.S. business in its competition with foreign controlled businesses.

"In order for U.S. companies located abroad to remain competitive with other foreign companies, they must have similar business climates. Similarity in this respect would demand neutrality or equality in the role played by taxes in business decisions being made by two companies serving the same market. To the extent one of the two companies has a lower tax burden and has less restraint on the amount of earnings that may be reinvested to increase earnings, the competitive position of the other company would be significantly reduced. This could be the fate of the U.S.-controlled foreign subsidiaries if their earnings were subject to U.S. tax, whether or not distributed. Such current taxation would have to increase the cost of doing business to the extent the foreign effective rate is lower than the U.S. rate. The resulting loss in a competitive position would ultimately mean a decrease in taxable income to the U.S. as the U.S.-controlled foreign corporation is driven out of business. Forcing companies to make current dividend distributions would only enrich foreign treasuries through the payment of withholding taxes."

The foregoing comments are also generally applicable to the tax revisions suggested by the Administration in connection with the Trade Reform Act of 1973, and we request that a copy of our previous testimony on March 15, 1973, be included in the Record today.

There is a substantial question as to whether tax changes should be proposed at all at this time or in connection with the trade bill.

It is understood that the Organization for Economic Cooperation and Development, among others, is at present considering the role of tax holidays and incentives as an element of discrimination and non-neutrality in international commerce. Recognition that the world is becoming one economic community places greater importance on the distortions caused by differences in national policies. These policies, however, must be reviewed in the proper context of the status of economic development of the country or region and its resources. In any case, there is substantial question as to the wisdom of imposing unilateral punitive tax treatment on the income of certain American-owned foreign enterprises. This is especially true as the European Economic Community approaches harmonization of its tax policies and rates.

Tax Holidays or Incentives.—It is obvious the United States cannot curb the practice by foreign countries of granting incentives they considered appropriate. The Treasury recommendation would penalize American investors in such countries. The illogical result of the recommendation would be that tax-wise it might be more desirable to operate in a high tax country than to secure the economic benefits granted nationals or other foreigners with whom we compete in low-tax countries. However, tax incentives are defined so broadly under the Treasury proposal as to include the practice of every major industrialized country as well as undeveloped countries.

Even if the premise is accepted that the United States should exact a penalty for benefits granted by other countries, the amount should be measured equitably by the benefit received. Under the proposal, it appears that regardless of the value of the foreign incentive or the benefit received, once the American-owned enterprise has become "tainted" by accepting such grant, its future earnings are forever taxable on a punitive basis.

The proposed new or additional investment provisions would be met when they exceed 20 percent of the unadjusted basis of existing facilities at April 9, 1973. This threshhold will be quickly reached, however, by all corporations operating abroad as they invest in assets of a type not in existence at the basic date or through the normal effects of increased replacement costs as facilities are used up or retired. Once the proposed test is met out of either retained earnings or new investment, the restrictions would apply forever.

If the tax holiday concept is adopted, there should be no change in the rules pertaining to the computation of the foreign tax credit. Under this approach of treating undistributed income as having been distributed, constructive dividends are penalized as against present treatment of actual cash dividends. There is no logic to this penalty system. The question as to whether a corporation is on the "per country" or "overall" limitation is surely not a proper matter of trade reform.

The proposed immediate taxation of otherwise undistributed earnings will frequently require dividend payments to the American shareholders in order to meet the penalty tax. The net effect will be to provide additional revenues to foreign countries through the withholding tax provisions. The forced distribution would violate normal economic decisions and accordingly it cannot be assumed that benefits will accrue to either the U.S. Treasury or the U.S. balance of payments position.

It is recognized that an opportunity for advance ruling is possible in the incentive area. This is obviously proper under the circumstances. On the other hand, there have been suggestions for years that advance ruling requirements in the foreign income area should be eliminated in the interests of equity and simplicity.

Instituting them in the tax incentive area can only impose an additional and complicated task on the Treasury which is already seriously burdened by private rulings. The proposal also raises the question as to whether restructuring of foreign corporate affiliates to come within the Administration guidelines will be permitted tax-free without advance rulings as presently required under Section 367 of the Internal Revenue Code.

The question can logically be raised as to reaction in foreign countries to U.S. attempts to relegislate their taxing statutes. There would be a clear basis for retaliation on U.S. operations of foreign-owned enterprises with adverse consequences on present attempts to encourage foreign-owned manufacture and distribution in our country. Although the magnitude of foreign investment in the United States does not equal U.S. investment abroad, it is obviously greater than U.S. investment in tax holiday operations.

Products Manufactured for U.S. Market.—The penalty of immediate taxation on undistributed earnings of a foreign investment is also proposed to apply when

more than 25 percent of the gross receipts are realized from the manufacture of products destined for the United States. This has been referred to as the "runaway plant" situation. Under the proposal, the President would be given the authority to exempt from the provision companies engaged in a particular industry if in the public interest. This is in apparent recognition of the fact that the United States does not have a monopoly on many essential commodities and resources which Providence has placed beyond our borders.

It is clear that many plants located outside the United States supply a substantial portion of their production to the U.S. market. Sony. Hitachi, Panasonic, Volkswagen, Toyota, Datsun, Renault, Honda, Seiko, Omega, Hiram Walker, Beefeater, Gucci, Pucci and Valentino would probably all fit that description but are presumably foreign-owned. Some plants controlled by American investors would fit in this category, although the proportion of U.S. imports from such plants has been estimated to be quite nominal. Under the circumstances, the imposition of the penalty tax probably would not jeopardize the economy. It would help to ensure, however, that the control of foreign operations producing for the U.S. market will be largely that of foreign ownership.

No penalty would apply to American-controlled foreign plants exporting to the United States, unless the effective foreign income tax rate on their taxable income is less than 80 percent of the normal U.S. rate of 48 percent. Reference to a computed effective foreign tax rate appears inappropriate. It has been stated that U.S. corporate taxpayers generally do not have an effective tax rate of 48 percent. Accordingly, the 80 percent test should either be measured against statutory foreign tax rates or against effective U.S. rates for the industry concerned. Recognition should also be given to the fact that indirect taxes—such as the value-added tax—raise a much larger share of government revenues abroad than they do in the United States. The recommended 80 percent test implies a degree of fine tuning in tax subsidies which in practice is either not present or not capable of being measured.

The Administration's proposals specifically provide that the 70–30 allocation rule applicable to passive income, presently contained in Subpart F, would not apply to the treatment of foreign income of plants exporting to the United States. Although no support should be construed for the rationale behind the current rules, they have been in existence for over 10 years and taxpayers and Treasury representatives are familiar with their application. There would seem little reason for not proposing the former threshold of 30 percent.

It is our belief that ending foreign tax holidays or incentives should not be initiated on a unilateral basis. If they distort economic decisions by establishing improper inducements, the more appropriate remedy would appear to be through bilateral action under the GATT rules or treaty negotiations. The United States should not give up economic benefits presently available to its investors without securing other inducements in the bargain. Clearly, the likelihood of such multilateral agreement is considerably lessened if the world's largest investor gives up the trump card before the hand is played.

Recovery of Foreign Losses.—It is difficult to take exception to the rationale applicable to the suggestions relating to the U.S. tax treatment of foreign losses. The matter is exceedingly technical, however, and any legislation should recognize that tax penalties should not be imposed merely because of lack of complete conformity of U.S. and foreign provisions relating to loss carryovers. Tax neutrality would, of course, require that U.S. taxpayers not be placed in a more or less advantageous position than their foreign counterparts operating under the same conditions. In general, it appears that most developed countries have loss carryover provisions similar to those of the United States.

In summary the U.S. Council strongly opposes enactment of the Treasury's proposed changes in the taxation of foreign income.

Mrs. GRIFFITHS. Thank you very much.

I think that the tax proposals should go back to the tax bill.

Would the gentleman from Pennsylvania care to inquire?

Mr. Schneebeli.

Mr. SCHNEEBELI. Thank you for a very specific statement of your views.

On the matter of tax credits, and with respect to losses on the country-by-country or the overall limitation, the companies concerned have

a choice of either one. It has been suggested that the country-by-country approach be eliminated. Do you have any comment on this?

Mr. MacGregor. I think the consensus in the council is that the present system is perfectly satisfactory.

Mr. Schneebeli. That is the choice?

Mr. MacGregor. Yes. I think one could get into many instances where the application is essential by choice because of the variety of overseas opportunities.

Mr. Schneebeli. It also is argued that corporations have the best of both worlds. They can pick whichever approach best suits their needs, and the Treasury can come off second best as a consequence. There seems to be a lot of sympathy toward use of the overall approach exclusively.

Mr. MacGregor. I think that depends on whether you take a short-term or a long-term look at the use of these resources.

Mr. Schneebeli. If the overall approach were adopted exclusively, would this help companies that have been in foreign business for a long time more than newcomers?

Mr. MacGregor. I think that it would work probably easier on the people who had already a fairly wide spread of activities.

Mr. Schneebeli. Averaging it out?

Mr. MacGregor. Yes.

Mr. Schneebeli. Thank you very much.

Mrs. Griffiths. Mr. Conable will inquire.

Mr. Conable. Thank you, Madam Chairman.

Mr. MacGregor, let me ask you about the International Chamber of Commerce. What kind of a force is it in the business world? We have been, I think, probably not served very well by the failure of the international trade unions to establish their campaigns for fair working practices and reasonable wages on a worldwide basis. I am wondering if there is any success being achieved among our business interests in maintaining international contracts of some significance. I think of how tremendously effective the Kaidanren is in Japan. Yet that is certainly not an international group. It is dedicated to Japanese business interests.

I am wondering if there is any progress being made in trying to establish some real international movement as a further point of contact among business interests that can help carry some of the burden of exchange that we have to have if international trade is going to be really a vehicle for increased understanding.

Mr. MacGregor. I think that in answer to your question, I personally believe that the International Chamber of Commerce has an opportunity to assist greatly in, if you will, the harmonization of policies in different parts of the world. The International Chamber of Commerce, in its publication, has a paragraph which reads—this is the U.S. council's publication of which I think copies are available:

> The International Chamber of Commerce holds a basic tenet that solutions to the economic problems of the world can best be found in the free movement of people, goods, services, and capital among countries at all levels of development. It advocates regular international cooperation between governments and businesses as a means of achieving this goal.

Now, the ICC was set up essentially to do just this. The business interest in this has ebbed and flowed somewhat. We certainly are at, if you will, a high point in the interest in international business discussions. I can recollect that prior to the 1970 famous August 14 date

there was in this town an international business meeting in which the events of that August date were forecast. This was a good two or three months before. I really believe that the business community as a whole can do a great deal to help governments, legislators, in formulating policy to solve the kind of distortion and problems that arise from it which we saw during the period of the late 1960's when the U.S. currency and other currencies were clearly out of proper relationship with each other, causing immense stresses and strains and distortions in international trade.

Mr. CONABLE. I agree that this should be a very valuable instrument. I wonder if you could give us some scope of the International Chamber of Commerce now and how large and extensive its activities are.

Mr. MACGREGOR. It has about 43 member units which correspond with the U.S. council's unit around the world. As you can see, that number includes every developed country and many of the less developed countries. For example, next week the International Chamber of Commerce will hold its bi-annual meeting of all members in Rio de Janeiro. At that meeting, which will be a week long, some 2,500 people will attend. The questions in front of the meeting will be just the types of things we are discussing today; problems of trade, problems of monetary arrangements between countries and the great problem of the flow of investment capital.

Mr. CONABLE. Your answer would be that there is a continuous flow of information going among members of your units, that there are several meetings in the course of the year and that this becomes a place of ferment as far as the exchange of ideas is concerned, is that correct?

Mr. MACGREGOR. An extremely useful group. The ICC has a number of units on such things as trade, investment, and so on. They meet at regular intervals and have an extremely prestigious membership. The chairman of the Commission on International Relations is Wilfred Guthaus, a member of the board of director of Deutschebank of Germany. The chairman of the Commission on Internal Investment and Economic Development is Peter Gown, a member of the committee and the bank in Amsterdam. We have Emelio Colliero, chairman of the Business and Industry Advisory Committee, who is an executive vice president of Xeros here.

Mr. CONABLE. What is your relationship to the U.S. Chamber of Commerce, or is there any at all?

Mr. MACGREGOR. I think it might be said that back in the early days of the concept of the ICC the U.S. chamber was a sponsoring member regarding the International chamber as, if you will, a universal international arm of the chamber of commerce movement.

Mr. CONABLE. But there is no current direct connection?

Mr. MACGREGOR. The U.S. chamber is a member of the ICC, and a member of the U.S. Business Council. Many other organizations in the United States are also members of the U.S. council, for example, the National Association of Manufacturers. The council provides, I think, an extremely valuable forum in which international business problems of the kind which I just touched on can be discussed in the business community and thereby relieving many of the tensions and stresses which might turn up if these things were going to be handled purely on a legislative basis.

Mr. CONABLE. Thank you, Madam Chairman.

Mr. BURKE [presiding]. Mr. Brotzman will inquire.

Mr. BROTZMAN. Thank you.

I merely wanted to welcome Mr. MacGregor and his colleagues to the committee. I have had the opportunity of talking with Mr. MacGregor before about world trade. I know of his extensive experience in this particular area.

Is the practice of a developed country extending a trade preference to a less developed country with a commensurate reverse trade preference being granted back to the other country a common practice? Tell us a little about your observations about this phenomenon.

Mr. MacGregor. Probably the place this phenomenon has grown and appeared extensively has been in Africa where many of the European countries with prior relations with the developing countries has not only granted favored positions in their trade with their old European associates, but has, if you will, negotiated a series of reverse preferences which I referred to as being quite a serious and dangerous development. The problem there of course is that it will tend to congeal the world into trading blocks and be completely inimical to the general idea of the free flow of trade.

Mr. Brotzman. It really is kind of a sophisticated form of colonialism, is it not?

Mr. MacGregor. Off the record, it seems to be something that is growing and seems to please the participants. It certainly does not help U.S. trade.

Mr. Brotzman. There is one feature of the bill that you certainly endorse that keeps us from extending general preferences to those who engage in this practice.

Mr. MacGregor. Yes, sir. I would think that that is probably a good bargaining counter because this development which seems to have proliferated, as I said earlier, in Africa and now seems to be extending to Eastern Mediterranean countries, does look like a disturbing development. I think when the GATT was put together things like the EEC were never conceived. Those type unions were never contemplated when GATT was put together.

Mr. Brotzman. I know it is a technical question. I don't understand, really, why that is not violative of the GATT. I don't see why this doesn't violate the terms of GATT.

Mr. MacGregor. Some might take that position, that it was indeed a violation of GATT.

Mr. Brotzman. As I said at the outset, we appreciate your being here. Thank you very much.

Mr. Burke. Does Mr. Clancy care to inquire?

Mr. Clancy. No questions, Mr. Chairman.

Mr. Burke. Are there any further questions?

On behalf of the committee, we wish to thank you for your appearance and your testimony.

Mr. MacGregor. Thank you very much.

Mr. Burke. Mr. Morgan, on behalf of the committee we welcome you. Would you identify yourself and proceed with your testimony.

STATEMENT OF LEE L. MORGAN, PRESIDENT, CATERPILLAR TRACTOR CO.

Mr. Morgan. Thank you, Mr. Chairman. On behalf of the Caterpillar Tractor Co. I would like to thank the committee for this opportunity to present the company's views on pending trade and tariff legislation.

I would like to offer a summary of our written statement which has been made available to the members of the committee and which I hope can be included in the record of your hearings.

Mr. BURKE. You may continue with the understanding that your full statement will appear in the record, without objection.

Mr. MORGAN. Thank you.

We are a manufacturer of earthmovings construction and materials handling equipment and diesel and natural gas engines. Consolidated sales in 1972 were $2.6 billion, of which $1.25 billion were outside the United States. Of these sales outside this country, $812 million consisted of U.S. exports. We are said to be one of the two or three largest United States exporters.

Foreign trade and foreign investment have been matters of lively debate since the bill now known as H.R. 62 was introduced by you, Mr. Chairman, almost two years ago. We believe it is appropriate to take note of changed economic circumstances since that bill was introduced.

Two years ago the dollar was greatly overvalued in relationship to other currencies, placing this country as a tremendous disadvantage in world trade. Domestically, we were in the midst of a recession, resulting from efforts to curtail inflation.

Now we have had a devaluation of the dollar and revaluations upward of such currencies as the Japanese yen and German mark.

The realignment of the exchange rate between the yen and the dollar as of May 4 is equivalent to a 26 percent cut in the price at which a U.S. producer can offer goods to customers in Japan. For the Japanese producer attempting to sell in this country, the realignment is equivalent to a 35 percent increase in the price he must get for his goods.

A change in competitive positions of this magnitude was unthought of two years ago. To a lesser degree, the same thing has happened with regard to other currencies and other countries.

Furthermore, with currency values defined in terms of special drawing rights in the International Monetary Fund, this country will no longer be at the mercy of other countries in adjusting exchange rates. Through actions attendant to our monetary initiatives, we have served notice that we expect other countries to carry their fair share of the load in maintaining an open world economy.

Additionally, industries that two years ago were complaining of serious import problems are now having difficulty keeping up with demand. A good example is the steel industry, which this year expects to ship 100 million tons for the first time.

If any justification or need for import restraints existed two years age, it has largely been dispelled by currency exchange rate adjustments and rapid expansion of the domestic economy.

Much discussion of trade legislation these past two years has revolved around the role of U.S. multinational companies. We are accused of exporting American jobs by investing in foreign manufacturing plants.

For this reason, Caterpillar's statement to the committee includes a report on the results of our foreign investment policies.

Since 1950 Caterpillar has established 11 manufacturing plants in 10 foreign countries in order to produce products that we could not export competitively from the United States. By providing an entree into these markets, our foreign manufacturing operations have been

instrumental in achieving a tremendous growth of our U.S. export. In every country where we have built a plant, our exports from the U.S. to that country have shown a large and sustained increase.

These data are shown in detail on table 1 on page 3 of our full statement.

In 1950, with no foreign plants, our U.S. exports generated sales of $93 million. In 1972, with 11 foreign plants, sales resulting from U.S. exports were $812 million—an eightfold increase.

In 1950, exports provided approximately 7,500 jobs in our United States facilities. Last year, they provided 20,000 jobs. Thus, our foreign investments have helped us create 12,000 new export jobs in this country. Our total United States employment has grown from about 25,000 to over 53,000. Instead of two United States plants, as we had in 1950, we now have 14.

May I say that it was this kind of data that Mr. Woodcock was referring to in his comments made earlier this morning in response to some of the questions that were asked.

During the past 10 years our multinational operations have brought $5⅔ billion into this country.

We believe the evidence is clear that establishment of plants abroad has helped us increase our U.S. exports, our U.S. employment, our U.S. investment, and our contribution to this country's balance of payments.

And so we particularly urge this committee to reject legislation based on the proposition that foreign investment is made at the expense of employment in this country, or is damaging to this country's interests.

Caterpillar strongly supports the main purpose of H.R. 6767—the Trade Reform Act of 1973—to provide this country the authority and the will to successfully pursue negotiations to reduce tariffs and nontariff trade barriers.

Tariffs continue to present a substantial obstacle to U.S. exporters of construction machinery. For example, the duty applied to our products by the European Community is generally 11 percent, as compared to a U.S. duty of 5 percent on the same type of products. An 11 percent duty rate, on top of ocean shipping costs, can make it impossible to price a U.S. product competitively with the same product marketed duty free from a plant within the E.C.

Recently we completed a survey of nontariff barriers affecting our products. Ninety-eight out of 130 countries surveyed—including the United States—have one or more NTB's favoring domestic producers. The solution to this problem may lie in negotiation of a code of fair trading practices to which all countries would agree to conform their own practices.

The authority of our negotiators to deal with tariff and nontariff matters should be sufficient and broad enough to enable them to function effectively in the best interests of the United States.

As a major exporter, Caterpillar is concerned about a number of provisions of H.R. 6767 which tend in the opposite direction from trade negotiations—toward the restriction of trade, rather than its expansion. We are referring particularly to the authority to invoke tariffs, quotas and orderly marketing agreements for a variety of reasons—to provide import protection, to retaliate against "unreason-

able or unjustifiable" trade practices or export subsidies of other countries, or for balance of payments reasons.

It would be one thing to provide these options as a means of strengthening the hand of United States negotiators in dealing with these problems. It would be an entirely different matter to utilize them as a part of the United States trade policy. To do so could negate the results of the proposed negotiations, reduce trade rather than expand it, and injure United States exports and the workers whose jobs depend on them.

For example, Caterpillar was represented one year ago at the official briefing announcing the steel restraints negotiated with the European Community and Japan. We were told that at the start of the negotiations, the European Community insisted that if it was to restrict steel shipments to the United States this country must restrict shipments of manufactured steel products to the European Community.

This demand by the Europeans was overcome. But it hits close to home if you are a manufacturer of construction machinery and export almost 40 percent of your United States production as Caterpillar does. Last year our one company alone exported about 300,000 tons of U.S.-produced steel in the form of manufactured product.

There is a school of thought that says this country must raise more trade barriers so these can be used as bargaining materials in the trade negotiations. A fallacy with this theory is that once an industry receives protection, it does not voluntarily give it up—in fact, it comes to depend on it. This would create an even more complex set of problems for this committee to deal with.

Caterpillar urges the committee to fully consider improved adjustment assistance as an alternative to industrywide import protection. The ideal would be to ensure job continuation and retraining where necessary, before workers become unemployed. This purpose would be lost if adjustment assistance became nothing more than after-the-fact payment of unemployment benefits. Hopefully, the development of better means of adjusting to trade-related change, could blaze a trail toward reducing disruptions caused by other types of economic change.

From an economic standpoint, Caterpillar supports legislation to authorize the extension of most favored nation treatment to additional countries on an individual basis, as provided in H.R. 6767. Expansion of exports to these countries could be further enhanced by administrative extension of Eximbank credits to countries now eligible, and by revision of the interest equalization tax to exempt the financing of transactions concluded through foreign subsidiaries of United States companies.

As mentioned at the beginning, recent revisions of exchange rates have dramatically improved the competitive position of the United States.

The monetary system could now be further improved if it incorporated the following as general principles:

Permit adjustments in parities to be made on a more timely and therefore more frequent and gradual basis than in the past—to reflect the true relative value of currencies.

Provide that a country shall be expected to revise the par value of its currency when there is a basic disequilibrium in its balance of pay-

ments—just as it is now expected to refrain from revising the par value in the absence of basic disequilibrium.

Include a requirement that a country in surplus shall have the same degree of responsibility for corrective action as a country in deficit.

Build an element of automaticity into the system so it will function to the maximum extent possible without political intervention.

The end result should be that each country's flow of basic receipts and payments is in relative balance over the longer term.

Under such a system, serious deficits of trade and payments would not occur, or would soon be corrected. Any reasonable basis for arguing the need for quotas and surcharges would be largely eliminated.

Caterpillar believes negotiations to achieve these further improvements in the monetary system must go hand in hand with trade negotiations. Without monetary reform, trade reform can have only limited effect.

The crux of all trade is its multilateral, reciprocal basis. In order to sell products abroad, goods or services must be bought from others in exchange.

We place great reliance in this committee's skill and wisdom in developing a bill that will set this country and the rest of the world moving toward trade that is freer and fairer on a multilateral, reciprocal basis.

[Mr. Morgan's prepared statement follows:]

STATEMENT OF CATERPILLAR TRACTOR CO.

Caterpillar Tractor Co. is a manufacturer of earthmoving, construction and materials handling equipment and diesel and natural gas engines. Consolidated sales in 1972 were $2.6 billion, of which $1.25 billion were outside the United States. Of these sales outside this country, $812 million consisted of U.S. exports.

Based on historical experience and logical analysis, we believe that in the long term the people of various countries have much to gain and little to lose by following the practice of free trade in goods as opposed to the protection of domestic industries. Through the years, the Company has developed a heavy dependence on its ability to move its products freely across national boundaries in order to supply markets in all parts of the world.

Despite the advantages of freer trade, many tariff and other trade restrictions have been imposed by various countries, some of them on products produced by this Company. Under these circumstances, we have sought to adapt to conditions as best we can, providing local manufacturing facilities where the situation requires it and the project is economically feasible.

Based on this experience, Caterpillar believes that matters of foreign trade and foreign investment are related and inseparable. In view of issues raised by H.R. 62, it also appears this Committee must arrive at some conclusions on investment as it relates to trade. Perhaps we can contribute to the committee's deliberations by briefly relating our own company's experience.

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CATERPILLAR'S EXPORT AND INVESTMENT EXPERIENCE

Until 1950. Caterpillar was largely a Midwestern company with a major plant at East Peoria, Illinois, and a small plant at San Leandro, California. However, it became apparent we and our dealers outside the United States could not compete by marketing only U.S.-manufactured product. If we wanted to retain existing markets, and hopefully expand them, it became essential to establish production in other countries for a variety of reasons.

In Great Britain, exchange controls imposed after World War II precluded supplying that market with imports.

In Brazil, it was the government's nationalization program which now requires as much as 98 percent of the content of certain machines to be built in that country.

In Australia and Canada, it was tariffs imposed to protect local manufacturers.

In Europe, it was the emergence of the Common Market with its common tariff structure for outsiders and tariff-free status for participating countries. Caterpillar had to produce within the Community in order to have the same tariff-free status as competitors.

In Japan, a unique system of control maintained by the government and the business community precluded supplying that market with imports.

In order to supply these markets that could not be served from the outside, Caterpillar has opened 11 plants in 10 countries—in addition to 14 plants we now have in the United States.

In every case where we have established a manufacturing plant abroad, our U.S. exports to that country have shown a remarkable increase.

First, these plants need components built in the United States for use in machines built or assembled abroad. Another portion of that export volume is in replacement parts for machines sold and used, and perhaps built abroad.

But the major part of our increased export sales is in whole machines. By providing us an entree into foreign markets, our overseas manufacturing plants have substantially increased sales of our entire product line, including machines built only in the United States.

Caterpillar's grow in U.S. exports to countries where we have established manufacturing operations is shown in Table I.

TABLE I.—CATERPILLAR EXPORTS FROM UNITED STATES TO COUNTRIES IN WHICH CATERPILLAR HAS MANUFACTURING PLANTS

[In millions of dollars]

Year	United Kingdom	Brazil	Australia	France	Japan	Belgium
1950	[1] $2.3	$7.3	$3.8	$0.6	----------	(2)
1951	3.7	6.9	3.9	1.0	----------	(2)
1952	4.5	6.3	6.4	3.0	$0.1	(2)
1953	1.4	7.4	7.9	2.4	.7	(2)
1954	2.5	10.4	[1] 9.9	2.0	.8	(2)
1955	4.5	2.3	7.3	2.0	.3	(2)
1956	4.6	3.6	7.1	5.4	1.6	(2)
1957	8.5	15.9	10.8	4.7	2.4	(2)
1958	7.4	15.8	8.8	3.1	2.0	(2)
1959	9.6	5.2	6.9	4.6	1.8	(2)
1960	12.0	19.5	14.4	[1] 7.6	2.3	(2)
1961	10.3	9.9	5.0	13.8	2.8	$2.5
1962	9.0	15.6	9.6	15.5	2.1	3.4
1963	12.5	10.8	17.8	17.7	[1] 1.9	4.4
1964	20.7	12.5	23.3	21.9	3.0	4.2
1965	16.3	14.9	25.7	21.3	4.0	[1] 3.2
1966	18.8	28.4	20.7	19.5	9.9	3.1
1967	22.0	19.0	25.0	25.2	21.2	8.2
1968	19.7	37.9	26.5	29.1	18.7	16.1
1969	20.5	32.8	34.1	39.1	31.3	12.5
1970	35.4	55.5	47.6	29.2	48.1	19.6
1971	31.3	44.5	34.2	24.1	30.1	15.1
1972	25.3	82.3	22.0	28.9	32.5	18.4

[1] Year subsidiary or affiliate was formed.
[2] Not available.

In total, sales generated by our U.S. exports increased from $93 million in 1950 to $812 million in 1972.

This growth in our export business is shown in Table II.

TABLE II.—*Foreign Sales of U.S.-built Caterpillar product*

[Millions of dollars]

1950	93.2	1962	295.9
1951	95.5	1963	327.4
1952	132.4	1964	428.7
1953	146.9	1965	480.4
1954	145.3	1966	478.4
1955	182.7	1967	505.8
1956	237.2	1968	585.4
1957	248.7	1969	658.4
1958	198.7	1970	787.9
1959	230.3	1971	722.5
1960	288.0	1972	812.3
1961	274.4		

As a result of our exports, plus return on our foreign investments, Caterpillar last year contributed $827 million to a favorable U.S. balance of payments. For the ten years 1963–72, our contribution has totaled $5.68 billion.

Our export growth, coupled with increased domestic sales, has had many healthful effects on the U.S. economy. Some of these are shown in Table III.

TABLE III.—*Caterpillar Tractor Co., 1950 versus 1972*

U.S. employment:	
1950	24,746
1972	53,100
U.S. Employment dependent on exports:	
1950	7,480
1972	19,900
Number of U.S. plants:	
1950	Two
1972	Fourteen
U.S. manufacturing space (million square feet):	
1950	5.4
1972	21.1
Purchases from U.S. suppliers:	
1950	$187.7 million
1972	Over $1 billion

More than one-third of this expansion within the United States is the result of greater exports, generated in substantial measure by the establishment of plants outside this country. For every dollar invested abroad, we've invested $4.50 in this country. Last year the ratio was more than five to one in favor of U.S. investment.

We believe the evidence is clear that establishment of plants in other countries has helped us incrase our U.S. exports, our U.S. employment, and all the other contributions this expanding export business make to the U.S. economy.

TAX PROPOSALS SUBMITTED BY ADMINISTRATION

In connection with the Trade Reform Act of 1973 (H.R. 6767), the Administration has submitted proposal whereby undistributed earnings of controlled foreign corporations would be taxed currently under certain circumstances.

Caterpillar has no self interest in these specific proposals since we have not established manufacturing facilities abroad for the purpose of taking advantage of lower tax rates or tax holidays, and we foresee no circumstances in which a substantial amount of the production of any of our foreign manufacturing subsidaries would be imported into this country.

However, we urge the Committee to be cautious in enacting any proposals which will have the effect of making subsidiaries of U.S. companies less competitive. It must be remembered that these subsidiaries—and their parent companies—are competing with firms of other countries who do not operate under these kinds of handicaps. We particularly urge the Committee to reject the proposition that foreign direct investment is generally made at the expense of investment and employment in this country.

As we have seen, Caterpillar's foreign investment is essential to its export position, contributes substantially to a favorable U.S. balance of payments, and helps sustain some 20,000 export jobs in our U.S. facilities. Our experience in this regard is not unique by any means.

THREE PRINCIPAL ANSWERS

We do recognize that change created by international trade creates problems in this country and abroad. We believe the answer to these problems lies principally in three areas:

1. Negotiations to reduce tariffs and nontariff barriers.
2. Development of a flexible international monetary system whereby exchange rate adjustments will keep trade on a more equitable and balanced basis.
3. More prompt and effective means of providing assistance to those displaced by economic change related to international trade.

THE NEED FOR TARIFF NEGOTIATIONS

As tariffs have been reduced, nontariff barriers have increased relatively in importance as an impediment to international trade. However, the need for further reduction of tariffs should not be overlooked. For example, the duty applied to our products by countries of the European Community is generally 11 percent, as compared to a U.S. duty of 5 percent on the same type of products.

An 11 percent duty rate, on top of ocean shipping costs, can make it impossible to price a U.S. product competitively with the same product marketed duty free from a plant within the E.C. Duty rates in some of the other countries which represent sizable markets for Caterpillar are considerably higher than those in the European Community.

Caterpillar strongly supports the provision of the Trade Reform Act of 1973 (H.R. 6767) to authorize U.S. participation in tariff negotiations under auspices of the GATT. The authority should be sufficient and broad enough to enable the President to negotiate effectively in the best interests of the United States. It should not be so limited that U.S. negotiators will be at a disadvantage vsi-a-vis their counterparts from other countries.

Since negotiations normally occur best in proximity to a deadline, the Committee may wish to consider the feasibility of a shorter time frame for the negotiations—perhaps three years, instead of the five years proposed in H.R. 6767.

THE NEED TO REDUCE NONTARIFF BARRIERS

Caterpillar also strongly supports provisions of H.R. 6767 endorsing negotiations aimed at reducing, eliminating, or harmonizing nontariff barriers. In a survey of 130 countries where our products are sold, we identified 98 nations—including the United States—which have one or more NTBs favoring domestic producers. In the case of our products, these devices include quotas, licenses, government procurement preferences, product standards, tied financial aid, taxes and surcharges, embargoes and inconsistent classifications and valuations for duties. The advent of new regulations relating to product safety, engine emissions and noise will add to the list.

Negotiating a reduction of NTBs on an item-by-item basis will be difficult because their form and effect differ greatly. Therefore, the answer may very well be found in the development of a code of fair trading practices to which all countries would adhere.

One of the most significant nontariff distortions of trade is the provision under rules of the GATT that allows indirect taxes to be rebated on exports and imposed on imports, but prohibits the same treatment of direct taxes, such as the U.S. income tax. This represents a substantial trade advantage to countries, notably those of the European Community, which use the value added tax.

Caterpillar believes adoption of the value added tax in the United States would have a beneficial effect on U.S. exports. At the same time, we recognize that U.S. tax policy cannot be based on this consideration alone. Perhaps an alternate solution can be found in rewriting the rules of the GATT to provide more equitable treatment of direct taxes vis-a-vis indirect ones. This would seem a proper goal of U.S. negotiators.

We urge adoption of provisions of H.R. 6767 which will enable the U.S. government to implement elimination of the American Selling Price system of customs valuation negotiated during the Kennedy Round. We observe that failure to do this has been a serious handicap to the credibility of U.S. trade negitiations.

POTENTIAL DANGERS TO U.S. EXPORTERS OF IMPORT RELIEF PROPOSALS

As one of the largest U.S. exporters, Caterpillar is seriously concerned about possible adverse effect on U.S. exports of proposals in H.R. 6767 for dealing with "import disruption." The imposition of duties, quotas, or orderly marketing agreements, as proposed, could very likely result in retaliatory action by other countries.

For example, on May 12, 1972, Caterpillar was represented at a briefing in the White House Office announcing the "voluntary" restraints on steel shipments negotiated with producers in Japan and the European Community. We were informed that at the outset of negotiations, the European Community insisted the U.S. must restrict its shipments of manufactured steel products to Europe if the Community was to restrict shipments of steel to this country.

This demand by the Europeans was overcome, but it illustrates a very logical reaction by other countries to demands for unilateral restraints on their indus-

tries. Import protection is a double-edged sword that could very well damage U.S. industries that are the very largest exporters.

Furthermore, if experience is a guide, industries come to take protection as an inherent right, or at least to lean upon it as long as it is available. Rather than facilitating adjustment, import protection therefore operates to delay necessary and healthful economic change—making the change even more traumatic when it finally occurs.

Also, the use of authority granted for dealing with import disruption could negate this country's part of a trade agreement for a period of five to seven years. Under these circumstances we must ask how much credibility our trading partners can attach to the negotiations.

Some of the same problems are inherent in efforts to resolve balance of payments problems through import regulation. However, we wish to address this issue in another context in a subsequent portion of our statement.

ADJUSTMENT ASSISTANCE AS AN ALTERNATIVE TO IMPORT RELIEF

An alternative to restraining imports is to assist those suffering economic injury because of international competition.

The Company has no direct experience in this field since international trade has been a source of growing employment to Caterpillar people. We agree that, until recently at least, assistance to workers has been too little, too late. And so we have worked actively with the U.S. Chamber of Commerce and the National Association of Manufacturers in seeking ways to make it work more effectively.

We are not among those who reject out of hand the proposal to establish federal standards for state unemployment compensation programs. In fact, we tend to support such standards.

However, we believe that a separate program of assistance to workers who are injured by international competition has merit. The ideal would be to ensure job continuation, and retraining where necessary, before workers become unemployed. This purpose would be lost if adjustment assistance became nothing more than after-the-fact payment of unemployment benefits. Hopefully, the development of better means of facilitating adjustment to trade related injury, where it occurs, could be utilized in reducing disruptions caused by a broader range of economic change.

We agree that assistance to firms tends to place the government in a position of discriminating in favor of firms being aided. Also, quite often firms are injured because their management has been inefficient or has failed to adapt to changes in products and markets. However, assistance to firms may have some merit—at least it would seem more realistic than providing import protection to a whole industry—healthy firms as well as ailing ones. Assistance to firms should not consist of underwriting losses, but should encompass such measures as technical assistance and loan guarantees which can reasonably be expected to keep a firm's exsiting resources in productive use.

Our studies also led us to the conclusion that assistance to communities, such as has been proposed by Senator Percy of Illinois, may hold promise. We are thinking here in terms of efforts to mobilize community resources in responding to economic change—along the lines of Defense Department efforts to ease the impact of reallocations of military spending.

UNFAIR TRADE PRACTICES AND COUNTERVAILING DUTIES

Title III of H.R. 6767 expands the President's autohrity to deal with "unreasonable or unjustifiable" trade practices of other countries and the problem of subsidies on exports to third market countries. It also authorizes the application of countervailing duties to duty-free imports.

Caterpillar supports authority for the application of countervailing duties to duty-free imports. One of the chief producers of undercarriage replacement parts for track-type tractors is an Italian firm. The Italian government provides subsidies to exporters, one of which is a subsidy of 35 lire per kilo on exports of steel products, including these undercarriage parts. This subsidy disadvantages U.S. producers, yet countervailing duties are not available as a recourse because undercarriage parts are admitted duty free.

Also, as Caterpillar has previously observed before this committee, countervailing duties provide no relief in third country markets. In such cases, Title III would give the President authority to impose duties or import restrictions on the products of countries providing export subsidies. This would still not solve the

problem in these third country markets, except as it might force other countries to abandon the subsidies.

Additionally, we are concerned that to each country the trade practices of others are often "unreasonable or unjustifiable," while its own are reasonable and necessary. The trade practices and export subsidies referred to in Title III are essentially nontariff trade barriers. Again, it appears to us that the matter of unfair trade practices and export subsidies should be the subject of negotiations, with a solution to be found in a code of fair trading practices.

MOST FAVORED NATION TREATMENT FOR COMMUNIST COUNTRIES

Caterpillar has no basis for evaluating political considerations that have been attached to the extension of Most Favored Nation treatment to the Soviet Union. From an economic standpoint, we strongly support authority to extend MFN treatment to countries not enjoying this status, as provided by the bill. It is evident that increased commercial contacts between the East and West are already contributing to a spirit of detente and more harmonious relations. The most encouraging development is the will to achieve better relations which has been evident on both sides.

Since trade is a two-way street, any substantial volume of exports to these countries will require the reduction of U.S. duties through the extension of MFN treatment to their products. This process could be further enhanced by administrative extension of Eximbank credits to countries not now eligible for such credits. Revisions of the Interest Equalization Tax to exempt financing of transactions concluded through foreign subsidiaries of U.S. companies would also facilitate sales to the state-controlled economies.

TARIFF PREFERENCES FOR DEVELOPING COUNTRIES

Caterpillar also wishes to restate its support of tariff preferences for the developing countries as proposed in H.R. 6767. This should be contingent upon their extending to this country any reverse preferences they may extend to other nations, on a Most Favored Nation basis. To the extent these countries can market whatever they may have to sell, the need for direct foreign aid will be diminished, the more rapidly they can become contributing members of the world economy.

INTERNATIONAL TRADE POLICY MANAGEMENT

We have left the matter of international trade policy until last in these comments. H.R. 6767 proposes that in correcting a serious balance of payments deficit, the President could impose temporary import surcharges and temporray import quotas. Mechanisms are also provided for dealing with payments disequilibrium reflected by other countries, and with a balance of payments surplus.

We believe the imposition of quotas and surcharges is generally the wrong way to deal with the balance of payments problem. Rather, we believe the proper mechanism is through the international monetary system.

The end purpose of the international monetary system is not money itself or the preservation of historic parities. Rather, its basic function is to facilitate trade and investment among nations.

Two essential steps in this direction were acheived in the Smithsonian Agreement of December 1971. They were: (1) the upward revision of exchange rates of major currencies relative to the U.S. dollar, and (2) the adoption of a wider band within which currencies may fluctuate, thus introducing a measure of flexibility. The more recent dollar devaluation has further brought the dollar into a realistic relationship with other currencies. These actions have made U.S. products more competitive abroad and imports less attractive in this country. We believe this will soon start to be reflected in the U.S. balance of trade.

The monetary system could now be further improved if it incorporated the following as general principles:

—Permit adjustments in parities to be made on a more timely and therefore, more frequent and gradual basis than in the past—to reflect the true relative value of currencies.

—Provide that a country shall be expected to revise the par value of its currency when there is a basic disequilibrium in its balance of payments—just as it is now expected to refrain from revising the par value in the absence of basic disequilibrium.

—Include a requirement that a country in surplus shall have the same degree of responsibility for corrective action as a country in deficit.
—Build an element of automatically into the system so it will function to the maximum extent possible without political intervention.
—The end result should be that each country's flow of basic receipts and payments is in relative balance over the longer term.

Under such a system, serious deficits of trade and payments would not occur, or would soon be corrected. Any need for quotas and surcharges would be eliminated. With political interference and speculative incentives minimized, economic decisions would be based on real rather than artificial values in the marketplaces of the world. As a result, businessmen could better appraise their exchange risks and more intelligently pursue the increased production and wider distribution of goods to more of the world's people.

Hopefully, efforts now under way within the International Monetary Fund will lead to this more flexible monetary system. Caterpillar believes negotiations to achieve further improvements in the monetary system must go hand in hand with trade negotiations. Without monetary reform, trade reform can have only limited success.

IN SUMMARY

Caterpillar *supports:*
—Direct foreign investment as a necessary means of complementing and ex-expanding U.S. exports.
—Provisions of H.R. 6767 to authorize U.S. participation in negotiations to reduce tariffs and nontariff barriers.
—Reform of the international monetary systems as essential to meaningful trade reform.
—Adjustment assistance as an alternative to import protection.
—Negotiation of a code of fair trading practices as a viable solution to unfair international competition.
—Authority for the extension of Most Favored Nation treatment to countries not now enjoying such status, on an individual basis.
—A system of temporary tariff preferences for developing countries.

Caterpillar urges the Committee to *reject:*
—Trade restrictions which could negate the objective of freer trade and bring retaliation that would injure U.S. exports and the workers whose jobs depend on them.
—Reliance upon trade restraints as a solution to balance of payments problems. A much preferred means is through a system of flexible monetary exchange rates.
—Tax proposals and other measures aimed at restricting foreign investment by U.S. companies. In particular, we urge rejection of the proposition that such investment generally is inimical to the interests of the United States.

* * * * * * *

The crux of all trade is its multilateral, reciprocal basis. In order to sell products abroad, goods or services must be bought from others in exchange. These conditions apply equally to the United States and to its trading partners.

We place great reliance in this Committee's skill in developing a bill that will set this country and the rest of the world moving toward trade that is *freer* and *fairer* on a *multilateral, reciprocal basis.* The alternative is the continued fragmentation of the world into contentious economic blocs—a development from which all countries would suffer in the longer term—the United States no less than any other.

Mr. BURKE. Mrs. Griffiths is recognized.

Mrs. GRIFFITHS. I think you made a very interesting statement, Mr. Morgan. Are some of the new plants you have built since 1950 in Asia?

Mr. MORGAN. We have a joint venture company in Japan and we have a parts operation in Singapore.

Mrs. GRIFFITHS. Are some of them in Africa?

Mr. MORGAN. We have a parts depot in Johannesburg, South Africa, yes.

Mrs. GRIFFITHS. It is not, then, a manufacturing plant; is that right?

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Mr. MORGAN. Not in South Africa.

Mrs. GRIFFITHS. Are there only assembly plants in Japan?

Mr. MORGAN. No. It is an integrated manufacturing operation.

Mrs. GRIFFITHS. What do you manufacture there?

Mr. MORGAN. A very complete line of earthmoving equipment, crawler tractors, crawler loaders, wheel loaders. We employ, to give some scope of our operation, a total of nearly 9,000 people, about half of whom are involved in the distribution work and the other half in direct manufacturing activity.

Mrs. GRIFFITHS. If you are building earthmoving equipment in those places, would you say that in general the Government is the purchaser of earthmoving equipment? Is the Government the purchaser?

Mr. MORGAN. The U.S. Government or the other government?

Mrs. GRIFFITHS. The country's government.

Mr. MORGAN. The Japanese Government purchases virtually no equipment.

Mrs. GRIFFITHS. Do they have contractors building roads?

Mr. MORGAN. A lot of the end use of the equipment is aimed at public works, airports, residential.

Mrs. GRIFFITHS. So that in reality it is the Government that is buying the use of the equipment regardless of who owns it.

Mr. MORGAN. I would not want to characterize that the principal user is government-sponsored.

Mrs. GRIFFITHS. Who uses it?

Mr. MORGAN. A great many private enterprises in the preparation of sites for new factories, residential structures, are very large consumers of earthmoving equipment.

Mrs. GRIFFITHS. I see. But who are your competitors in Europe?

Mr. MORGAN. Primarily Italian and German companies. Fiat by name, in Italy; Hanomag in Germany.

Mrs. GRIFFITHS. Isn't it a fact that you having plants in any of these places a real help in selling goods; that is, you have people on the ground who understand the language, who understand the customs, who know where the contract possibility is and so on, isn't that right?

Mr. MORGAN. We distribute through a network of independently owned dealers, about 240 of them, throughout the world. The fact that these are almost always citizens of the country in which the product is being bought and used, that they do understand the practices, the language, do become a part of the community, is one of the very real forces that is at work in this whole distribution process.

Mrs. GRIFFITHS. How many other nations actually build earthmoving equipment?

Mr. MORGAN. You would be interested in knowing, Mrs. Griffiths, that the second largest earthmoving equipment manufacturer in the world is now in Japan.

Mrs. GRIFFITHS. It has built up since 1950, I would say.

Mr. MORGAN. That is right. Although the company was in business prior to the second world war the whole art of earthmoving equipment design and manufacture came into full flower after the war in Japan. But in addition to Japan, almost every developed country in Europe now has major earthmoving equipment manufacturers.

India is now in the business. Australia is manufacturing; Japan, and certainly the United States. Brazil is becoming an increasingly large manufacturer.

Mrs. GRIFFITHS. Well, I am for free trade. I do appreciate your statement. I think you are going the right way but I think you probably are sitting in a unique position to have a different view than a lot of people who are making shoes. When you started out with really about the only big earthmoving equipment company that was heavily capitalized and could get additional capital any place it chooses, you really were not sitting in the same position as somebody who made shoes.

Mr. MORGAN. Yes. I think a reasonable question to ask oneself when he takes the position of the kind that I have wanted to present here is that question of how unique is our industry. I have been quite amazed, and may I say pleased, to learn that through a series of studies that I believe to be generally valid made by the Department of Commerce, the Tariff Commission, the Emergency Committee of American Trade, the National Association of Manufacturers, Business International, the U.S. Chamber of Commerce and other organizations, that every single one of those studies, Mrs. Griffiths, shows that the growth in business and the growth in employment within the United States by multinational companies has been at a faster rate than those companies who did not have investments abroad.

So although I used to believe that earthmoving equipment and aircraft and perhaps a few other industries of this type are somewhat unique, it has been utterly amazing to me to find that at least 150 highly recognized large companies in great and diverse businesses all seem to be making the same type of contribution, not of the same dimension, I suspect, but the same type of a contribution that our company is honored to make in the industry.

Mrs. GRIFFITHS. Those are real good studies. The only thing they don't show you is that those companies were making many exports abroad before they became multinationals. The truth is the companies they have studied are the users of complicated patents. They are the users of steel. They are the users of material resources that this nation has had in great quantity. So it still didn't apply in the same manner as something that was competitive all over the world did.

It is great to come out with a study like that but what you are studying is success. It was success when you started. So that it still is. If you are going to study something it seems to me you ought to study that company as opposed to a company that had to be competitive all over the world.

Now, the truth is American companies never did have to be because the bigegst and best thing about America is that they have the best market.

I do appreciate hearing you. I hope that you succeed forever.

Mr. BURKE. Mr. Schneebeli will inquire.

Mr. SCHNEEBELI. Your argument is very persuasive, and I agree with Mrs. Griffiths that you appear to be in an exclusive class, and your problem is very indicative of why we need more reciprocal trade. You presented a very fine statement. Thank you for coming.

Mr. MORGAN. Thank you.

Mr. BURKE. Mr. Collier.

Mr. COLLIER. Mr. Morgan, I want to echo the sentiments expressed here. You made an excellent statement.

Permit me to say from my own recollection and experience that the uniqueness of the position of Caterpillar as it has been referred to here was not merely a success story from the beginning. The uniqueness was not one that was based upon the type of foresight that was a matter of history. Nevertheless, there is one aspect of your statement here that I think is tremendously vital because we can't discuss trade without discussing the whole problem of nontariff barriers. You say the solution to this problem may lie in the negotiation of a code of fair trading practices to which all countries would agree to conform their own practices. I agree.

Let me ask you if our negotiating teams in the national trade sessions following the 1962 act made as good an effort to keep with these problems as could have been done? Or are we not plagued today with some of these nontariff barriers because there was a tendency on the part of our negotiators to deal with them in a manner that was apparently secondary to the reduction of tariffs and the fact that our State Department's heavy hand was apparently hanging over the negotiations when it came to dealing with nontariff barriers.

Mr. MORGAN. Not having been present at the negotiations I don't really feel qualified, Mr. Collier, to comment on what the intention was of the negotiation. I do have a very strong feeling, however, that the end result which was produced suggested that American industry in general probably did not really face the competitive situation in which we now find ourselves.

I suspect that therefore the United States was still riding in a relatively high position which suggested that we had pretty much a corner on a lot of the technology, that this technology was so superior and our manufacturing and distribution capabilities were so far in advance of anything that was generally available from the industrial world outside the United States that we could merchandise our fair share of the product to the world's market under any ground rules whatsoever.

So, therefore, the tariff barriers and nontariff barriers were felt to be somewhat reasonable. In other words, we could climb over them, we could in effect overcome any obstacle.

I cite that because of our own history. We began to make our first investments in manufacturing facilities outside the United States only in 1954 and 1955. It was just really becoming apparent to us, I think, that we were going to have to make investments abroad in order to overcome tariff and nontariff barriers. The reference that I made to Mrs. Griffiths, to her inquiry about the second largest manufacturer of earthmoving equipment being in Japan, this had not arrived on the scene at all at the time of the GATT negotiations, the Kennedy Round. So I only conclude that probably—I don't want to suggest that I think the negotiators gave away the family jewels, but I suspect that probably the conditions under which those negotiations were applied were considerably different than the conditions which existed immediately following and at the time the negotiation occurred.

Mr. COLLIER. Thank you.

Mr. BURKE. Mr. Conable.

Mr. CONABLE. Thank you.

It is nice to see you again, Mr. Morgan.

Half of your business is overseas. Is half of your capital investment overseas?

Mr. MORGAN. No, by no means, any way near. About one-third of our total net assets are outside the United States.

Mr. CONABLE. Are you making a comparable rate of investment overseas now to the investment in this country?

Mr. MORGAN. Last year, as I recall, Mr. Conable, for each dollar that we invested overseas we invested four and one-half dollars in the United States.

Mr. CONABLE. Is that a fairly typical year?

Mr. MORGAN. Quite typical.

Mr. CONABLE. Yet half your business is overseas.

Mr. MORGAN. Yes.

Mr. BURKE. Mr. Duncan.

Mr. DUNCAN. Mr. Morgan, how many employees do you have overseas?

Mr. MORGAN. About 13,000, not counting the 9,000 who work for an affiliated company in Japan.

Mr. DUNCAN. What is the affiliated company?

Mr. MORGAN. It is a company called Caterpillar-Mitsubishi Limited, which is 50 percent owned by us and 50 percent owned by Mitsubishi Heavy Industries of Japan.

Mr. DUNCAN. Did you have to make the affiliation in order to compete?

Mr. MORGAN. We did indeed. Some of the data shown on page 3 of the full statement will show that our exports prior to the time that we made our investment in Japan had never been more than $2 million, $2.8 million as the high. Now in the last 3 years we have seen exporting to Japan $30 to $35 million worth of product a year, all from the United States.

Mr. DUNCAN. Has your number of employees in Japan been increasing each year?

Mr. MORGAN. Yes, it is. It has been a steadily growing company.

Mr. DUNCAN. At about the same rate of the United States?

Mr. MORGAN. As a percentage, because it started from zero, it has grown more rapidly in percentage. I was there a couple weeks ago and the outlook for continued growth in the operations are still good, but obviously at a declining rate as a percentage.

Mr. DUNCAN. Have you been increasing your employment in United States plants each year?

Mr. MORGAN. We have. It has grown more rapidly in the United States than any single location.

Mr. DUNCAN. How many employees do you have?

Mr. MORGAN. About 55,000 now.

Mr. DUNCAN. Do you think the provisions in this legislation can get our trading partners to change their attitude in the trade barriers, or at least help?

Mr. MORGAN. I think probably it will of course all depend upon the final outcome of this legislation. I sense that those who are directly responsible for negotiating feel that this bill gives them enough authority to negotiate. I must emphasize the point that it seems to me that when representatives of the company, for example, sit down with representatives of the UAW, Mr. Woodcock's union, who appeared here this morning, that if we don't grant our respective delegates or representatives the authority to really negotiate for us we don't really

achieve a meaningful agreement. I feel that if we give the authority to our negotiators that they will in fact be able to negotiate an agreement that does embody the benefits of multilateral or reciprocal trade.

Mr. DUNCAN. Would you agree that we don't really have free world trade today?

Mr. MORGAN. Certainly not as free as I believe would be beneficial to the United States, although I do not want to be put in the category of one who believes that completely unmoderated or unregulated trade is desirable.

Mr. DUNCAN. Through the long years we have gone great distances in order to establish free trade. Do you know of any disadvantages we place upon countries now that would like to export into our market?

Mr. MORGAN. Of trade coming into the United States?

Mr. DUNCAN. Yes; restraints that they do not have.

Mr. MORGAN. You would put me a bit out of my field, Mr. Duncan. In our particular industry, as a matter of fact, as my statement suggests, we give people a little bit better deal coming into this country than we do going into most other countries.

Mr. DUNCAN. But you think it should be a 2-way street?

Mr. MORGAN. Very definitely. We would like to grant them free access to our market if they are able to achieve it either by exporting to us or building and investing in this country and similarly we would like to have access to the world market for our product.

Mr. DUNCAN. Thank you very much for your very excellent presentation.

Thank you, Mr. Chairman.

Mr. BURKE. In your statement you mention H.R. 62, better known as the Burke-Hartke bill.

Mr. MORGAN. Yes.

Mr. BURKE. Is there any part of that bill which you would buy?

Mr. MORGAN. I must admit that we spent most of our time in thinking about the parts that we believe would be disadvantageous to us and our industry and to the country, we believe. Certainly we can agree on the underlying premise that maximizing exports is a very beneficial, a very desirable situation.

The overall intent, as we see it, would be to try to maximize the United States reaching markets by exporting from the United States. Certainly we agree entirely with that intent. We have invested this money ouside the United States and employed the people outside the United States only because we felt there was no suitable alternative. It would be more simple from a management standpoint, it would be in many ways advantageous to us as an operating entity to not be literally scattered around the world as we are with the many, many problems that that presents. So we certainly would join you, sir, in the basic intent of maximizing our gaining of a fair share of the world's opportunity for our type of equipment by doing it from the United States.

We have departed from that precept only because we felt we had to in order to achieve the objectives.

Mr. BURKE. In your statement you say that you believe it is appropriate to take note of changed economic circumstances since that bill was filed.

Mr. MORGAN. Yes.

Mr. BURKE. Don't you think we should also take note of the changed economic circumstances that have taken place since 1962, the last time a trade bill was passed?

Mr. MORGAN. I am sure that is right, yes.

Mr. BURKE. In 1962 we had a trade surplus of $7 billion. In 1972 we had a trade deficit of $6.5 billion. That means a shift over $13.5 billion.

Mr. MORGAN. Right.

Mr. BURKE. I was wondering if you read the statement in the Associated Press or the UPI that I just took off the wire. It states a deficit in net liquidity balance was $2.7 billion worse than the fourth quarter deficit of $4.1 billion. The deficits reports by the Commerce Department means that the outflow of U.S. dollars into world money markets increased sharply during the first quarter at the time when world governments were expressing concern that the flow of dollars led to international monetary disturbances.

Mr. MORGAN. I have not read that.

Mr. BURKE. Have you read the news about the price of gold going up well over $100 an ounce? I listened to a radio broadcast today. Some fellow said they expect another devaluation of the dollar. How many devaluations do you think we can allow to happen in order to straighten out this trade?

Mr. MORGAN. I think probably just as many as we need to do make sure that there is no longer an artificial value in the U.S. dollar vis-a-vis some of the other currencies of the world. I think that this is precisely what has happened by the adjustments that have been made, and the 25 or 28 percent adjustment that I mentioned in the U.S. dollar as compared to the Japanese yen was really something that needed to happen very much. Now it apparently is an act to be apologized for or almost something to be ashamed of when a country's currency is devaluated, but it seems to me that if it is overvalued you simply preserve a fiction by not recognizing that and certainly in terms of world trade you do put the seller of the product from the United States and the empoyees who depend upon exports of that product for their continued livelihood at a disadvantage.

You put them at a tremendous disavantage. It seems to me that this is essentially what has been corrected in the recent months.

Mr. BURKE. Who in your opinion pays for this devaluation of the dollar? Who has to pick up the tab?

Mr. MORGAN. Well, we know that this affects the seller who exports to this country, and I would like to confine my remarks just to the trade aspect of it because quite frankly, some of the theory of this is so sophisticated.

Mr. BURKE. I would like to separate them too but I don't think we can because of the effect of this crisis that this Nation finds itself in now.

I am shocked at the testimony we have been receiving in the past few weeks, we had Secretary Shultz and even you a moment ago kind of gloss over this devaluation like it is practically meaningless as far as people back here are concerned, when in the history of this country did we advocate a devaluation of the dollar.

Mr. MORGAN. When did we advocate?

Mr. BURKE. Yes.

Mr. MORGAN. I guess the devaluation that occurred prior to this one was in the 1930's.

Mr. BURKE. At that time, you remember, I think it was Al Smith, the "Happy Warrior" who referred to it as a baloney dollar.

Mr. MORGAN. Yes.

Mr. BURKE. Then we went into the depression. Dollars bought less goods. This has happened today. The average housewife goes into a market and the dollar buys very little groceries. If we can shift our surplus at $13.5 billion, from surplus to deficit, we have had two official devaluations and now one unofficial one, as the European countries raise their currencies.

Now, with the speculation of gold, don't you think it is time for someone to come in here with a recommendation on what we should do?

Mr. MORGAN. I would like to suggest the opportunity for redressing of balance-of-trade portion of that balance-of-payments situation is considerably improved, sir, by the devaluation as compared to the opportunity of redressing it without that balance of trade.

Mr. BURKE. Not the way gold is selling today. The speculators are over there. They have tasted blood. They are going to taste more blood. The American people are going to pay for it.

I think it is about time that we had some people around in this country of ours, particularly big business people, like yourself who think more broadly of our country's welfare. You're a very unique organization. You have been very successful. God bless you for it. I am glad to read this very promising statement. But there are many other industries who are in real trouble. The country is in a financial mess. They are looking to raise the national debt up to $468 billion. We will have a deficit this year of $19 billion. That is the news coming over the wires today, and everybody says everything is fine. You and I know it is not fine. Just to give the President, this administration, the power he is asking for here without coming back to Congress for either approval or disapproval of what these people are doing, I think it is outrageous. I am not critical of you. I think you have done an excellent job here giving the story of your particular industry.

But I think we should start concerning ourselves with the industrial complex of America. The First National Bank of Boston, which is a pretty reliable organization, made a great study in depth and predicted that within 10 years New England is going to be a service oriented area. All the jobs in the factories and mills and the rest of them will disappear. There will be nobody around to buy the goods. Our cost of Government is going up and the people who are working are going down. This keeps spreading. We get these falsifications on unemployment which keep predicting and telling how the unemployment figures are going down. If 100,000 people worked in 1971 a full year and this year they were working a half week, they are put in the same classification so everybody knows what is happening to those figures. I think it is about time somebody started to come in here with some recommendations.

That is why the Burke-Hartke bill was filed, to get the attention of the people of this Nation. We did get their attention. I know it sent some people right up the wall. I have been a legislator for 25 years and I know how legislation is brought about, as a result of compromise and rewriting bills and everything else but so far in the testimony before

this committee we have had no one on the part of the administration or the big business or multinational corporations who have come in here and made one constructive suggestion about what to do. They want this party to go on and they want the game to continue.

I don't think it can continue in light of the facts that we have before us.

Mr. MORGAN. I wonder if I might respond with a quick summary.

Mr. BURKE. I am not criticizing you personally. Don't get me wrong. I am merely pointing out the testimony we are getting here, day after day, with a complete ignoring of all the facts we have before us, a deficit, going up, gold prices going up, imbalance of trade, a $19 billion deficit on our Government; and everybody coming in here saying things are nice and bright and the sun is shining and nobody has anything to worry about.

Mr. MORGAN. I don't want you to misinterpret what I said that everything is hunky-dory. In our view, there are three things that need to be done. One is uniquely in the hands of this committee. First of all, to provide a piece of trade legislation which will empower the administration to go negotiate an improved set of business conditions in which world commerce can take place.

Secondly, we need an improved monetary system.

Thirdly, we need a program of adjustment assistance along the lines that was being described by Leonard Woodcock this morning in order to ease this process of adjusting from one business or one industry to another, which is inevitable, it seems to me.

So those three points, it seems to me, represent a major effort. I would like to suggest that there are very definite limits as to how much business can do on a unilateral basis. It is one of the reasons that I am delighted to have the opportunity to appear before this committee and the opportunity to, hopefully, identify some things that need to be done but which can not be done by business but which we would like to see done so that we can respond to them and help in this overall situation that you described here so well.

Mr. BURKE. Thank you, Mr. Collier.

Mr. COLLIER. I would not like the record to go unchallenged in terms of whether or not the problems on the international monetary market developed in the last year or two or three. The fact of the matter is that we had no choice but to go off the gold standard because in 1968 we had less than $11 billion in gold, against which there were $32 billion in foreign claims. This was 1968. We had been in this kind of situation for many years.

Is there no question that we came out of the devaluation with a plus? It makes us more competitive on the world market. I think that any steps other than those taken would have resulted in real chaos not only for our firms that are trading abroad but indeed the sheer folly of having tried to stay on the gold standard as long as we did when we couldn't even make good on the claims that at that time existed against a supply of American gold totally inadequate to meet even one-third of the foreign claims existing at the time.

Thank you, Mr. Chairman.

Mr. BURKE. I just want to make this observation: If you have ever sailed a boat, and they put out storm warnings, you usually adhere to them. If you don't pay any attention to them you are liable to lose your life.

I want to thank you very much for giving your statement here today.

Mr. MORGAN. Thank you, Mr. Chairman.

Mr. BURKE. Our next witness is Nelson A. Stitt, director of the United States-Japan Trade Council.

STATEMENT OF NELSON A. STITT, DIRECTOR, UNITED STATES-JAPAN TRADE COUNCIL, ACCOMPANIED BY STEPHEN D. COHEN, CHIEF ECONOMIST, AND ALLAN SCHLOSSER, LEGISLATIVE DIRECTOR

SUMMARY

Recent Changes in U.S.-Japan Trade.—American exports to Japan are rising at a record rate, while imports from Japan are increasing only slightly. Current figures suggest that there will be a substantial reduction this year, perhaps well over $1 billion, from last year's U.S. trade deficit with Japan of $4.1 billion. The Japanese Government has eliminated the vast majority of its former restrictions on imports, and has opened up virtually all Japanese industrial sectors to 100 percent foreign ownership.

U.S.-Japan Trade Relations—Past and Future.—The Japanese Government protected its key industries from import competition beginning in 1946 in order to allow them time to rebuild from war time destruction. By now, except for certain politically sensitive agricultural products and a handful of industrial products, all import quotas have been removed, and Japan's current barriers to imports today are lower than those maintained by any other major country, including the United States.

The Japanese have reduced the number of their import quotas from 120 to 32 in the last four years; enlarged quotas for items still under restriction; made substantial unilateral tariff reductions since the end of the Kennedy Round; abolished the import deposit system and the automatic import quotas system; abolished preferential export financing and expanded import financing; established a system of export controls; and removed virtually all restrictions on foreign capital investment.

There is no "correct" annual trade balance between the United States and Japan. The key factor is freedom for market forces to operate so as to prevent disequilibrium between currencies. The Japanese should realize that massive trade surpluses are not in their interest, while the U.S. should appreciate the necessity of allowing the dollar to find its own level in the international monetary system.

Proposed Trade Bill.—The currency changes and floating of the principal currencies have created a wholly new situation. The friction with Japan over its exports to the United States will greatly diminish, and the provisions of the trade bill which are protective in purpose or designed to give the Executive weapons to deal with practices of other countries are far less likely to be invoked with regard to Japan than was believed when they were first conceived.

We support the proposed bill as a valuable and necessary piece of legislation, with the following specific comments:

Title I

The authority to increase tariffs should be limited to 150 percent of the Smoot-Hawley rate.

Title II

1. The market disruption test should be eliminated because it is unnecessary and because it may lend itself to abuse. It is particulaly important that the Congress should not alter this provision into a mechanical test eliminating findings of injury or causal connection to imports.

2. The time limit provided for the Tariff Commission injury investigation is too confining.

3. The Tariff Commission should include in its report to the President comments on various economic considerations that he is to take into account in making his decision.

Title III

1. The bill should make it clear that actions taken by the President under this title should be consistent with the international obligations of the United States.
2. Hearings should be provided before Presidential action to allow interested parties an opportunity to be heard about the potential domestic effect of such an action.
3. The Antidumping Act should be amended to require Treasury to take into account all differences in circumstances of sale, whether or not directly related to the sale under consideration, in comparing the home market price of the exporting country with the export price to the United States.
4. In amending the countervailing duty law, the injury test should be applied to both dutiable and non-dutiable articles.
5. Section 337 of the Tariff Act of 1930 should be repealed.

Title IV

1. Presidential action under this title, as in Title III, should be consistent with the international obligations of the United States.
2. Hearings should be provided before action is taken under the authority granted by this title.

Title V

We support most-favored-nation treatment for Communist countries.

Title VI

We support the generalized system of the preferences to underdeveloped countries provided for in this title.

Title VII

We urge the President to use the authority provided under this title to simplify and modify U.S. tariff schedules.

Mr. BURKE. We welcome you to the committee, Mr. Stitt.

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

Mr. STITT. Mr. Chairman and members of the Ways and Means Committee: I am Nelson A. Stitt, director of the United States-Japan Trade Council, which is a nonprofit association incorporated in the District of Columbia. I am accompanied by Dr. Stephen D. Cohen, the council's chief economist, and by Allan Schlosser, legislative director.

The council has a present membership of approximately 900 firms all doing business in the United States and I herewith offer to you our latest list of members, dated July 1972.

In order that our position may not be misunderstood, I wish to point out that one sustaining member, the Japan Trade Promotion Office of New York City, provides by far the bulk of the council's financing. That office, in turn, receives its funds from the Japanese Government. As a result, the council is registered under the Foreign Agents Registration Act and makes periodic reports to the Department of Justice with regard to its activities, receipts and expenditures. At the time of our request to testify we submitted to your chief counsel a copy of our most recent report to Justice, covering the last half of 1972.

Finally, I want to emphasize that the policies and positions of the United States-Japan Trade Council are independently formulated and taken with no intervention by the Japanese Government. I speak for the council professional staff and the members of the council as a whole. We feel free to—and have and will—give our views, comments, criticisms, and suggestions with respect to the international economic policies of both countries.

RECENT CHANGES IN UNITED STATES-JAPAN TRADE

The United States-Japan economic relationship has changed dramatically since I appeared before this committee 3 years ago. Total bilateral trade in 1973 is expected to exceed $16 billion, the largest volume of overseas commerce in history. If realized, this figure will represent a doubling of trade within a period of just four years.

The exchange rate of the yen has appreciated about one-third in relation to the dollar, a development now beginning to be reflected in the bilateral trade statistics. In this connection, I am encouraged by the fact that American exports to Japan are increasing at a record rate, while the rise in imports from Japan is moderate. See our appendix. During the first quarter of 1973, for example, U.S. exports to Japan rose by an impressive 56.3 percent over the previous year, while imports from Japan were up only 10.0 per cent.

In March, American exports to Japan reached their highest monthly level in history—$772 million, up 50.5 percent over March 1972—while imports from Japan declined by 6.5 percent in terms of dollars.

Moreover, Japanese licenses issued in March for imports from the U.S. rose by 125 percent, while licenses for exports to this country actually declined by 3.1 percent over the previous year. Since these licenses predate actual shipments by two to four months, the figures suggest that we may anticipate a rather sharp reversal during the remainder of this year of the recent trend in the United States-Japan trade balance. Some responsible economists have estimated a reduction of at least $1 billion this year in last year's U.S. deficit of $4.1 billion in its bilateral trade with Japan.

I myself would estimate that the 1972 deficit would be closer to about $2.1 billion.

I recall that when I testified before you in 1970, a number of committee members expressed concern about Japan's import restrictions. Much of that criticism was understandable and quite legitimate at the time, but I am pleased to report that the situation with respect to trade and capital liberalization has improved significantly. The Japanese Government has eliminated the vast majority of its former restrictions. Import quotas, which covered 120 product categories in April 1969—as defined by the Brussels Tariff Nomenclature—have been removed on all but 32 items (24 agriculture, 8 industrial).

In addition to these trade initiatives, the Japanese Government on May 1 of this year virtually completed its capital liberalization program by opening nearly all industrial sectors to 100 percent foreign ownership.

The facts indicate that Japan has made a major effort—one which was often politically painful—to liberalize both its trade and investment policies. We would also suggest that Japan's willingness to revalue its currency under the Smithsonian Agreement of 1971 and to permit the yen to float this year under the Volcker Agreement has moved us closer to the creation of a more open and more equitable trade and monetary system.

TRADE RELATIONS: PAST AND FUTURE

Here I will address myself to certain key questions in connection with the U.S. deficits in its trade with Japan in recent years. How did

these deficits come about? Should the American or Japanese response have been more vigorous in redressing the balance? What is the future outlook for the United States-Japan trade relationship?

It is true that the Japanese economic system is different from ours. But it is not run by government plan, nor has it been made to grow by exporting products below their production costs. Unquestionably, economic planning in Japan has been more effective than in the United States. However, a government economic plan is worthless in the absence of farsighted, intelligent, hard-working workers and businessmen.

A government can create a climate conducive to growth, and it can facilitate the allocation of economic resources to high-growth industries. But it takes the private sector to manufacture quality products and sell them at competitive prices. If this were not true, the Communist and Socialist countries, where governmental economic planning is far more pervasive, would have passed both Japan and the United States in economic power years ago.

Given the widespread destruction of the Japanese economy in 1945, recovery would probably have been impossible without protection. Japan's then infant industries would have been quickly overwhelmed by foreign competition which had not suffered the ravages of war. Simply stated, they needed time to mature.

The key question to be asked then is: Have the Japanese removed import barriers as the infants have grown up? The answer is "Yes."

Except for computers, integrated circuits, and leather products, Japan has terminated import quotas and high tariffs to protect its manufacturing sector. It is expected that computers and integrated circuits will be freed from import restrictions within three years. Like all countries, Japan retains import barriers to certain politically sensitive agricultural products.

The rapid recovery of Japan's economy has been followed by a relaxation of trade barriers in Japan. Most Americans, including our council, would have preferred more rapid liberalization. But we must remember that Japan is a democracy and, moreover, its stability depends upon a decision-making process which involves more consensus than is the practice in the United States. Orderly change is the rule.

One major factor underlying recent trade patterns is the prolonged period of inflation in the United States, which has increased costs and created excessive domestic demand.

In considering the bilateral relationship with Japan in the larger context of trade legislation, the Congress should recognize that there is no one "right" bilateral trade balance. The U.S. economy, on balance, has benefited greatly from imports from Japan. If the latter were not less expensive, of higher quality, or offering a type of products or styles otherwise unavailable, they could not have been sold here.

Because of these factors, they met the needs of American producers and consumers, and they increased the tempo of competition throughout the U.S. market.

American national interests would not have been served by resorting to an across-the-board import limitation. A much preferable policy was pursued for the most part by the Nixon administration: to press for Japanese liberalization to assure equal access of U.S. goods in

Japan, to implement exchange rate changes, and to handle specific import problems on a case-by-case basis.

The current American international economic dilemma reflects the historical fact that the international trading and monetary systems have not yet completed the transition between two distinct eras. Few had the foresight to realize that the end of the 1960s marked the end of an era. And even fewer had the foresight to predict the almost overnight emergence of Japanese international economic power.

In my next section, Mr. Chairman, I have covered the many, many steps which Japan has taken to improve, to liberalize its trade policy.

In the interest of time, I am going to try to skip over these.

Import quotas have been reduced most substantially. Global import quotas which remain have been enlarged. Unilateral tariff reductions have been made twice, and these extend beyond the obligations of Japan under the Kennedy round. The number of items on the automatic import system has been reduced to zero.

The Japanese Ex-Im Bank has expanded its import financing facilities. A system of export controls has been established. Restrictions on capital induction have been liberalized. In December 1971 the yen was appreciated vis-a-vis the dollar by 16.9 percent. As a result of a second exchange rate change in February 1973, the floating yen has once again appreciated relative to the dollar by about the same amount. In other words, the yen has appreciated by some 35 percent since August 1971.

Both sides have ample lessons to learn from the turmoil of recent years. The Japanese must now realize that massive trade surpluses are not in their interest. The Japanese must also accept the fact—as we think they do—that they are now an important part of a highly interrelated international economy which, for various reasons, will not tolerate Japanese surpluses of the magnitude recently experienced. The United States, we hope, has learned that the dollar, too, must be allowed to find its own level and that 2 or 3 years at least are required for the full effects of a major exchange rate realinement to be felt. We trust that this country has also learned that negotiation is preferable to confrontation.

At this point I would like to introduce for the record a study made by Dr. Cohen entitled, "Successes and Strains in U.S.-Japan Trade Relations". This study goes into much greater detail than I have the time to do today.

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

In fact, your entire statement will be included in the record.

Do you want these other two items?

Mr. STITT. Yes, I would. One of them, of course, is our membership list. The other is an intensive study of State buy American barriers to world trade, whereby we made inquiries of 50 State attorneys-general and 50 highway department executives.

Mr. GIBBONS. May I ask a question? Does the witness have a list of the nontariff barriers? You have given us the one for the States. Do you have one for the United States that we could have?

Mr. STITT. We have not compiled such a list, sir, but we would be very happy to do so and provide it for the record.

Mr. GIBBONS. Would you do that? Just send me a copy direct to my office because it is kind of hard to read this record. It takes a long time to print it.

I would ask unanimous consent that they be allowed to put in the record the list of the U.S. nontariff barriers as they see them.

Mr. BURKE. Without objection, it will be included at this point.

[The list follows:]

UNITED STATES NON-TARIFF TRADE BARRIERS

The following list comprises the principal U.S. barriers known to the United States-Japan Trade Council. Health, safety, and labeling standards are not included.

I. QUANTITATIVE RESTRICTIONS

A. Absolute quotas, by product: Sugar, meat, petroleum, raw and semi-processed cotton, peanuts, wheat and milled wheat products and certain dairy products (butter and substitutes, cheese, milk and cream and products thereof, including ice cream).

B. Tariff quotas based on quantity: Cattle, brooms, certain fresh fish, stainless steel flatware, canned tuna fish, potatoes, furs from Russia and China, tobacco and products from the Philippines.

C. Tariffs based on seasonal rates: Practically all fresh, chilled and frozen vegetables (e.g., lima beans, cauliflower, celery, cucumbers, etc.) and fresh, chilled and frozen fruits (e.g., grapes, melons, peaches, etc.)

D. "Voluntary" Japanese export restraints (negotiated at United States initiative): Cotton, woolen and man-made fiber textiles and products thereof, and steel mill products. (The United States-Japan Trade Council estimates that "voluntary" restraints on textile and steel products results in an annual reduction of Japanese exports to this country of about $250 million).

E. "Voluntary" Japanese export restraints (not negotiated by the United States Government): Twenty items which are shipped mainly to the United States are under global export restraint in Japan at the instance of the Japanese Government in order to reduce Japan's trade surplus with the United States. These are: fish, fresh, chilled and frozen; seamless steel tubes and pipes; internal combustion piston engines; cargo loading machinery; electric generators, motors, and transformers; resistors and distributing boards; radio receivers; communications equipment; household electrical appliances; thermo-electronic bulbs; regular passenger vehicles, excluding buses; special passenger cars and trucks; automotive bodies and chassis; motorcycles and motor bikes and parts; bicycles and parts; lenses and other optical goods; cameras and flash equipment; 8 mm movie cameras; clocks, watches and watch movements; and phonographs, tape recorders and allied equipment. In addition, Japanese baseball gloves, umbrellas, restaurant chinaware, plywood and a number of other sensitive products are restrained by the concerned Japanese industries as result of complaints of the U.S. industries involved. Altogether, we would estimate that "voluntary" export restraints, whether intergovernmental or not, affect about 50 to 60 percent of the volume of the export trade of Japan to the United States.

II. FEDERAL AND STATE "BUY AMERICAN" PROCUREMENT POLICIES

A. Federal "Buy American": Generally, the United States Government applies a 6 percent differential (12 percent in case of products of depressed areas and "small business" (products) in favor of domestic as against foreign products in procurement of items for governmental use. However, the Department of Defense (by far the largest purchaser) has for some years increased this differential to 50 percent, a prohibitive barrier to almost all foreign products.

B. State "Buy American": This subject is covered by our pamphlet entitled "State Barriers to World Trade", March 1973, which has already been incorporated in the record.

III. CUSTOMS AND VALUATION PRACTICES

A. American Selling Price System of Customs Valuation: Duties on benzenoid chemicals, canned clams, and rubber soled footwear with fabric uppers are assessed on the much higher price of a similar American product, rather than the value of the imported article.

B. Complexity of U.S. methods of customs valuation: The United States employs nine different methods of establishing values for import duties assessment.

C. Section 402a of the Tariff Act of 1930 as amended: the Final List.

Imports amounting to about 7 percent of dutiable U.S. imports, because of a special exemption, are still assessed on the old valuation basis which applied prior to the Customs Simplification Act of 1956.

D. Wine Proof-Gallon System.

Import duties and excise taxes on all imported distilled spirits are automatically applied on the basis of their being 100 proof; imported spirits below 100 proof are therefore taxed at the higher rate.

E. Unfair administration of the Anti-Dumping Act.

F. Absence of an injury test in the Countervailing Duty statute.

G. Nonconformity of U.S. tariff classification to the Brussels Tariff Nomenclature (BTN).

Although published in 1964, the United States-Japan Trade Council pamphlet entitled "Non-Tariff Trade Barriers of the United States" is still essentially correct in its analysis.

Finally, we wish to refer to pages 144 to 150 of the Ways and Means Committee print of Briefing Materials in connection with hearings on the subject of Foreign Trade and Tariffs, published in May, 1973. These pages set forth the non-tariff barriers of the United States as alleged by the various GATT signatories. The United States-Japan Trade Council does not necesesarily endorse all these allegations but believes the list may be instructive.

Mr. STITT. We will see that you get a copy personally, Congressman Gibbons.

Now, moving to the trade bill, the observations I have just made about the state of the United States-Japan economic relations have implications, of course, for the proposed Trade Reform Act of 1973 that is before you. Certain of the provisions in that bill are no doubt conditioned in considerable part by the recent experience with Japan. Before commenting on the various titles of H.R. 6767, let me reemphasize that the currency realignments, and the fact that the major currencies of the world are now free to reflect actual market forces, create a wholly new situation, which requires all of us to reorient our thinking radically.

To a large extent, the volume of imports from Japan in recent years and the trade imbalance resulted from an overvalued dollar, an undervalued yen, and the absence of any adequate adjustment mechanism. In fact, the second realignment of February 1973 may even have led to a temporarily overvalued yen. I predict that, by the end of this year, we will see a very considerable effect on the volume of Japan's sales to the United States, and on U.S. sales to Japan. It will take somewhat longer, of course, for a dramatic change to take place in the dollar trade balance, because the same Japanese goods are now worth 35 percent more in dollars than they were in early 1971.

This means that, so far as relations with Japan are concerned, the provisions of titles II, III, and IV of the bill, which are protective in purpose or are designed to give the Executive the weapons to deal with the practices of other countries, are far less likely to be invoked than was believed when they were first conceived. Frictions with Japan over exports to the United States, in our opinion, will greatly diminish.

We think that on the whole the proposed bill is a valuable and necessary piece of legislation. Despite the difficulties that have been encountered with respect to trade and payment problems, the United States remains incomparably the strongest and largest trading nation in the world. And the leadership of the United States is vital if the whole world is to benefit from a continued movement toward freer trade.

Incidentally, it is a great accomplishment for U.S. diplomacy that in 1973 we can refer to the "whole world" and not, as has been done so many times in the past, to the "free world." In what follows, we have some criticisms. I wish to emphasize, however, that we have great respect for the workmanship and thought that have gone into the bill, and believe than in its principal thrust it deserves your support. We respectfully offer the following specific comments.

TITLE I: AUTHORITY FOR NEGOTIATIONS

In section 101, we see no reason why the authority to increase tariffs, which would of course be used only in exceptional situations, should be unlimited and believe that a limitation to 150 percent of the column 2 rate of the Tariff Schedules of the United States, as heretofore, is more than sufficient authority to meet with any situation that might arise.

TITLE II: RELIEF FROM FAIR IMPORT COMPETITION

The first specific change we wish to urge in title II is that the Congress reject the market disruption test found in sections 201(b)(5) and 201(f)(2). We note that, as the bill has been framed, the so-called market disruption test is simply a short route by which the Tariff Commission can find the required causal relation between the increased imports and serious injury or threat of serious injury. Serious injury or threat thereof must be found, and if there is evidence that other factors may be the primary cause, rather than increased imports, then the market disruption test would not prevent the Tariff Commission from finding that the statutory requirements are not met. It is precisely, however, because the consequences of this provision are uncertain that we respectfully suggest that it would be better to omit it.

We would particularly urge that this provision not be altered by the Congress to make it a mechanical test which omits the requisites of findings of (1) actual serious injury or threat thereof to the industry involved, and of (2) causal connection to the increased imports of the product involved. It would be absurd to weaken the causal connection, because import restrictions would have no point if imports were not the primary cause of the difficulties facing the U.S. industry.

Second, we question on the basis of experience the practicality of the provision to limit a Tariff Commission injury investigation to three months, or at the most five months, as proposed by section 210(d)(2). A thorough investigation involving a product of any complexity would necessarily require more time, in the interest of fairness.

In fact, under the present limit of six months, the Tariff Commission is straining constantly against the deadline and having trouble in getting its reports done in time. Injury investigations, to be meaningful , require the collection of data through questionnaires and field work by the staff which then must be assimilated and thoughtfully evaluated. In the case of an affirmative finding of injury, the President should not be required to make his decision on inadequate evidence.

TITLE III: RELIEF FROM UNFAIR TRADE PRACTICES

Section 301 would strengthen the President's hand with respect to foreign import restrictions. We recognize that giving the President

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the power to take actions in this field does not mean that in a particular situation the President would necessarily see fit to invoke those powers.

Nevertheless, there are three amendments which appear to us to be in order. Two of them relate to the question of the relationship to the international obligations of the foreign country or countries concerned, and to the international obligations of the United States. First, we think the authority in section 301(a)(1) should be limited to unjustifiable (without the additional "unreasonable") import restrictions of the other country.

Second, we think that in section 301(b) the requirement should be that the actions of the President be consistent with the international obligations of the United States.

Third, section 301(c) of the bill appears to us to lack sufficient safeguards with respect to the interest of American firms and groups that may be affected by the President's action. We suggest that this provision should provide an opportunity for interested persons to bring to his attention not only foreign restrictions, but also problems that may be raised by the action that the President might be considering.

We also think that the President should, unless there are overriding circumstances that would be extremely rare, give notice in advance of the action that he proposes to take and afford interested parties an opportunity to be heard before the action is taken.

We urge that the Antidumping Act, which would be amended by Section 310 of the bill, also be amended to provide that in comparing the home market price of the exporting country with the export price to the United States all differences in circumstances of sale which appear to exist under accepted accounting principles should be taken into account, whether or not such differences are directly related to the sale under consideration.

The necessity for this amendment arises from the current Antidumping Regulations and from the practice of the Treasury Department, which we believe is not consistent with the law as written.

This is a technical matter, but my experience in these matters indicates that the Treasury Department is being most unfair in showing a direct relationship in showing the differences of the circumstance in the sales to the United States of products made in Japan.

The importer takes title at the water's edge, and all the rest of the expense is at the importer. In Japan the manufacturer has a distribution system and sales outlets before the goods get to the final consumer.

We believe these are circumstances of sale which should well be considered.

I would like to suggest that the committee inquire of the Treasury Department as to this part of the Antidumping Act. We don't believe it relates to the act which says "other differences in circumstances of sale."

Section 330 of the bill would amend section 303 of the Tariff Act of 1930 relating to countervailing duties in several important respects. We concur in the principle of giving to the Secretary of the Treasury the discretion, which de facto he has already exercised under this law, to decide whether, even if there is a technical bounty or grant in the

sense of the law, the imposition of a countervailing duty would result or be likely to result in significant detriment to the economic interest of the United States, or to abstain from imposing the duty because the article was under effective quantitative limitations.

We have no objection to the amendment which would extend the countervailing duty principle to articles which are presently duty-free.

The law as written has been limited to articles which are dutiable. It does seem, however, quite wrong in principle not to apply the injury test to both dutiable and non-dutiable articles. It is entirely contrary to the spirit and intent of the GATT for the United States, in amending its law, not to add the injury test for dutiable articles. The only reason that this has not been done heretofore was that the American law antedates the GATT, and under the "grandfather clause," the United States was not under that obligation. But surely there was never any idea that, when we were examining our law and deciding what changes to make in it, we did not have at least a moral obligation to conform to the GATT. There is a practical reason, too, since the Secretary would have the responsibility of deciding whether imposition of the countervailing duty would result in detriment to the economic interest of the United States. This is a matter on which he could well have the benefit of a Tariff Commission finding before making this decision.

Section 350 of the act, in our view, does not go far enough. It would take away the Tariff Commission's jurisdiction under section 337 of the Tariff Act of 1930, except in patent cases. Another proposal, which presumably will be pending soon before other committees of the Congress, would give the remaining jurisdiction to the Federal Trade Commission. We question whether in the 50-year history of this law, which was first enacted in 1922, there have been enough cases where the remedies could not have been granted under other legislation to justify the continuation of the law. We submit that section 337 should simply be repealed.

We have strong reservations on the proposal that the Federal Trade Commission be given what is essentially the present jurisdiction under Section 337 with respect to all unfair acts other than patent infringement. There is no indication that there is need for this jurisdiction. The Federal Trade Commission can take action at present on unfair acts, whether they be on the part of importers or domestic sellers. There is nothing in the history of section 337 or of the FTC Act to show any real requirement for the remedy of exclusion of imports.

TITLE IV: INTERNATIONAL TRADE POLICY MANAGEMENT

It is suggested that section 401, relating to balance of payments authority, should provide that the President's action must be consistent with the international obligations of the United States. The reasons for this are the same as are discussed above in connection with Section 301. It is unlikely that any President would choose to act contrary to the international legal obligations of the United States, as interpreted by his own legal advisers. Why then alarm friendly nations by suggestions that he would do otherwise?

TITLE V: MOST FAVORED NATION TREATMENT FOR COMMUNIST COUNTRIES

The United States-Japan Trade Council welcomes the steps that have been taken toward closer worldwide trade relations. We believe it to be in the interest of all concerned, from a political as well as an economic point of view, for commerce to be conducted freely among all nations of the world. For this reason, we generally support title V of the act.

TITLE VI: PREFERENTIAL TARIFF TREATMENT FOR DEVELOPING COUNTRIES

We also support the generalized system of preferences provided in title VI. This has been agreed among all of the major nations of the world and has already been put into effect, with variations from country to country, by Japan and the EEC.

As was pointed out when Mr. Morgan was speaking, there do exist reverse preferences particularly with regard to the EEC and African countries. I would be inclined to say our position would be we object to this kind of preferential treatment, and we support the portion of the bill that would instruct the President not to enter into U.S. preferential tariffs to developing countries unless these reverse preferences are phased out in the next several years.

Our only comment on title VII is with respect to section 708, providing authority for the President to simplify and modify U.S. tariff schedules. Our experience indicates that this is a worthwhile provision, because the various changes which are made in the course of trade agreements have tended historically to complicate rather than to simplify tariff schedules. It would be helpful that greater attention be given in such negotiations to simplification of the rate structures. As we interpret section 708, it would give authority to conform the tariff descriptions accordingly.

CONCLUSION

We agree with the authors of H.R. 6767 that the President must be given a large amount of discretionary authority if this United States is to wield maximum leverage during the upcoming round of trade negotiations. We are concerned, however, by those provisions of the bill—principally sections 301 and 401—that would authorize the President to take actions not necessarily in accordance with this country's international obligations. While we generally support the negotiating authority, most favored nation and generalized tariff preferences titles of the proposed legislation, we have set forth specific suggestions with respect to some provisions in titles II, III, and IV.

In a more general vein, I have described in some detail the steps Japan has taken to upvalue its currency and open its market to U.S. exports and investment capital. We believe these efforts deserve to be more widely recognized, not only for their economic impact, but also as evidence of Japan's good will toward the United States. We feel there is too little awareness in this country of this good will and of what a difficult and complex task it has been for Japan to radically revise its trade structure, often at considerable cost to its domestic industries and workers.

This has now been done, and the results are beginning to become apparent. But let us not forget the larger framework in which United States-Japan economic relations are set:

Our countries are the largest overseas trading partners in history;

The continued growth and profitability of this trade is an important element in the prosperity of both countries; and

Our economic relations are, in turn, a key component of our larger political relations, described by the President as the "linch pin" for peace in the Pacific.

Thus, the restoration of economic harmony between the two countries and a healthier trade and payments situation is a matter of the greatest importance for Americans and Japanese alike. I believe we are well on the road to achieving that harmony, and that men of good will can only be greatly heartened by the recent developments that have been cited.

I appreciate the opportunity the committee has given me to express our views on the proposed legislation and on United States-Japan relations.

[Mr. Stitt's prepared statement and material submitted for the record, follow:]

STATEMENT OF NELSON A. STITT, DIRECTOR, UNITED STATES-JAPAN TRADE COUNCIL

Mr. Chairman and Members of the Committee: I am Nelson A. Stitt, Director of the United States-Japan Trade Council, a non-profit association incorporated in the District of Columbia. I am accompanied by Dr. Stephen D. Cohen, the Council's Chief Economist, and by Allan Schlosser, our Legislative Director.

The Council has a present membership of approximately 900 firms all doing business in the United States and I herewith offer to you our latest list of members, dated July 1972. In order that our position may not be misunderstood, I wish to point out that one sustaining member, the Japan Trade Promotion Office of New York City, provides by far the bulk of the Council's financing. That office, in turn, receives its funds from the Japanese Government. As a result, the Council is registered under the Foreign Agents Registration Act and makes periodic reports to the Department of Justice with regard to its activities, receipts and expenditures. At the time of our request to testify we submitted to your Chief Counsel a copy of our most recent report to Justice, covering the last half of 1972.

Finally, I want to emphasize that the policies and positions of the United States-Japan Trade Council are independently formulated and taken with no intervention by the Japanese Government. I speak for the Council professional staff and the members of the Council as a whole. We feel free to—and have and will—give our own views, comments, criticisms, and suggestions with respect to the international economic policies of both countries.

RECENT CHANGES IN UNITED STATES-JAPAN TRADE

The U.S.-Japan economic relationship has changed dramatically since I appeared before this Committee three years ago. Total bilateral trade in 1973 is expected to exceed $16 billion, the largest volume of overseas commerce in history. If realized, this figure will represent a doubling of trade within a period of just four years.

As several Administration witnesses indicated last week, the exchange rate of the yen has appreciated by about one-third in relation to the dollar, a development now beginning to be reflected in the bilateral trade statistics. In this connection, I am encouraged by the fact that American exports to Japan are increasing at a record rate, while the rise in imports from Japan is moderate (see Appendix). During the first quarter of 1973, for example, U.S. exports to Japan rose by an impressive 56.3 percent over the previous year, while imports from Japan were up only 10.0 percent. In March, American exports to Japan reached their highest monthly level in history—$772 million, up 50.5 percent over March 1972—while imports from Japan declined by 6.5 percent. Moreover, Japanese

licenses issued in March for imports from the U.S. rose by 125 percent, while licenses for exports to this country actually declined by 3.1 percent over the previous year. Since these licenses predate actual shipments by two to four months, the figures suggest that we may anticipate a rather sharp reversal during the remainder of this year of the recent trend in the U.S.-Japan trade balance. Some responsible economists have estimated a reduction of at least $1 billion this year in last year's U.S. deficit of $4.1 billion in its bilateral trade with Japan.

I recall that when I testified before you in 1970, a number of Committee Members expressed concern about Japan's import restrictions. Much of that criticism was understandable and quite legitimate at the time, but I am pleased to report that the situation with respect to trade and capital liberalization has improved significantly. The Japanese Government has eliminated the vast majority of its former restrictions. Import quotas, which covered 120 product categories in April 1969 (as defined by the Brussels Tariff Nomenclature) have been removed on all but 32 items (24 agriculture, 8 industrial). In addition to these trade initiatives, the Japanese Government on May 1 of this year virtually completed its capital liberalization program by opening nearly all industrial sectors to 100 percent foreign ownership.

The facts indicate that Japan has made a major effort—one which was often politically painful—to liberalize both its trade and investment policies. We would also suggest that Japan's willingness to revalue its currency under the Smithsonian Agreement of 1971 and to permit the yen to float this year under the "Volcker Agreement" has moved us closer to the creation of a more open and more equitable trade and monetary system.

TRADE RELATIONS: PAST AND FUTURE

Here I will address myself to certain key questions in connection with the U.S. deficits in its trade with Japan recent years. How did these deficits come about? Should the American or Japanese response have been more vigorous in redressing the balance? What is the future outlook for the U.S.-Japan trade relationship?

There are two main approaches that can be utilized in analyzing the economic forces which were responsible for the recent growth of Japan's trade surplus with this country. The first is what I might call the "Conspiracy Approach". Under this scenario, the Japanese Government and business sector joined hands to systematically invade the American market. utilizing whatever measures were necessary to create a massive trade surplus with a country whose doors were supposedly wide open to imports. I reject this argument because it is too simplistic and because it is simply incorrect.

Second, it is true that the Japanese economic system is different from ours. But it is not run by government plan, nor has it been made to grow by exporting products below their production costs. Unquestionably, economic planning in Japan has been more effective than in the United States. However, a government economic plan is worthless in the absence of farsighted, intelligent, hard-working workers and businessmen. A government can create a climate conducive to growth, and it can facilitate the allocation of economic resources to high-growth industries. But it takes the private sector to manufacture quality products and sell them at competitive price. If this were not true, the Communist and Socialist countries, where governmental economic planning is far more pervasive, would have passed both Japan and the United States in economic power years ago.

What is the relationship of Japanese government planning to the growth in Japanese competitiveness? One major factor was import protection to those industries around which the economic recovery of Japan after World War II was based. Hence, the Japanese steel, electronics, shipbuilding, automobile and chemical industries were aided in their recovery by minimizing foreign competition. Given the widespread destruction of the Japanese economy in 1945, recovery would probably have been impossible without such protection. Japan's then infant industries would have been quickly overwhelmed by foreign competition which had not suffered the ravages of war. Simply stated, they needed time to mature.

The so-called infant industry doctrine is one of the very few accepted by economists as a valid reason for import protection. Without such protection Japan's economy today would probably still be built around textiles, toys, and

other light industries. Japan would have, in the words of a former Japanese Government official, "sentenced its population to the Asian pattern of stagnation and poverty." The quickest possible restoration of a heavy industrial base was at the core of post-war Japanese planning.

REMOVAL OF JAPANESE IMPORT BARRIERS

The key question to be asked then is: have the Japanese removed import barriers as the infants have grown up? The answer is "Yes". Except for computers, integrated circuits, and leather products, Japan has terminated import quotas and high tariffs to protect its manufacturing sector. It is expected that computers and integrated circuits will be freed from import restrictions within three years. Like all countries, Japan retains import barriers to certain politically sensitive agricultural products. However, overall, the recent rapid progress of Japanese trade liberalization permits me to say that Japan's current barriers to imports are lower than those maintained by any other major country, including the United States.

The point which I wish to emphasize is that widespread Japanese import barriers existed during a relatively brief historical period because of an economic policy aimed at restoring Japan's pre-war economic strength as quickly as possible. The rapid recovery of Japan's economy has been followed by a relaxation of trade barriers in Japan. Most Americans, including our Council, would have preferred more rapid liberalization. But we must remember that Japan is a democracy and, moreover, its stability depends upon a decision-making process which involves more consensus than is the practice in the United States. Orderly change is the rule.

JAPAN'S LACK OF RAW MATERIALS

Before leaving this historical survey, let me point out other economic forces which have influenced recent trading patterns between the United States and Japan. The near total absence of indigenous raw materials in Japan has been a major impetus to exports, which provide the means of earning the foreign exchange necessary to pay for vital imports needed to keep the economic machine functioning. For the United States, exports represent one way for companies to increase earnings; for the Japanese, exports became a means of survival. A final consequence of this critical need for raw material and food imports was the need in the immediate post-war period to establish governmental controls to allocate scarce foreign exchange holdings to essential imports.

NO ONE "RIGHT" BILATERAL TRADE BALANCE

Other major factors underlying recent trade patterns include the prolonged period of inflation in the United States, which has increased costs and created excessive domestic demand. Also enhancing the ability of the Japanese to sell successfully in this market is the fact that Japan's economic growth over the past decade has been centered in industries producing tradable goods, such as automobiles and electronics. Conversely, recent U.S. economic growth has centered around the services sector, which has limited export potential.

In considering the bilateral relationship with Japan in the larger context of trade legislation, the Congress should recognize that there is no one "right" bilateral trade balance. The U.S. economy, on balance, has benefited greatly from imports from Japan. If the latter were not less expensive, of higher quality, or offering a type of products of styles otherwise unavailable, they could not have been sold here. Because of these factors, they met the needs of American producers and consumers, and they increased the tempo of competition throughout the U.S. market. These advantages outweighed the more limited negative impact on a limited number of American workers and companies, although admittedly—for some communities and groups of workers—this import competition caused some serious dislocations.

In short, American national interests would not have been served by resorting to an across-the-board import limitation. A much preferable policy was pursued for the most part by the Nixon Administration: to press for Japanese liberalization to assure equal access of U.S. goods in Japan, to implement exchange rate changes, and to handle specific import problems on a case-by-case basis.

The recent improvement in the U.S. trade performance vis-a-vis Japan indicates that the United States is not facing insurmountable odds in dealing with

Japan, the European Community or any other foreign economy. Rather, the current American international economic dilemma reflects the historical fact that the international trading and monetary systems have not yet completed the transition between two distinct eras. Few had the prescience to realize that the end of the 1960's marked the end of an era. And even fewer had the foresight to predict the almost overnight emergence of Japanese international economic power.

JAPAN SEEKS TO ENCOURAGE IMPORTS

Considering the rapidity of the change, the Japanese made remarkable strides in adjusting to their new-found international economic competitiveness. As I noted earlier, import quotas, which numbered 120 items in April 1969 stand at 32 items in the spring of 1973. Global import quotas have been enlarged for several of the items still under quota which are of special interest to the U.S., e.g., fresh oranges, fruit juices, meats, and peanuts. Unilateral tariff reductions were made by Japan in April 1972, and again in November 1972, extending beyond its obligations under the Kennedy Round. The Import Deposit System was abolished in December 1972. The number of items on the Automatic Import Quota (AIQ) system was reduced to zero in 1972 in response to foreign arguments that this system constituted a non-tariff barrier (in that it allegedly gave the Japanese Ministry of International Trade and Industry a chance to jawbone importers.) Government procurement procedures have been liberalized to promote foreign competition. The Japanese Export-Import Bank has expanded its import financing facilities and abolished preferential financing for exports. Taxes providing export incentives have been ended, and a system of export controls established. Restrictions on capital induction have been liberalized.

In December 1971 the yen was appreciated vis-a-vis the dollar by 16.9 percent. As a result of a second exchange rate change in February 1973, the floating yen has once again appreciated relative to the dollar by about the same amount. In other words, the yen has appreciated by some 35 percent since August 1971.

THE UNITED STATES-JAPAN TRADE BALANCE

Let me reemphasize that there is no such thing as a "correct" or "appropriate" annual arithmetic balance in U.S.-Japan trade. In a multilateral world, the U.S.-Japan trade balance by itself is not important. What is important is that the market forces be free to operate so as to prevent repetitions of the disequilibrium between the two currencies which caused so much trouble in recent years.

Both sides have ample lessons to learn from the turmoil of recent years. The Japanese must now realize that massive trade surpluses are not in their interest. The Japanese must also accept the fact—as we think they do—that they are now an important part of a highly interrelated international economy which, for various reasons, with not tolerate Japanese surpluses of the magnitude recently experienced. The United States, we hope, has learned that the dollar, too, must be allowed to find its own level and that two or three years at least are required for the full effects of a major exchange rate realignment to be felt. We trust that this country has also learned that negotiation is preferable to confrontation.

THE PROPOSED TRADE BILL

The observations I have just made about the state of U.S.-Japan economic relations have implications, of course, for the proposed Trade Reform Act of 1973 that is before you. Certain of the provisions in that bill are no doubt conditioned in considerable part by the recent experience with Japan. Before commenting on the various titles of H.R. 6767, let me reemphasize that the currency realignments, and the fact that the major currencies of the world are now free to reflect actual market forces, create a wholly new situation, which requires all of us to reorient our thinking radically. To a large extent, the volume of imports from Japan in recent years and the trade imbalance resulted from an overvalued dollar, an undervalued yen, and the absence of any adequate adjustment mechanism. In fact, the second realignment of February 1973 may even have led to a temporarily overvalued yen. I predict that, by the end of this year, we will see a very considerable effect on the volume of Japan's sales to the United States, and on U.S. sales to Japan. It will take somewhat longer, of course for a dramatic change to take place in the dollar trade balance, because the same Japanese goods are now worth 35 percent more in dollars than they were in early 1971.

This means that, so far as relations with Japan are concerned, the provisions of Titles II, III, and IV of the bill, which are protective in purpose or are designed to give the Executive the weapons to deal with the practices of other countries, are far less likely to be invoked than was believed when they were first conceived. Frictions with Japan over exports to the United States, in our opinion, will greatly diminish.

We think that on the whole the propsed bill is a valuable and necessary piece of legislation. Despite the difficulties that have been encountered with respect to trade and payment problems, the United States remains incomparably the strongest and largest trading nation in the world. And the leadership of the United States is vital if the whole world is to benefit from a continued movement toward freer trade. Incidentally, it is a great accomplishment for U.S. diplomacy that in 1973 we can refer to the "whole world" and not, as has been done so many times in the past, to the "free world", In what follows, we have some criticisms, I wish to emphasize, however, that we have great respect for the workmanship and thought that have gone into the bill, and believe that in its principal thrust it deserves your support. We respectfully offer the following specific comments.

TITLE I: AUTHORITY FOR NEGOTIATIONS

In *Section 101*, we see no reason why the authority to increase tariffs (which would of course be used only in exceptional situations) should be unlimited and believe that a limitation to 150 percent of the Column 2 rate of the Tariff schedules of the United States, as heretofore, is more than sufficient authority to meet with any situation that might arise. Remember that Column 2 of the TSUS largely represents the smoot-Hawley tariff rates which constricted world trade and helped to deepen the depression of the early 1930's.

Section 103 would give the President encouragement and authority to negotiate for the reduction of non-tariff trade barriers. In this connection, we wish to point out that so-called non-tariff trade barriers do not lend themselves to quantitative reciprocal treatment. Negotiations may fail if an attempt is made to obtain a *quid pro quo* for acts to eliminate U.S. barriers which should be done in the interest of the United States. We have particularly in mind the kind of customs standards which are referred to in *Section 103(c)*. These are matters of customs simplification which ought to be carried out in the interest of both the export and import trade of the United States.

TITLE II: RELIEF FROM FAIR IMPORT COMPETITION

The first specific change we wish to urge in Title II is that the Congress reject the market disruption test found in *Sections 201 (b)(5) and 201 (f)(2)*. We note that, as the bill has been framed, the so-called market disruption test is simply a short route by which the Tariff Commission can find the required causal relation btween the increased imports and serious injury or threat of serious injury. Serious injury or threat thereof must be found, and if there is evidence that other factors may be the primary cause, rather than increased imports, then the market disruption test would not prevent the Tariff Commission from finding that the statutory requirements are not met. It is precisely, however, because the consequences of this provision are uncertain that we respectfully suggest that it would be better to omit it. Inevitably the Tariff Commission would look at the basic statistical picture of whether imports have increased rapidly, whether they have been lower in price, and what proportion they have borne to consumption. If the provision is simply a description of the mental process which the Commission would naturally follow, it is unnecessary; and if it provides something more than that, then it goes beyond the intention of the draftsmen and invites abuse.

We would particularly urge that this provision be altered by the Congress to make it a mechanical test which omits the requisites of findings of (1) actual serious injury or threat thereof to the industry involved, and of (2) causal connection to the increased imports of the product involved. It would be absurd to weaken the causal connection, because import restrictions would have no point if imports were not the primary cause of the difficulties facing the U.S. industry.

Second, we question the practicality of the provision to limit a Tariff Commission injury investigation to three months, or at the most five months, as proposed by *Section 210 (d)(2)*. A thorough investigation involving a product of any complexity would necessarily require more time, in the interest of fairness.

In fact, under the present limit of six months, The Tariff Commission is straining constantly against the deadline and having trouble in getting its reports done in time. Injury investigations, to be meaningful, require the collection of data through questionnaires and field work by the staff which then must be assimilated and thoughtfully elevated. In the case of an affirmative finding of injury, the President should not be required to make his decision on inadequate evidence.

Third, the question of relief is covered by *Section 203*, Import Relief. The period of import relief is limited to five years, with the possibility of one two-year extension. This is a modest improvement on the present law. However, the present limitation that tariff increases be limited to 150 percent of Smoot-Hawley is deleted. We think that, given the current level of tariffs, this limitation is desirable and should therefore be continued.

Fourth, another desirable amendment would be to require the Tariff Commission to include in its report the various economic considerations which the President is to take into account under *Section 202 (c)*. As it is now drafted, the Tariff Commission report would be considerably narrower. For instance, the Commission would not consider the consumer interest and efforts being made by the industry concerned to adjust to import competition. Such an amendment would permit the Tariff Commission to assist the President in his conclusions, after an affirmative finding of injury.

TITLE III: RELIEF FROM UNFAIR TRADE PRACTICES

Section 301 would strengthen the President's hand with respect to foreign import restrictions. We recognize that giving the President the power to take actions in this field does not mean that in a particular situation the President would necessarily see fit to invoke those powers.

Nevertheless, there are three amendments which appear to us to be in order. Two of them relate to the question of the relationship to the international obligations of the foreign country or countries concerned, and to the international obligations of the United States. First, we think the authority in *Section 301 (a)(1)* should be limited *to unjustifiable* (without the additional "unreasonable") import restrictions of the other country. Second, we think that in *Section 301 (b)* the requirement should be that the actions of the President be *consistent with the international obligations of the United States.* We do not regard it as likely that any actual decision would turn on the difference between the word "consistent" and the word "consider", found in *Section 301(b)* of the bill, or the words "due regard for", which are found in Section 252 of the Trade Expansion Act of 1962. The President, we are confident, will act in accordance with the international obligations of the United States. It is exactly for this reason that it seems unwise to alarm America's trading partners by granting authority that suggests that the President would go farther.

Third, *Section 301(c)* of the bill appears to us to lack sufficient safeguards with respect to the interest of American firms and groups that may be affected by the President's action. We suggest that this provision should provide an opportunity for interested persons to bring to his attention not only foreign restrictions, but also problems that may be raised by the action that the President might be considering. We also think that the President should, unless there are overriding circumstances that would be extremely rare, give notice in advance of the action that he proposes to take and afford interested parties an opportunity to be heard before the action is taken. Action by the President under Section 252 of the Trade Expansion Act was taken only once in ten years (the Chicken War) and thus it is easily forgotten that American importers and other interests can be vitally affected by a proposed action.

We urge that the Antidumping Act, which would be amended by *Section 310* of the bill, also be amended to provide that in comparing the home market price of the exporting country with the export price to the United States all differences in circumstances of sale which appear to exist under accepted accounting principles should be taken into account, whether or not such differences are directly related to the sale under consideration. The necessity for this amendment arises from the current Antidumping Regulations and from the practice of the Treasury Department, which we believe is not consistent with the law as written. The basic principle of the Antidumping Act is that the two prices, the home market price and the export price, must be netted back to the factory price in order to make a fair comparison, taking out those costs which are peculiar to the market under consideration. Nevertheless Treasury requires that, to be allowed, the difference must be "directly related to the sales which are under consideration."

This requirement, which has no justification in the purposes or in the language of the present law, works to the disadvantage of exporters and importers. The most common situation in which the so-called "purchase price" (that is, the export price) is applied in the exporting country is where the sale is made at the water's edge, and all of the costs of marketing are borne by the importer in the United States. At the same time, it is quite common for the manufacturer to maintain a sales organization in the country of origin, but under the principles which are presently applied by the Treasury Department, the expenses of that selling organization in the home market are not allowable. Thus we think that the Treasury Department has been obviously unfair in its application of the Antidumping Act. The purpose of this proposed amendment is to make sure that this practice is not continued. The same unfairness, to a lesser degree, exists when "exporter's sales price" is used as the proper measure of the export price.

We express the hope that this Committee will invite explanations by the Treasury Department of the actual practice, which we feel sure will be found by any reasonable person to be an abuse of discretion by that Department. This has been a very serious matter, because it is quite possible that it has led to dumping charges which have unjustifiably castigated foreign suppliers and fed the flames of international ill-feeling.

Section 330 of the bill would amend Section 303 of the Tariff Act of 1930 relating to countervailing duties in several important respects. We concur in the principle of giving to the Secretary of the Treasury the discretion, which *de facto* he has already exercised under this law, to decide whether, even if there is a technical bounty or grant in the sense of the law, the imposition of a countervailing duty would result or be likely to result in significant detriment to the economic interest of the United States, or to abstain from imposing the duty because the article was under effective quantitative limitations.

We have no objection to the amendment which would extend the countervailing duty principle to articles which are presently duty-free. The law as written has been limited to articles which are dutiable. It does seem, however, quite wrong in principle not to apply the injury test to both dutiable and non-dutiable articles. It is entirely contrary to the spirit and intent of the GATT for the United States, in amending its law, not to add the injury test for dutiable articles. The only reason that this has not been done heretofore was that the American law antedates the GATT, and under the "grandfather clause", the United States was not under that obligation. But surely there was never any idea that, when we were examining our law and deciding what changes to make in it, we did not have at least a moral obligation to conform to the GATT. There is a practical reason, too, since the Secretary would have the responsibility of deciding whether imposition of the countervailing duty would result in detriment to the economic interest of the United States. This is a matter on which he could well have the benefit of a Tariff Commission finding before making this decision.

Section 350 of the Act, in our view, does not go far enough. It would take away the Tariff Commission's jurisdiction under Section 337 of the Tariff Act of 1930, except in patent cases. Another proposal, which presumably will be pending soon before other committees of the Congress, would give the remaining jurisdiction to the Federal Trade Commission. We question whether in the 50-year history of this law, which was first enacted in 1922, there have been enough cases where the remedies could not have been granted under other legislation to justify the continuation of the law. We submit that Section 337 should simply be repealed.

If it is not repealed *in toto*, then we submit that the provisions with respect to patent cases do not take an adequate account of some of the problems which exist at present. The worst possible abuse here be remedied, by permitting entry of articles under bond pending the final decision on the validity of the patent by a competent court, rather than by absolute exclusion. However, the bill would leave the present anomaly that the Tariff Commission can try the issues relating to patent infringement but not the issues relating to patent validity, although validity and infringement usually are inextricably related. The amendment would not change the present ridiculous situation whereby an importer may be forced to try patent issues in the Tariff Commission at more or less the same time that they are being tried in a U.S. District Court. If the two suits were pending in different District Courts, one would defer to the other.

We have strong reservations on the proposal that the Federal Trade Commission be given what is essentially the present jurisdiction under Section 337 with respect to all unfair acts other than patent infringement. There is no indication

that there is need for this jurisdiction. The Federal Trade Commission can take action at present on unfair acts, whether they be on the part of importers or domestic sellers. There is nothing in the history of Section 337 or of the FTC Act to show any real requirement for the remedy of exclusion of imports.

TITLE IV: INTERNATIONAL TRADE POLICY MANAGEMENT

It is suggested that *Section 401*, relating to balance of payments authority, should provide that the President's action must be *consistent with the international obligations of the United States*. The reasons for this are the same as are discussed above in connection with *Section 301*. It is unlikely that any President would choose to act contrary to the international legal obligations of the United States, as interpreted by his own legal advisers. Why then alarm friendly nations by suggestions that he would do otherwise?

The other criticism that we have of this Title deals with the opportunity to be heard or to present views. While this may be impracticable with respect to *Section 401*, we see no likelihood that action would have to be taken under some of the other Sections with such urgency that hearings could not be held, or—at least—that interested parties could not be given the opportunity to submit views. We refer to *Section 402*, relating to withdrawal of concessions; to *Section 405*, relating to suspension of import barriers to restrain inflation; and to *Section 408*, relating to authority to terminate actions taken under trade agreements. All experienced administrators will appreciate that such provisions are a safeguard to the Executive himself, because it is never possible to be sure that all the problems that will be raised by a particular course of action will be foreseen.

TITLE V: MOST FAVORED NATION TREATMENT FOR COMMUNIST COUNTRIES

The United States-Japan Trade Council welcomes the steps that have been taken toward closer world-wide trade relations. We believe it to be in the interest of all concerned, from a political as well as an economic point of view, for commerce to be conducted freely among all nations of the world. For this reason, we generally support Title V of the Act.

TITLE VI: PREFERENTIAL TARIFF TREATMENT FOR DEVELOPING COUNTRIES

We also support the generalized system of preferences provided in Title VI. This has been agreed among all of the major nations of the world and has already been put into effect, with variations from country to country, by Japan and the EEC.

TITLE VII: GENERAL PROVISIONS

The only one of the general provisions on which we desire to comment is *Section 708*, providing authority for the President to simplify and modify U.S. tariff schedules. Our experience indicates that this is a worthwhile provision, because the various changes which are made in the course of trade agreements have tended historically to complicate rather than to simplify tariff schedules. It would be helpful that greater attention be given in such negotiations to simplification of the rate structures. As we interpret Section 708, it would give authority to conform the tariff descriptions accordingly.

CONCLUSION

We agree with the authors of H.R. 6767 that the President must be given a large amount of discretionary authority if the United States is to wield maximum leverage during the upcoming round of trade negotiations. We are concerned, however, by those provisions of the bill—principally Sections 301 and 401—that would authorize the President to take actions not necessarily in accordance with this country's international obligations. While we generally support the negotiating authority, most favored nation and generalized tariff preferences titles of the proposed legislation, we set forth specific suggestions with respect to some provisions in Titles II, III, and IV.

In a more general vein, I have described in some detail the steps Japan has taken to upvalue its currency and open its market to U.S. exports and investment capital. We believe these efforts deserve to be more widely recognized, not only for their economic impact, but also as evidence of Japan's good will toward the United States. We feel there is too little awareness in this country of this good will and of what a difficult and complex task it has been for Japan to radically revise its trade structure, often at considerable cost to its domestic industries and workers.

This has now been done, and the results are beginning to become apparent. But let us not forget the larger framework in which U.S.-Japan economic relations are set:

Our countries are the largest overseas trading partners in history;

The continued growth and profitability of this trade is an important element in the prosperity of both countries; and

Our economic relations are, in turn, a key component of our larger political relations, described by the President as the "linch pin" for peace in the Pacific.

Thus the restoration of economic harmony between the two countries and a healthier trade and payments situation is a matter of the greatest importance for Americans and Japanese alike. I believe we are well on the road to achieving that harmony, and that men of good will can only be greatly heartened by the recent developments that have been cited.

I appreciate the opportunity the Committee has given me to express our views on the proposed legislation and on U.S.-Japan relations.

UNITED STATES-JAPAN BILATERAL TRADE [1]

	U.S. exports of domestic and foreign merchandise to Japan		U.S. general imports from Japan	
	Value (in millions)	Percentage change compared with same month of previous year [2]	Value (in millions)	Percentage change compared with same month o previous year
1972				
January	$370.9	1.8	$664.5	20.6
February	321.7	−11.8	580.7	18.8
March	512.6	40.7	847.1	52.8
April	372.8	12.6	691.7	12.6
May	375.0	1.2	769.3	33.9
June	387.7	27.8	707.2	3.2
July	376.5	44.2	680.1	38.6
August	405.3	35.2	911.1	71.9
September	378.5	2.0	805.5	24.2
October	463.7	59.0	819.0	35.5
November	488.5	48.5	863.9	22.3
December	511.6	26.7	724.6	−10.6
1973				
January	547.8	47.6	800.8	20.6
February	565.3	75.7	708.7	22.0
March	771.7	50.5	792.2	−6.5

[1] Data are not adjusted for seasonal variation.

[2] It should be noted that the figures on monthly rates of change of exports and imports during the January 1972—March 1973 period are distorted to some extent by dock strikes and their aftermath. Longshoremen were on strike at west coast ports between July 1, 1971, and Oct. 6, 1971, and between Jan. 17, 1972, and Feb. 20, 1972; they were also on strike at east coast and gulf ports from Oct. 1, 1971, until, in some cases, Nov. 26, 1971.

Source: Adapted from U.S. Department of Commerce, Bureau of the Census, Highlights of Exports and Imports (FT 990).

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The American Import Company
1167 Mission Street
San Francisco, Calif. 94103

American-Israeli Shipping Co., Inc.
11 Broadway
New York, N.Y. 10004

American Koyo Corp.
P. O. Box 16038
Cleveland, Ohio 44116

American Mail Line
1010 Washington Bldg.
Seattle, Wash. 98101

American Metal Climax, Inc.
1270 Avenue of the Americas
New York, N.Y. 10020

American President Lines
601 California Street
San Francisco, Calif. 94108

American Roland Corporation
16 Hudson Street
New York, N.Y. 10013

American Surveys
2000 N Street, N.W.
Washington, D.C. 20036

Ampco Metal, Inc.
P. O. Box 2004
Milwaukee, Wisc. 53201

Amphenol Components Group
Oak Brook North
Oak Brook, Ill. 60521

Amsterdam Corp.
41 East 42nd Street
New York, N.Y. 10017

Arthur Andersen & Co.
69 West Washington Street
Chicago, Ill. 60602

1345 Avenue of the Americas
New York, N.Y. 10019

Anderson & Thompson Ski Co., Inc.
1725 Westlake Avenue, North
Seattle, Washington 98109

Andrew Corporation
10500 West 153rd Street
Orland Park, Ill. 60460

Angel-Etts of California, Inc.
3334 La Cienega Place
Los Angeles, Calif. 90016

Angove-Rex Corporation
17000 West Eight Mile Road
Southfield, Michigan 48075

Anti-Friction Bearing Mfg. Association
60 East 42nd Street
New York, N.Y. 10017

Apex Coated Fabrics Co., Inc.
P.O. Box 340
Hauppauge, N.Y. 11787

Argus Incorporated
3325 Platt Spring Road
West Columbia, S.C. 29169

Aristo-Craft Distinctive Miniatures
314 Fifth Avenue
New York, N.Y. 10001

Armorlite, Inc.
P. O. Box 1038
Burbank, Calif. 91505

Arnold & Martin International Inc.
523 West 6th Street
Los Angeles, Calif. 90014

Asahi Chemical Industry America, Ltd.
350 Fifth Avenue
New York, N.Y. 10001

The Ashflash Corp.
151 Woodward Avenue
South Norwalk, Conn. 06856

Ataka America, Inc.
875 North Michigan Avenue
Chicago, Ill. 60611

633 Third Avenue
New York, N.Y. 10017

Atchison, Topeka & Santa Fe Ry. System
80 East Jackson Blvd.
Chicago, Ill. 60604

Atlas Crankshaft Corp.
P. O. Box 846
Fostoria, Ohio 44830

Audiovox Corporation
150 Marcus Blvd.
Hauppauge, L.I. N.Y. 11787

W. C. Auger and Company
P. O. Box 2250
San Francisco, Calif. 94126

Authentic Furniture Products
607 Nash Street
El Segundo, Calif. 90064

B

B & B Import-Export Co.
185 Park Street
Troy, Mich. 48084

Bache & Co.
100 Gold Street
New York, N.Y. 10038

Charles V. Bacon, Inc.
34 Exchange Place
Jersey City, N.J. 07302

Bailey Meter Co.
29801 Euclid Avenue
Wickliffe, Ohio 44092

H. J. Baker & Bros., Inc.
360 Lexington Avenue
New York, N.Y. 10017

Baker & McKenzie
Prudential Plaza, Suite 700
Chicago, Ill. 60601

W. M. Baker, Inc.
207 East 37th Street, Suite 504
New York, N.Y. 10016

A. Baldwin & Company, Inc.
822 Perdido Street
New Orleans, La. 70112

Bank of California International
Two Wall Street
New York, N.Y. 10005

The Bank of Japan
One Chase Manhattan Plaza
New York, N.Y. 10005

The Bank of Kobe, Ltd.
40 Wall Street
New York, N.Y. 10005

The Bank of Tokyo, Ltd.
One Wilshire Bldg., Suite 2510
Los Angeles, Calif. 90017

301 California Street
San Francisco, Calif. 94120

69 West Washington Street
Chicago, Illinois 60602

100 Broadway
New York, N.Y. 10005

411 S.W. 6th Avenue
Portland, Oregon 97204

1021 Main Street, Suite 804
Houston, Texas 77002

1316 Norton Bldg.
Seattle, Wash. 98104

The Bank of Tokyo of California
58 Sutter Street
San Francisco, Calif. 94120

The Bank of Tokyo Trust Co.
100 Broadway
New York, N.Y. 10005

W. G. Banshak
1419 Wright Avenue
Sunnyvale, Calif. 94087

Barth & Dreyfuss
2260 East 15th Street
Los Angeles, Calif. 90021

Bayly, Martin & Fay, Inc.
99 John Street
New York, N.Y. 10038

Harry H. Bell
2820 38th Street, N.W.
Washington, D.C. 20007

Bell & Howell Company
7100 McCormick Rd.
Chicago, Ill. 60645

Berry & McCarthy Shipping Co., Inc.
260 California Street
San Francisco, Calif. 94111

Birmingham Overseas, Inc.
950 East Maple Road
Birmingham, Mich. 48011

H. Eames Bishop
15463 Longbow Drive
Sherman Oaks, Calif. 91403

Blackwood-Stocko Corp.
505 Winsor Drive
Secaucus, N.J. 07094

E. W. Bliss Co.
530 South Ellsworth Avenue
Salem, Ohio 44460

Blue Sea Line
5 World Trade Center, #741
New York, N.Y. 10048

Borneo Sumatra Trading Co., Inc.
75 Union Avenue
Rutherford, N.J. 07070

The Boston Consulting Group
One Boston Place
Boston, Mass. 02106

Bourns, Inc.
1200 Columbia Avenue
Riverside, Calif. 92507

Bowes Seal Fast Corp.
5902 East 34th St.
Indianapolis, Inc. 46218

Robert L. Brandfon
College of the Holy Cross
Worcester, Mass. 01610

Brettler International Sales Corp.
135 West 50th Street
New York, N.Y. 10020

Bridgestone Tire Co., Ltd.
350 Fifth Avenue
New York, N.Y. 10001

Samuel Brilliant Co.
2 Midway Street
Boston, Mass. 02210

Brother International Corporation
680 Fifth Avenue
New York, N.Y. 10019

Brown Brothers Harriman & Co.
59 Wall Street
New York, N.Y. 10005

The Buchanan Company
25625 Southfield Road
Southfield, Mich. 48075

Bufkor Incorporated
P. O. Box 217
Buffalo, N.Y. 14211

Bunge Far East Agencies
40 Nassau Street
New York, N.Y. 10005

A. L. Burbank & Company, Ltd.
1 World Trade Center,
Suite 2811
New York, N.Y. 10048

Burlington Industries, Inc.
1345 Avenue of the Americas
New York, N.Y. 10019

Busby Rivkin Sherman & Levy
750 Third Avenue
New York, N.Y. 10017

Bushnell Optical Corp.
2828 East Foothill Blvd.
Pasadena, Calif. 91107

Business Equipment Company
531 Mission Street
San Francisco, Calif. 94105

Business International Corp.
1625 Eye St., N.W., Suite 914
Washington, D.C. 20006

W. J. Byrnes & Co.
125 West Fourth Street
Los Angeles, Calif. 90013

C

Calgon Corporation
Box 1346
Calgon Center
Pittsburgh, Pa. 15230

California Council for Int'l Trade
1333 Gough St.
San Francisco, Calif. 94109

Jessie M. Canning Associates
540 Madison Avenue
New York, N.Y. 10022

Canton-Son, Inc.
12 West 27th Street
New York, N.Y. 10001

Carfel Imports Supply, Inc.
Langford Bldg.
Miami, Fla. 33131

John V. Carr & Son, Inc.
P.O. Box 1918
Detroit, Mich. 48231

Castelazo & Associates
408 South Spring Street
Los Angeles, Calif. 90013

A. M. Castle & Co.
801 North Kresson Street
Baltimore, Md. 21205

Castner, Curran & Bullitt, Inc.
60 East 42nd Street
New York, N.Y. 10017

Central Cleveland International Bank
40 Wall Street
New York, N.Y. 10005

Central Glass Co., Ltd.
One World Trade Center, #3947
New York, N.Y. 10048

Central Pacific Bank
P. O. Box 3590
Honolulu, Hawaii 96811

Centro de Estudios Orientales
El Colegio de Mexico
Calle Guanajuato, 125
Mexico City 7 DF, Mexico

Century Steel Corporation
300 East Joe Orr Road
Chicago Heights, Ill. 60411

Chadwick-Miller, Inc.
690 Dudley Street
Boston, Mass. 02125

Charles Wholesale Rug Importers, Inc.
312 Hanover St.
Wilmington, N.C. 28401

Chemical Bank New York Trust Co.
20 Pine Street
New York, N.Y. 10015

Chevron Chemical International, Inc.
200 Bush Street
San Francisco, Calif. 94104

Chicago Association of Commerce & Industry
130 South Michigan Avenue
Chicago, Ill. 60603

The Chicago-Tokyo Bank
P.O. Box 457
Chicago, Ill. 60690

The Chiyoda Fire & Marine Insurance Co., Ltd.
c/o Frank B. Hall & Co., Inc.
88 Pine Street
New York, N.Y. 10005

Chori America, Inc.
350 Fifth Avenue
New York, N.Y. 10001

The Chuo Trust & Banking Co., Ltd.
40 Wall Street, Rm. 1040
New York, N.Y. 10005

Cities Service International, Inc.
60 Wall Tower
New York, New York 10005

Citizens & Southern National Bank
P.O. Box 4899
Atlanta, Ga. 30302

City Bank of Honolulu
P.O. Box 3709
Honolulu, Hawaii 96811

Thomas W. Cleaver
36 Aldwyn Lane
Villanova, Pa. 19085

Clinton, Andersen, Fleck & Glein
500 Third & Lenora Bldg.
Seattle, Wash. 98121

Coca Cola Export Corp.
515 Madison Avenue
New York, N.Y. 10022

Cole Commercial Company, Inc.
1314 Plaza 600 Bldg.
Seattle, Wash. 98101

James A. Cole Co., Inc.
675 Avenue of the Americas
New York, N.Y. 10010

Collier, Shannon, Rill & Edwards
1625 Eye St., N.W.
Washington, D.C. 20006

Thomas Collier & Associates
10889 Wilshire Blvd., Suite 801
Los Angeles, Calif. 90024

Dr. Salvatore Comitini
University of Hawaii
1110 University Ave., Rm. 401
Honolulu, Hawaii 96814

Complex America Corp.
Beaver Hill Bldg. South
Jenkintown, Pa. 19046

Consolidation Coal Company
245 Park Avenue
New York, N.Y. 10017

Consul & Mutoh, Ltd.
519 Davis Street
Evanston, Ill. 60201

Continental Bank International
71 Broadway
New York, N.Y. 10006

Continental Grain Company
2 Broadway
New York, N.Y. 10004

Continental Hair Products, Inc.
2170 McDonald Ave.
Brooklyn, N.Y. 11223

Cosmo Electronics Ltd.
2145 Marion Place
Baldwin, N.Y. 11510

Coudert Brothers
1 Farragut Square South
Washington, D.C. 20006

M. S. Cowen Company
1399 Battery Street
San Francisco, Calif. 94111

Cox, Langford & Brown
21 Dupont Circle, N.W.
Washington, D.C. 20036

Craig Corp.
921 West Artesia Blvd.
Compton, Calif. 90220

Cranston Mach. Co., Inc.
P.O. #68207
Oak Grove, Oregon 97268

Crocker-Citizens National Bank
1 Sansome Street
San Francisco, Calif. 94120

Crown Zellerback Corp.
One Bush St., Room 830
San Francisco, Calif. 94119

Cubic Corporation
9233 Balboa Avenue
San Diego, Calif. 92123

The Cu-Lin Co.
235 East 162 Street
Bronx, N.Y. 10451

Culver Electronic Sales, Inc.
P.O. Box 6004
Inglewood, Calif. 90301

Cummins Engine Company, Inc.
Columbus, Ind. 47201

D

D-M-E Corporation
29111 Stephenson Hwy.
Madison Heights, Mich. 48071

Daido Corp.
7020 Lawndale Avenue
Lincolnwood, Ill. 60645

P. O. Box 1230
East Rutherford, N.J. 07073

Daido Steel Company, Ltd.
200 Park Avenue,
Suite 342-East
New York, N.Y. 10017

The Dai-Ichi Kangyo Bank, Ltd.
One World Trade Center
Suite 4911
New York, N.Y. 10048

Dainippon Ink & Chemicals America Inc.
122 East 42nd Street
New York, N.Y. 10017

The Daiwa Bank, Ltd.
611 West Sixth St., Suite 1000
Los Angeles, Calif. 90017

140 Broadway
New York, N.Y. 10005

The Daiwa Securities Co. America, Inc.
100 Wall Street
New York, N.Y. 10005

Daiwa Spinning Co., Ltd.
50 Broadway
New York, N.Y. 10004

Dant & Russell, Inc.
2000 S.W. 5th Avenue
Portland, Oregon 97201

Del Monte Corp.
P.O. Box 3575
San Francisco, Calif. 94119

Delli, Inc.
674 Harrison Street
San Francisco, Calif. 94107

Delrey International, Inc.
P.O. Box 907
Sausalito, Calif. 94965

Delson & Gordon
230 Park Avenue
New York, N.Y. 10017

Dr. Edwards Deming
4924 Butterworth Place
Washington, D.C. 20016

Dentsu Advertising Ltd.
505 Fifth Avenue
New York, N.Y. 10017

Detroit Bank & Trust Co.
P. O. Box 59
Detroit, Mich. 48231

Dixie Trading Company
1526 Forrest Avenue
Atlanta, Ga. 30344

Doko Boeki Co., Ltd.
350 Fifth Ave., Rm. 3922
New York, N.Y. 10001

Donner Manufacturing Company
P. O. Box 4445
Sylmar, Calif. 91342

Donohue and Shaw
39 Broadway, Room 3300
New York, N.Y. 10006

Louis Dreyfus Corporation
One State Street Plaza
New York, N.Y. 10004

Bruce Duncan Company, Inc.
417 South Hill Street
Los Angeles, Calif. 90013

Durham & Bates Agencies, Inc.
901 S.W. Washington St.
Portland, Oregon 97205

E

Eaton International Inc.
100 Erieview Plaza
Cleveland, Ohio 44114

Harry L. Edgcomb
99 Woodfield Drive
Short Hills, N.J. 07078

Morad Eghbal
1255 New Hampshire Ave., N.W., Apt. 126
Washington, D.C. 20036

Ehrenreich Photo-Optical Industries, Inc
623 Stewart Avenue
Garden City, N.Y. 11530

Eisenberg & Co. U.S.A. Agency, Inc.
4 East 39th Street
New York, N.Y. 10016

Electronic Industries Association
2001 Eye Street, N.W.
Washington, D.C. 20006

Elliot Knitwear Corp.
34 West 33rd Street
New York, N.Y. 10001

Elsman, Young & O'Rourke
2050 Guardian Bldg.
Detroit, Mich. 48226

Endevco
801 South Arroyo Parkway
Pasadena, Calif. 91109

Endo Freight Forwarders (NY) Inc.
35-27 Vernon Blvd.
Long Island City, N.Y. 11106

C. D. Ericson Co., Inc.
82 - 8th Avenue
Oakland, Calif. 94606

Ernst & Ernst
140 Broadway
New York, N.Y. 10005

Esco Corporation
2141 N.W. 25th Avenue
Portland, Oregon 97210

Esso Eastern, Inc.
P.O. Box 1415
Houston, Texas 77001

Evans Cooperage Co., Inc.
P. O. Drawer 68
Harvey, La. 70058

Everett Steamship Corp. S/A
P.O. Box E
San Mateo, Calif. 94402

The Export-Import Bank of Japan
1901 Pennsylvania Ave., N.W., Suite 400
Washington, D.C. 20006

F

FMC International
P.O. Box 1178
San Jose, Calif. 94108

Fallek Products Co., Inc.
4 West 58th Street
New York, N.Y. 10019

Herman A. Falstein
P.O. Box 9395
Mid City Station
Washington, D.C. 20005

Famous Raincoat Co., Inc.
36 West 25th Street
New York, N.Y. 10010

Far East Mercantile Corp.
50 East 42nd Street
New York, N.Y. 10017

Fehr Bros., Inc.
110 Wall Street
New York, N.Y. 10005

First National Bank of Arizona
P. O. Box 20551
Phoenix, Arizona 85036

First National Bank in Dallas
P.O. Box 6031
Dallas, Texas 75222

First National Bank of Oregon
P. O. Box 3131
Portland, Oregon 97208

The Flying Tiger Line Inc.
7401 World Way West
L. A. International Airport
Los Angeles, Calif. 90009

Formsprag Company
23601 Hoover Road
Warren, Mich. 48090

Fort Worth Grain Exchange
P. O. Box 4422
Fort Worth, Texas 76106

Fortmiller Associates, Inc.
285 Temple Street
West Newton, Mass. 02165

The Foxboro Company
38 Neponset Avenue
Foxboro, Mass. 02035

S. M. Frank & Co.
745 Fifth Avenue
New York, N.Y. 10022

Samuel Frankel
20 Fifth Avenue
New York, N.Y. 10011

Arthur J. Fritz & Co.
P. O. Box 2170
San Francisco, Calif. 94111
708 Petroleum Bldg.
Houston, Texas 77002

Fromm and Sichel, Inc.
1255 Post St., Suite 505
San Francisco, Calif. 94109

The Fuji Bank, Ltd.
One Chase Manhattan Plaza
New York, N.Y. 10005

Fuji Industries Corporation
26 Broadway
New York, N.Y. 10004

Fuji Photo Film U.S.A., Inc.
350 Fifth Avenue
New York, N.Y. 10001

Fuji Spinning Co., Ltd.
55 West 39th Street
New York, N.Y. 10018

Fujitsu Limited
680 Fifth Avenue
New York, N.Y. 10019

Dr. Yusaku Furuhashi
University of Notre Dame
College of Bus. Adm.
Notre Dame, Ind. 46556

G

The Gailstyn Company, Inc.
230 Fifth Avenue
New York, N.Y. 10001

Gannet Freighting Incorporated
39 Broadway
New York, N.Y. 10006

General Electric Co.
570 Lexington Avenue
New York, N.Y. 10022

General Instrument Corporation
1775 Broadway
New York, N.Y. 10019

General International Lites Corp.
P. O. Box 3907
Seattle, Wash. 98124

Genic Export-Import Co., Inc.
101 West 31st Street
New York, N.Y. 10001

J. Gerber & Co., Inc.
855 Avenue of the Americas
New York, N.Y. 10001

The Gerber Scientific Instrument Co.
P. O. Box 305
Hartford, Conn. 06101

Robert E. Gerson
c/o Television Digest
510 Madison Avenue
New York, N.Y. 10022

Gibbs-McCormick, Inc.
111 Pine Street, Suite 1317
San Francisco, Calif. 94111

E. D. Giberson & Co., Inc.
58-30 57th Street
Maspeth, N.Y. 11378

Gitkin Company
One Taft Road
Totowa, N.J. 07512

Herbert Glazer
7801 Davenport Street
Alexandria, Va. 22307

Steve Goldberg & Co., Inc.
5220 West 104th Street
Los Angeles, Calif. 90045

Graham & James
310 Sansome Street
San Francisco, Calif. 94104

Granberg Supply Co., Inc.
P. O. Box 2089
Oakland, Calif. 94604

W. T. Grant Company
1441 Broadway
New York, N.Y. 10018

Graubard, Moskovitz & McCauley
1629 K Street, N.W.
Washington, D.C. 20006

Graubard, Moskovitz, McGoldrick, Dannett & Horowitz
345 Park Avenue
New York, N.Y. 10022

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Great Western Malting Co.
P. O. Box 1507
Vancouver, Wash. 98663

Greenwald Industries, Inc.
1340 Metropolitan Avenue
Brooklyn, N.Y. 11237

Grotnes Machine Works, Inc.
5454 North Wolcott Avenue
Chicago, Ill. 60640

Growers Produce
380 Third Street
Oakland, Calif. 94607

Guadalupe Industrial Supply Co., Inc.
P. O. Box 12075
San Antonio, Texas 78212

Gunze New York, Inc.
385 Fifth Avenue
New York, N.Y. 10016

H

Hagedorn & Company
225 Broadway
New York, N.Y. 10007

A. M. Halpern
4100 W St., N.W.
Washington, D.C. 20007

James D. Halsey, Jr.
1825 K Street, N.W.
Washington, D.C. 20006

Hangsterfer's Laboratories, Inc.
Ogden Road
Mantua, N.J. 08051

Gordon K. Harrington
Dept. of History
Weber State College
Ogden, Utah 84403

Hart, Schaffner & Marx
36 South Franklin Street
Chicago, Ill. 60606

Mrs. Charles Hartshorne
724 Sparks Ave.
Austin, Texas 78705

The Hawaii Corp.
Alex Young Bldg., Suite 480
Honolulu, Hawaii 96813

Hawley Fuel Corporation
630 Third Avenue
New York, N.Y. 10017

Heemsoth-Kerner Corporation
26 Beaver Street
New York, N.Y. 10004

Heidl's Inc.
107 Washington Street
New York, N.Y. 10006

Marshall L. Hendricks
1819 H. St., N.W.
Washington, D.C. 20006

Hensel, Bruckmann & Lorbacher, Inc.
100 Church Street
New York, N.Y. 10007

Hewlett-Packard Company
3200 Hillview Avenue
Palo Alto, Calif. 94304

Hill, Betts & Nash
26 Broadway
New York, N.Y. 10004

Hiraoka New York, Inc.
246 Fifth Avenue
New York, N.Y. 10001

Hitachi Metals America, Ltd.
1 Red Oak Lane
White Plains, N.Y. 10604

Hitachi America, Ltd.
437 Madison Avenue
New York, N.Y. 10022

Hogan & Hartson
815 Connecticut Avenue, N.W.
Washington, D.C. 20006

The Hokkaido Takushoku Bank, Ltd.
80 Wall Street
New York, N.Y. 10005

Prof. Leon Hollerman
Pitzer Hall
Claremont Men's College
Claremont, Calif. 91711

Hongkong & Shanghai Banking Corp.
80 Pine Street
New York, N.Y. 10005

Hoover Bearing Div.
5400 South State Road
Ann Arbor, Mich. 48106

H. E. Hori, Inc.
800 North Clark Street
Chicago, Illinois 60610

Horikoshi New York, Inc.
109 West 38th Street
New York, N.Y. 10018

Hudson Institute, Inc.
Quaker Ridge Road
Croton-on-Hudson, N.Y. 10520

I

IBM (U.S.A.), Inc.
2 West 59th Street
New York, N.Y. 10019

ITT Corporation
1707 L Street, N.W.
Washington, D.C. 20036

ITT World Communications Inc.
67 Broad Street
New York, N.Y. 10004

Idemitsu International, Inc.
630 Fifth Avenue
New York, N.Y. 10020

Iino Kaiun Kaisha, Ltd.
6 East 43rd Street
New York, N.Y. 10017

Ikeda International Corp.
29 West 47th Street
New York, N.Y. 10036

Ikegami Electronics Industries Inc. of New York
35-27 31st Street
Long Island City, N.Y. 11106

Imperial International Corp.
1776 Broadway
New York, N.Y. 10019

Imperial Pearl Syndicate, Inc.
5 North Wabash Avenue
Chicago, Ill. 60602

Imported Hardwood Products Assn., Inc.
World Trade Center
Ferry Building
San Francisco, Calif. 94111

Imsport
528 Corbett Bldg.
Portland, Oregon 97204

The Indiana National Bank
International Div., #425
Indianapolis, Ind. 46204

Indussa Corporation
605 Third Avenue
New York, N.Y. 10016

Industrial Bank of Japan, Ltd.
140 Broadway
New York, N.Y. 10005

Industrial Fasteners Institute
1505 East Ohio Bldg.
Cleveland, Ohio 44114

Intercon Supply, Inc.
9368 Stewart Gray Road
Downey, Calif. 90241

Intercontinental Machinery Company
152 Chambers Street
New York, N.Y. 10007

Interman Ind. Prod., Ltd.
350 Old Country Rd.
Garden City, N.Y. 11530

Int'l Business-Gov't Counsellors, Inc.
1625 I St., N.W., #707
Washington, D.C. 20006

Int'l. Management Consultants
Madison Office Bldg., Rm. 1002
Washington, D.C. 20005

International Metals, Inc.
510 West 6th St., Room 411
Los Angeles, Calif. 90014

International Seaway Trading Corp.
1382 West 9th Street
Cleveland, Ohio 44113

Int'l Shipping Co., Inc.
916 Norton Bldg.
Seattle, Wash. 98104

Int'l Technical Resources Corp.
3000 Sand Hill Road
Menlo Park, Calif. 94025

Int'l Trading Co., Inc.
409 Washington Avenue
Baltimore, Md. 21204

Interpace Corporation
22300 Foothill Blvd.,
Suite 400
Hayward, Calif. 94541

Intertec, Inc.
104 Communicana Bldg.
Elkhart, Ind. 46514

Ishikawajima-Harima Heavy Ind. Co.
465 Calif. St., Suite 1204
San Francisco, Calif. 94104

One World Trade Center,
Suite 1101
New York, N.Y. 10048

Isuzu Motors, Ltd.
2520 East Washington Blvd.
Los Angeles, Calif. 90021

Kenji Ito
250 East First St.,
Suite 801
Los Angeles, Calif. 90012

C. Itoh & Co. (America) Inc.
555 South Flower St.
Los Angeles, Calif. 90071

245 Park Avenue
New York, N.Y. 10017

Itoman (U.S.A.), Inc.
432 Park Avenue South
New York, N.Y. 10016

J

JVC America, Inc.
50-35 56th Road
Maspeth, N.Y. 11378

Japan Air Lines Co., Ltd.
37 South Wabash Avenue
Chicago, Illinois 60603

145-30 157th Street
Jamaica, N.Y. 11434

655 Fifth Avenue
New York, N.Y. 10022

1000 Connecticut Avenue
Washington, D.C. 20036

Japan Auto Manufacturers Assn.
30 East 42nd Street
New York, N.Y. 10017

Japan Chemical Fibres Assn.
7358 Lee Highway, Apt. T2
Falls Church, Va. 22046

The Japan Development Bank
71 Broadway, Rm. 306
New York, N.Y. 10006

1725 K Street, N.W.,
Suite 606
Washington, D.C. 20006

Japan Line, Ltd.
One Wilshire Blvd.
Los Angeles, Calif. 90017

1 World Trade Center,
Suite 2811
New York, N.Y. 10048

Japan Machine Tool Trade Assn.
2938 West Peterson Avenue
Chicago, Illinois 60645

Japan National Tourist Organization
45 Rockefeller Plaza
New York, N.Y. 10020

Japan Productivity Center
1001 Connecticut Ave.,
N.W., Rm. 338
Washington, D.C. 20036

Japan Society, Inc.
250 Park Avenue
New York, N.Y. 10017

Japan Trade Center
727 West Seventh Street
Los Angeles, Calif. 90017

1737 Post Street
San Francisco, Calif. 94115

232 North Michigan Avenue
Chicago, Illinois 60601

393 Fifth Avenue
New York, N.Y. 10016

411 San Jacinto Bldg.
Houston, Texas 77002

Japan Trade Promotion Office
39 Broadway, Room 1901
New York, N.Y. 10006

Japan Trader's Club of Los Angeles
606 South Hill Street
Los Angeles, Calif. 90014

Japan Travel Bureau Int'l, Inc.
45 Rockefeller Plaza
New York, N.Y. 10020

Japanese Chamber of Commerce of N.Y.
39 Broadway, Room 1901
New York, N.Y. 10006

Japanese Chamber of Commerce of Northern California
World Trade Center, Room 137
San Francisco, Calif. 94111

Japanese National Railways
45 Rockefeller Plaza
New York, N.Y. 10020

Jax International Corp.
24 Commerce Street
Newark, N.J. 07102

Jeolco (U.S.A.), Inc.
477 Riverside Avenue
Medford, Mass. 02155

Johnson Service Company
507 East Michigan Street
Milwaukee, Wisc. 53201

Jolyn Products, Inc.
866 Sixth Avenue
New York, N.Y. 10001

Hap Jones Distributing Co.
P. O. Box 3068
San Francisco, Calif. 94119

Harold W. Jones, Inc.
21 West Street
New York, N.Y. 10006

Jorgensen Bros.
P. O. Box 69
Pleasanton, Calif. 94566

Nels Jorgenson & Company
418 New Center Bldg.
Detroit, Michigan 48202

Ray Josephs & Principals, Inc.
230 Park Avenue
New York, N.Y. 10017

Rohit Joshi
2855 West Market Street
Akron, Ohio 44313

K

"K" Line New York, Inc.
29 Broadway
New York, N.Y. 10006

Kabat Textile Corp.
215 West 40th St.
New York, N.Y. 10018

K. Kachi Co. New York, Inc.
2 West 46th Street
New York, N.Y. 10036

Otto Kadmon, Inc.
1170 Broadway
New York, N.Y. 10001

Kaiser Industries Corp.
900 17th St., N.W.
Washington, D.C. 20006

T. Kakiuchi New York, Inc.
1271 Avenue of the Americas
New York, N.Y. 10020

Kamei New York, Inc.
303 Fifth Avenue
New York, N.Y. 10016

Kamiya and Sklar
250 West 57th Street
New York, N.Y. 10019

Kanebo U.S.A., Inc.
350 Fifth Avenue
New York, N.Y. 10001

Kanematsu-Gosho (U.S.A.) Inc.
1 World Trade Center,
Suite 4811
New York, N.Y. 10048

707 S.W. Washington Street
Portland, Oregon 97205

Dr. Moon H. Kang
Chicago State College
Chicago, Illinois 60621

Kasho (U.S.A.) Inc.
1 California Street
San Francisco, Calif. 94111

Kawai Piano (America) Corp.
24200 South Vermont
Harbor City, Calif. 90710

Kawasaki Kisen Kaisha, Ltd.
530 West Sixth St., Room 1322
Los Angeles, Calif. 90014

Kawasaki Motors Corp., U.S.A.
1062 McGaw Avenue
Santa Ana, Calif. 92705

Kawasaki Steel Corporation
280 Park Avenue
New York, N.Y. 10017

Kawatetsu Trading New York, Inc.
261 Madison Avenue
New York, N.Y. 10016

Kayser-Roth Corporation
640 Fifth Avenue
New York, N.Y. 10019

Kemp & Beatley, Inc.
10 East 34th Street
New York, N.Y. 10016

Kerr Steamship Co., Inc.
29 Broadway
New York, N.Y. 10006

William B. Kessler, Inc.
1290 Avenue of the Americas
New York, N.Y. 10019

Keystone Tubular Service Co.
P. O. Box 992
Butler, Pa. 16001

Barney L. Keywell Co.
50600 East Russell Schmidt
Mt. Clemens, Mich. 48043

Kikkoman International Inc.
1581 Webster Street
San Francisco, Calif. 94115

Kinsho-Mataichi Corporation
80 Pine Street
New York, N.Y. 10005

The Koa Fire & Marine Insurance Co., Ltd
116 John Street
New York, N.Y. 10038

Kobe Mercantile, Inc.
P. O. Box 2223
San Diego, Calif. 92112

Kobe Steel, Ltd.
529 Fifth Avenue
New York, N.Y. 10017

Kobe Trade Information Office
645 Dexter Horton Bldg.
Seattle, Washington 98104

Kokusai Denshin Denwa Co., Ltd.
680 Fifth Avenue
New York, N.Y. 10019

Kowa American Corporation
45 West 34th Street
New York, N.Y. 10001

Koyo International, Inc.
330 Madison Avenue, Rm. 2804
New York, N.Y. 10017

Kurabo Industries, Ltd.
One World Trade Center,
Suite 4011
New York, N.Y. 10048

Kuraray Co., Ltd.
280 Park Avenue
New York, N.Y. 10017

Kuriyama of America, Inc.
767 North Milwaukee Avenue
Chicago, Illinois 60622

The Kyowa Bank, Ltd.
1 World Trade Center
New York, N.Y. 10048

L

Lafayette College
David Bishop Skillman Library
Easton, Pa. 18042

Lafayette Electronics International, Inc.
111 Jericho Turnpike
Syosset, N.Y. 11791

Langfelder, Homma and Carroll, Inc.
163 Fifth Avenue
New York, N.Y. 10010

Laredo Hardware Co.
401 Market
Laredo, Texas 78040

Leading Forwarders Inc.
One World Trade Center,
Rm. 1923
New York, N.Y. 10048

Leda Associates
35 East 21st Street
New York, N.Y. 10010

Donald Lerch & Company
1101 17th St., N.W., Suite 808
Washington, D.C. 20005

Levedag & Company, Inc.
42 Broadway
New York, N.Y. 10004

Liberty Steel Company
P. O. Box 20837
Dallas, Texas 75220

Lida Trading Corp.
122 Duane Street
New York, N.Y. 10007

Lidz Brothers, Inc.
250 West 36th Street
New York, N.Y. 10018

Eli Lilly International Corp.
P.O. Box 32
Indianapolis, Ind. 46206

Lipper International, Inc.
225 Fifth Avenue
New York, N.Y. 10010

Loeb, Rhoades & Co.
42 Wall Street
New York, N.Y. 10005

The Long-Term Credit Bank of Japan, Ltd.
20 Exchange Place
New York, N.Y. 10005

Chester I. Lowenthal
10 East 40th Street
New York, N.Y. 10016

David Lu
Bucknell University
Lewisburg, Pa. 17837

M

McAllister Brothers, Inc.
17 Battery Place
New York, N.Y. 10004

McClure & Trotter
1100 Conn. Ave., N.W.,
Suite 600
Washington, D.C. 20036

Prof. Carl McGuire
Dept. of Economics
University of Colorado
Boulder, Colorado 80302

MSL Steel Company
3912 West McLean Avenue
Chicago, Ill. 60647

Stephen Magee
Univ. of Chicago
5836 Greenwood Avenue
Chicago, Ill. 60637

M. G. Maher & Company
442 Canal Street
New Orleans, La. 70130

812 Petroleum Bldg.
Houston, Texas 77002

Main Lines Company
1515 Houston Avenue
Houston, Texas 77007

Kathleen Malloy
37-22 72nd Street
Jackson Heights, N.Y. 11372

The Mansid Co., Inc.
958 East 2nd Street
Brooklyn, N.Y. 11234

Manufacturers Import Company
P.O. Box 33
Richmond, Va. 23201

Marcona Corp.
1 Maritime Plaza
San Francisco, Calif. 94111

Maritime Overseas Corp.
511 Fifth Avenue
New York, N.Y. 10017

Marketing Unlimited, Inc.
One Ranch Road
Yakima, Wash. 98901

Marketing World, Ltd.
2280 Grand Ave.
Baldwin, N.Y. 11510

Marlennan, Inc.
222 South Riverside
Chicago, Ill. 60606

E. J. Martin & Co., Inc.
P. O. Box 333
Southbridge, Mass. 01550

Marubeni America Corp.
624 South Grand Avenue
Los Angeles, Calif. 90017

200 Park Avenue
New York, N.Y. 10017

Marubeni-Iida (America) Inc.
938 Merchandise Mart
Chicago, Ill. 60654

120 Sixth Avenue
Detroit, Mich. 48226

3650 One Shell Plaza
Houston, Texas 77002

Universal North Bldg., #922
Washington, D.C. 20009

Marukyo Corp. Inc.
101 Weller Street
Los Angeles, Calif. 90012

Masaoka-Ishikawa & Associates
551 Fifth Avenue
New York, N.Y. 10017

Masuda, Funai & Eifert
134 No. LaSalle Street
Chicago, Ill. 60602

Gene Yukio Matsuo
350 Park Avenue
New York, N.Y. 10022

H. Matsusaki
P. O. Box 9098
Quebec 10, P.Q., Canada

Matsushita Electric Corp. of America
363 North Third Avenue
Des Plaines, Ill. 60016

200 Park Avenue
New York, New York 10017

May and Craig Co.
740 North Rush Street
Chicago, Ill. 60611

Larry Meissner
2069 Yale Station
New Haven, Conn. 06520

Mentor International
712 Montgomery Street
San Francisco, Calif. 94111

Mercer Consolidated Corp.
216 Lake Avenue
Yonkers, N.Y. 10701

Merchandise Service, Inc.
2 North Riverside Plaza,
Suite 2200
Chicago, Ill. 60606

John E. Metcalf
166 Locust St.
Garden City, N.Y. 11530

Mial Manufacturing Corp.
Box 11
Bethpage, N.Y. 11714

Midland Enterprises, Inc.
1115 Broadway - Fourth Floor
New York, N.Y. 10010

Midland International Corp.
1909 Vernon Street
North Kansas City, Mo. 64116

Miles Far East Corp.
1 Chase Manhattan Plaza
New York, N.Y. 10005

Miles Laboratories, Inc.
1127 Myrtle Street
Elkhart, Ind. 46514

L. S. Miller, Inc.
108 Grove Street
Worcester, Mass. 01605

Mine Safety Appliances Company
201 Penn Center Blvd.
Pittsburgh, Pa. 15235

State of Minnesota
Dept. of Economic Development
51 East 8th Street
St. Paul, Minnesota 55101

Alexander Mintz
11 5th Avenue
New York, N.Y. 10003

H. L. Mitchell
2745 Madrillo Court
Pasadena, Calif. 91107

The Mitsubishi Bank, Ltd.
626 South Spring Street
Los Angeles, Calif. 90014

120 Broadway
New York, N.Y. 10005

Mitsubishi International Corporation
555 South Flower Street,
Suite 2300
Los Angeles, Calif. 90071

875 North Michigan Avenue
Chicago, Ill. 60611

277 Park Avenue
New York, N.Y. 10017

1605 First City National
Bank Bldg.
Houston, Texas 77002

Houston, Texas 77002
2600 Virginia Ave., N.W.
Washington, D.C. 20037

Mitsubishi Metal Mining Co., Ltd.
277 Park Avenue
New York, N.Y. 10017

Mitsubishi Rayon Co., Ltd.
606 South Hill Street
Los Angeles, Calif. 90014
277 Park Avenue
New York, N.Y. 10017

The Mitsubishi Trust & Banking Corp.
40 Wall St., Rm. 1040
New York, N.Y. 10005

Mitsui & Company (U.S.A.), Inc.
One California Street,
Suite 3000
San Francisco, California 94111
200 Park Avenue
New York, N.Y. 10017
303 E. Ohio Street
Chicago, Ill. 60611
1001 Fourth Avenue
Seattle, Washington 98104

The Mitsui Bank, Ltd.
611 West 6th St.
Los Angeles, Calif. 90017
One Chase Manhattan Plaza
New York, N.Y. 10005

Mitsui Mining & Smelting Co., Ltd.
200 Park Avenue
New York, N.Y. 10017

Mitsui O.S.K. Lines, Ltd.
17 Battery Place
New York, N.Y. 10004

Mitsui Petrochemical Industries (U.S.A.) Inc.
200 Park Avenue
New York, New York 10017

The Mitsui Trust & Banking Co., Ltd.
40 Wall Street, Rm. 1040
New York, New York 10005

Miyazaki Travel Agency, Inc.
371 Seventh Ave.
New York, N.Y. 10001

Model Rectifier Corp.
2500 Woodbridge Ave.
Edison, N.J. 08817

Molex Incorporated
5224 Katrine Ave.
Downers Grove, Ill. 60515

William G. Moller, Jr.
College of Business
Administration
Syracuse University
Syracuse, N.Y. 13210

Sam Moment
9616 S.E. Woodstock Blvd.
Portland, Oregon 97202

Montgomery & Montgomery, Inc.
111 Fulton Street
New York, New York 10038

Montgomery Ward & Co.
P. O. Box 8339
Chicago, Ill. 60680

Samuel Moore & Company
Main & Orchard Streets
Mantua, Ohio 44255

Moran Towing & Transportation Co., Inc.
17 Battery Place
New York, New York 10004

Morgan Guaranty Trust Co. of New York
23 Wall Street
New York, New York 10008

John Morris Co. Inc.
425 Second Steet
San Francisco, Calif. 94107

Mosaic Tile Co. Of Fla.
6454 N.E. 4th Avenue
Miami, Florida 33138

Multi-Products International
26-07 Broadway
Fair Lawn, N.Y. 07410

Munzig International Inc.
660 So. Western Avenue
Los Angels, Calif. 90005

Mura Corporation
50 South Service Rd.
Jericho, New York 11753

Jiro Murase
350 Park Avenue
New York, N.Y 10022

N

NEC America, Inc.
9841 Airport Boulevard,
Suite 924
Los Angeles, Calif. 90045
200 Park Avenue, Suite 3721
New York, N.Y. 10017

NGK Insulators of America, Ltd.
299 Park Avenue
New York, N.Y. 10017

NHK Spring Co., Ltd.
140 So. Dearborn St.
Chicago, Ill. 60603

NSK Corporation
140 Broadway
New York, N.Y. 10005

Nippon Yusen Kaisha, Ltd.
25 Broadway
New York, N.Y. 10004

Naess Shipping Company
1133 Avenue of the Americas
New York, New York 10036

Nachi American Co., Ltd.
23 Brook Avenue
Maywood, N.J. 07607

Nagase America Corp.
500 Fifth Avenue
New York, N.Y. 10036

National Association of Manufacturers
277 Park Ave.
New York, N.Y. 10017

National Bank of Commerce of Seattle
P. O. Box 3966
Seattle, Washington 98124

National Bank of Detroit
International Division
P.O. Box 116A
Detroit, Michigan 48232

National Central Bank
23 East King St.
Lancaster, Pennsylvania 17604

National Potteries Corp.
26201 Richmond Road
Bedford Heights, Ohio 44146

National Standard
Niles, Michigan 49120

Neeson International Company
235 Montgomery St.
San Francisco, Ca. 94104

Nelco Sewing Machine Sales Corp.
164 W. 25th St.
New York, N.Y. 10001

Nelson Sales Co.
620 Broadway
Kansas City, Mo. 64105

Hugo Neu Corporation
45 Nassau Street
New York, New York 10005

Newsweek
444 Madison Ave.
New York, New York 10022

New York Merchandise Co., Inc.
32 West 23 Street
New York, N.Y. 10010

New York Sankyo Seiko Co., Ltd.
245 Fifth Avenue
New York, N.Y. 10016

Nichimen Co., Inc.
1185 Avenue of the Americas
New York, N.Y. 10036

Nichiryo (America) Ltd.
551 Fifth Avenue
New York, N.Y. 10017

Nikko Electric Corp. of America
5001 Lankershim Blvd.
North Hollywood, Calif. 91601

The Nikko Securities Co. International, Inc.
One Chase Manhattan Plaza
New York, N.Y. 10005

Nippondenso Company, Ltd.
17000 West Eight Mile Road
Southfield, Michigan 48075

Nippon Express U.S.A., Inc.
2 West 46th Street
New York, N.Y. 10036

Nippon Fire & Marine Ins. Co., Ltd.
1221 Avenue of the Americas
New York, N.Y. 10020

The Nippon Fudosan Bank, Ltd.
44 Wall Street
Room 1604
New York, N.Y. 10005

Nippon Kogaku (U.S.A.), Inc.
623 Stewart Avenue
Garden City, N.Y. 11530

Nippon Kokan K.K.
277 Park Avenue
New York, N.Y. 10017

Nippon Stainless Steel Co., Ltd.
420 Lexington Ave.
New York, N.Y. 10017

Nippon Steel Corp.
200 Park Avenue
New York, N.Y. 10017
611 W. 6th St.
Suite 1320
Los Angeles, Calif. 90017

Nippon Telegraph & Telephone Public Corporation
200 Park Avenue, Room 4522
New York, N.Y. 10017

Nishizawa (U.S.A.) Ltd.
286 Fifth Avenue
New York, N.Y. 10001

Nissan Motor Corp.
560 Sylvan Avenue
Englewood Cliffs, N.J. 07632

Nisshin Spinning Co., Ltd.
1185 Avenue of the Americas
New York, New York 10036

Nisshin Steel Co., Ltd.
1133 Avenue of the Americas
New York, N.Y. 10036

Nissho-Iwai American Corp.
624 South Grand Avenue
Los Angeles, Calif. 90017

80 Pine Street
New York, New York 10005

120 Montgomery St.
San Francisco, Calif. 94104

Noblemet International Company
3 Elf Court
Parsippany, New Jersey 07054

Nomura (America) Corporation
61 Broadway
New York, New York 10004

Nomura Research Institute
100 Wall Street, 27th Floor
New York, New York 10005

Nomura Securities International, Inc.
P. O. Box 3857
Honolulu, Hawaii 96812

100 Wall Street
New York, New York 10005

Norcrest China Co.
115 N.W. First Avenue
Portland, Oregon 97209

Noritake Co., Inc.
1538 Merchandise Mart
Chicago, Ill. 60654

527 W. 7th Street
Los Angeles, Ca. 90014

212 Fifth Ave.
New York, N.Y. 10010

Norris Industries
5215 South Boyle Avenue
Los Angeles, Calif. 90058

North American Rockwell Corp.
Fifth & Wood
Pittsburgh, Pa. 15222

The Northern Trust Company
50 South LaSalle St.
Chicago, Illinois 60690

Northwest Orient Airlines Inc.
537 Fifth Avenue
New York, N.Y. 10017

Nosawa New York, Inc.
180 Madison Ave.
New York, N.Y. 10016

Nozaki Associates, Inc.
4 Albany Street
New York, N.Y. 10006

Nu-Tex Corp.
Box 321
Dunellen, N.J. 08821

Al Nyman & Son, Inc.
38 West 32nd Street
New York, N.Y. 10001

O

H. Ochiai
17515 S. Sandalwood Drive
Tinley Park, Illinois 60047

Okaya (U.S.A.), Inc.
233 Broadway
New York, N.Y. 10007

Okura (America) Inc.
250 Broadway
New York, N.Y. 10007

Edward O'Lear
171 Broadmead
Princeton, N.J. 08540

G. P. Olivier Corporation
P. O. Box 19314
Houston, Texas 77024

Olympic Steamship Co., Inc.
1000 Second Avenue
Seattle, Washington 98104

Olympus Corporation of America
2 Nevada Drive
New Hyde Park, N.Y. 11040

Ono America, Inc.
425 Bush Street
San Francisco, Calif. 94108

Kurt Orban Company
Orban Way
Wayne, N.J. 07470

1513 6th Street
Santa Monica, Calif. 90401

35 Mathews Place
Walnut Creek, Calif. 94595

P. O. Box 29026
Parma, Ohio 44129

Oriental Exporters, Inc.
Two Pennsylvania Plaza
New York, N.Y. 10001

Oriental Trading Corp.
9800 N.W. 77th Ave.
Hialeah Gardens, Fla. 33012

Osawa & Co. (U.S.A.) Inc.
521 Fifth Avenue
New York, N.Y. 10017

Otagiri Mercantile Co., Inc.
11 East 26th Street
New York, New York 10010

Our Own Import, Inc.
Box D
Carteret, New Jersey 07008

Owens-Illinois, Inc.
P. O. Box 1035
Toledo, Ohio 43601

Ozaki U.S.A. Corp.
336 Fifth Avenue
New York, N.Y. 10001

P

Pacific Basin Trading Company
Box 327, Sherman Road
Athena, Oregon 97813

Pacific Import Corp.
920 S. Maple Ave.
Los Angeles, Calif. 90015

Pan American World Airways, Inc.
200 Park Ave.
New York, N.Y. 10017

Pan Pacific Trading Company
3502 Lincoln Ave. East
Tacoma, Washington 98421

Panatrade International, Ltd.
101 West 31st Street
New York, N.Y. 10001

The Parker Pen Company
Janesville, Wisconsin 53545

M. Paquet & Co., Inc.
17 Battery Place
New York, New York 10004

Prof. Hugh Patrick
1987 Yale Station
New Haven, Conn. 06520

Peabody, Rivlin, Gore, Cladouhos & Lambert
1730 M St., N.W.
Washington, D.C. 20036

Peat, Marwick, Mitchell & Co.
345 Park Ave.
New York, N.Y. 10022

Peer Bearing Company
1818 S. Wabash Ave.
Chicago, Ill. 60616

J. C. Penney Co., Inc.
1301 Ave. of the Americas
New York, N.Y. 10019

Perkin-Elmer Corporation
Main Avenue
Norwalk, Connecticut 06852

Perry Chemical Corp.
91-31 Queens Blvd. Rm. 306
Elmhurst, N.Y. 11373

Peters Bag Corp.
350 Fifth Ave.
New York, N.Y. 10001

Chas. Pfizer & Co., Inc.
1700 Pennsylvania Ave., N.W.
Washington, D.C. 20006

Philadelphia Hide Export Corp.
1518 Walnut Street
Philadelphia, Pa. 19102

The Phila. Nat'l. Bank
Broad & Chestnut St.
Philadelphia, Pa. 19101

Philipp Brothers Far East Inc.
299 Park Avenue
New York, N.Y. 10017

Philmore Manufacturing Co., Inc.
130-01 Jamaica Avenue
Richmond Hill, N.Y. 11418

Philstone Nail Corp.
57 Pine Street
Canton, Mass. 02021

Pineapple Growers Assoc. of Hawaii
1902 Financial Plaza
of the Pacific
Honolulu, Hawaii 98613

The R. H. Pines Corporation
5 World Trade Center
New York, N.Y. 10048

Pipe Sales Company
P.O. Box 7202
Long Beach, Calif. 90807

Pittsburgh National Bank
P. O. Box 340777P
Pittsburgh, Pa. 15230

Pomeranz & Pomeranz
276 Fifth Avenue
New York, N.Y. 10001

Ponder & Best
11201 W. Pico Blvd.
Los Angeles, Calif. 90064

Port of Everett
P.O. Box 538
Everett, Washington 98201

Port of Lake Charles
Lake Charles Harbor & Terminal Dist.
P. O. Box AAA
Lake Charles, Louisiana 70601

Port of Long Beach
P. O. Box 570
Long Beach, California 90801

Port of New Orleans
P. O. Box 60046
New Orleans, Lousiana 70160

Port of New York Authority
111 Eighth Avenue
New York, N.Y. 10011

Port of Oakland
66 Jack London Square
Oakland, Calif. 94607

Port of Olympia
P. O. Box 827
Olympia, Wash. 98501

Port of Port Angeles
P.O. Box 791
Port Angeles, Washington 98362

Port of San Diego
P. O. Box 488
San Diego, Calif. 92112

Port of Seattle
P. O. Box 1209
Seattle, Washington 98111

Port of Stockton
P. O. Box 2089
Stockton, Ca. 95201

Port of Tacoma
P. O. Box 1837
Tacoma, Washington 98401

Portland State College Library
P. O. Box 1151
Portland, Oregon 97207

Post-Keyes-Gardner, Inc.
875 N. Michigan Ave.
Chicago, Ill. 60611

Potash Co. of America
630 Fifth Ave.
New York, N.Y. 10020

Jack Prince, Inc.
P. O. Box 1157
Gainesville, Ga. 30501

Procon Inc.
Mt. Prospect & Algonquin Rds.
Des Plaines, Ill. 60016

Pro-Mark Corp.
10710 Craighead Drive
Houston, Texas 77025

Propper Manufacturing Co., Inc.
36-04 Skillman Ave.
Long Island City, N.Y. 11101

Prudential Stainless Pipe Corp.
Foot of Centre St.
Newark, N.J. 07102

The Public Relations Board, Inc.
75 East Wacker Drive
Chicago, Ill. 60601

Commonwealth of Puerto Rico
666 Fifth Ave.
New York, N.Y. 10019

R

RCA Communications, Inc.
60 Broad Street
New York, New York 10004

RCA Corp.
1133 Ave. of the Americas
New York, New York 10036

R & O Industries, Inc.
P. O. Box 908
Pico Rivera, Calif. 90660

Rain Bird International Inc.
7045 North Grand Ave.
Glendora, Calif. 91740

The Leonard Rattner Co., Inc.
114 East 32nd St.
New York, N.Y. 10016

Raytheon Company
141 Spring Street
Lexington, Mass. 02173

Reeves & Harrison
1701 Pennsylvania Ave., N.W.
Washington D.C. 20006

REFAC Technology Development Corp.
122 East 42nd St.
New York, N.Y. 10017

Regent Sports Company
45 Ranick Road
Hauppauge, N.Y. 11787

Helmut Reincke
1238 National Press Bldg.
Washington, D.C. 20004

Reliance Pet Products Corp.
90 W. Graham Ave.
Hempstead, N.Y. 11551

Revell, Inc.
4223 Glencoe Ave.
Venice, Calif. 90291

Rheem Manufacturing Co.
400 Park Avenue
New York, N.Y. 10022

The J. D. Richardson Company
1225 Lafayette Bldg.
Detroit, Michigan 48226

Ricoh of America Inc.
Six Kingsbridge Road
Fairfield, N.J. 07006

Rio Del Mar Foods, Inc.
160 Sansome Street
San Francisco, Calif. 94104

Robeco Chemicals Inc.
51 Madison Avenue
New York, N.Y. 10010

Stanley Roberts, Inc.
230 Fifth Avenue
New York, N.Y. 10001

Stephen Robin
762 National Press Bldg.
Washington, D.C. 20004

Rockford Motors, Inc.
1911 Harrison Ave.
Rockford, Ill. 61101

Rockwood Pulley Mfg. Co., Inc.
20 Crosby St.
New York, N.Y. 10013

Edward Rodriguez & Co., Inc.
1344 N.W. 22nd St.
Miami, Fla. 33142

Rofson Associates, Inc.
286 Fifth Ave.
New York, N.Y. 10001

Albert K. Rogers
616 N. Water
Bay City, Mich. 48706

Rosenthal & Rosenthal, Inc.
1451 Broadway
New York, N.Y. 10036

Roosevelt University Library
430 South Michigan Avenue
Chicago, Illinois 60605

Ross Electronics Corp.
2834 South Lock Street
Chicago, Illinois 60608

Rubens Originals
726 Santa Fe Avenue
Los Angeles, Ca. 90021

Ruder & Finn
110 East Fifty Ninth Street
New York, N.Y. 10022

9300 Wilshire Blvd., Suite 312
Beverly Hills, Ca. 90212

Rusch Factors, Inc.
1040 Ave. of the Americas
New York, N.Y. 10018

Rutt Steel Corporation
2833 Leonis Blvd.
Vernon, Calif. 90058

S

SMC - America
1577 South Fairfax St.
Denver, Colo. 80222

SSC Int., Inc.
P. O. Box 825
Hackensack, N.J. 07601

S.S.T. Corporation
20 Vesey Street
New York, N.Y. 10007

Prof. Milton Sacks
1033 Walnut St.
Newton Highlands, Ma. 02161

The Saitama Bank, Ltd.
20 Exchange Place
New York, N.Y. 10005

Thomas S. Sakata
7206 Opaekaa Street
Honolulu, Hawaii 96825

Salley Gee, Inc.
1 West 37th Street
New York, N.Y. 10018

Samigon Corporation
111 Asia Place
Carlstadt, N.J. 07022

The Sampson Company
2242 South Western Ave.
Chicago, Ill. 60608

San Diego Chamber of Commerce
233 "A" St., Suite 300
San Diego, Calif. 92101

San Francisco State College
Center for World Business
1600 Holloway
San Francisco, Calif. 94132

The Sanforized Company
530 Fifth Avenue
New York, N.Y. 10036

Sanko Trading, Inc.
112 West 34th St.
New York, N.Y. 10001

Santai American Corporation
55 West 39th Street
New York, N.Y. 10018

The Sanwa Bank Ltd.
300 Montgomery St.
San Francisco, Calif. 94104
One Chase Manhattan Plaza
New York, N.Y. 10005

Sanyei New York Corporation
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SUCCESSES & STRAINS IN U.S.-JAPAN TRADE RELATIONS

by

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The current pattern of U.S.-Japan economic relations exemplifies the adage that progress creates problems. It is not difficult to find either strains or successes in the burgeoning volume of Japan-United States trade, the largest overseas trading relationship in history. The total two-way trade is expected to exceed $12 billion this year, representing a more than four-fold increase in just 10 years. The United States is Japan's largest export market, and, after Canada, Japan is this country's largest export market.

It is unfortunate that American thinking about this massive and economically profitable exchange of goods has come to be dominated by the arithmetic of Japan's large bilateral trade surplus, which reached a yearly high of $3.2 billion last year and will increase somewhat in 1972. The recent but steady growth of this trade imbalance has led to U.S. insistence on "voluntary" restraints by Japanese exporters of textiles and steel, encouraged the inclusion of the ten percent import surcharge in the New Economic Policy, contributed to a misconception of Japan in this country as a monolithic, tightly closed market, and served as the impetus for a long list of concession demands by U.S. trade negotiators.

Foreign uneasiness over Japan's rapid increase in competitiveness has had its influence on Japan's recent economic policy. Pressures resulting from American concern about the trade imbalance

have led to a steady and wide-ranging elimination of Japan's remaining import barriers. In addition, both the timing and the extent of the overdue revaluation of the yen was affected by the international concern over Japan's increasing balance of trade surplus. The revaluation and the rapid removal of residual import restrictions will induce movement in Japan's trade account toward equilibrium, both multilaterally and bilaterally with the United States.

However, major economic trends do not reverse themselves quickly. It would be foolhardy to predict any rapid end to Japan's bilateral trade surplus with the U.S. Although it will bring little solace to U.S. trade policy makers, it should be pointed out that most economists consider bilateral trade figures to be of minor significance. It is only the multilateral trade balance that causes measurable concern. Nevertheless, to anyone interested in overall American trade policy, a survey of the dynamics of U.S.-Japan commercial relations is a mandatory subject of study.

The twin hallmarks of recent U.S.-Japan economic relations have been an explosion of commercial activity and ever-present governmental trade distortions. In the absence of the latter—if market forces were left to operate in total freedom—the annual bilateral trade (both ways) would probably be some $1 billion higher than the already impressive $12 billion figure. Since, however, we lack an ideal trading system based solely on private sector initiatives, some level of governmentally imposed distortions must be accepted as a permanent feature.

What then are the major economic and political factors in the evaluation of U.S.-Japanese trading relations?

ECONOMIC FORCES

There has been a surprising dearth of sophisticated, in-depth study of the underlying economic forces behind the largest overseas commercial trading relationship in the world. Partially because of this lack, Japan's success in penetrating the American market and amassing a large bilateral surplus has given rise to a "devil theory". Casual observers of the Japanese trade sector are prone to look beyond the mundane economic forces described below, in search of a conspiracy involving Japanese business and government. In one extreme variation, "Japan, Inc." is seen as a singleminded monolith dividing its attention between systematically saturating foreign markets and devising new import barriers. Such a vision simply does not represent the truth.

A major force behind Japan's trade successes is an intangible: hard work. When this phenomenon is added to several basic economic factors, much of the mystique of the U.S.-Japan trade balance vanishes.

The first economic factor is the **near total absence of indigenous raw materials in Japan.** This fact has had several important repercussions. It has provided a massive foreign market for U.S. agricultural commodities and minerals. Japan now purchases more than $1 billion worth of American farm products annually.

Furthermore, this heavy Japanese import dependence has placed a permanent premium on exports as a means of paying for vital imports. In a sense, Japan has gained strength from weakness. Japanese exports are still not significant as a proportion of total GNP—10 percent—but they play a key role in obtaining the resource—imports—on which the continuation of Japanese economic health is dependent.

Third, Japanese exports have only recently achieved a level sufficiently high to render unnecessary the barriers to non-essential imports formerly required to preserve scarce foreign reserve holdings. When the international competitiveness of the Japanese economy reached and held a commanding level in the mid-sixties, the Japanese government was faced with the delicate task of reconciling foreign demands for import liberalization with powerful domestic political pressures to preserve import barriers. While walking a political tightrope, Japan gradually reduced the number of items under import quota from 120 as late as April 1969, to 34 in April 1972. During that period, Japan was also stimulating imports through a healthy 17 percent revaluation of the yen, by unilateral tariff reductions (including tariff preferences for less developed countries), and by simplifying customs procedures.

A second critical factor in bilateral trade relations evolved from **economic dislocations in the American economy.** U.S. trade patterns have been heavily and unfavorably influenced by the persistent inflationary pressures which have dominated the domestic economy since the late 1960's. The relatively high rate of price increases had a doubly negative effect on trade—lower cost imports found a readier market here, and U.S. exports lost some of their international price competitiveness. These phenomena played a key role in the deterioration of the large U.S. trade surpluses of the post-war period, both multilaterally and bilaterally with Japan.

A third factor is the **difference in the sectors of economic growth** experienced by Japan and the United States over the last decade. During the sixties, the overall net growth in the U.S. GNP

was about evenly divided between increased production of tradeable goods and increased services. Conversely, in Japan, increases in tradeable manufactured goods accounted for about 80 percent of the net GNP growth during this same period. Post-war economic growth in Japan has been concentrated in a limited number of heavy industries. Virtually all of them—electronics, steel, transportation equipment, chemicals—can be classified as having high export potential and as being import-competing industries. In other words, Japanese economic growth patterns were channeling resources into exactly those sectors which otherwise would have had the highest potentials for import growth, i.e. where there would have been a high elasticity of demand as Japanese incomes rose. The resulting productivity gains in these basic capital and consumer goods industries enabled aggressive Japanese exporters to take full advantage of rising world income levels to cultivate foreign markets.

Sharp differences in the import elasticity of demand between the two countries is a fourth factor. In measuring how changes in national income influence changes in demand for imports, the limited number of studies in this area agree that the U.S. has a substantially higher import elasticity than does Japan. An unpublished study completed this year by the U.S. Treasury Department concluded that

> An upward structural shift in American demand for Japanese goods occurred in the mid 1960's as Japanese suppliers introduced successive waves of new and increasingly sophisticated products into the U.S. market. The U.S. marginal propensity to import Japanese goods was three times greater in the latter 1960's than during the early 1960's. This is the major underlying reason for the large increase in the U.S. trade deficit with Japan in recent years.

This high U.S. elasticity resulted in part from the activity of astute Japanese exporters, using sophisticated marketing techniques, price competitiveness and the increasing quality image held by Japanese goods. In addition to competing directly with U.S.-made goods, Japanese exporters were among the first to serve American consumer preferences for such items as small cars and small-screen television sets.

The import elasticity of demand in Japan is unusually low. A major reason for this is the above-mentioned dearth of raw materials in Japan. Agricultural commodities, industrial raw materials and crude oil account for more than 80 percent of total Japanese imports. Basic economic necessities, such as food, traditionally have low income elasticities of demand; after passing the subsistence level of income, as have the Japanese, further increases in family

income are channeled primarily into manufactured consumer goods rather than increased food consumption. Further, the demand for industrial raw materials and crude oil is closely dependent on the pace of industrial production in Japan. The current Japanese recession has demonstrated clearly that industrial stagnation transfers directly into import demand stagnation for industrial raw materials, which by themselves account for more than one-half of total Japanese imports. For example, in spite of recently reduced yen costs of imported coal and iron ore, cutbacks in production by Japanese steel makers preclude any immediate increase in demand for these raw materials.

While competitively priced Japanese consumer goods continue to win favor with American consumers, there is evidence that there is a perverse price effect for consumer goods imported into Japan. Because in Japan they are frequently utilized as prestige or luxury goods, imported consumer products, like good Scotch in this country, lose some of their appeal when reduced in price.

To date no statistical evidence has appeared which correlates changes in the overall growth rates of either the U.S. or the Japanese economy to changes in the export sector. In both cases, the export sector is influenced predominantly by business conditions abroad, not at home. Consequently, the continuing gap in the import elasticities of demand in the two countries will be a critical determinant of future bilateral balances, especially in years when the pace of U.S. economic activity is high in relation to that of Japan.

A fifth factor is the **relative unimportance of exports in the overall trillion dollar U.S. GNP.** This country has probably the lowest percentage (about 4 percent) of GNP accounted for by either exports or imports of any industrialized non-communist country in the world. The sheer size and near self-sufficiency of the gigantic home market are chiefly responsible for this small export sector, which has made the U.S. government and many U.S. companies relatively less export conscious than their foreign counterparts.

A sixth critical economic factor is the **increasing tendency for American corporations to sell in foreign markets by other than the traditional export route,** i.e. through foreign direct investment and licensing. Just as services have superseded manufacturing in relative importance in the American economy, so too have exports of services and capital repatriation displaced exports of manufactured goods as the leading elements of strength in the external account. Japan, owing to its relatively fixed supply of labor and shortage of land, as well as to the growing emphasis on improving the quality

of life, will undoubtedly follow the same transition process from manufacturing to services. But this is still some years away.

Finally, brief mention must be made of two special advantages once enjoyed by the Japanese economy in the immediate postwar period which have either disappeared entirely or have been dissipated. The first was the cost efficiency resulting from extensive Japanese use of foreign technology. Heavy reliance on licensing allowed the whole range of Japanese industry to avoid large research and development expenditures in favor of royalty payments to foreign competitors. With most Japanese industry now on at least a technological par with its foreign competition, expensive, indigenous R and D has become necessary to assure a continuation of Japanese international competitiveness.

Secondly, until quite recently Japanese industry generated annual productivity increases sufficiently large to offset large wage gains. But in the last few years the reverse has been true. The increasing cost of Japanese labor is especially significant in view of the growing production skills in the less developed Asian countries, where labor costs are far below those of Japan and where there has been no appreciation in exchange rates.

POLITICAL FORCES

One of the ironies of recent U.S.-Japan trade relations has been the apparent swapping of the traditional international economic ideologies of the two countries. At a time when Japan, formerly a heavily protectionist country, has implemented a program of liberalization unmatched by any other country, the United States, the leading advocate of liberal trade, has intensified efforts to restrict the access of imports to the American market. To be sure, the verbal commitment to freer trade is still evident. Unfortunately, recent actions by the executive and legislative branches have done little to set a good example for other countries.

According to State Department data, 21 percent of all American industrial imports are now subject to some type of quantitative restriction. Comparable data for Japan, the European Community, and Canada are 8%, 4.3%, and 0.4% respectively. This presents a far different picture of accessibility to the U.S. market than the "world's most open market" concept widely and wrongly held.

Responding to U.S. pressures, Japanese producers of more than a dozen different products have agreed to voluntarily restrain ex-

ports to the U.S. market in order to deter more restrictive unilateral action by this country. Among the restricted products are steel, textiles (manmade fibers, wool and cotton), bicycles, table flatware and umbrellas. (Steel and textile restraints are conducted within a multilateral context.) To this list of U.S. import barriers must be added the recent increased resort by the U.S. government to anti-dumping investigations of alleged sales of Japanese goods at less than fair value in the U.S. There is also the recent initiation by the Treasury Department of a countervailing duty investigation based on the allegation that the Japanese government is providing bounties and grants to Japanese exports of consumer electronic products. Unusually high U.S. tariffs on a number of goods also present formidable barriers to foreign exporters.

Taking into account the shift in priorities in Japan toward improvements in the economic infrastructure, as well as the prospect of more flexible exchange rates capable of reflecting more quickly shifts in international competitive forces, it is probable that open market forces by themselves would eventually act to diminish the bilateral Japanese trade surplus with this country. But given the strong anxiety and impatience with which the Nixon Administration views the trade imbalance, U.S. governmental intervention and pressures have been and likely will continue to be used to speed the process of restoring American trade equilibrium with Japan.

THE SHORT-TERM OUTLOOK

This is where we stand today. After the recent major governmental initiatives in the trade picture, we now must wait for the commercial sector to absorb the effects of yen revaluation and of the recent Japanese moves to liberalize imports and restrain exports. In assessing the short-term outlook for U.S.-Japan trade, the timing of Japan's escape from its current recession—its longest and most severe—is the single most critical element. Reacting in accordance with historical patterns, Japan's import sector has been noticeably affected by the recent sharp drop in its economic growth rate. Imports have become stagnant and in some cases have actually declined. A full-scale business recovery is essential if Japan's large trade surplus is to be reduced by means other than widepread curtailment of Japanese exports.

A brief survey of other short-term trade factors leaves little room for optimism that recent policy changes by themselves will quickly change deeply rooted economic forces.

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Import Liberalization: There is some doubt as to whether any further Japanese import liberalization will be particularly effective in increasing total Japanese imports from the U.S. This is so chiefly because there is not much left to liberalize. There are currently only 33 out of a total of 1097 BTN 4-digit items remaining under residual import restrictions. The chief products of interest to the U.S. still limited by Japanese quotas are computers, integrated circuits, and certain citrus fruits. These barriers should be raised as quickly as possible, since they distort optimal trade patterns and serve as debating points for protectionist elements in this country.

Tariffs and non-tariff barriers: Japan's tariff levels are not high in comparison with U.S. tariffs. A 1971 GATT study found that the average Japanese tariff rate, weighted by world trade, was 9.6 percent, with the U.S. rate at 7.1 percent. However, if each country's rates are weighted by its own pattern of imports, the U.S. average is 6.1 percent, the Japanese average 5 percent. After the Kennedy Round tariff cuts, which were completed in 1971, the Japanese government made unilateral tariff cuts on 124 items in 1971 and on 238 more items in 1972.

As for non-tariff barriers, the so-called automatic import quota system of import licensing, which had been criticized as a substantial trade barrier, was suspended in February 1972. The Bank of Japan's preferential export financing system was discontinued in August 1971, ending favored treatment for export bills compared to other commercial bills. Further, import bills became eligible for rediscount at the Bank of Japan under the same conditions as commercial bills and export bills. The import deposit system was removed in May 1970. Some of the measures which have been called non-tariff barriers were not designed to restrict imports, but were intended to serve other purposes in fiscal, tax, industrial and social policy. Since their import-restrictive role was minor, their removal will not lead to any significant increase in imports.

Efforts to increase U.S. exports to Japan: Earlier this year, a unique "U.S. export-to-Japan promotion mission", composed of Japanese trading company, department store and supermarket executives, visited Los Angeles, Dallas, Atlanta, Kansas City, New York, and Minneapolis to address businessmen's seminars organized by the U.S. Department of Commerce. The mission advised American manufacturers on how to assess the potential market for their products in Japan and how to obtain entry into that market. However, after the tour, members of the mission lamented that they found many American manufacturers, especially small and medium-sized companies, neither particularly interested in exporting nor particularly well informed about how to sell in the Japanese market.

Effects of yen revaluation: In December 1971, the yen appreciated by 16.88 percent in relation to the U.S. dollar. According to economic theory, a revalued yen will buy more American goods and a devalued dollar will buy less Japanese goods. Actual trade statistics do not yet reflect this theory. Additional time is required for the adjustments in exchange rates to have their full effect on overall trade relations. In the short run, the yen's revaluation actually hurts the U.S. trade balance, since the prices of Japanese export to the United States expressed in terms of dollars are inflated by approximately 17 per cent. Although in dollar terms Japanese exports to the U.S. in the first four months of 1972 increased by 22 percent over the same period in 1971, in yen terms the increase was only 4.4 percent.

THE LONG-TERM OUTLOOK

In the long term, Japan's trade patterns will be affected by the shifting of the nation's economic priorities away from the continued growth of export-oriented heavy industries toward the improvement of social welfare, the fulfillment of social overhead needs and the development of pollution-free, knowledge-oriented industries. Consumer goods, such as processed foods, alcoholic beverages, apparel, household goods, furniture, and sport and leisure-related goods, etc., will find an increasingly large market in Japan.

It is doubtful whether the recent spurt in Japanese exports can continue indefinitely. Export prices are rising because of yen revaluation, continuing high wage increases and the costs of anti-pollution efforts. Nearly all the major industrial technology developed in foreign countries has already been introduced into Japan. Thus new production techniques by private enterprises based on imported technology cannot be expected at the previous rate. Sluggish private investments will lead to lower productivity increases and less competitive pricing.

A change already has taken place in the attitudes of Japanese exporters, manufacturers and trading companies toward exports, especially after the yen revaluation of December 1971. Competitive pressures in most cases have forced Japanese exporters initially to absorb some of the costs of the yen revaluation, thereby reducing profit levels. Faced with foreign criticism of sharp increases in Japanese exports and the threat of Japanese government administrative intervention to restrict export prices and volume through en-

forced cartels, private business circles appear increasingly receptive to the "orderly marketing" concept.

Japan as well as the United States is suffering a declining ability to compete internationally in simple manufactures. It is inevitable that Japan will follow our process of transition toward technology-intensive goods and services. A fundamental tenet of recent Japanese economic growth has been a permanent upgrading of the skills of the labor force. Ever increasing wages and the upvalued yen certainly will reinforce this trend.

Basic changes in the long term pattern of trade are likely to be less dramatic in the U.S. than in Japan. U.S. exports, despite the depreciation of the dollar's exchange rate, will continue to be concentrated in agricultural commodities and in high technology, capital-intensive goods. This country will continue to hold a competitive edge in the introduction of new products developed as a result of entrepreneurial genius and well-financed and sophisticated research and development programs. On a cost basis, the U.S. will continue to encounter difficulties in finding export markets for simple manufactured goods. The proliferation of American foreign investment and the ever-increasing economic sophistication of America's trading partners have narrowed the international technology gap. Furthermore, the so-called "imitation lag" has been shortened, allowing other countries to more quickly copy American production techniques.

One of the most perceptive analyses of the new international economic order is the product cycle theory popularized by Professor Raymond Vernon of the Harvard Business School. The theory holds that at a certain point export markets become sufficiently large to make it financially advantageous to manufacture a product overseas. Because of 1) the size of the foreign market attained by certain American exports and 2) high U.S. wages, this process has been applicable primarily to U.S. industries. The trend accelerates as a product becomes older, since production techniques become standardized and labor costs become an increasingly critical factor. The product cycle theory suggests that a displacement of U.S. exports results not only in countries where a direct U.S. investment has been made, but also in third markets as foreign subsidiaries become more internationally competitive than their American parents. Ultimately, foreign subsidiaries and licensees could become competitive within the U.S. market.

The quickening pace of change in international competitive dynamics presents a unique challenge to American business. To successfully meet it, internationally competitive industries will have

to stay one step ahead of their foreign competition. But again, the U.S. has no monopoly on the product cycle phenomenon. In the long run, traditional Japanese industries will face the same challenges.

It seems inevitable that the traditional significance of the trade balance will shrink for a services-oriented economy like the U.S., a country with total foreign direct investments which already exceed $100 billion in book value. The prognosis is that the increasing American appetite for imported consumer goods, the decreasing competitiveness of the United States in such labor-intensive goods as apparel and footwear, and its increasing need for imports of energy resources will be offset by two evolving trends. The first is the increasing returns of profit from overseas investments. The second is the prospect for an improvement in the U.S. trade balance as a result of a further depreciation in the dollar's exchange rate, which would come about from a new international agreement providing for additional exchange rate flexibility.

CONCLUSION

The short-term outlook for U.S.-Japan trade is for the continuation of a large Japanese surplus. Some diminution by 1973 of the current massive imbalance is probable, owing to the recent international realignment of exchange rates, the anticipated recovery of the Japanese economy, further import liberalization and export self-restraints in Japan, and further emphasis in the U.S. on export expansion and the minimization of market disruptions from imports. This prognosis assumes that there will be no massive introduction of new governmental distortions to commercial trade relations.

In the medium term, a continued, albeit smaller bilateral U.S. deficit with Japan can be expected. The high income elasticity of demand for Japanese consumer and capital goods in this country will continue. But an increased Japanese sensitivity to the perils of rapid foreign market penetration, together with renewed economic vigor in that country's economy, will induce a shrinkage in the current bilateral deficit. This shrinkage, however, will not be irreversible. To the extent that the pace of aggregate economic activity in the United States surpasses that in Japan, as has been the case in recent months, the bilateral U.S. trade position will deteriorate. The reason for this, once again, is the structurally high U.S. income elasticity of demand for Japanese goods.

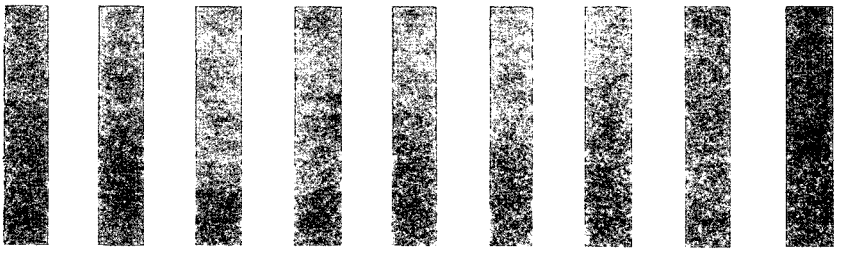
In the longer term, U.S.-Japanese trade will continue to grow and to richly reward the consumers of both countries. But this

trading relationship will eventually be overshadowed by more powerful international economic forces. Foreign investment will come to be recognized in both countries as a legitimate alternative to exporting as a means of penetrating foreign markets.

The real long-term threat to the economic interests of the United States and Japan is not a permanent bilateral surplus for one or the other. Rather, it is the possibility that rapid changes in international economic patterns will outpace the ability of traditional thinking and institutions to keep pace.

September 1972

State Barriers to World Trade



UNITED STATES—JAPAN TRADE COUNCIL
1000 Connecticut Avenue, NW, Washington, D.C.

Introduction

THE FUTURE course of America's trade policy remains uncertain as U.S. policy-makers wrestle with current trade and payments deficits. The first multilateral trade negotiations since the Kennedy Round a decade ago are scheduled to begin this fall, with the dismantling of nontariff barriers as one of the principal objectives.

In view of the general desire for a worldwide reduction of trade restrictions, the recent upsurge in state and local Buy American activity is a disappointing and deeply disturbing development. Buy American statutes and administrative regulations are proliferating—in some cases with the tacit encouragement of the Federal government—even though these practices have been declared unconstitutional and represent flagrant nontariff barriers to international trade.

The Constitution grants to Congress the exclusive power to regulate foreign commerce. Considerations of national security, economic development, and common sense convinced the Founding Fathers that American foreign economic policy should be formulated and implemented at the national level, and *only* at the national level. Congress has exercised its authority accordingly, as has the Executive in negotiating multilateral trade agreements and treaties.

State and local Buy American practices are obvious and harmful exceptions to this long-standing principle. Since the adoption of the Trade Agreements Act in 1934, a total of six American presidents have rejected the path of protectionism and have labored to dismantle U.S. trade barriers. But in spite of this bipartisan liberal trade policy at the national level, restrictive or closed bidding practices have survived and flourished in the states.

Existing State Restrictions

At least 23 states currently impose substantial restrictions on the purchase of foreign-made goods for public projects. Some of these restrictions apply to local governmental units within the states as well.

Businessmen seeking to supply foreign materials to a state project are confronted by an array of bureaucratic practices that lack uniformity and are often arbitrarily administered. Some states (e.g. Alabama, Massachusetts and Illinois) virtually ban the purchase of certain foreign-made materials, particularly fabricated steel products. Many others (e.g. Alaska, Arkansas and New Mexico) give preferential treatment to in-state materials and suppliers. This in-state and/or domestic preference approach is widespread, and may feature a preference for in-state contractors if the price and quality standards of their bids are equal to those of out-of-state or foreign contractors; fixed percentage price differentials favoring the in-state bidder (usually ranging from three to six percent); or discretionary authority without guidelines which permits state purchasing officials to discriminate against a foreign bidder.

Some states treat a product as foreign—and thus subject to restrictions—if any component part was manufactured abroad. Other states may formally deny the existence of a Buy American policy, but in practice set a prohibitively brief time for the submission of bids. Other restrictive practices include the requirement that the goods be in the United States at the time of bidding, and insistence on overseas inspection or testing at the supplier's expense.

Perhaps the most imaginative device to exclude foreign-made products is a Pennsylvania statute providing that no aluminum or steel shall be purchased if manufactured in foreign countries "which discriminate against suppliers, equipment or materials manufactured in Pennsylvania." Under the terms of this curious statute, which was enacted in 1968 but has not yet been implemented, a "foreign registry docket" of nations allegedly practicing discrimination against Pennsylvania products shall be kept in Harrisburg, the state capital, and "reciprocal restrictions" may be imposed accordingly. At this writing, no proceeding to challenge the constitutionality of the Pennsylvania law has been initiated.

For the results of a recent state-by-state survey of Buy American policies, see the tables on pages 9-12.

Campaign for New Restrictions

Georgia, Tennessee and Colorado provide the most recent examples of the application of restrictions on imports. In each case, the state highway department has imposed within the last year either a flat prohibition on the procurement of foreign goods or has saddled importers with extra and unreasonable administrative burdens. Some observers maintain that this latest flurry of Buy American activity can be traced to a decision last year by the Federal Highway Administration to withdraw an earlier unimplemented directive to the states not to adopt Buy American policies beyond the Federal government's own restriction (which as a general rule allows domestic suppliers a six percent cost differential). Since the FHA action, Georgia and Tennessee have put Buy American policies into force administratively, and similar moves are reportedly under active consideration in Oklahoma and Arkansas. Colorado has adopted a sweeping restriction, which specifies that all materials incorporated in highway projects must be produced or manufactured in the United States.

In addition to this administrative activity, an unprecedented number of Buy American bills have been introduced in the state legislatures. While no action has been taken on the vast majority of these proposals, the protectionist campaign to undermine the beneficial effects of an open bidding system continues in many states with considerable support from domestic industries and labor unions.

Objections to Buy American Laws

It is the consensus of opinion among trade policy-makers that state Buy American policies are 1) contrary to the objectives of U.S. foreign economic policy, 2) unconstitutional, and 3) costly to taxpayers and inimical to the economic interests of the United States and the states involved.

Contrary to U.S. Trade Policy

Like his predecessors dating back to Franklin Roosevelt, President Nixon supports reduction of tariff and nontariff barriers, promotion of trade on an equitable basis, and strengthening the U.S. competitive position in the world marketplace.

The policy objections to restrictive state policies were well

summarized by Edwin M. Cronk, then Deputy Assistant Secretary of State for International Trade Policy, in a telegram on March 31, 1971, to the Connecticut League of Women Voters:

> Buy American policies have a direct impact on our overall national trade policies and interest, and affect the conduct of foreign affairs. Such policies are of direct concern to the U.S. Department of State.
>
> As you know, the Supreme Court of the United States has frequently held that the grant by the Commerce Clause of Congressional power over interstate and foreign commerce prevents the states from interfering with that commerce by placing more onerous burdens or restrictions on the products of other states or foreign countries than they place on their own products. The Department of State is of the opinion that this bill [a proposal to prohibit state and local procurement of foreign steel and iron products], if enacted, would so burden foreign commerce as to be invalid under the Commerce Clause of the U.S. Constitution (Article 1, Section 8) and under the so-called Import-Export Clause (Article 1, Section 10) which generally precludes states from taking restrictive action in the field of foreign trade, whether by duty or otherwise.
>
> The adoption of a Buy American law by any state government, furthermore, would establish a barrier to international trade by unilateral action. The reaction of foreign countries might be expected to include imposition of restrictions on United States exports. This would run directly counter to the efforts of the U.S. government to support a beneficial expansion of world trade, including the further opening of markets for U.S. exports.
>
> The U.S. Government is endeavoring, for example, to improve access for American goods in foreign official procurement markets. State action to impose a Buy-American preference in order to limit the access of foreign goods to our markets would be cited as a protectionist device imposed by the United States at a time when we are seeking reduced protectionist policies by other nations in this area of activity.

With a new round of multilateral trade talks scheduled to begin in September 1973, American negotiators will be pressing U.S. trading partners to dismantle their tariff and nontariff barriers, including in some cases their discriminatory procurement practices. State Buy American statutes and regulations thus contradict this country's objectives in the upcoming negotiations and threaten to undermine its efforts to obtain meaningful concessions at the conference table. Foreign governments can be expected to defend their own

"Buy National" restrictions by citing the network of trade barriers in many American states. In sum, whether it takes the form of retaliation or a refusal to reduce foreign barriers, the inevitable result of state restrictions on imports is to endanger the American export effort at a time when—given the growing U.S. trade deficit—export expansion must be viewed as a high-priority goal of U.S. trade policy.

Unconstitutional

State laws and regulations limiting public purchases to domestic sources can clearly affect "commerce with foreign nations, and among the several States" and therefore infringe upon the express and exclusive power of Congress to regulate foreign commerce (Article 1, Section 8 of the Constitution). Every court in recent years to consider state Buy American measures has declared them invalid.

In Balwin-Lima-Hamilton Corp. v. *Superior Court*, 208 Cal. App. 2nd 803 (1962), a California court ruled that the General Agreement on Tariffs and Trade (GATT) and the Treaty of Friendship, Commerce and Navigation with Japan superseded the California Buy American Act.

Perhaps the most important decision dealing with the constitutionality of state Buy American legislation is the decision in the case of *Bethlehem Steel Corp.* v. *Board of Commissioners*, 276 A.C.A. 266 (1969), by the Court of Appeal of California. The case involved a clear-cut and direct challenge to California's Buy American Act, and was resolved in a clear-cut and direct determination that the statute was incompatible with the Federal Constitution.

In 1966 the Department of Water and Power of the City of Los Angeles awarded contracts for structural steel beams and steel components for electrical transmission towers to the two companies submitting the lowest bids, both of which were going to use Japanese steel. Two unsuccessful bidders for the order, Triangle Steel and Supply Company and the Bethlehem Steel Corporation, sued to enjoin the Water and Power Department from awarding the contracts to the suppliers of foreign steel, arguing that the California Buy American Act required the Department to buy American-made steel for the construction in question. The Los Angeles Superior Court declined to prevent performance of the contract, and at a later hearing declared the California Buy American Act unconstitutional.

Bethlehem appealed to the Court of Appeal of the State of

California, which issued a decision in 1969 confirming the decision of the Superior Court that the California statute was unconstitutional. After reviewing the revelant Supreme Court decisions and even the Federalist Papers for guidance on what was admittedly a novel issue for it to determine, the Court concluded that the power of the Federal Government in the field of foreign affairs is "inherent, exclusive and plenary." The California Buy American Act usurped and interfered with the Federal government's authority, and, consequently, was impermissible.

The Court's opinion included the following passage:

> Only the federal government can fix the rules of fair competition when such competition is on an international basis. Foreign trade is properly a subject of national concern, not state regulation. State regulation can only impede, not foster, national trade policies. The problems of trade expansion or non-expansion are national in scope, and properly should be national in scope of their resolution. . . . These are delicate matters. If state action could defeat or alter our foreign policy, serious consequences might ensue. The nation as a whole would be held to answer if a state created difficulties with a foreign power.

The California Supreme Court subsequently declined to review the Court of Appeal's decision, which remains as the law in the State of California.

Costly and Inefficient

It is a basic economic principle that competition reduces prices, spurs innovation, and benefits the consumer. When a state government limits itself to domestic or in-state suppliers, its procurement costs increase correspondingly. By discouraging open and vigorous competition among bidders, a state in effect subsidizes certain special interests and passes on the increased costs to the taxpayer. Economists are in virtually unanimous agreement that Buy Americanism is inflationary, trade-restrictive, and generally contrary to a state or nation's best interests.

Professor Paul Samuelson of the Massachusetts Institute of Technology, for example, told the *National Journal* (August 8, 1970) that he regards these policies as "inefficient", and went on to recommend that they be phased out "even though it would have as its first consequence a worsening of the balance of payments." Lawrence Krause, a senior fellow at the Brookings Institution, has labeled Buy American policies "very bad from the standpoint of world trade," and

has warned that they would likely work to the disadvantage of the United States. A Canadian economist, Professor M. S. Noorzoy of the University of Alberta, has written that:

> To the extent that the (Buy American) policy is effective, it misallocates domestic resources. It leads to higher domestic prices and oligopolistic firms. Theoretically, it is quite feasible for such firms to raise their bidding prices to the limits of the Buy American price differentials without fear of losing government contracts. The policy is also an instrument of subsidizing inefficiency in small domestic firms. It undoubtedly raises government procurement costs and leads to higher taxes. Moreover, to the extent that dutiable imports are restricted, the government loses tariff revenues.

In a June 1972 study prepared for the Joint Economic Committee, Professor J. David Richardson of the University of Wisconsin summarized his objections to Buy American as follows:

> The central conclusion of the analysis of this study is that the policy is always in part self-defeating and may under some circumstances be perverse in its effects. The reason is that "Buy American" policy is not applied across all sectors of the economy, but is directed only to the government sector. When domestically produced and foreign commodities are at all competitive (substitutable in consumption or use), the same policy which discriminates against foreign suppliers in the government sector discriminates in favor of foreign suppliers in the private sector. The mechanism underlying this conclusion is that decreased purchases of imports and increased purchases of domestic goods by the government sector tends to lower import prices and raise domestic prices, leading the private sector to substitute away from domestic suppliers and toward imports. The upshot is that economywide imports are discouraged less than government imports alone, and if incomes of domestic producers are subsidized at all, the extent of subsidization is less than would be indicated by focusing on government purchases alone. In fact, the possibility that a "Buy American" policy actually reduces the incomes of domestic producers is shown to exist.

Conclusion

Despite the persuasive legal, economic, and foreign policy arguments against Buy American policies, the politics of the problem make it extremely difficult for state legislators and other state officials to resist industry-labor pleas for protection against foreign competition. A record U.S. trade defi-

cit in 1972, high unemployment, and leverage wielded by business and union lobbyists in the various state capitals have combined to give new momentum and respectability to the Buy American movement. What is needed to defeat Buy American proposals is strong leadership by the U.S. Government, a more effective public information effort by liberal trade groups, and most important, a recognition on the part of American taxpayers and consumers that ultimately they foot the bill for these trade-restrictive policies through increased taxes and higher prices.

Buy National practices, both foreign and domestic, work to the economic disadvantage of all nations. One of the primary objectives of the upcoming round of international trade negotiations should be agreement on uniform criteria for government procurement, with the long-term objective of dismantling Buy National and all other nontariff barriers.

MARCH, 1973

Note: The following information is based upon responses by 46 states and the District of Columbia to a December 1972 questionnaire sent by the United States-Japan Trade Council to all state attorneys general and highway administrators.

I. States with Intentional Buy American Policies

Alabama
Code of Alabama requires the use of U.S. materials "if available at reasonable prices." Highway Department prohibits purchase of foreign steel in state highway and bridge construction.

Colorado
State recently adopted administrative restriction which specifies that "all materials incorporated in the (highway) project must be produced or manufactured in the U.S."

Georgia
Statutory preference for "goods manufactured in the State or to local sellers where bids submitted are otherwise equal." Highway officals recently rescinded a ban on imported materials and substituted a set of discriminatory inspection procedures governing the purchase of imported steel.

Hawaii
Hawaii statute establishes preference for American products: "In all expenditures of public money for any public work or in the purchase of materials or supplies, preference shall be given to American products, materials and supplies."

Idaho
Apparently without statutory basis, bids feature a clause restricting use of foreign materials.

Illinois
No state-wide policy, but Department of Transportation imposes a flat prohibition on foreign-made steel and other metals in highway and bridge construction.

Indiana
No Buy American statutes, but the Department of Administration has "a strong preference for American-made products" and the Highway Commission gives its district offices broad discretionary authority in procurement matters.

Iowa
State Highway Commission bans procurement of foreign-made structural steel for bridge construction.

Kentucky
Did not reply to questionnaire, but a state official said in 1969 that "we discourage all agencies from requesting foreign-made products. We believe very strongly that we should purchase domestic-manufactured products when they meet our requirements."

Louisiana
Department of Highways limits all fabricated steel purchases to American-made products.

Maine
While there are no formal restric-

tions, the Bureau of Purchases "reserves the right at any time to reject any and all bids on foreign-made products if it is not in the best interest of the State to purchase same."

Maryland

No statutory restrictions, but State Highway Administration specifies "domestic, not foreign, steel and cement." (Before 1971, regulations prohibited the use of foreign-made materials.)

Massachusetts

Statutory preference for in-state products first, and then for American-made products. Department of Public Works stipulates that "Structural steel regardless of its source shall be fabricated in the U.S.A."

Minnesota

Highway Department stipulates that all cement and all iron and steel products "shall be of domestic manufacture."

Mississippi

State Highway Department specifications provide that "only domestic steel and wire products" may be purchased for road and bridge construction.

Montana

By both statute and administrative memorandum, Montana gives preference to American and in-state products and manufactures.

New Hampshire

No state-wide policy, but Department of Public Works and Highways specifies that "all structural steel shall be restricted to that which has been rolled in the U.S."

New Jersey

Statute limits procurement of foreign materials, with narrowly defined exceptions. This restriction applies to all state contracts and to those for which the state pays any part of the cost.

New York

Apparently without statutory basis, New York State specifications include a flat prohibition on foreign goods in general purchases, and a preference for American-made materials in the construction of highways and public buildings.

North Carolina

No statutory restrictions on purchase, but under highway specifications overseas testing and inspection costs of structural steel products must be borne by the contractor.

Oklahoma

Statute provides that all State departments and agencies shall give preference to "goods and equipment manufactured or produced in the U.S."

Pennsylvania

Statutory restrictions upon the purchase of steel and aluminum manufactured in foreign countries found to discriminate against Pennsylvania products.

Tennessee

Apparently in response to the shift in policy by the Federal Highway Administration, Tennessee recently adopted an administrative restriction on foreign steel purchases.

District of Columbia

Federal Buy American Act applies.

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II. States without Intentional Buy American Policies

Alaska
No restrictions, but grants 5% preference to Alaska bidders.

Arizona
No restrictions, but grants 5% preference to Arizona bidders.

Arkansas
No restrictions, but grants 5% preference to Arkansas bidders.

California
No restrictions. By judicial determination, the California Buy American Act and the California Preference Law have been declared unconstitutional (See analysis on page 5).

Connecticut
No restrictions.

Delaware
No restrictions.

Florida
No restrictions.

Kansas
No restrictions. Buy American bill defeated in state legislature last year.

Michigan
No restrictions.

Missouri
No restrictions, but grants preference to in-state firms and products.

Nebraska
No restrictions.

Nevada
No restrictions, but grants preference to in-state merchandise and suppliers.

New Mexico
No restrictions, but grants 5% preference to in-state materials and suppliers.

North Dakota
No restrictions, but grants preference to "resident bidders and sellers."

Ohio
No restrictions.

Oregon
No restrictions.

Rhode Island
No restrictions.

South Carolina
No restrictions.

South Dakota
No restrictions.

Texas
No restrictions. Buy American highway specifications invalidated by litigation (*Texas Highway Commission* v. *Texas Association of Steel Importers, Inc.*, 372 S.W. 2d 525 [Texas, 1963]).

Utah
No restrictions.

Vermont
No restrictions.

Virginia
No restrictions.

Washington
Specifications provide preference for American-made highway and bridge construction materials, but in practice Washington's policies are generally considered nondiscriminatory.

West Virginia
No restrictions, but grants preference to in-state suppliers.

Wisconsin
No restrictions, but grants preference to in-state suppliers.

Wyoming
No restrictions, but grants 5% preference to in-state suppliers.

Mr. BURKE. Thank you, Mr. Stitt.

Mr. Collier?

Mr. COLLIER. It is well and good, and no one can disagree with establishing a relationship with Japan or any other nation in the world that is harmonious. Recognizing that you are a practical man and certainly all members of this committee are also very practical people, we have to go beyond that, I think you will agree.

I would then ask you if the position of the Japanese in terms of seeking complete reciprocity in trade relations is one that concurs with this? In other words, what was said here, and I trust that it will be the foundation for whatever negotiations develop in our trade policy, that we seek no advantage, but indeed we seek reciprocity.

We are not prepared to give any nation in the world an advantage over us. At the same time, we are not seeking an advantage. At the present time, Japan admittedly has a substantial advantage in terms of trade.

Are they amenable, as a matter of national policy, to accept one which is entirely reciprocal?

Mr. STITT. I would say this, Mr. Collier: I think our experience over the past year or two has indicated that the Japanese are being more than reciprocal. They have leaned over backwards. They have even put on export controls to try to slow down the growth of their export trade to the United States.

They have lowered their tariffs below anything they were obligated to do in the Kennedy round. They have knocked out practically all their import restrictions with a few exceptions, and indeed have gone into a program of trying to encourage imports from the United States.

I am certain that in the coming negotiations you will find the Japanese negotiators very willing to go all the way down the road. As I have tried to indicate, perhaps farther than we are, in order to try to eliminate this rather difficult trade balance.

Mr. COLLIER. I don't certainly deny that the Japanese have made rather definite efforts, which I presume very frankly were prompted by a feeling in this country that we cannot economically preserve our own well-being if we have imbalances all over the world.

I think any trade policy, any negotiations, should be directed to the concept of reciprocity. I don't think that we can trade with any foreign nation expecting to wind up on the short end of the sick.

I think the nations that trade have a responsibility to see that here is reciprocity. I buy what you have, and you buy what I have, and we try to come out even. That, to me, is free trade, with practical restrictions on it.

Mr. STITT. Mr. Collier, I have two thoughts as I listen to you. The first is that the idea of a bilateral trade balance country to country is not really germane to today's world. What we are searching for here is some balance of payments worldwide.

We may be running an imbalance with certain countries, let's say an unfavorable balance with some countries, and a favorable balance with others. I think this currency realignment and the floating of all the major currencies will eventually bring an overall balance about, not necessarily one country to another, the United States and Japan. We may still run an unfavorable balance with Japan, but perhaps we will run a favorable balance with Australia.

I think our overall balance in due time will correct itself. You say the Japanese liberalization steps were prompted by feelings in this country which is partially true, but let me say, in my knowledge of the Japanese, that they themselves realize that the end all in life is not to expand exports.

They are looking to a better life. They are going to use more of their resources to improve the home situation and expend their resources to improve their life. They have put so much into exports in return for depreciating dollars.

There will be much more of their resources devoted to the improvement of the infrastructure in Japan and aid to the underdeveloped nations.

Mr. COLLIER. I am sure that this is true, and very laudable. Let me say as we develop particularly in the sporting equipment business some years ago there was a tremendous import. In fact, it was rather ironical that in our great national pastime, which is baseball, 80 percent of all the baseball mitts sold in this country were made abroad.

In the process we agreed, as you will recall, to permit a voluntary quota; in other words, it was kind of an honor system and what subsequently developed was that in the establishment of the voluntary quota a lot of baseball gloves were made out of plastic and were not brought into the quota on the grounds that they did not qualify because they were not leather gloves or cow hide or whatever.

The voluntary quotas were at that ime kind of somehing that—I hate to use the word "loopholes" because we are not talking about taxes—was indeed a loophole because of what the intent and spirit of what those agreements were.

Mr. STITT. There was some argument, of what was a child's baseball glove and whether it fit in the category of baseball gloves. I was in Tokyo in February. I went into several department stores and also went to the sporting goods section. Having an interest in baseball gloves, I looked at all of them.

I found that all of them were made in Taiwan. Japan has decided that these labor intensive goods are no longer a product that Japan should make because the comparative advantage has moved elsewhere.

So, they are moving in the direction of growth industries, which pay higher wages and are moving out of the goods like baseball gloves, umbrellas, all the sundry goods which used to be considered the mainstay of Japanese trade.

Japan is really adjusting to this far better than the United States has so far.

Mr. COLLIER. That being the case, we should not have much trouble negotiating with the Japanese, if what you say is right and I have no reason to doubt it. I have some knotty problems. What about the textiles?

Mr. STITT. Japan is importing textiles at record rates from other countries of the world. In fact, I do believe in volume it may be more than the export.

Mr. COLLIER. What about shoes from Jim Burke's district?

Mr. STITT. The big Japanese item in shoes were rubber soled sneakers. They have practically gone out of the export business in that. That has moved to Korea and Taiwan.

Mr. BURKE. To Korea with Japanese money?

Mr. STITT. Perhaps. We are in favor of liberalization of capital.

Mr. BURKE. They are short of labor. They had to go to Korea and Taiwan to make these goods and export them to the United States.

Mr. STITT. They discovered there was no economic advantage in making this type of shoe any more because they can make more wages in some other industry that is less labor intensive.

Mr. BURKE. They get labor much cheaper in Korea than in Japan so it pays them to build plants in Korea and Taiwan to manufacture the goods to export to the United States. They are so short of labor over there they can't get the people to make the shoes.

They have to make them in other countries and they are making them in Taiwan and Korea.

Mr. STITT. You are presuming all the shoes are made in Korea and Taiwan?

Mr. BURKE. I am not presuming all of them, but I am saying a great deal of them are made as a result of Japanese investment. They could not get the labor over there so they moved to countries where wages are very low. They invested the money and got the plants there. They are now exporting those goods to countries like the United States.

Mr. STITT. I would not say "they." It is Taiwan's and Korean labor.

Mr. BURKE. The Japanese are very smart businessmen. I don't blame them. They are getting away with it.

Mr. STITT. This is the whole multinational concept, of course.

Mr. DUNCAN. Mr. Stitt, you indicate you believe in free trade. What would be your thoughts on taking down all the barriers between Japan and the United States, let them sell what they wish here and let us sell what we could there.

Mr. STITT. I don't think we should do it in a bilateral way, and not overnight, certainly.

Mr. DUNCAN. Why? You believe in fairness and fair trade; why don't you?

Mr. STITT. The adjustments will be too abrupt. I am not one of those people who say fair trade tomorrow and to hell with the communities such as Mr. Burke's district, which have been affected by imports.

This has to be gradual. If you say in the long run do I believe that the world would be better off if we had a free exchange of goods and capital, I could only say yes.

Mr. DUNCAN. In 1970 you testified before us. You said then that things weren't going to get any worse, that good things were going to happen. It hasn't because the results have been on the negative side.

Mr. STITT. There are two things, I must say, that proved my undoing. First it was the progress of inflation in the United States, which far exceeded any of our expectations. The fact that the U.S. was in a period of inflation and Japan was in a period of depression tended to draw imports in not only from Japan but from other countries.

Secondly, the inflexible monetary system where the dollar was greatly overvalued and the yen was undervalued. We still have inflation to deal with, but I hope that the monetary adjustments which have and are taking place will correct the situation. As a matter of fact, as I pointed out, this year it appears very much that the U.S. imbalance of trade with Japan will be reduced by $1 billion or $1.5 billion as a starter.

Mr. DUNCAN. But isn't Japan's rate of inflation much greater than ours?

Mr. STITT. Not yet. I say that advisedly.

Mr. DUNCAN. The information we have is that the rate has been growing faster than ours.

Mr. COHEN. It is determined by exactly what index you use. If you talk about the Consumer Price Index, it is true because of the services sector, housing and nonmanufactured, but if you look at the Wholesale Price Index, the Japanese performance is still relatively favorable.

It would be the Wholesale Price Index that would have the greatest impact on the competitiveness of Japanese exports and not the Consumer Price Index.

Mr. DUNCAN. You refer to the international obligations of the United States. Don't you think that Japan should have some international obligations, also?

Mr. STITT. Indeed, they do, sir. However, let me say that when we are thinking in terms of, let's say import quotas or import restrictions, which violate the General Agreements on Tariffs and Trade, you would be surprised to know that we exercise far more of those today than the Japanese do. If you add together the textile arrangement, which presumably was voluntary, and the steel arrangement, which presumably was voluntary, plus all of our other restrictions, you will find that the United States exercises far more restrictive control over imports than does Japan.

Mr. DUNCAN. You don't think that our negotiators should have the same authority that the Japanese negotiators have in negotiating with them?

Mr. STITT. I think they should have as much authority, and I would hope perhaps more.

Mr. DUNCAN. You indicate in your statement that they should not have unlimited authority. The Japanese nontariff barriers are more administrative than they are legislative.

Mr. STITT. Whether you call them legislative, administrative or voluntary, they are import restrictions and we have more than they do. However, all I am suggesting is that you give the President full authority so he can meet on an equal level, he can exercise leverage with the Japanese and the European Community and others to the same extent they can exercise on our negotiators with the idea that both sides should observe their international obligations.

Mr. DUNCAN. What do you mean by the statement that we have more restrictions than, they do?

Mr. STITT. They have restrictions on exports of all still mill products which is a tremendously important import item. We have restrictions on all textile products, another important import item. We have restrictions on practically all agricultural products.

We have had until very recently restrictions on oil. We had restrictions on meat until the President had to knock them out because of inflation.

Mr. DUNCAN. Isn't that true on Japan, also. They have restrictions on the things they don't need and the things they need are without restrictions?

Mr. STITT. The only manufacturing items of any consequence would be computers, integrated circuits and leather goods.

Mr. DUNCAN. What about automobiles, televisions and radios?

Mr. STITT. They are free to come in if they can compete.

Mr. DUNCAN. They can't compete with the duties added on.

Mr. STITT. Japan has just reduced its duties on automobiles. I think they are at a level rather close to ours now, 6.4 percent ad valorem. I can supply you the history of Japanese automobile duties and their reductions over the years.

Mr. DUNCAN. Isn't the fact that you mentioned that imports will be down in dollar values due to the fact that the Japanese economy needs the steel? The steel imports will be down, but if that picture changes, they will be right back into our market.

Mr. STITT. The voluntary arrangement fixes a limit on the tonnage of steel. There is a real question of whether Japan will be even able to meet the quantity involved in the voluntary arrangement.

Mr. DUNCAN. Is that what you meant when you say the volume of exports will be down?

Mr. STITT. The price of steel has gone up so rapidly that I am not sure that the value of steel imports will drop.

Mr. DUNCAN. My time is up. I thank you.

Mr. BURKE. Thank you, Mr. Stitt. We appreciate your appearance here.

The next witness is Jesse K. Taylor, manager of governmental affairs and Maurice L. Mosier, vice president of the National Constructors Association.

STATEMENTS OF JESSE K. TAYLOR, PAST CHAIRMAN, GOVERNMENT AFFAIRS COMMITTEE, AND MAURICE L. MOSIER, VICE PRESIDENT, NATIONAL CONSTRUCTORS ASSOCIATION

Mr. BURKE. We welcome both of you gentlemen to the committee. You may identify yourselves and proceed with the testimony.

Mr. TAYLOR. Thank you very much. My name is Jesse Taylor. I am representing the National Constructors Association. I am past chairman of our Government Affairs Committee. I have with me Mr. Maurice Mosier, who is vice president of the National Constructors Association.

We have a brief statement, which we will get through as quickly as we can. The National Constructors Association is composed of 39 internationally known engineering construction companies engaged in the design and construction of heavy idustrial facilities.

Examples of our work include oil refineries, petro-chemical and chemical plants, mining and metallurgical facilities, nuclear and conventional power generating facilities, paper mills, and highly automated manufacturing facilities.

Our combined annual business in 1972 was approximately $12 billion, of which some $3.5 billion was derived from overseas work. Therefore, it is obvious that our member companies are deeply interested in matters involving foreign trade and that we also are interested in equalizing the balance of payments, an area in which we have a history of favorable contribution.

Based upon estimates of the volume of foreign engineering and construction work which could be available to our member companies over the five or six years, we believe that it is reasonable to anticipate that several billion dollars could be added to the already favorable trade balance generated by our industry in the next few years.

If we are to achieve this, we must be able to compete with our foreign design, engineering and construction counterparts on a full, free and fair basis. In general, we believe that the proposed Trade Reform Act of 1973 could help to create the equitable competitive circumstance that is necessary if we are to attain this goal.

We recognize that the solution to the problems which affect our ability to export U.S. goods and services is adaptation to the current situation in international trade and the recognition that world trade today operates under new and different ground rules.

It is our recommendation that our negotiators be given the tools which enable them to negotiate with authority and the resources equal to those with whom they are negotiating. The administration has requested unprecedented authority that would enable our governmental and trade negotiators to approach this difficult area with some degree of flexibility and equality.

After full consideration of this concept and recognizing there are provisions for congressional veto, we have concluded that in order to attain the desired result, it is necessary that this authority be granted to the executive by the Congress.

It is our understanding that title III of the Trade Reform Act—Responses to Unfair Import Restrictions and Export Subsidies—is to be implemented by regulations, but we suggest that this title should encompass the proposed legislation which has been introduced in the Senate by Senator Inouye, S. 1487, the Foreign Procurement Practices Act of 1973.

It is impossible to solve any problem without a clear understanding of the factors that underly the problem. The inclusion of the aims and purposes set forth in S. 1487 in any Trade Reform Act would seem to accomplish this objective.

A closely related provision is presented in Title VI—Generalized System of Preferences. One of the most patently unfair practices encountered by our industry in foreign ventures today is that of "Reverse Preferences" granted to our foreign competitors in those cases when preferential tariffs to lesser developed countries encourage "special deals" which operate to the detriment of U.S. exporters of goods and services.

Both of these titles, III and IV, are of immediate concern to the member companies of the National Constructors Association, and they have our complete and unqualified support.

We are also in favor of title V, concerning most favored nation coverage for East Bloc nations.

Other provisions of the proposed legislation, which would support the efforts of our suppliers in providing the machinery and equipment required for our member companies to bid on "turnkey" packages, will be of benefit both to our members and to the U.S. manufacturers. We strongly support their intent as well.

To assist effective competition in overseas export projects by private U.S. engineer-construction companies against existing Japanese government-sponsored trading companies and West-European nationalized industrial firms, the National Constructors Association fully supports the proposed amendment to the Export Trade Act.

We note, however, that the proposed duration of this provision is only 5 years. We feel that this may not be long enough to reverse

the commercial and business habits that have been ingrained through over half a century of antitrust sanctions.

Also, we note with concern the wording of paragraph (c) of section (4), which seems to nullify the remainder of the bill by possibly exposing a Webb-Pomerene association or prosecution by an unsuccessful competitor.

We are not legislators; we are engineers. Nevertheless, it appears to me that this whole matter could best be simplified by stating that actions outside the United States which do not affect competition within the United States should be exempt from any and all antitrust legislation and that the Federal Trade Commission should have sole jurisdiction in these matters.

With these two reservations, we recommend a favorable report on the Webb-Pomerene amendment. Since the preparation of our statement, we note that Senator Magnuson has introduced the proposed revision to Webb-Pomerene. I believe it has been referred to the Commerce Committee.

Finally, in the matter of the various recommendations concerning taxation of foreign base income, we have previously testified before this committee in a statement submitted on April 3, 1973 and we reiterate that our industry is faced with so many factors that impact on our ability to compete on a fair and equitable basis with entities supported by foreign governments, that even the smallest advantage that may derive from existing tax regulations is beneficial to us in our effort to compete internationally.

This benefit is ultimately reflected in the balance of payments. If, however, it is shown that the addition of subparagraph (3) to section 904(a) of the Code is essential, then the National Constructors Association would reluctantly accept this modification.

However, other tax measures now being considered before this committee, including H.R. 62, could, we believe, be disastrous in their impact and would have a definite adverse effect on our future export ability.

In summary, we believe that the proposed Trade Reform Act will be beneficial to our member companies as well as to the Nation's economy, and therefore the National Constructors Association is hopeful that your deliberations will result in a positive recommendation.

We hope also that our testimony before your committee has assisted you in assessing the merits of the legislation.

Thank you very much.

Mr. BURKE. Congressman Duncan?

Mr. DUNCAN. I want to thank you for the fine statement. I have no questions.

Mr. BURKE. I have one question. Are you familiar with the problems that some of the designers of steel structures are facing with imports of designed plants completed in foreign countries and imported on film and used in the construction of buildings in the United States?

Mr. MOSIER. I am not prepared to comment on that, Mr. Chairman. I don't think that has been a factor in our particular phase of the construction industry. We are primarily engaged, as we have stated, in industrial construction.

I think the area that you suggest refers primarily to commercial construction as opposed to the type of construction we engaged in.

Mr. TAYLOR. I think that would impact on our domestic steel fabricators in the integrated steel industry.

Mr. BURKE. Thank you. We appreciate your testimony giving us your side of the story.

Mr. BURKE. Our next witness is James W. Johnson, chairman of the World Trade Committee of the Greater Minneapolis Chamber of Commerce and the Minnesota World Trade Association.

We welcome you to the committee, Mr. Johnson.

STATEMENT OF JAMES W. JOHNSON, CHAIRMAN, WORLD TRADE COMMITTEE, GREATER MINNEAPOLIS CHAMBER OF COMMERCE, AND ON BEHALF OF MINNESOTA WORLD TRADE ASSOCIATION

Mr. JOHNSON. Thank you. My name is James W. Johnson. I am here representing, Mr. Chairman, the Greater Minneapolis Chamber of Commerce as chairman of their World Trade Committee, which has some 3,000 dues paying member firms and individuals, and on behalf of the Minnesota World Trade Association, composed of some 260 individuals deeply involved in international trade. This oral testimony is a summary of a full written statement filed for the record of these hearings. I hope it can be included in the record.

Mr. BURKE. You may summarize if you wish. Your entire statement will appear in the record without objection.

Mr. JOHNSON. We have requested this opportunity to testify to urge prompt action on the Trade Reform Act of 1973 in order to provide the American negotiators with the necessary authority to achieve equitable reform of trade policies during the forthcoming negotiations.

Our geographic area is firmly committed to achieving expansion of international markets for our agricultural commodities. With our highly productive land, energetic farmers and efficient agricultural industries, we are more than well equipped to compete in world markets.

Exports of farm products have increased 90 percent in the past 4 years, from $5.5 billion to $10 billion. In Minnesota alone about one in four jobs depends on agriculture, and about 70,000 are export related.

We concur with the President's stated views on the importance of our agricultural exports and we ask Congress also to express its sense of the urgency for meaningful negotiations with our trading partners in the agricultural sector.

Title II of this bill would enable the President to impose temporary import quotas. We recognize that there is a necessity for this authority as a last resort, but we hope that Presidents, past and future, will avoid the use of quotas and employ tariffs and orderly marketing agreements in their stead. Furthermore, we urge that existing quotas be replaced by ad valorem duties.

We are firmly opposed to legislated, mandatory, quantitative import quotas as an import relief device. Quotas invite retaliation, reduce our exports and aggravate unemployment rather than alleviate it.

We support a program of simple, effective and meaningful adjustment assistance for workers who become unemployed as a result of sharp increases of imports. It seems immaterial to us, and it certainly is immaterial to the adversely effected worker, whether unemploy-

ment is caused by increased imports resulting from trade concessions granted by our Government or from rapid swings in market conditions.

We feel this country is strong enough to afford protection against income loss and provide generously for retraining and relocation allowances. This bill, however, makes no provision for adjustment assistance for business similarly affected.

While large, diversified businesses may or may not have the internal flexibility and sufficient assets to adjust to sharply increased imports, the effect on small, specialized companies may be much more severe.

We urge the Congress to continue to study and prepare legislation covering all feasible means of providing assistance to firms which will enable them to respond to changing conditions and to continue to provide meaningful employment to American workers.

Title V of the act would authorize the President to enter into arrangements extending most favored nation treatment to imports from countries currently subject to column 2 duty rates.

Our organizations have long favored granting the executive branch the authority to enter into MFN agreements, and we agree that we must receive a quid pro quo for the granting of this status to any country.

The Minneapolis Chamber and the Minnesota World Trade Association share the concern of Congress over the facts underlying the Jackson amendment. However, the title V authority also affects countries other than the Soviet Union, countries with whom the development of a more fruitful trading relationship can only be beneficial to our economy.

This title, furthermore, allows the Congress a mechanism to disapprove the granting of most favored nation treatment to the Soviet Union by the President, should the facts underlying the Jackson amendment so warrant. We should not deny the benefits of this title to the American economy merely to seek to resolve an unrelated foreign relations issue.

The so-called "exit visa" tax in the U.S.S.R. may be a domestic policy we would like to see changed. However, there are many countries enjoying MFN treatment which have internal policies distasteful to us. By the same token, our country has some policies which are not universally acclaimed.

Bilateral relations between our country and the U.S.S.R. are improving steadily, and we believe it better to have increased trade without extracting political concessions rather than to have neither trade nor concession. We oppose the Jackson amendment to this bill.

We have continuously supported legislation that would enable the United States to grant nonreciprocal tariff preferences to the developing countries of the world. We believe that the proposals embodied in this bill will have a most beneficial effect not only for the recipient countries but, in the long term, for the United States as well.

We heartily endorse the provisions which will force the recipient countries to abandon the all too numerous "reverse preference" schemes granted to other developed countries, notably those in the EDC. This provision will enable our businessmen to again compete fairly and equitably in these countries.

With respect to the taxing proposals included in the Treasury's recommendation, we have two serious reservations. First, regarding the proposal to subject U.S. companies to U.S. tax rates on operations in countries granting "tax holidays," we feel that this discriminates against U.S. companies since they would be forced to compete with foreign companies operating in the same countries with distinct advantages.

More importantly, perhaps, is the possible effect this provision would have on developing countries and our relations with them. Tax incentives are often granted by developing nations to further their own industrialization and alleviate their social problems.

Indeed, this legitimate device is used by the individual states in our own country to encourage industrial development. We urge Congress to carefully consider the possibilities that such an action on our part could frustrate the legitimate aims of the developing countries we have otherwise pledged to assist, could constitute an unwarranted intrusion into their domestic affairs and require them to look to other industrial nations for capital and technical resources to assist in their development.

With respect to the "runaway plant" provisions, we doubt that tax considerations are a major factor in a decision to locate a facility abroad. More likely, the determinant will be competitive labor costs.

This proposal again could thwart the efforts of developing countries and place U.S. business at a competitive disadvantage. We recommend against the adoption of the tax holiday and runaway plant proposals.

In conclusion, with the aforestated reservations, we feel this is a good bill and it has our support. Obviously, we are aware of the debate in progress over the appropriate balance between the executive and legislative branches.

We believe that balance is achieved between the executive authority to negotiate and the legislative reviewal authorities as proposed in this Act.

We thank you for the opportunity to bring our views before this committee.

[Mr. Johnson's prepared statement follows:]

STATEMENT OF JAMES W. JOHNSON, REPRESENTING THE GREATER MINNEAPOLIS CHAMBER OF COMMERCE AND THE MINNESOTA WORLD TRADE ASSOCIATION

I. INTRODUCTION

The following statement is submitted on behalf of the Greater Minneapolis Chamber of Commerce, which represents approximately 3,000 dues paying member firms and individuals and the Minneapolis World Trade Association representing 260 individuals deeply involved in international trade. The statement expresses our firm support for an over-all U.S. foreign economic policy of reform, liberalization and expansion. Specifically, we are appearing today to urge prompt, favorable Congressional action on the Trade Reform Act of 1973 (H.R. 6767) to provide American negotiators the authorities they need to achieve outward-looking and equitable reform of international monetary and trade policies in the tough negotiations ahead. We are concerned, however, about certain tax proposals affecting foreign source income.

We have long supported policies that would encourage and permit the United States to engage in healthy and balanced competition in an increasingly interdependent world. The economy of Minnesota and of the Upper Midwest as a whole welcomes the opportunities and challenges of freer exchange among a growing community of nations and peoples. The Twin Cities is the headquarters

of a number of companies with a progressive, international outlook. As these companies reach out into the rest of the world, they provide markets for American-produced goods, foreign exchange earnings for our balance-of-payments and meaningful well-paying jobs for our area's skilled and industrious workforce. We believe that the outward-looking initiatives of the Trade Reform Act represent a foreign economic policy in the best interests of our own area and of the nation as a whole.

II. AGRICULTURE

The Upper Midwest is also firmly committed to achieving expansion of international markets for our agricultural commodities. Our highly productive land and climate, trained and energetic farmers and innovative agricultural community have built a farm economy that is equipped to compete successfully in world markets. Over the past few decades, productivity in agriculture has increased at 2½ times the rate for manufacturing as a whole. In Minnesota alone, about one in every four jobs depends either directly or indirectly on a prosperous agriculture. U.S. farm-product exports have expanded more than 90 percent in just four years, building incomes and jobs throughout the economy. With an aggressive attack on the many serious barriers which will still distort world agricultural trade, we can continue and improve upon that record. Agriculture must, in the new series of negotiations, be a priority item. We concur wholeheartedly with the President's message and urge that the Congress also clearly express its sense of the urgency for meaningful negotiations by our trading partners in the agricultural sector.

III. IMPORT RELIEF

We are and have been firmly opposed to legislated mandatory quantitative import quotas as an import relief device. Quotas inevitably invite retaliation, adversely affecting our exports and causing unemployment rather than alleviating it. While Title II grants the President the authority to impose quotas, if used, they would be temporary in nature. We would hope that the President would use, where necessary, the authority to increase tariffs or to negotiate temporary orderly marketing agreements rather than using the quota authority. Furthermore, we urge that wherever feasible, existing quotas be shifted to an ad valorem duty basis. We do recognize and support the need for the tools provided to the President in Section 203. However, we would strongly object to any system of legislated mandatory quotas as proposed in other bills.

IV. ADJUSTMENT ASSISTANCE

We have believed and urged for a long time that policies which benefit the nation and economy as a whole should include programs funded and supported by all to facilitate adjustment to more competitive and rewarding endeavors by those few temporarily displaced.

This concern has been at the heart of the debate of the past few years over the welfare consequences of U.S. foreign economic policy. The evidence generated by that debate. we believe, demonstrates over-whelmingly the positive benefits of more liberal foreign economic policies and the advantages of affirmative adjustment programs rather than the negative impulse of walling the U.S. off from the rest of the world. The manner in which circumstances have changed since the Fall of 1971 under the influence of aggressive U.S. economic and monetary initiatives illustrates both how far we have come and the direction in which we must move to continue to make progress. Since the Fall of 1971, we have experienced two major currency realignments, with the currencies of the major developed nations appreciating against the dollar by more than 15 percent on a trade-weighted basis.

The positive benefits for the U.S. economy can already be seen. Our trade deficit—which had been running at about $500 million per month recently—dropped to around $50 million this March. The U.S. is expected to be running monthly trade surpluses by the end of this year. Currency realignments have also made it much more expensive for U.S. firms to invest abroad and much more attractive for foreign concerns to invest in the U.S. market.

Domestically. many U.S. industries that face competition from imports—including textiles, automobiles, steel, chemicals and the petroleum industry—are now working at approximately full capacity. Aggregate unemployment has

dropped from more than 6 percent to less than 5 percent, with continued improvement projected. America's comparatively poor performance in unit labor costs during the latter half of the 1960s has been reversed. Because our performance in controlling inflation has been better than that of our major trading partners recently, our international competitive position now resembles that of 1965, when we ran a substantial trade surplus.

We must continue to get at the heart of the problem, unemployment. We support a program of simple, effective and meaningful adjustment assistance for workers who become unemployed as a result of sharp increases of imports. It seems immaterial to us, and it is certainly immaterial to the adversely affected worker, whether unemployment is caused by increased imports resulting from trade concessions granted by our government or from rapid swings in market conditions. We feel this country is strong enough to afford protection against income loss, and provide generously for re-training and re-location allowances.

This bill, however, makes no provision for adjustment assistance for business similarly affected. While large, diversified businesses may or may not have the internal flexibility and assets to adjust to sharply increased imports, the effect on small, specialized companies may be much more severe. We urge the Congress to continue to study and prepare legislation covering all feasible means of providing assistance to firms which will enable them to respond to changing conditions and to continue to provide meaningful employment to American workers.

V. MOST FAVORED NATION TREATMENT

Title V of the Act would authorize the President to enter into arrangements extending most-favored-nation treatment to imports from countries currently subject to Column 2 duty rates. The Greater Minneapolis Chamber of Commerce has favored granting the President such authority for many years. The Chamber believes the time has now come for Congress to act decisively and affirmatively on this proposal.

Given the present United States balance of payments situation, and mindful of the fact that over 70,000 jobs in the manufacturing sector of the State of Minnesota are directly attributable to export business, it can be demonstrated that granting of most-favored-nation treatment to certain of these countries will act to reciprocally increase American exports. On the other hand, providing of most-favored-nation treatment to Eastern European countries such as Hungary and Romania will also satisfy a psychological need. These countries feel the United States, through denial of most-favored-nation treatment, has been discriminating against them due to their poltical orientation. The removal of this barrier will allow American businessmen to compete more effectively in these countries with businessmen of other Western countries, who have been and are now under no trade barriers at all.

This Chamber shares the concern of Congress over the facts underlying the Jackson Amendment. However, the Title V authority also affects countries other than the Soviet Union, countries with whom the development of a more fruitful trading relationship can only be beneficial to our economy. This Title, furthermore, allows the Congress a mechanism to disapprove the granting of most-favored-nation treatment to the Soviet Union by the President, should the facts underlying the Jackson Amendment so warrant. We should not deny the benefits of this Title to the American economy merely to seek to resolve an unrelated foreign relations issue.

The so-called exit visa tax in the USSR may be an internal domestic policy that should be changed. However, there are many nations of the world, who have some internal policies that are distasteful to most Americans and yet who receive most-favored-nation treatment. The United States must, we agree, receive an adequate *quid pro quo* for the granting of most-favored-nation status to the USSR. Yet, the development of improved bilateral relations between the United States and the USSR has already been commenced by the Administration. Such improvement in relations, we submit, is only evolutionary and long range, rather than dramatic and immediate. It is believed that to use increased trade as a weapon to wrest impressive political concessions from the USSR will not be effective and, in fact, the only beneficiary of such a carrot and stick policy will be other Western businessmen who are not as encumbered with idealism. It is more important, in our view, to have trade without political concessions, rather than neither trade nor concessions at all. We must, therefore, oppose the inclusion of the Jackson Amendment in this bill.

VI. GENERALIZED SYSTEM OF PREFERENCES

We have continuously supported legislation that would enable the United States to grant non-reciprocal tariff preferences to the developing countries of the world. We believe that the proposals embodied in this bill will have a most beneficial effect not only for the recipient countries, but in the long term for the U.S. as well. While direct grants of foreign aid continue to be necessary, they are generally utilized for infrastructure. The marketing opportunities afforded developing countries by this proposal will greatly enhance their economies in the years ahead.

We consider the safeguards in the bill to be adequate to protect our interests. We heartily endorse the provisions which will force the recipient countries to abandon the all too numerous "reverse preference" schemes granted to other developed countries notably those in the E.E.C. This provision will enable our businessmen to again compete fairly and equitably in these countries.

If the provisions of Title VI are not adopted soon, U.S. companies will face growing and almost insurmountable obstacles in our efforts to expand the marketing of our products and services in these growing economies.

VII. TAXES

In general, we concur with the statement in the President's Message of April 10 that:

"Our existing system permits American-controlled businesses in foreign countries to operate under the same tax burdens which apply to its foreign competitors in that country. I believe that system is fundamentally strong. We should not penalize American business by placing it at a disadvantage with respect to its foreign competitors."

The President also said that: "Our income taxes are not the cause of our trade problems and tax changes will not solve them." However, he cites certain cases he feels can be subject to abuse." One such case is that of the foreign country which offers extended "holidays" from local taxes in order to attract foreign investment. Another case is that of the so-called runaway plant" situations. We believe both of these proposals are inadvisable at this time.

We are taking no position with respect to problems regarding taxation of mineral imports, or the recovery of foreign losses proposal.

The so-called "tax holiday" provisions will operate independently of the exceptions to Subpart F, and continue to apply even after the foreign incentives cease. Furthermore, income subject to this treatment would not be entitled to be taken into account for the over-all foreign tax credit Thus, United States shareholders under these provisions would be facing full current United States income taxation if the foreign corporation is allowed a foreign tax investment incentive." This treatment will apparently apply regardless of whether the products of the foreign facility are being exported to the United States, or are replacing United States origin products in foreign markets. This treatment could apply with respect to specific incentives which have been previously designated by the Treasury Department; and the Treasury Department would also have authority to set down general guidelines. Apparently prospective foreign investors might also be encouraged to seek a form of prior clearance from the Treasury Department.

While this type of legislation may provide an additional tool for the President in negotiating multinational agreements, or for negotiating bilateral income tax treaties, very serious consideration should be given to the effect its enactment would have on developing nations, and our relationships with these nations.

While we will concede that a *significant* foreign tax investment incentive *may* have the effect of distorting normal foreign investment patterns (the situation referred to in the President's message) the "tax holiday" proposal does not incorporate any qualifying language such as "significant" or "substantial," and as proposed, the term "foreign tax investment incentive" could be given the broadest possible interpretation by the Treasury Department. The Treasury's explanation by the Treasury Department. The Treasury's explanation of the proposal expressly states that incentives could even include local and regional incentives.

We strongly disagree with the statement in the background section of the proposal that: These tax incentives are an unwarranted and undesirable use of income tax structures and create a distortion in the application of our existing tax rules with respect to foreign source income." Domestically we have

traditionally recognized the concept of using income tax incentives for businesses to achieve socially desirable economic goals. In fact, we can perhaps assume that the United States, among the major nations, is the country that developed the concept of using the income tax to achieve social goals, rather than merely as a revenue raising measure. And locally and regionally within the United States we see today among the States a spirited competition to attract industrial investments, using the tax incentive as a primary element in this competition. In many foreign countries, the tax incentive has been used to encourage development outside congested metropolitan centers, and to create employment opportunities in lesser developed areas of those countries. These incentives are, as in the United States, often available to foreign and domestic investors without distinction.

In some situations this change could constitute an unwarranted intrusion into the domestic affairs of foreign nations if the United States Treasury were to pass judgment on such incentives; and the proposal, if enacted, could also have an effect on the ability of the United States to attract foreign investment here. Thus, we disagree with the first part of the basic premise for the proposal.

Secondly, we do not agree that these tax incentives "create a distortion" in the application of our existing tax rules with respect to foreign source income. Until 1962, our tax rules with respect to foreign source income were that such income was taxed here when it was remitted to the United States. In 1962, purportedly for balance of payments reasons, Congress enacted limited exceptions to this general rule. These exceptions dealt primarly with the accumulation abroad in tax haven countries of large amounts of so-called passive income and sales income; and did not apply if minimum distributions were made or other criteria were met. The present proposal goes far beyond these 1962 exceptions to the general rule for taxation of foreign source income. Thus, we also disagree with the second premise.

Finally, the current United States taxation of foreign investment enjoying foreign tax incentives would "penalize American business by placing it at a disadvantage with respect to its foreign competitors," something the President expressly said we should not do in his April 10 Message to the Congress. For example, while the Japanese business may be able to partially finance its investment in Brazilian manufacturing facilities through funds made available through local tax incentives, its American competitor in that market would either have to forego the incentives or else pay a substantial penalty by being currently taxed in the United States. This would impose a most heavy handicap on American business. Thus, we oppose the proposal because it would place an unfair burden on American business vis-a-vis its foreign competitors. This could cause a shifting of foreign markets to our foreign competitors and would: one, tend to slow the progress of development in less developing nations; two, frustrate expectations that we ourselves raised in these countries; three, could interfere in their internal affairs in ways no other developed countries are doing; and four, and perhaps, most important, undermine the role of private capital in supporting United States foreign policy toward the developing world. The United States should not take actions with such profound consequences on our foreign policy without careful consideration. While the proposal envisions exemptions through bilateral treaties, to date we have entered into tax treaties with very few developing countries, and it appears that the people of these countries are the oness who would suffer most as a result of this proposal.

With respect to the so-called "runaway plant" situation, it is likely these are established primarily to take advantage of significantly lower foreign labor costs, rather than to take advantage of significantly lower foreign corporate tax rates, although the latter may provide a collateral benefit from establishing a foreign facility. In fact, however, there may be significant reasons, including tariff reasons, for generating as little profit as possible abroad in these operations if the foreign facility sells back to an affiliated United States company for distribution in the United States, or manufacturers on a subcontract basis for a United States affiliate.

While it seems doubtful whether this proposal, if enacted, would have a profound effect on decisions by American business of whether or not to invest abroad in facilities manufacturing products for sale into the United States market, it would have the negative effects of placing American businesses at a disadvantage with respect to their foreign competitors; and to the extent it was successful to deterring American foreign investment, it would adversely affect the economies of the developing nations which aspire to industrialization, looking to American

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business as a primary source of investment in such industrialization programs. It would also have the potential negative effect of unnecessarily interjecting the United States Government directly or indirectly into tax policies of foreign nations. While negotiation of multilateral tax agreements may be a future possibility, the United States Government should not assume a role of attempting to coerce other nations to adopt specific tax policies as the price for attracting investment by American business.

We recommend against adoption of both the so-called "tax holiday" proposal and the so-called "runaway plant" proposal.

VIII. CONCLUSION

Finally—and perhaps most importantly—attitudes toward international economic problems have been radically altered. In the United States, we have come to recognize that internatioal economic relations have become increasingly central to our over-all foreign policy. We have initiated fundamental reform of the international monetary system, called for broad-scale trade negotiations and outlined a new "Atlantic charter"—incorporating Canada and Japan as well as Western Europe. Abroad, the awareness has grown that America's trade and balances of payments problem are not ours alone. Their causes and solutions lie in fundamental and mutually beneficial reform of the world economic system with responsibilities distributed symmetrically among all parties.

These pronouced changes describe the directions of future progress. The impetus for basic reform of the international monetary system—providing a system for both more timely adjustment and greater benefits to less developed countries—needs to be continued. Broad-scale elimination of distortions in the world trading system must be achieved in the interests of equity for all parties and as a contribution to more effective adjustment among different nations in a world economic system. Understandings concerning the role of foreign direct investments and how to manage the modern economic problems of adjustment and control of inflation must be reached. Economic cooperation and consultation on such problems as energy needs, the environment and development strategy must be added to political cooperation and consultation if further progress toward peace and prosperity is to be made.

The Trade Reform Act of 1973 outlines the Executive authorities and Congressional review appropriate and necessary to America's role in this effort. It would be foolish to ignore the basic debate going on in this country over the appropriate balance between Executive and Congressional activities. That is a healthy and needed dialogue. Hopefully, however, that debate will be resolved on each issue according to its merits. We believe that the nature of the task confronting formulation of U.S. foreign economic policies justifies the balance between Executive authority and Congressional review outlined in the Trade Reform Act of 1973.

It has our support.

Mr. BURKE. Thank you.

Mr. Duncan?

Mr. DUNCAN. I have no questions.

Mr. BURKE. Thank you, Mr. Johnson.

Our next witness is Mr. Samuel E. MacArthur, member and past director of the Greater Detroit Chamber of Commerce. We welcome you to the committee. You may identify yourself and your associate and proceed with your testimony.

STATEMENT OF SAMUEL E. MacARTHUR, MEMBER AND PAST DIRECTOR, GREATER DETROIT CHAMBER OF COMMERCE, ACCOMPANIED BY CARLOS E. TORO, CHAIRMAN, WORLD AFFAIRS COMMITTEE

Mr. MACARTHUR. Thank you. My name is Samuel E. MacArthur. I am chairman of a multinational company with a favorable trade balance. I am here today representing the Greater Detroit Chamber of Commerce, of which I am a member and former director.

Mr. Carlos E. Toro is here with me today. He is the chairman of the World Affairs Committee of the Greater Detroit Chamber of Commerce, and assistant vice president in the international banking department of Detroit Bank & Trust Co. This statement as presented today is in conformity with the policies on international trade matters adopted by the chamber's full board of directors as recommended by its responsible committees.

The Greater Detroit Chamber of Commerce is an organization of approximately 7,600 members representing about 4,300 business and commercial enterprises in the Detroit area. The businessmen of Metropolitan Detroit are vitally concerned with the continued expansion of international business.

We are convinced that the issues now under consideration by your committee will have significant bearing on international trade and commercial relations for many years. Therefore, we appreciate the opportunity to present our views to the committee.

For many years we have been firmly committed to the principle that the gradual and eventually complete removal of barriers to international trade has important benefits to all segments of our economy—workers, investors, consumers.

Today, I propose to highlight selected portions of the chamber's position on H.R. 6767, the Trade Reform Act of 1973. We expect to submit a more detailed and complete statement, which we will file for the record at a later date.

The chamber recognizes that as part of technological progress and relatively free trade, many individual companies and their employees may at some time need to shift production and employment into different and more competitive endeavors.

Such shifts are generally economically desirable. However, the pace of change may sometimes have adverse effects on individuals, companies or entire communities.

While in general we believe that the less government interference with natural economic forces the better, we accept that in order to encourage movement into competitive activities and to minimize hardship when such movement is made, it is desirable to aid and assist the affected parties through the transition period.

This assistance should take the form of loans, technical assistance, retraining, and relocation. While generally concurring with the philosophy of assisting during these times of hardship, we take exception with certain specific measures of the bill in the following areas:

1. We believe that the need is not for increased unemployment benefits across the board but, we support, for those who are injured by imports, measures that will make the redeployment of labor and of capital as speedy and as painless as possible.

2. Adjustment assistance should be available to companies as well as to individuals, should be strictly temporary and strictly limited to the direct consequences of the act and its predecssors.

3. To the extent that imports need to be artificially reduced to ease the impact of the transition period:

a. We view the new concept of "market disruption" as too broad. The escape clause should retain "major" rather than "primary" as the required degree of injury caused by imports.

b. It should be clear that there must be a causal link between injury and a previous tariff reduction since otherwise, management problems, local market conditions and a host of other factors unrelated to international trade barriers could result in applying trade measures in irrelevant circumstances.

c. The Tariff Commission should be required to consider the impact on consumers of any proposed restriction of imports.

d. The restrictions should, whenever possible, take the form of a tariff surcharge rather than a quota.

e. Any such measure should be strictly limited in time, a year or two at the most.

I, personally, regard "major clause" as a combination of injury and market disruption by substantial imports in volume, which are increasing both absolutely and as a total of domestic consumption and which are offered at prices substantially below domestic price.

With respect to title III a company may artificially reduce its imports, by means of both tariff and nontariff barriers. A country may also artificially increase its exports, by means such as export subsidies, capital grants, payroll subvention or tax relief.

In a similar fashion, individual companies may artificially increases their exports by selling at below-normal profit margins. The chamber supports the extension of the internationally agreed-upon system of rules and procedures to determine when such artificial measures amount to "unfair and unreasonable" distortions to trade.

Such a system could be initiated and monitored through GATT. That agreement should be modified also to remove the present disadvantage which results to United States bargaining power from its greater reliance that other countries upon income taxes which cannot be remitted for exports, as against sales taxes which can be.

We do not, however, support providing undefined powers to act against other countries whose policies, though legal, are considered to be "unfair." We believe more carefully defined procedures and more limited authority are needed in this part of the bill.

The chamber supports reducing the time required to determine the existence of "dumping" and to remedy the situation. This speed-up should not, however, be at the expense of having full and open inquiry.

We support the principle of providing redress for unfair practices of any foreign country which injure United States trade with a third country. Similarly, we support the concept of giving exporters to the United States the right to claim injury from dumping practices of another foreign firm competing in the United States marketplace.

We support the extension of the countervailing duty statute to cover imports which are normally duty free as well as those which are dutiable. As an important part of the deliberations on countervailing duties, it is recommended that local tax benefits provided to encourage industrialization rather than export expansion be given special consideration.

Such provisions are not uncommon in rural or depressed areas of the United States. The provisions concerning patents should be deleted from the bill and dealt with through patent law rather than through trade legislation.

Title I gives the President much needed authority for entering into new negotiations for trade agreements with our trading partners.

The chamber especially approves of authority to remove "American selling price" as the base for duty valuation for certain imports, but we think it should not be subject to further legislative approval.

However, we believe that the power to raise tariff and nontariff barriers should not be used solely to restrict world trade. We, therefore, recommended that the power to raise tariffs be limited to existing legal levels—plus a specified percentage, if necessary.

The power to impose up to 50 percent ad valorem tariffs appears unjustified. We believe that provision should be made for public hearings prior to imposition of increased tariffs or other impediments to trade.

With respect to Title VI: International Trade Policy Management, the powers granted under title IV are welcomed as useful measures provided that all changes are preceded by public hearings and that, where appropriate, are subject to a 90-day congressional veto.

Our most serious problems with title IV is its attempt to cure balance-of-payments problems through artificial measures applied to the balance of trade. Tangible goods constitute only a portion of the total payments account, which reflect also, often very significantly, services, capital accounts, tourism and many others.

Trade restrictions for reasons unrelated to trade itself would invite retaliation. The proper approach to balance-of-payment problems is through prudent fiscal and monetary measures here at home.

We will cover our concerns with titles V and VI in our written statement to be submitted later.

The disturbing provision of title VII is the authority of the President to delegate the authorities granted to him. If those authorities are to be as broad as other parts of this bill now propose, we think the power of delegation should be limited to ministerial acts and the power of decision, at least on policy matters, should be reserved to the President himself.

Mr. Chairman, in concluding this statement, I want you to know that I am personally most appreciateive of this opportunity to present the views of the Greater Detroit Chamber of Commerce.

With your permission I would like to make a personal statement, not speaking for the Greater Detroit Chamber of Commerce. I would like to leave with you a personal concern of mine. The bill considers the apparent coming trade with Communist countries or so-called state-owned countries.

In my opinion, it is difficult to determine costs for state-owned economies where all basic elements of costs are controlled or regulated. Two, when competing with capitalistic companies, state-owned enterprises have a distinct advantage. They do not either need or strive to make a profit.

Such fundamental differences between competing economies will, beyond a doubt, cause market disruption. Having already met this type of state-owned competition in a third country, I, as the former financial officer of our company, have been unable to reconcile any reasonable trading similarity between the two economic systems.

They do not establish their price as we do, cost plus profit. In most cases dumping may be found by our standards in adequate safeguard agreements, and they must then be provided. Personally, I am not in favor of the extension of the most favored nation treatment to the Communist nations.

Thank you.

Mr. BURKE. Are there any questions, Mr. Duncan?

Mr. DUNCAN. I want to thank you for staying with us today and presenting a very fine statement.

Thank you.

Mr. BURKE. We appreciate your appearance here today.

[The following was subsequently received for the record:]

ADDITIONAL STATEMENT OF THE GREATER DETROIT CHAMBER OF COMMERCE ON H.R. 6767.

On May 15, 1973, the Greater Detroit Chamber of Commerce presented oral testimony of Titles I, I, II, and IV of H.R. 6767, based on policies duly adopted by the Chamber's Board of Directors.

Following that testimony, the Directors, on June 5, 1973, took action to permit expression of views on the remaining Titles of the Bill and certain other matters recommended in the President's Message on the Trade Reform Legislation.

The following is a brief statement of the Chamber's views on items not covered in the May 15 statement.

Title V, Extension of Most-Favored-Nation Treatment to Iron Curtain Countries

The Chamber supports such tariff treatment of communist produced goods, if such treatment would tend to lead to a normalization of trade with countries declared by the President to be eligible for MFN treatment. The Chamber believes that improved commercial relations with the communist countries are a desirable goal, but the Chamber also strongly recommends that such tariff treatment should be subject to public hearings and the usual safeguards for American industry.

Title VI, Extension of Tariff Preferences to Underdeveloped Countries

The Chamber supports a carefully structured series of tariff preferences for selected underdeveloped countries, subject to public hearings and the usual safeguards. The Chamber also regards it as highly desirable that such special preferences be predicated on the phasing out of existing reverse preferences accorded certain industrial countries, such as the members of the European Economic Community.

The President, in his message of submittal, also included recommendations for certain changes in the treatment of foreign-earned income of U.S. corporations, as spelled out in the so-called Treasury Recommendations. The Chamber strongly opposes such changes. The main reason for opposition to changing pertinent tax law is the need for American business abroad to remain competitive with investors from third countries, many of which have tax laws much more favorable to their own investors! In principle, the competitiveness of American business in third countries vis-a-vis firms from other countries should be the guide to taxation of U.S. firms income from abroad. Also in principle, there is no equity in taxing U.S. shareholders on foreign source "income" before they receive such income.

Lastly, the Chamber supports the suggestion that the scope of Export Associations be broadened to include service business. This is dictated out of considerations of equity as well as the evident need for greater exports of services and goods. In the same vein, the Chamber would welcome the removal from anti-trust legislation of such export associations. This would not only be highly desirable in itself, but would also represent the first step in recognizing that U.S. anti-trust action, beyond the domestic economy, has been carried too far and is threatening the competitiveness of U.S. business in fostering foreign business development.

Mr. BURKE. Our next witness and final witness is Robert T. Cole of Washington, D.C. Welcome to the committee, Mr. Cole. You may identify yourself and proceed with your testimony.

STATEMENT OF ROBERT T. COLE, WASHINGTON, D.C.

Mr. COLE. Thank you, Mr. Chairman.

I am now a lawyer practicing in Washington, D.C. For the 5 years preceding April 1, 1973, I was with the United States Treasury Department, having held the position of International Tax Counsel for the last 2 years.

I have submitted a prepared statement to the committee, and I will just summarize the major parts of it, especially in view of the late hour.

Mr. BURKE. With the understanding that your entire statement will appear in the record, without objection.

Mr. COLE. My remarks today are not directed to the trade aspects but are in response to the invitation of the committee to comment on the Treasury recommendations on changes in the taxation of foreign source income.

I am also confining myself to the minor problems in the taxation of foreign source income. I know, Mr. Chairman, you are very interested in the issues of deferral and foreign tax credit. I think these are major issues which the committee has to address, but I want to call the attention of the committee to the smaller issues that are not dealt with in your bill and not dealt with in the Treasury recommendations.

A whole series of minor problems have accumulated over the last 10 years. It seems to me that at the same time the committee deals with the major issues in the taxation of foreign source income it should pass on the minor problems.

Your first question might be: "Why should the committee use its precious time to deal with small tax problems?" It might be thought that one of the most important legislative committees in the world has better things to do with its time.

I am afraid that under our current system the responsibility is yours. The United States has developed a very complex and detailed Internal Revenue Code which purports to spell out with exactitude how a great variety of transactions of personal and business life should be taxed.

Especially in recent years we have tended to provide special rules in the code each time a case has been made that equity, tax neutrality, or some other policy justifies a different tax result for a particular type of transaction.

If for some reason the provisions of the code result in tax where there should be none, in no tax where there should be some, or in too much or too little tax, or imposes unnecessary administrative burdens on the Internal Revenue Service or taxpayers, changes can be effected only by amendments to the code.

This committee and the Senate Finance Committee are generally the only places in which such amendments can be developed. Before turning to some of the specific problems, and I will just briefly touch upon them, I wish to point out that one of my recommendations will be of benefit to a client of my office, which is indicated below.

The client is H. H. Robertson & Co. of Pittsburgh, Pa. Robertson is engaged in the manufacture, sale, and erection of metal building products and employs over 8,000 people.

I plan to submit a separate statement for the record dealing with the problems of H. H. Robertson and suggesting specific solutions. As for my other recommendations, most of them were developed in recent years while I was with the Treasury and to a considerable extent they were reflected in public speeches.

However, I am not appearing today on behalf of the Treasury; nor, except as I have indicated, on behalf of clients. Rather, I am trying to call the attention of the committee to problems which, as a technician, I believe should be corrected.

As for the specific problems, they are listed in my prepared statement. As I have indicated, a solution to one of the problems would help my client eliminate an unfair application of the provisions dealing with liquidations of foreign corporations.

One of my other recommendations deals with the investment in U.S. property. Since 1962 it has generally been impossible for controlled foreign corporations to invest their excess funds in the United States without attracting tax. If we do decide to keep deferral generally for controlled foreign corporations, we should not penalize those controlled foreign corporations investing in the United States. This seems to be a perverse application of our tax laws.

There are many provisions in the code which favor investments in less developed countries. These provisions, in my view, have not worked well. They add complexity to the Internal Revenue Code. They don't seem to have afforded any perceptible assistance to the less developed countries and they make it more difficult to negotiate tax treaties with such countries. My recommendation is that these provisions be deleted from the Internal Revenue Code and that we embark upon an aggressive program of negotiating tax treaties with less developed countries.

There are also a number of suggestions in my prepared statement with respect to small investors and small business. One of these suggestions which I would like to call to the attention of the committee this afternoon is my proposal that the DISC deferral which is generally limited to 50 percent of the export profits be extended to 100 percent of the export profits where the exporter is small business. Small business has not adequately participated in our export efforts. Perhaps if we offer even more encouragement for them than for other exporters that can have a desirable effect on our export and our balance of payments.

This completes a quick runthrough of the specific recommendations, but even those in my prepared statement are not intended to be complete. My purpose goes beyond the particular recommendations. It is equally important to call to the attention of the Committee the need to deal with specific problems which, for one reason or another, have been identified by people—where the Internal Revenue Code does not operate properly.

As a practical matter, how is the committee to deal with these specific problems? They have had to sit here until 6 o'clock tonight dealing with the major issues. Yet, I say that the committee cannot escape these small problems. I will suggest a procedure to the committee which, Mr. Chairman, would require immediate implementation.

That is on page 14 of my prepared statement. First, the committee could shortly request the Treasury Department to report, say, by the end of May on all of the minor problems in the taxation of foreign source income which have been brought to its attention and which are believed to justify legislative solution.

The Treasury report could contain suggestions where the Treasury has an approach, or just discuss the problem, where the Treasury is not sure what to do. Second, the Treasury report should be made public.

Third, the committee could give the public some time to comment on the Treasury report, until a short time before the executive session.

Fourth, the staff of the Joint Committee could summarize the various recommendations and add any points that they think merit attention, but were not discussed by either the Treasury or the public. If the committee decided to proceed along these lines, they will have to indicate to persons submitting comments that they should assume, alternatively, that deferral will continue, that deferral might be modified in accordance with Treasury recommendations, or even that deferral might end entirely as has been suggested by the Burke-Hartke bill.

I think it is significant to note that Secretary Shultz is very concerned about the same issues, but he did not offer a solution. In his April 30 testimony he indicated that some procedure has to be evolved to deal with other issues not only in the foreign area but also in the domestic area.

The reason I am calling attention of the committee to the foreign area especially now is that there is a substantial possibility, I understand, that the committee will deal with foreign taxation in the current trade bill. If it does, I think it should not only deal with the major issues but the minor issues as well, those that taxpayers complain about, where the Treasury and those speaking in the public interest question the current law.

In the past some of the things that I am suggesting have been dealt with in so-called members' day sessions. I note dissatisfaction recently with such procedures. The Members' Day procedure did serve a useful purpose. It provided a forum for minor problems. Indeed, on several occasions Treasury was able to use the Members' Day procedure to close loopholes. What I am recommending is an expanded procedure with full public participation dealing with minor problems, both in the international area and domestic area. The suggestion which I have set forth above also provides for participation by the Treasury and the staff of the Joint Committee. I believe that active participation by all such groups is important so that the committee will be advised not only of problems of excessive taxation identified by taxpayers but also of cases where too little tax is being paid.

I know that the foregoing would place a tremendous burden on the committee, its staff, and the staff of the Joint Committee, the Treasury. However, we have no excuses for permitting unresolved problems in the area of taxation to accumulate over the years without attention.

In all respect, I suggest that this committee must find a procedure for dealing with them.

Thank you, Mr. Chairman.

[Mr. Cole's prepared statement follows:]

STATEMENT OF ROBERT T. COLE, WASHINGTON, D.C.

Mr. Chairman and members of the Committee, my name is Robert T. Cole. I am a lawyer practicing in Washington, D.C. For the six years preceding April 1, 1973, I was with the United States Treasury Department, having held the position of International Tax Counsel from 1971 to 1973.

My remarks today are in response to the statement in the Committee's revised press release of April 10, 1973, to the effect that these hearings would include the Treasury Recommendations on Changes in the Taxation of Foreign Source Income.

I am not here today to discuss the major issues of deferral and foreign tax credit. Rather, I wish to direct the attention of the Committee to the relatively minor problems in the taxation of foreign source income, none of which are dealt with in the Treasury recommendations. A whole series of minor problems have accumulated over the last 10 years, and it seems to me that, at the same time the Committee deals with the major issues in the taxation of foreign source income, it should pass on the minor problems.

Your first question might be: Why should the Committee use its precious time to deal with small tax problems? It might be thought that one of the most important legislative committees in the world has better things to do with its time. But I am afraid that under our current system the responsibility is yours. The United States has developed a very complex and detailed Internal Revenue Code which purports to spell out with exactitude how a great variety of transactions of personal and business life should be taxed. Especially in recent years, we have tended to provide special rules in the Code each time a case has been made that equity, tax neutrality, or some other policy justifies a different tax result for a particular type of transaction.

If for some reason the provisions of the Code result in tax where there should be none, in no tax where there should be some, or in too much or too little tax, or imposes unnecessary administrative burdens on the Internal Revenue Service or taxpayers, changes can be effected only by amendments to the Code. This Committee and the Senate Finance Committee are generally the only places in which such amendments can be developed.[1]

We could have a different type of Code. We could have simpler and fewer provisions applicable to broad ranges of transactions and forego attempts to provide special rules for special cases. The Code could be less comprehensive, permitting many of the details now dealt with in the Code to be worked out by the Treasury. I believe these are good ideas, and we should strive in such directions.

In addition, the Treasury could be authorized to waive tax where imposition would be unfair to a taxpayer or group of taxpayers, and to deny exemptions or deductions where they result in an improper benefit to taxpayers. However, I am sure that there would be many opposed to any attempt to give the Treasury such authority. I know that I would be, even though the absence of such authority makes it necessary for the Congress to be available to deal with small tax problems.

In any event, we now have a detailed Code and an accumulation of minor problems in the taxation of foreign source income. With respect, it has to be concluded that it is the responsibility of the Committee to deal with such problems.

My purpose today is to suggest to the Committee that it should go beyond the subjects covered by the Treasury Recommendations on Changes in the Taxation of Foreign Source Income. I believe that, when the Committee reports out a bill dealing with the major issues, the bill should also deal with the minor issues. I will discuss some of these today.

Before turning to specific problems and my recommendations, I wish to point out that one of my recommendations would be of benefit to a client of my office, which is indicated below. The client is H. H. Robertson & Company of Pittsburgh, Pennsylvania. H. H. Robertson is engaged in the manufacture, sale, and erection of metal building products and employs over 8,000 people. I plan to submit a separate statement for the record dealing with the problems of H. H. Robertson and suggesting specific solutions.

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[1] Changes can also be effected by a provision in a tax treaty, but only a limited range of issues can be dealt with in that way.

As for my other recommendations, most of them were developed in recent years while I was with the Treasury and to a considerable extent they were reflected in public speeches. However, I am not appearing today on behalf of the Treasury, nor, except as I have indicated, on behalf of clients. Rather, I am trying to call to the attention of the Committee problems which, as a technician, I believe should be corrected.

I will now discuss a number of the specific areas that need legislative attention, without attempting to be complete. At the end of my statement I will suggest a procedure for obtaining a full list of problems and recommendations from the Treasury and others.

1. *Section 367—Organization, reorganization, and liquidation of foreign corporations.*—Under our system of taxation, there is a wide latitude for changes in methods of doing business which do not result in the imposition of tax. In other words, our system recognizes that taxpayers do not obtain income by changing the form in which they do business. For example, a group of individuals doing business as a partnership can change to a corporate form without having income tax imposed; a corporation can transfer part of its operations to a subsidiary without income tax; a subsidiary corporation can be liquidated into its parent without tax: and corporate reorganizations can be tax free and as part of the reorganization stockholders can exchange stock in one corporation for stock in another corporation. While the results achieved by these provisions have had wide acceptance domestically, it was found that they provided an opportunity for tax avoidance where foreign corporations were involved. In 1932, Congress acted to prevent this and added the provision now found in section 367 of the Internal Revenue Code. Under this section, the provisions which result in tax free treatment for corporate organizations, reorganizations, and liquidations are made inapplicable where a foreign corporation is involved, unless the Commissioner of Internal Revenue has determined in advance of the transaction that the transaction is not in pursuance of a plan having as one of its principal purposes the avoidance of Federal income taxes. As a practical matter, this means that before the transaction the taxpayer must obtain a private ruling from the Internal Revenue Service. In 1968 the Service issued guidelines which indicate generally the transactions as to which it will issue favorable rulings and the transactions as to which it will not. While the guidelines help to a large extent, certain serious problems remain. I will list some of these problems and suggest solutions:

The requirement for an advance ruling can be an inconvenience or even a serious impediment where there is a need to proceed rapidly and lead taxpayers to accept conditions that they do not regard as justified. Should not the taxpayer decide if he wants the certainty of an advance ruling? Where appropriate, a ruling, which could be obtained after the transaction, could still be required. In other cases, notice and full disclosure could be made necessary.

When in a transaction subject to section 367 the parties inadvertently proceed without a ruling in a transaction that would have been accorded a favorable ruling if one had been requested in advance, under current law there is no alternative to immediate taxation. This result seems both unfair and silly. Again, the elimination of the advance ruling requirement is indicated.

The lack of opportunity for judicial review which results, as a practical matter, from the requirement of an advance ruling is inconsistent with our general approach that determinations of administrative agencies are subject to review by the courts. I recommend a specific provision for judicial review, at least to determine whether the Commissioner abused his discretion.

In many cases, the guidelines are very specific as to transactions which are tax free, transactions which are subject to tax, and transactions which are partially tax free. It is unnecessary, in my view, for our law to require the taxpayer to apply to the Internal Revenue Service for a private ruling when the transaction is covered by the guidelines. It is time for these rules to be made generally applicable preferably by regulations issued pursuant to specific statutory authority.

In many situations, the Service is willing to issue a favorable ruling conditioned on the payment of a "toll charge" based on a comparison with a domestic corporation. For example, a favorable ruling will generally be issued on the organization of an active foreign corporation if tax is paid on the income reflected in certain types of property, such as inventory and receivables. Similarly, a favorable ruling will be issued on the liquidation of a foreign subsidiary if tax is paid on the accumulated earnings and profits of the foreign corporation. Some people

have argued that the toll charge approach is inconsistent with the subjective tax avoidance standard of the statute. They argue that there should be no toll charge if the overall purpose is not tax avoidance. But in my view the Service has gone in the right direction in using objective criteria and requiring a toll charge by a comparison with a domestic corporation. Indeed, the time has come to replace the subjective language of the statute with specific authority to impose tax by comparison with a domestic corporation. After all, the purpose of section 367 is to assure that there is no advantage from the use of a foreign corporation. If this is done, it should also help H. H. Robertson Company, which is seeking to limit its tax liability on the liquidation of a foreign corporation (including the tax it paid over the years on distributions from the foreign corporation) to the tax which would have been due had it used a domestic subsidiary or a branch for its foreign operations.

In many cases, the Service and the taxpayer agree that a transaction should be tax free, but that if stock acquired in the transaction is disposed of, the ordinary income treatment of section 1248 of the Code should extend to the pretransaction earnings and profits. In some cases, in order to assure such treatment, a closing agreement is required by the Service. Legisclation could make such closing agreements unnecessary. Indeed, legislation could expand the areas in which transactions can be treated as tax free by assuring the eventual application of section 1248.

While many people have focused on these problems from the point of view of the taxpayer, it is also important to note that the requirement for an advance ruling imposes burdens on the Internal Revenue Service. In order to accommodate taxpayers, the Service has had to expand the staff of its Reorganization Branch and authorize considerable overtime. While many taxpayers would still want an advance ruling even if it were not required, the legal necessity of obtaining one puts unnecessary administrative burdens and pressures on the Service.

The Treasury has done considerable work in developing a proposal on section 367. I discussed this work on February 24, 1971. The reception was generally favorable.[2] It seems that now is the time to legislate in this area and to eliminate unnecessary administrative problems for taxpayers and the Internal Revenue Service.

2. *Investment in United States property.*—As you know, the issue of deferral versus anticipatory taxation was previously fought some 12 years ago when the Kennedy Administration proposed to end all deferral. At that time, Congress was unwilling to terminate deferral generally; but it did so for what it regarded as tax haven operations. As part of that legislation, section 956 was added to the Internal Revenue Code. Under that section, to the extent a controlled foreign corporation increases its investment in U.S. property, the accumulated earnings and profits are deemed distributed to its U.S. shareholders. Therefore, if a foreign corporation temporarily has extra cash and invests that cash in the United States (other than in bank deposits or government obligations), the earnings and profits so invested are subject to United States tax, while if the same foreign corporation makes comparable investments outside the United States there is no United States tax.[3] It seems to me that our tax laws should not be structured so as to discourage controlled foreign corporations from investing funds in the United States. Therefore, as long as the income of controlled foreign corporations is not generally subject to current taxation in the United States, current taxation should not apply to investments in this country where comparable investments could be made abroad without current taxation.

Of course, where the foreign corporation is not making an investment but is in effect distributing its earnings to its stockholders, tax treatment as a dividend is appropriate. A cautious way to proceed would be to make section 956 inapplicable, except in transactions with or otherwise involving related United States persons. Nevertheless, a specific provision should be considered permitting short term loans to related United States persons.

3. *Provisions designed to favor investment in less developed countries.*—Many of our rules in the taxation of foreign source income derive from the Revenue Act of 1962. In a number of situations, that Act increased the tax burdens on foreign source income, generally, but permitted the old rule to remain for investments in

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[2] *See also* Landis and Currier, "The Future of Section 367," 25 The Tax Lawyer 253 (Winter, 1972).

[3] This assumes that subpart F is not applicable.

less developed countries. After 10 years of experience with these provisions, it appears that they add complexity to the Internal Revenue Code, have an uncertain effect on investments in less developed countries, and have a negative effect on the development of treaties with less developed countries. Therefore, I believe that we could with advantage extend the gross-up provisions to dividends from less developed country corporations and also consider eliminating the other special less developed country provisions found in sections 954 and 1248.

My approach to tax relationships with less developed countries would rely heavily on the development of a network of tax treaties. I believe that such treaties should contain an incentive for investments by United States persons in such countries, both as a matter of good international policy and because less developed countries often insist on such an incentive in a tax treaty with a developed country. However, over the years the Senate Foreign Relations Committee has resisted this approach. Nevertheless, I feel that an attempt should be made to develop an incentive acceptable to the Foreign Relations Committee. In its recent proposals on tax holiday corporations and runaway plants, the Administration would appear to contemplate that exceptions would be made in treaties with less developed countries; and, if the Administration's proposals are accepted, such exceptions could go a long way toward being regarded as an adequate incentive. While incentives could be provided statutorily, as the incentives I have just discussed, they add complexity to the Internal Revenue Code, cannot be tailored to the needs of particular less developed countries, and are not recognized as an acceptable *quid pro quo* for the provisions which the United States would want to see in a treaty.

4. *Special rules for small investors and small business—subpart F.*—When Secretary Shultz testified on April 30, 1973, he recommended simplification which would help the average middle-class taxpayer. Small business and the average investor could also use help. For example, the very complicated rules of subpart F and the Administration's new proposals for tax holiday corporations and runaway plants could well have exceptions for investments which total less than $1,000,000. It would appear that at such levels the revenue loss to the United States does not justify the administrative burdens upon the taxpayer and the Internal Revenue Service required by these provisions.

DISC and small business.—As you know, when DISC was proposed by the Administration, it provided for deferral of a company's export profits (generally 50 percent of total profits from manufacture and sale). An enacted, the legislation provided for a deferral of 50 percent of export profits (generally 25 percent of total profits). If Congress decides to continue the 50 percent limitation generally, I believe that it should nevertheless provide for deferral of 100 percent of export profits on the first $5,000,000 of export sales. It appears that some small businesses have found that the administrative costs of establishing a separate DISC corporation and accounting for its income and investments outweighs the savings from deferral. Full deferral might be sufficient to lead them to use a DISC and increase exports. Anything we can do to encourage small business to enter the export market is important.

Foreign tax credit limitation.—The foreign tax credit limitation is necessary to assure that the foreign tax credit is limited to U.S. tax on foreign source income and is not extended to U.S. tax on domestic source income. However, the foreign tax credit is necessarily complex and many small investors are discouraged by its complexity. At a time when the interest equalization tax is being phased out, it would make considerable sense to me to make the limitation inapplicable to investors who derive a small amount of foreign income, say up to $200 a year, which is included in gross income for United States tax purposes.

5. *Withholding on interest.*—As long as the interest equalization tax continues, United States corporations are in a position to designate certain issues as international issues subject to the interest equalization tax and foreigners are generally not subject to income tax on the interest or to estate tax. In many countries, international issues are similarly sold to foreigners without withholding tax being imposed on interest. Some people, including me, are concerned about this "tax competition" leading to an exemption of interest that involves loss of needed revenue outside of a treaty with reciprocal provisions. An attempt is being made to develop international standards for the taxation of interest paid to foreigners. While international standards are being developed, however, it is important for the United States not to lose its ability to attract foreign investors. Therefore, it would seem desirable to provide for the waiver of United States withholding tax on international issues after the termination of the interest equalization tax.

This terminates my list of recommended changes. It is designed to be illustrative and not to be complete. While each of the specific matters I have discussed represents a significant minor problem, my purpose goes beyond the particular recommendations and is equally designed to emphasize that, with a detailed Internal Revenue Code, it is the responsibility of this Committee to consider specific problems when, for one reason or another, it is alleged that they operate so as to impose too much tax or too little tax or result in unnecessary administrative burdens. Of course, with any particular problem, the added complexity of a solution might lead to a decision that a special rule is inappropriate and that the general rule should apply.

As a practical matter, how is the Committee to deal with all of these problems and at the same time give an opportunity for diverse points of view to be brought to its attention? While there would be many ways of approaching the minor problems in the taxation of foreign resource income, one approach might be as follows:

(i) The Committee could request the Treasury to report, say by the end of May, on all of the minor problems in the taxation of foreign source income which have been brought to its attention and which are believed to justify legislative solution. The Treasury report could contain specific suggestions where a position had been developed and a discussion of the problem where the Treasury had not been able to develop a position.

(ii) Upon receipt of the report of the Treasury, that could be made public.

(iii) The public could be given until a week before the scheduled commencement of the executive (or similar) session to comment on the Treasury proposals and offer any additional suggestions.

(iv) The staff of the Joint Committee on Internal Revenue Taxation could summarize the problems identified and the views expressed and, at the request of the Committee, also add any problem areas that it believed the Committee should consider.

Of course, some of the minor issues in the taxation of foreign source income change or disappear depending on how the Committee deals with the major issues, especially whether the Committee maintains deferral as it now exists, modifies it in accordance with the Treasury recommendations, or even eliminates it entirely, as has been suggested by some. Thus, those participating in the suggested process should be asked to take these possibilities into account.

It is significant to note that Secretary Shultz in his April 30, 1973, statement also focused on the need to deal with "a great backlog of lesser substantive and technical provisions which should be considered by your busy Committee." He added: "I am hopeful that with the assistance of our joint staffs many of them can be considered on this occasion and that for those which are not, we can devise a system for their orderly consideration in the future." In past years, the types of problems which I have discussed, at least where taxpayers had an interest, were considered by the Committee on so-called "members' days." On such a day, individual members of the Committee could raise problems that had been brought to their attention. I note that some dissatisfaction with that procedure has been expressed recently. But that procedure did serve a useful purpose in providing a forum for minor problems. Indeed, on several occasions in recent years the Treasury was able to introduce a loophole closing measure on a members' day. What I am recommending is that an expanded procedure with full public participation be developed for dealing with minor problems, both in the international area and the domestic area. The suggestion which I have set forth above also provides for participation by the Treasury and the staff of the Joint Committee. I believe that active participation by all such groups is important so that the Committee will be advised not only of problems of excessive taxation identified by taxpayers, but also of cases where too little tax is being paid.

I know that the foregoing would place a tremendous burden on the Committee, its staff, the staff of the Joint Committee, and on the Treasury, as well as on members of the public who are interested in taxation and will have to follow the developments. However, we have no excuse for permitting unresolved problems to accumulate without attention. In all respect, I suggest that this Committee must find a procedure for dealing with them.

Mr. BURKE. Thank you, Mr. Cole. We appreciate your appearance. Do you wish to inquire, Mr. Duncan?

Mr. DUNCAN. No, sir. It was a very fine statement and will be helpful.

Mr. BURKE. I think you have discussed a very necessary problem that we should be looking into. We appreciate your recommendations.

Mr. COLE. I think that there are a lot of problems in both directions, and I think some way has to be found to deal with them.

Mr. BURKE. In the field of politics people sometimes think that everything we do has an evil connotation. We have been able to straighten some of the problems through members day, but I guess members days are a thing of the past now. You have to get unanimous consent.

Mr. COLE. This new procedure may satisfy people, full public participation on all sides may be more acceptable generally.

Mr. BURKE. When you are dealing with the Internal Revenue Code it is a long, complicated task and very tedious.

On behalf of the committee, I want to thank you for your appearance.

This concludes the hearing for today. We now stand adjourned to meet at 10 a.m., tomorrow morning.

[Whereupon, at 5:55 p.m., the hearing adjourned, to reconvene at 10 a.m., Wednesday, May 16, 1973.]