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 4 of 15

(May 16, 17, 1973)

Printed for the use of the Committee on Ways and Means

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TRADE REFORM

WEDNESDAY, MAY 16, 1973

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D.C.

The committee met at 2 p.m., pursuant to notice, in the committee room, Longworth House Office Building, Hon. James A. Burke presiding.

Mr. BURKE. The committee will be in order.

Our first witness today is Arthur E. Baylis, executive director, National Committee an International Trade Documentation. We welcome you to the committee. After you identify yourself you may proceed.

STATEMENT OF ARTHUR E. BAYLIS, EXECUTIVE DIRECTOR, NATIONAL COMMITTEE ON INTERNATIONAL TRADE DOCUMENTATION, ACCOMPANIED BY ROBERT S. PORTER AND GEORGE F. BEGNALL

SUMMARY

Introduction.—Submission of Arthur E. Baylis, Executive Director of the National Committee on International Trade Documentation.

Description of NCITD and its Purposes.—NCITD is a voluntary, non-profit, privately financed membership organization with the sole purpose of reducing and simplifying international trade documentation and procedures.

Position of NCITD.—While neither favoring nor opposing any of the details of the proposed legislation, it urges that all possible steps must be taken to reduce documentation and procedures, and in eliminating this non-tariff barrier concurrent with the activation of any new trade reform.

Problem of Paperwork in International Trade.—The magnitude of the "jungle" of paperwork that envelopes the international commerce of the U.S. is estimated to cost U.S. exporters $8,000,000,000 a year; an average cost of $350 per shipment. This is probably the greatest of all non-tariff restraints against trade and must be corrected if trade, under the provisions of any Act, is to expand profitably.

Details of NCITD-DOT Joint Study.—Details magnitude of U.S. international trade in number and cost of shipments, export and import, numbers of documents required, man hours involved, outcome of Study.

Prior Testimony of NCITD Before Congressional Committees.—NCITD, since its inception has welcomed every opportunity to bring the message of simplification and waste-avoidance to Congressional Committees which have purview of such matters.

Specific Comments on Proposed "Trade Reform Act of 1973".—NCITD concurs in stated purpose of bill to stimulate the economic growth of the U.S. and enlarge foreign markets for its products "through the reduction and elimination of barriers to trade."

One of the most harmful of such barriers is that of paperwork and NCITD proposes means to prevent, curb and eliminate it:

1. Strong unambiguous policy embodied in proposed legislation requiring that paperwork be kept at a minimum and its elimination encouraged.

2. Addition of new Title to bill entitled "Documentation: Administration and Enforcement".

Implementation of NCITD-DOT Joint Recommendations.—NCITD urges that Recommendations contained in Joint NCITD-DOT Study, "Paperwork or Profits", which most closely involve the various Departments and agencies of Government be implemented promptly.

Conclusion.—NCITD submits a suggested new "Title" to this proposed legislation and urges that this be incorporated into any final Bill so that proper policing of documentation and informational activities can be enforced. NCITD urges Congress, and particularly the House Ways and Means Committee, to help reduce the costs and heavy burdens of paperwork in trade.

NCITD is available to meet with Committee members and their staffs to discuss these matters further.

Mr. BAYLIS. Mr. Chairman, my name is Arthur E. Baylis, executive director, the National Committee on International Trade Documentation, with headquarters in New York.

Mr. BURKE. Do you want to identify your two colleagues too, please.

Mr. BAYLIS. Mr. Chairman, I would like to introduce my two colleagues, who serve as cochairmen of all of the technical research committees of this organization. On my right is Mr. Robert J. Porter of Eastman Kodak, Rochester, N.Y., and on my left, Mr. George F. Begnall, Jr., of the International Sales Division of General Electric.

Mr. BURKE. You are recognized, Mr. Baylis.

Mr. BAYLIS. I wish to thank your honors for the privilege of appearing before you this afternoon with my colleagues. As brief introduction, we have submitted to your committee 75 copies of a 26-page statement. We also have a 1-page brief of that statement in an introductory way, and in my limited 10 minutes here today I will merely brief the brief.

Mr. BURKE. We do that with the understanding that the entire statement will appear in the record.

Mr. BAYLIS. Thank you.

The National Committee on International Trade Documentation is made up of about 300 American companies that contribute varying amounts of money to conduct continuing research into how to eliminate the almost catastrophic documentation and paperwork load that surrounds our international trade.

The organization is commonly referred to as NCITD, representing banks, insurance companies, carriers, exporters, importers, forwarders, and in fact every party that participates in our trade. We do not, as an organization, take a position either of favoring or of not favoring your proposed legislation. We all have our own ideas as to how trade can be benefited, and individual companies will express those, I am sure, before your hearings are over.

Our purpose here, and we probably are the only ones in this position that you will hear from, is to suggest to you that whatever you do to improve our posture in foreign trade and to make it more attractive for American businessmen to enter this field and to stay in it, whatever you do you don't create more paperwork, more red tape, and build up this paper curtain which costs over $8 billion a year to prepare and process. We believe it is the largest single nontariff barrier that we have, and it is entirely manageable, if we will get busy and manage it.

Our organization was founded by American business because no one company could do this paperwork job alone. They got together and

now 5 years later we can prove to you that the job is being done. I mentioned that the processing of all this paperwork costs about $8 billion a year. On the basis of our recent studies this means about $375 for every export shipment, and $320 for every import shipment, or practically 10 percent of the value of the goods just to fill out and process the forms needed to move the merchandise.

We and the Department of Transportation and some of the other government organizations representing government paperwork have just recently concluded a 2-year study to find out what was going on in this field. We published a book that I am now holding in my hand called "Paperwork or Profits?" There is a big questionmark after the word "profits" because we know that with the current paperwork going on you cannot have profits. We would like to leave this copy with the Reporter for inclusion in your permanent record, if we may.

Mr. BURKE. Would you rather submit a copy to each member of the committee, and additional copies for the staff?

Mr. BAYLIS. We will be glad to do that, sir.

[The publication referred to was retained in the committee files.]

Mr. BURKE. That will require additional paperwork for the committee.

Mr. BAYLIS. The point is very well taken, and we would much rather have that required reading in your leisure at home.

We have testified on this, our favorite subject, before the Senate Banking and Currency Committee in S. 813, which later became S. 1940, The Export Control Act, and in that act we inserted a brief title for administration to avoid unnecessary proliferation of paperwork. We did similarly before the House Small Business Committee in H.R. 66 and in 1972, at hearings on the Export Control Act, S. 2754 testimony was taken and a title was inserted.

We believe that our markets can be expanded, that our products can be made more competitive, and that we can reverse the unfavorable balance of trade if we deal with the problem firmly.

On page 16 of the report we state, "It is the view of NCITD that unless this problem is dealt with firmly and directly in the present legislative proposal before you, this new legislation will create another barrier of paperwork, bureaucracy, and procedures which will act as a roadblock rather than as a highway to increased U.S. International trade."

What do we mean? Thumbing through your very fine bill, we have countless examples where, as the bill is enforced in the normal human way, everybody is going to be filling out more and more forms. You talk about advice, transmission of agreements, petitions, eligibility requirements, certification, supplements, recovery of overpayments, transaction provisions, responses, amendments, authorizations, exceptions, extensions. Wherever those words occur they are the trap for someone to set up a desk and a group of clerks to collect paper, and this is the very thing that we are here to try to avoid.

In your bill quickly we have found 50 references to ways that this might happen. Now, in concluding, we all know it is there. We all know that it should be properly administered, but we think we would not be doing our job well by pointing out this horrible possibility unless we could suggest something constructive as a means of overcoming it.

As the end of our statement we have drafted a new section for the Trade Reform Act of 1973 to make a title that would perhaps give you a recommendation as to how this can be avoided. It would cause a modest amendment to section 103, and the title part would be in sections 801, 802, 803, 804, and 805.

This is a very, very serious thing for international traders. The average international transaction has 46 of these people, and we start with the assumption that each one is doing his job perfectly. This, of course, is false, but it is a starting point. So we have 46 percent links in a chain getting from where we are to where we want to be around the world, and none of the 46 fits with each other.

It is our job to eliminate the documents, to streamline the procedures, to reduce the 46 to a miniscule number, and then see that their links fit.

Already we have written, and it will shortly be issued, a supplement to our major research report showing specific ways as to how this $8 billion bill per year can be reduced by $5 billion a year. We ask your honorable body, please don't add more paper in an era when we are all trying to get rid of it.

My associates and I want to thank you for giving us this chance to appear before you.

[The prepared statement of Mr. Baylis follows:]

STATEMENT OF ARTHUR E. BAYLIS, EXECUTIVE DIRECTOR, NATIONAL COMMITTEE ON INTERNATIONAL TRADE DOCUMENTATION

INTRODUCTION

My name is Arthur E. Baylis and I am appearing before you as the Executive Director of the National Committee on International Trade Documentation, known as NCITD. This appearance is at the request of the Board of Directors of that organization and is on the subject of foreign trade and tariff reform. NCITD neither supports nor opposes the proposal entitled the "Trade Reform Act of 1973"—instead, our unique position is the same as it was when I testified before the Congress in 1969 and 1972 on the subject of legislative proposals affecting the foreign trade of the United States—namely, that whatever legislation is enacted should be conditioned on prevention and elimination of, rather than further creation of, paperwork and documentation procedures.

DESCRIPTION OF NCITD AND ITS PURPOSES

NCITD which is headquartered in New York and has agencies in Washington and San Francisco, is a voluntary, non-profit, privately financed, membership organization with the sole purpose of researching methods, procedures, and practices that will reduce and simplify the masses of documents and paperwork "red tape" procedures that are now required on international shipments.

NCITD was established in late 1967 and now comprises a membership of several hundred companies. These participating member companies provide to the Committee not only all the necessary financial support to carry out the research activities, but also the services of experts from their companies to assist the NCITD Technical Committees in researching the many avenues through which the simplification of documents can be accomplished.

The membership and the resultant research committees are divided generally into five categories:

1. *General Business.*—which embraces manufacturers, exporters, freight forwarders and the basic buyers and sellers in international trade.

2. *Carriers.*—which includes large numbers of steamship lines (both American and foreign), railroads, airlines, motor freight companies, steamship agents, warehouses and port authorities.

3. *Financial, and Insurance.*—consisting of a large number of banks, marine insurance underwriters, and insurance brokers.

4. *Government.*—representing the continuing liaison between NCITD and all government agencies and departments involved in paperwork; particularly the

Office of Facilitation of the Department of Transportation, the Department of Commerce and its many agencies and bureaus, and the Bureau of Customs. Also included are many governments, agencies and foreign national organizations.

5. *Exchanges and Associations.*—consisting of marine exchanges, transportation associations, trade groups, and others who are interested in the NCITD objectives in behalf of the membership of their existing organizations.

One further word about the organization that I here represent. Its establishment in 1967 came after many conferences with government agencies and departments, representatives of Congressional Committees, and with the White House. At that time it was generally agreed that the greatest possible progress in the elimination of paperwork could be accomplished if the private business sector established, financed, and administered, an organization to work on documentation problems exclusively. It was further understood and agreed that since a large quantity of this paperwork and related procedures are generated by government agencies and departments, these same agencies and departments would work cooperatively with NCITD wherever they had involvement. This significant private industry-government cooperative effort to solve this important paperwork problem was greatly assisted by the fact that the Department of Transportation (DOT) and its Office of Facilitation became operative almost simultaneously with NCITD. Since then the cooperation has been gratifying and NCITD and DOT work together on these research problems on almost a daily basis, and work together in handling them with foreign governments. With this brief explanation of the background of the business-supported NCITD, I shall now explain why that organization requested this appearance at this hearing.

PROBLEMS OF PAPERWORK IN INTERNATIONAL TRADE

The magnitude of the "jungle" of paperwork that envelops the international commerce of the United States has been conservatively estimated to cost United States exporters, importers and international trade parties at least eight billion dollars ($8,000,000,000.00) per year just to fill out and process the required documents involved, not including any transportation costs. This staggering figure was substantiated in a Research Study jointly prepared by NCITD and the DOT Office of Facilitation and confirmed by a recently completed Supplement to it. The study shows that the average documentation cost per international shipment amounts to more than $350 with a cost of over $375 for exports and over $320 for imports. These figures average about 10% of the value of the goods being shipped. In fact, many cases have been reported where the documentation expenses were even higher than the value of the shipment. The cost of this paperwork processing can be likened to a gigantic non-tariff trade barrier, recognized and acknowledged by everyone to exist, effectively strangling opportunities for international trade (particularly in the case of small companies), and yet being so difficult of solution that none of the companies acting individually are able to penetrate or solve the maze of paperwork alone.

NCITD, through sole concentration on this effort, has tackled the problem with the cooperation of the United States Government, and through working in group liaison with many organizations throughout the world that are dedicated to the same purposes. Already we know that the paperwork required to export from the United States and to import into this country is far more burdensome, voluminous, overlapping, and costly than that required by any other nation throughout the free world. In this connection, and before turning to the substance of the proposed "Trade Reform Act of 1973", permit me to outline in some detail, the highlights of the NCITD-DOT Research Study previously referred to. I believe you will find them entirely germane to the stated purposes of this proposed legislation.

DETAILS OF NCITD-DOT JOINT STUDY

This study, entitled "Paperwork or Profits? in International Trade" was prepared from actual live shipments. The resultant data catalogues and analyzes the practices and procedures relating to international trade documentation, and recommends corrective steps to eliminate paperwork in world commerce.

Hundreds of parties participated in the research and provided factual data based on their own experiences. Their involvement covered not only their own sphere of responsibilities but also included relationships with prior and subsequent participants that were involved with the documents and the shipments.

In the "Highlights" of the Study, the actual data developed conclusively confirms that complex and costly documentation is one of the major problems concerning international trade. While considerable attention is being devoted

to trade expansion, relatively little attention is directed to solving the expensive and burdensome practices of international trade and transport documentation.

The magnitude of U.S. international trade is shown by government figures for the fiscal year ending June, 1971, which reveal that:

All international shipments totaled	18,000,000
Export shipments totaled	10,000,000
Import shipments totaled	8,000,000

In terms of dollar value, the statistics indicate that:

	Billions
All international shipments were valued at	$86.3
Export shipments were valued at	43.9
Import shipments were valued at	42.4

Each of these figures would be considerably higher at current shipment volume levels.

The effort concentrated in this study to identify, analyze, quantify, and determine the cost of specific documentation practices and procedures has produced and correlated an abundance of significant data not previously available, this information focuses attention on the documentation problem and provides the basis for specific corrective actions that are recommended.

Startling statistics from the study show that:

A total of 46 different types of firms and government agencies regularly are involved in international trade....

As many as 28 of these parties may participate in a single export shipment....

A total of 125 different types of documents are in regular and special use....

The 125 types of documents represent more than 1000 separate forms....

A total of 80 types of documents are in regular as opposed to 45 in special use....

Average shipments involve 46 separate documents, with an average of over 360 copies per shipment being employed....

U.S. international trade annually creates an estimated 828 million documents and these generate an estimated 6½ billion copies....

Average export and import shipments required 64 man-hours to prepare and process, split on the average of 36½ man-hours for an export shipment and 27½ man-hours for an import shipment....

Total U.S. international trade documentation annually consumes more than a billion man-hours, equivalent to more than 144 million days of work, and equal to 600 thousand work years....

Average documentation cost per international shipment amounts to $351.04, divided $375.77 for exports and $320.58 for imports....

On the basis of current shipping volumes, total documentation costs aggregate well over $8 billion per year and represent close to 10% of the value of the total U.S. export and import shipments....

By identifying many of the problems and relating them to specific documents and procedures, the study established a foundation on which recommendations can be supported. Recognizing that the degree of involvement varies widely between parties, companies, and governments, the suggested corrective steps and actions provide opportunities for all to reap the benefits of simplified documentation.

As an outcome of the study, a number of "Recommendations for Progress" have been developed for the effectuation of the program to simplify and streamline international trade documentation and procedures. These Recommendations total twenty-eight (28) in number and are divided into three categories representative of the areas of greatest corrective interest. These are General, Government, and Industry; the Government category consisting of eleven Recommendations. While many of the problems do not stand alone, but are closely interlocked, the fact that more than one-third of the 28 Recommendations most closely involve Government action primarily is a clear indication of the significance of the Government role in both the creation of and the need to eliminate or control paperwork and any possible occasions for the creation of paperwork.

As we seek to implement the many constructive steps that will implement these recommendations, we must be sure that nothing is done, through this proposed legislation or otherwise, to create situations that will cause more unnecessary documentation to be created.

PRIOR TESTIMONY OF NCITD BEFORE CONGRESSIONAL COMMITTEES

Turning to the proposed Act itself, permit me to explain that NCITD itself is not taking a formal position on the stated purposes of the proposal which include, among others, the following:

"(a) To provide authority in the trade field supporting United States participation in an interrelated effort to develop an open, nondiscriminatory and fair world economic system through reform of international trade rules, formulation of international standards for investment and tax laws and policies, and improvement of the international monetary system;

"(b) To facilitate international cooperation in economic affairs for the purpose of providing a means of solving international economic problems, furthering peace and raising standards of living throughout the world;

"(c) To stimulate the economic growth of the United States and enlarge foreign markets for the products of United States commerce (including agriculture, manufacturing, mining, and fishing) by furthering the expansion and elimination of barriers to trade on a basis of mutual benefit and equity; . . ."

Indeed, these stated objectives are very close to those contained in the fundamental statement of NCITD policy which has as its goal that "remaining necessary documents may be more fully mechanized and the major paperwork barriers in foreign trade eliminated".

I cannot emphasize too strongly the need, while seeking means to assist the foreign commerce of the United States, to avoid the proliferation of paperwork—and the extra personnel to process that paperwork—that too often spring up when Government agencies are established. Too often the objectives of Acts of Congress are frustrated by the shackles that unnecessary paperwork and its financial and service-impeding costs can impose on such a program. Frequently in enforcing legislative enactments, the Government agencies responsible set up elaborate machinery, without regard to cost, either to Government or to affected private industry groups, and these elaborate enforcement procedures become routine and self-feeding long after the initial objective of the legislation has been all but forgotten.

For this reason, NCITD since its inception, has welcomed every opportunity to bring the message of simplification and waste-avoidance to Congressional Committees which have purview of such matters. An interesting example of this activity by NCITD involves an early program to eliminate the Shipper's Export Declaration (SED), a control piece of paper evolved under the umbrella of the Export Control Act. In 1969, the Senate Banking and Currency Committee had before it S. 813 (superseded by S. 1940), a bill to extend the Export Control Act. On behalf of NCITD, I appeared before that Committee and explained that the way in which the Export Control Act was then being enforced was costing American taxpayers approximately one hundred million dollars ($100,000,000.00) per year just for the filling out, filing, and processing of the control piece of paper, known as the SED. My testimony pointed out that the agency charged with the administration of the Export Control Act, namely, the Office of Export Control (OEC) in the Department of Commerce's Bureau of International Affairs, in developing a method to exercise adequate controls under the Act, caused a separate document to be prepared and to accompany *every* export shipment with a valuation of over $100.00. Since export shipments from the United States numbered about 10,000,000 individual shipments annually, this meant that many millions of separate pieces of paper had to be separately prepared to satisfy OEC's requirements. This method of policing each individual shipment labored under the misapprehension that all shipments violated the Act unless and until proven otherwise.

We are glad to be able to report that, through cooperative efforts with OEC, much of this reporting burden has now been eliminated, and steps are being taken to reduce it further. This work should reduce the estimated $100,000,000 annual burden of this item by at least $85,000,000.

Examples like this so impressed the members of the Senate Committee that NCITD was invited to, and did, submit language to be incorporated in the draft legislation which would simplify the enforcement of the Export Control Act without penalizing American exporters. Such language sought to control documents and procedures so as to encourage, rather than to deter, trade.

Another example resulted when NCITD was afforded the opportunity to appear at Hearings before the Subcommittee on Government Procurement of the Select Committee on Small Business of the House of Representatives pursuant to H. Res. 66, authorizing a study of the problems of small business. On June 29, 1969, I testified before that Subcommittee concerning matters affecting the Agency for International Development (A.I.D.) and the complex and burdensome documents it had created which so adversely affected foreign trade as it applied to small business. In my statement I pointed out how the cumulative effect of the increasing burden of paperwork, time and cost to the supplier of goods and of the necessity of complying with the prevalidation of commodity eligibility requirements imposed by A.I.D. discouraged small business from entry into the A.I.D. commodity export program. Also, I outlined how these procedures could cause larger U.S. suppliers, who had previously participated in the program, to seek other foreign exchange in aided countries to facilitate the supply of products from non-U.S. sources. I stated that this would further reduce the volume of exports from the United States and that smaller U.S. suppliers might be excluded from the A.I.D. commodity export program altogether because the increased cost of documentation of A.I.D.-financed exports could effectively foreclose A.I.D. markets to them as they might well be unable to generate orders large enough to justify the cost of the paperwork involved.

I concluded with the following remarks which I believe are entirely germane to the present proposed legislation which also has as its objective the expansion of this Nations exports:

> "The overcomplicated procedures and costly documentation inherent in the normal intercourse of foreign trade plus the burdensome U.S. A.I.D. complexities are compelling reasons to discourage small business entry into A.I.D. financed commodity export markets.
>
> "The need for simplification of procedures is urgent and the documentation demands of U.S. A.I.D. must be put into clear perspective with the overall welfare of small business.
>
> "The cost savings which can be accomplished from simplification and standardization of AID procedures and requirements are significant to industry as well as to government and should strongly motivate small business participation in AID markets.
>
> "In the final analysis, AID procedural requirements and document simplification are the responsibility of government, and their cooperation is essential to the outcome—increased interested in A.I.D. financed transactions under the commodity export program."

NCITD is glad to acknowledge that, since those hearings, we have participated in some very significant programs with A.I.D. to streamline and reduce their special documentation requirements.

Again, in 1972, I testified before the Subcommittee on Foreign Trade and Tourism on S. 2754, the proposed "Export Expansion Act of 1971", as well as appearing before the Subcommittee on International Finance of the Senate Committee on Banking, Housing and Urban Affairs, and submitting a written statement to the Subcommittee on International Trade of the House Committee on Banking and Currency, both on the subject of extension of the Export Administration Act of 1969. In every case, our position has been exactly the same—to apprise the Congress of the serious detrimental effects that the continuation of the unharnessed governmental documentation procedures are having on foreign trade—and to suggest ways to correct this situation so that the international exchange of the basic trade information can actually be a great aid to trade expansion.

The reson I have deal at some length on NCITD's position with respect to the extension of the Export Control Act and the A.I.D. commodity export program is to emphasize and dramatize the stultifying and even crippling effect a maze of governmentally devised and imposed documentation and procedural requirements can have on even the best-intentioned legislation enacted by the Congress. It is the view of NCITD that unless this problem is dealt with firmly and directly in the present legislative proposal, this new legislation will create another barrier of paperwork, bureaucracy and procedures which will act as a road-block rather than a highway to increased United States international trade.

SPECIFIC COMMENTS ON PROPOSED "TRADE REFORM ACT OF 1973"

With respect to the subject of this hearing, the proposed "Trade Reform Act of 1973" itself, as was observed above, we are pleased to note that the bill contains among its stated purposes: "to facilitate international cooperation in economic affairs "and" to stimulate the economic growth of the United States and enlarge foreign markets for the products of United States commerce . . . by furthering the expansion of world trade through the progressive reduction and elimination of barriers to trade on a basis of mutual benefit and equity".

Even more germane are the findings in Sec. 103, entitled "Nontariff Barriers To Trade." Therein it is stated, in part, as follows:

> "(a) The Congress finds that trade barriers and other distortions of international trade are reducing the growth of foreign markets for the products of United States commerce (including agriculture, manufacturing, mining, and fishing), diminishing the intended mutual benefits of reciprocal trade concessions, and preventing the development of open and nondiscrimiatory trade among nations. 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. . . ."

The reduction, elimination and harmonization of barriers to trade is, of course, what NCITD is all about. It is for this reason we feel compelled to point out that there are certain features inherent in this bill which could militate most strongly against this laudatory objective. As presently written it contains a potential for maintenance of existing paperwork barriers to trade and the creation of a vast array of new ones.

Throughout its provisions there are references to: "authority," "requirements", "advice", investigations", "analyses", "public bearings", "transmissions of agreements", "investigations", "actions after investigation", "import relief", "petitions", "group eligibility requirements", "determinations", "certifications", "qualifying requirements", "supplements", "employment services", "training", "job search allowances", "relocation allowances", "agreements with States", "payments to States", "liabilities of certifying and disbursing officers", "recovery of overpayments", "penalties", "authorization of appropriations", "transactional provisions", "responses", "amendments", "purchase prices", "sales prices", "countervailing duties", "injury determinations", "discretionary impositions", "findings", "balance of payments authority", "withdrawal of concessions and similar adjustments", "resignation of duties", "compensation authority", "authority to suspend", "reservation of articles for national security or other reasons", "authorizations", "exceptions", "additional provisions", "extensions", "limitations", "rules and regulations", etc., etc.

The foregoing topics, gleaned from an almost cursory persual of the proposed legislation, gives an idea of the tremendous complexities inherent in a program such as that before the Committee. This is readily understandable since the problems with which it is intended to deal are themselves so complicated.

Yet, I believe that the few topics from the bill to which I have just made passing reference, along with others dealing with organizational aspects of the proposal, give a revealing and even frightening glimpse of the potential proliferation of paperwork, paperwork forms, paperwork processing, and paperwork personnel which could be created by its enactment in its present form *if clear-cut provision is not made for placing a tight lid on these problems* before they break loose. It is not difficult to visualize a vast maze of new forms, procedures, applications, processing steps, rules and regulations from a dozen sources, reports, filings, audits, and reviews, ad infinitum, which could saddle themselves on the foreign commerce of the United States. With such a multiplicity of rules and regulations, applications, reports findings, and organizational units the businessman, industry and government would be further buried in such added detail as to defeat the primary purpose of trying to enlarge the foreign trade markets for U.S. products. Clearly it will be necessary to provide rigid curbs, in advance, on any and all documentation and procedures involved if any program for the encouragement of the foreign commerce of the United States, such as contemplated in this proposed legislation, is ever to be effective.

The least that is needed is a strong, unambiguous policy embodied in the proposed legislation itself, together with a separate "Title," applying to all sections of the Act, requiring simplification of documentation, consolidation of reporting systems, and streamlining of operations to avoid superfluous personnel, duplicative effort, and artifiical barriers to the flow of American commerce.

PROPOSED "PAPERWORK" AMENDMENT TO BILL

A draft of such a suggested "Title" is herewith submitted for consideration as the minimum type of protection and guidance that should be set up as principles to eliminate the non-tariff paperwork barrier as any new legislation becomes effective.

NCITD very much appreciates the opportunity to present this statement to the House Ways and Means Committee. It fully supports the goals of economic growth and the expansion of world trade and would be pleased to meet with members of the Committee and/or their personal staffs or the staff of the Committee to discuss these matters further, should that be so desired.

DRAFT OF AMENDMENT TO "TRADE REFORM ACT OF 1973" PROPOSED BY NCITD

A. Amend Section 103 to read as follows:

Sec. 103 Nontariff barriers to trade

(a) (1) The Congress finds that trade barriers. . . .

(a) (2) The Congress further finds that—

(1) Paperwork caused by documents and their processing threatens the success of the international trade it was intended to assist;

(2) The documentation entailed in international transactions has reached such magnitude that it delays shipments, boosts costs, imperils profits, discourages expansion, and overburdens industry and government; and

(3) The problem is creating serious concern among other governments, exporters, importers, carriers, bankers, forwardes, and the many other participants in such trade.

(a) (3) The Congress makes the following further declaration.—It is the policy of the United States (A) to keep such paperwork as may be created by the enactment of this act to the minimum consistent with the findings, purpose and declaration of policy stated in Sections 2 and 103 of this Act, and (B) to encourage the elimination of international paperwork and to simplify trade documentation to the end that remaining necessary documents may be fully mechanized and the major paperwork barriers in foreign trade eliminated.

B. Add a new Title VIII, reading as follows:

Title VIII—Documentation: Administration and Enforcement

Sec. 801. In furtherance of the findings, purposes and declaration of policy set forth in Sections 2 and 103 of this Act, and in implementing its administration and enforcement, the promulgation of rules and regulations, reporting requirements, conduct of programs, record-keeping, furnishing and compilation of data, inspection of documents, application requirements, and the like, shall be so designed as to reduce the cost of administration, reporting, record-keeping and export documentation required under this Act to the extent feasible consistent with the aforesaid findings, purposes and declaration of policy. The requirements set forth in this Section shall apply to all Sections of this Act, as may be appropriate.

Sec. 802. Rules and regulations, reporting record keeping, and export documentation requirements shall be periodically reviewed and revised in the light of development in the field of information technology. The head of the appropriate agency shall issue a detailed statement with respect to actions taken in compliance with the Title within forty-five days after the completion of the first quarter following the effective date of this Act.

Sec. 803. In addition to the requirements set forth in the previous sections of this Title, the head of the appropriate agency is authorized and directed to encourage, develop and promote the improvement, formulation and adoption of procedures for the simplification of international trade documentation insofar as such may involve the activities of his Department and in so doing he shall work with and assist other persons, groups, organizations or Departments, both governmental and private. Such agency head shall periodically and at least once each

year, issue a statement with respect to actions taken in compliance with this section.

Sec. 804. Administrative action by the responsible Government Departments or agencies is required to accomplish the basic recommendations most closely involving the various departments and agencies of government detailed in the NCITD–DOT Research Study, "Paperwork or Profits? In International Trade" (see appendix I). The Government agencies involved are hereby required and directed to undertake prompt and vigorous action to implement those recommendations which directly involve government activities.

Sec. 805. Rules and regulations, reporting, record keeping, and both export and import documentation requirements shall be periodically reviewed and revised in the light of development in the field of information technology. The appropriate Agency Head shall issue a detailed statement with respect to actions taken in compliance with this Section within forty-five days after the completion of the first quarter following the effective date of this Act.

APPENDIX I

Recommenation for Reduction of Documents and Related Procedures in International Trade

General

1. Accelerate Programs in Industry and Governments to Adopt the U.S. Standard Master Format for Trade and Transportation Documentation.
2. Develop a Standard Transportation Commodity Description and Code System and Apply the System to Government and Commercial International Shipments.
3. Provide a Designated Area Within Each Data Block of the U.S. Standard Master and Aligned Forms for Insertion of Appropriate Standard Commodity and Other Codes.
4. Encourage Countries Requiring Consular Invoices to Relax their Requirements and Accept Authenticated Commercial Invoices Instead.
5. Eliminate, by Mutual Consent, Requirements for Translation of Information Contained on Documents into the Language of Destination Country and Agree that the Language of the Originating Country will be Accepted by Consulates, Customs, Consignees, Banks and Other Interested Parties.
6. Apply the Time Required for Preparation and Processing of Documents as One Criterion in a Document Simplification and Elimination Program.
7. Encourage Exporters, Shippers, Forwarders and Carriers to Make Wider Use of the Department of Commerce's Simplified Export Statistical Reports.
8. Use a Standard Control Number to Identify Documents Throughout a Transaction.

Government

9. Replace the Government Bill of Lading with the Commercial Bill of Lading Which is Now Aligned with the U.S. Standard Master for International Trade.
10. Review, Sponsor and Approve All Existing. New or Revised Transport Documents on a Centrally Coordinated Basis.
11. Sponsor and Encourage Programs of Statistical Exchange Between the United States and Other Countries on a Bi-Lateral Basis to Reduce Documentation and Simplify Collection of Import-Export Data.
12. Promote Inter-Government Programs to Eliminate "Counter Documentation" Imposed by One Country in Response to Actions Taken by Another Country.
13. Encourage Other Governments to Grant Reasonable Tolerances Between Import License and Actual Shipment Data.
14. Simplify, Combine, Standardize, and Align Import Entry Documentation with the U.S. Standard Master for International Trade to Reduce the Complexity of Import Documentation.
15. Increase the Dollar Ceiling for Informal Entry of Merchandise.
16. Examine Customs Forms, Practices and Procedures Involved in Administering Drawback to: (a) Simplify the Method by which Applicants Can Qualify; and, (b) Provide for Payment of Drawback to Certified Recipients on a Current Basis.
17. Provide that Customs Adopt Commercially Acceptable Methods of Payments for Import Duties.
18. Replace All Special AID International Forms with Standard Commercial Documents.
19. Simplify Regulations and Procedures for the issuance of Export Licenses by the Office of Export Control.

Mr. ULLMAN [presiding]. Mr. Baylis, we appreciate your testimony. Sometimes I think the problem is a general problem throughout all of government. As a matter of fact, any type of organization if it gets big enough is going to get swamped in paperwork.

I personally want to commend you for bringing it to our attention, to commend your suggestion to the staff, and have them certainly in executive session bring back a careful analysis of your proposal to see whether we might not include it in the legislation.

Are there questions.

Mr. Schneebeli.

Mr. SCHNEEBELI. I just want to reiterate Congressman Ullman's comments. We appreciate your candor and the specific recommendations for changes. They can be very helpful. Thank you very much for coming.

Mr. ULLMAN. Are there other questions?

Mr. Vanik.

Mr. VANIK. I want to say to Mr. Baylis and his group that I would hope that you might come up with exact legislative language that we might consider. I think you have to go beyond the statement and try to reduce it to legislative language so that we can actually physically consider it.

Mr. BAYLIS. Mr. Congressman, it is written in this presentation in legislative language.

Mr. VANIK. So that you have it and it is drafted and fits the bill?

Mr. BAYLIS. Right. Some of the lawyers that belong to the company members assist us in this type of activity, and it is in my prepared statement.

Mr. VANIK. We are going to be needing this. You might afford us a vehicle for a starting point.

Mr. BAYLIS. We are not the peacemaker perhaps, but we would be honored and be very happy to serve in an advisory capacity to your committee while this is being handled in any way with your staff, with Mr. Martin or any of the others if you just call on us.

Mr. VANIK. Thank you.

Mr. ULLMAN. Mr. Conable.

Mr. CONABLE. Mr. Baylis, if we cooperate with you and give you what you want, will you then come back and consult with us about ways in which we can make the tax code a lot simpler too? We would like to reduce the amount of paperwork there.

Mr. BAYLIS. We will do anything we can to get this job done. We are trying to work ourselves out of the job. Congressman Ullman referred to the magnitude of it. It isn't all at the doorstep of Congress, or the U.S. Government. Quite by coincidence we are a tough country to deal with because we have so many different enterprises, all private. Government responsibility is about a third to a half in the bureaus, the agencies and departments in the administering of the laws and statutes. The other half, or maybe more, is caused by industry itself. For example, no two companies can agree on what a commercial invoice should be. They have them in every shape except in the form of round wheels. Different types of carriers want different forms. Different commodities have different forms.

Then we run into other countries that we are going into or coming from, and they are different. So that when we suggest that we are be-

fore a Government committee here, we don't want the misunderstanding that it is Government's fault. It is everybody's fault, all of these 46 parties, and they fluctuate around with the different transactions.

Mr. CONABLE. I think, sir, that this is one of the basic dilemmas of a government of laws rather than of men. If you have a government of laws you have to keep records, and you have to expect a written record of some dimension in order to judge that the laws are being applied. If you have a government of men then the capricious administrator who makes the decision on the spot has very little check on him.

In the kind of system we have I think we have to expect a certain amount of paperwork. I acknowledge that it is a desirable thing to try to reduce it and to eliminate it. I think it is almost inevitable that we are going to continue to have a high dimension of paperwork as long as we are going to base our rules on solid dependable criteria rather than on the whim of some administrator.

Mr. BAYLIS. At the suggestion of the Committee on Interstate and Foreign Commerce in hearings here last year an 1832 law was changed which opened the door for a lot of paperwork to be thrown away.

Mr. CONABLE. We appreciate your testimony.

Mr. ULLMAN. Are there any further questions.

Mr. Chamberlain.

Mr. CHAMBERLAIN. I just want to inquire as to whether or not the language you suggest is going to provide adjustment assistance for the paper recycling people.

Mr. ULLMAN. Mr. Karth.

Mr. KARTH. Thank you, Mr. Chairman.

Gentlemen, I join my colleagues in thanking you for your contribution. I don't know of anyone who has chastised unnecessary bureaucracy more than I have, both here in the legislative branch as well as in the executive branch. I think it is fine to talk about red tape and extensions and exceptions and amendment because they are very serious, I think, to international traders, but more serious, and more dangerous than that to this country is the $10 billion speculation that most of your members probably participated in overseas in the first quarter of this year. What do you have to say about that?

Mr. ULLMAN. Do you want a response on that?

Mr. KARTH. He can supply it either for the record or supply it orally at this point in time, but I think it is something, Mr. Chairman, that is very serious to those who represent the international traders, the financial community, and the industrial community, and the citizens who participate in that speculation abroad that if continued will lead this country to a $40 billion balance of payments deficit this year.

I think it is a very serious thing. I think you ought to talk to some of your members about it.

Mr. BAYLIS. Mr. Congressman, I will be glad to do that. We have a varied mixture of companies. Many of them we know have qualified for DISC operations. Many are multinational.

Mr. KARTH. I agree with DISC. I am not talking about that. I am talking about speculation in the financial market overseas in the first quarter of this year.

Mr. BAYLIS. I thought that was what you meant. I will be glad to discuss this with our people. It is a very, very serious thing we all know. I don't mean this just like a college professor saying this is out

of my specialized field, but the subject actually is not one of the research jobs that we are responsive to our members about.

The speculation in American money is widespread whether you are a tourist or a businessman. We believe that it is one of the headaches that have to be faced.

Mr. KARTH. I don't care if you are a tourist or a businessman. Let me say to you, sir, that it is dangerous for this country, I think, and it is going to do more harm in the long run for the capitalistic system in this country because they have more to gain, or more to lose by its falling or coming apart at the seams. I would hope somebody would have the courage to stand up to the community who is responsible and tell them the facts of life.

Now, I think it is perfectly proper for you, sir, and don't misunderstand me, to come here and offer those positive suggestions that you do, and I am grateful as a member of this committee and as a Member of Congress. Once in a while I think it is our responsibility, however, to tell those who complain or suggest or offer advice that maybe they ought to accept a little too, and maybe there are problems on both sides of the aisle.

I am not talking about the political aisle, I am talking about the aisle that separates the witness from this Congress, and from this committee. I think this is a serious situation for this country. I think it is exremely dangerous. It is harmful, and I think something ought to be done about it. If the community of people who are doing it don't have enough sense to do something about it on their own, I am afraid that Congress is going to have to do something about it.

Mr. Chairman, I certainly would be one of those willing to lead the fight to do something about it. Thank you.

Mr. BAYLIS. Mr. Congressman, I can assure you that in addition to reporting this discourse to our board of directors we will reproduce the record of this part to our entire membership.

Mr. KARTH. I would like, Mr. Chairman, to have a complete list of all of those Americans who have played a part in that $10 billion speculative deficit over there in the first quarter of this year. I think we ought to demand it from the Treasury. I think we on this committee, and in the Congress, and the American people ought to know who they are. You know, there are many different kinds.

Mr. CONABLE. Will the gentleman yield?

Mr. KARTH. Yes.

Mr. CONABLE. I wonder how that information could be made available. How would the Treasury know about it.

Mr. KARTH. I don't know. I am assuming that somebody in the Government knows about it. I suggested the Treasury. If the gentleman from New York has any information I think the chairman ought to make that same request.

Mr. BURKE. Will the gentleman yield?

Mr. KARTH. Yes.

Mr. BURKE. It is very simple to find that out. This is within the financial circles of this country. Great Britain has an embargo on money going overseas. This country certainly has to protect itself from such speculation. It is really a scandalous act when you consider that the trade balance has dropped from the first quarter of this year.

There should be less money being sent overseas for the first quarter, and instead $10.2 billion of American money has been sent over there and, as I stated on the floor of the House today, it is more than a coincidence, and it looks like our people are speculating on gold, and also driving up the price of gold and helping to devalue the dollar.

This information should be brought to the Members of the U.S. Congress. I was hoping the Committee on Banking and Currency would do this, but if they fail to do it, I will be happy to join with my colleague, Mr. Karth, and request that we be furnished with this list of names. As I said, it will make J. Pierpont Morgan's preferred list look pale in comparison.

Mr. ULLMAN. I would like to say to the gentlemen that I have been attempting to get information on this very subject without success, but if it meets with the approval of this committee I would ask our chief counsel, Mr. Martin, to direct a letter to the Treasury Deparment requesting this information and also asking that if it is not available would they get the information for us.

Is there objection to that procedure? If not, Mr. Martin, will you see that such a letter is prepared.

[The information requested follows:]

MAY 21, 1973.

Hon. GEORGE P. SHULTZ,
Secretary of the Treasury.

DEAR MR. SECRETARY: In the course of our public hearings on the Administration trade proposals, at the time of the appearance of Mr. Arthur E. Baylis, Executive Director, National Committee on International Trade Documentation, a colloquy took place between several Members of the Committee on the witness as to the extent of participation by multinational corporations in the recent speculation in gold in the European markets and in the accompanying loss of value in the dollar.

Following the colloquy, as Chief Counsel of the Committee, I was directed by the Committee to address a letter to you to inquire as to whether the Treasury Department had information as to participation by multinational corporations in driving up the price of gold or helping to devalue the dollar, and that I request from you a list of those United States multinational corporations whose activities in the foreign currency markets may have contributed to the weakening of the dollar in the recent speculative movements.

I enclose for your information pages 1125 through 1129 of the transcript which contains the relevant portion of the colloquy which took place on May 16, 1973.

It would be appreciated if you could provide the Committee with any information which the Treasury Department may have with regard to these matters.

Sincerely yours,

JOHN M. MARTIN, JR., *Chief Counsel.*

OFFICE OF THE SECRETARY OF THE TREASURY,
Washington, D.C., May 22, 1973.

Mr. JOHN M. MARTIN, Jr.,
Chief Counsel, Committee on Ways and Means, House of Representatives, Washington, D.C.

DEAR JOHN: In behalf of Secretary Shultz, I want to acknowledge your letter of May 21 which requests a list of those U.S. Multinational Corporations whose activities in the foreign currencies may have contributed to the weakening of the dollar in the recent speculative movements.

You will have a further reply shortly.

Very truly yours,

WILLIAM L. GIFFORD,
Assistant to the Secretary for Legislative Affairs.

THE SECRETARY OF THE TREASURY,
Washington, June 11, 1973.

Mr. JOHN M. MARTIN, Jr.,
Chief Counsel, Committee on Ways and Means, House of Representatives, Washington, D.C.

DEAR MR. MARTIN: I am writing in response to your letter of May 21, 1973. In that letter you inquire, in behalf of the Committee on Ways and Means, whether the Treasury Department (a) had information as to the participation by multinational corporations in driving up the price of gold or helping to devalue the dollar (b) could furnish a list of those United States multinational corporations "whose activities in the foreign currency markets may have contributed to the weakening of the dollar in the recent speculative movements."

The acquisition of gold by U.S. corporations, either in the domestic market or abroad, is subject to license by the Treasury and limited to purchase for industrial use only. Treasury regulations require licensed companies or individuals to submit semi-annual reports on their holdings. I am enclosing a table that summarizes the reports we have received from gold licensees for the years 1966–1972. You will note that the table shows no appreciable increase in gold holdings through December 1972. I have asked our Office of Domestic Gold and Silver Operations to send you similar figures for the period ending June 30, 1973, just as soon as they become available.

We have no evidence from these reports, or from any other source, to suggest that American corporations have been involved recently, or in the past, in speculative gold transactions of an illegal nature. There are severe civil and criminal penalties for unauthorized purchases of gold or falsification of required reports of gold holdings (see Section 54.11, p. of enclosed Gold Regulations).

With regard to activities involving foreign currencies, there are various categories of both U.S. and foreign transactors that buy and sell dollars in exchange markets. Furthermore, the types of operations that have an effect on exchange markets take many forms and there are many reasons for such dealings. Among the possible sources of transactions are American and foreign banks, U.S. and foreign-controlled multinational corporations and other non-banking companies, individuals all over the world and some governments and central banks. Thus, large U.S. companies represent only one segment of those responsible for foreign exchange operations. There is also considerable evidence that changes in the timing of foreign trade payments, the so-called leads and lags, may be a more important factor in causing pressures on exchange markets than simple conversions of liquid balances from one currency to another. Actually, changes in leads and lags are often the result of a decision to refrain from an exchange transaction rather than to undertake such an operation.

Any attempt to attribute motivation or to identify specific transactors responsible for "speculation," presents the virtually insuperable problem of separating hedging operations, undertaken in order to protect a particular business transaction or a company's net international asset position against exchange rate losses, and "speculating" for the sole purpose of making a quick profit. An exchange loss or gain is in itself not proof of motivation. Such a financial result can depend on the nature and geographic distribution of a company's ordinary business and the timing of exchange rate changes as much as on any transactions that a company may have undertaken in specific anticipation of an exchange rate change. In given sets of circumstances, it is perfectly possible for a company that has taken no special steps prior to an exchange rate modification, or for a "hedger," to make an exchange profit and for a "speculator" to incur a loss.

The Administration is actively involved in an effort to develop better statistics and to improve our understanding of the nature of the capital flows which took place earlier this year. Secretary Dent and I recently sent a joint leter to the presidents of some 1,300 corporations to enlist their support in this effort. A follow-up letter has been sent to a smaller group of companies to arrange for direct personal contacts about our data gathering system. Furthermore, the United States is also working with other countries, within the framework of the Committee of Twenty on international monetary reform, to gain a deeper understanding of what happens in the exchange markets during periods of sudden uncertainty about the durability of exchange rate relationships.

Fundamentally, we look to an improved process of adjustment of international payments disequilibria to avoid or reduce situations of basic imbalance that create incentives for large scale speculation against currencies. The international monetary negotiations, which are proceeding in the context of the Committee

of Twenty, have the objective of finding ways to prevent the emergence of large and persistent payments imbalance. I believe that this is the correct and most effective approach to dealing with the questions raised by speculative capital flows.

I hope that these observations will be helpful to the Committee.

Sincerely yours,

GEORGE P. SHULTZ.

Enclosures:

Gold Regulations.

Table on "Inventories of Gold by Treasury Department Licensees 1966–1972."

TITLE 31—MONEY AND FINANCE: TREASURY

Chapter I—Monetary Offices, Department of the Treasury

PART 54—GOLD REGULATIONS

Clarification of restrictions on holding or dealing in rare or unusual coins

Under the Treasury Department's Gold Regulations, there is a general prohibition on holding or dealing in gold without a license. An exception to this prohibition is made for gold coins of recognized special value to collectors of rare and unusual coins. Such coins, if minted before 1934, may be acquired because of this recognized special value to collectors of rare and unusual coin, but not for the purpose of acquiring the gold bullion contained therein. Farber v. United States, 114 F. 2d 5 (9th Cir. 1940). Thus collectors of rare and unusual gold coins and coin dealers are enabled to buy and sell these gold coins for numismatic purposes without obtaining individual licenses for specific transactions. This exception was not intended to permit nor does it permit the acquisition of gold coins for speculative rather than numismatic purposes.

In order to state explicitly the intent of the Regulations, amendments are being made under which: (1) The acquisition, holding, importation, and transportation of gold coin is limited to transactions for numismatic purposes; and (2) the trading of gold in any form on any commodity exchange within the United States is prohibited. In addition the overall intent of the Gold Regulations is made explicit by providing that trading in gold for speculative purposes is prohibited. These amendments will not limit in any way the types of transactions currently engaged in by coin collectors or licensees under present authority.

Notice and public procedure are not required because there is involved a foreign affairs function of the United States in that these amendments are important to the proper functioning of the international monetary system. Moreover, because there are involved interpretative rules rather than substantive changes, and because of the relationship of speculative trading by Americans in gold to the proper functioning of the international monetary system, it is found that notice and public procedure are impracticable, unnecessary, and contrary to the public interest.

Subpart B of Part 54 of Title 31 of the Code of Federal Regulations is hereby amended as follows:

1. Section 54.12 is amended by adding at the end thereof the following:

§ 54.12 Conditions under which gold may be acquired, held, melted, etc.

* * * Nothing contained in the regulations in this part nor in licenses issued thereunder authorizes the acquisition, sale, holding, importation, or exportation of any present or future interest, direct or indirect, in gold in any form for speculative purposes, and such actions are prohibited.

§ 54.13 [Amended]

2. Existing § 54.15 is redesignated as paragraph (a) of § 54.13.

3. Existing paragraphs (a) and (b) of § 54.13 are redesignated as paragraph (b) and (c) of § 54.13, respectively.

4. A new § 54.15 is added to Subpart B to read as follows:

"§ 54.15 Trading in gold on exchanges.

"No interest, direct or indirect, legal or equitable, in gold in any form, for present or for future delivery, shall be acquired under a contract made on or subject to the rules of any exchange within the United States. The term "ex-

change" means any organization, association, or group of persons, whether incorporated or unincorporated, which constitutes, maintains, or provides a market place or facilities for bringing together purchasers and sellers of gold in any form and performs with respect to gold in any form the functions commonly performed by a commodity exchange as that term is generally understood."

5. Section 54.20(a) and (d) are amended to read as follows:

"§ 54.20 Rare coin.

(a) Gold coin of recognized special value to collectors of rare and unusual coin may be acquired, held and transported within the United States for numismatic purposes without the necessity of holding a license therefor. Such coin may not be acquired for the purpose of acquiring the gold bullion contained therein. Such coin may be imported only as permitted by this section or §§ 54.28 to 54.30, 54.34 or licenses issued thereunder, and may be exported only in accordance with the provisions of § 54.25."

* * * * * * *

"(d) Gold coin made prior to 1934 may be imported for numismatic purposes without the necessity of obtaining a license therefor."

* * * * * * *

(Sec. 5(b), 40 Stat. 415, as amended; secs. 3, 8, 9, 11, 48 Stat. 340, 341, 342; 12 U.S.C. 95a, 31 U.S.C. 442, 733, 734, 822b; E.O. 6260, Aug. 28, 1933, as amended by E.O. 10896, E.O. 10905, E.O. 11037, 3 CFR, 1959–1963 Comp.; and E.O. 6359, Oct. 25, 1933; E.O. 9193, as amended, 3 CFR, 1938–1943 Comp.; E.O. 10289, 3 CFR, 1949–1953 Comp.)

Effective date. These amendments shall become effective on filing with the FEDERAL REGISTER.

Dated: July 22, 1971.

[SEAL] PAUL A. VOLCKER,
Under Secretary for Monetary Affairs, Treasury Department.

[FR Doc. 71-10662 Filed 7-22-71; 4:46 pm]

TITLE 31—MONEY AND FINANCE: TREASURY

Chapter I—Monetary Offices, Department of the Treasury

PART 54—GOLD REGULATIONS

Manufacture and Sale of Gold Medals

Section 54.4(a)(14) of the Gold Regulations is being amended to authorize the Director of the Office of Domestic Gold and Silver Operations to license foreign subsidiaries of U.S. corporations to manufacture gold medals for sale to persons not subject to the jurisdiction of the United States. The purpose is to assure a fair competitive position for these firms in the markets in which they operate. The manufacture by persons or firms located in the United States or sale of gold medals to persons subject to the jurisdiction of the United States other than special award medals, antique medals, and commemorative medals for regular public display by a museum or other institution serving the public, will continue to be prohibited by the Gold Regulations. In addition, the amendment will remove the existing restrictions on the gold plating of any coins and the acquisition, holding, transportation, importation, or exportation of any gold-plated coins. These restrictions were imposed to prevent the diversion of coins to decorative uses during the recent coin shortage. Since all coins are now in ample supply such restrictions are no longer necessary.

Because the amendments relieve existing restrictions it is found that notice and public procedure thereon is not necessary.

Section 54.4(a)(14) is amended to read:

"§ 54.4 Definitions.

"(a) * * *

(14) "Customary industrial, professional or artistic use" means the use of gold in industry, profession or art, in a manner, for a purpose, in a form, and in quantities in which gold is customarily used in industry, profession or art. Without limitation, the following are not deemed to be customary industrial, professional or artistic uses of gold:

"(i) The manufacture of gold medals other than the manufacture of special awards and the manufacture by persons subject to the jurisdiction of the United

States but situated abroad of gold medals for sale abroad to persons not subject to the jurisdiction of the United States; and

"(ii) The acquisition and holding, transportation, importation, or exportation of any gold medals other than: Special award medals; antique medals; and commemorative medals for regular public display by a museum or other institution serving the public."

* * * * * * *

(Sec. 5(b), 40 Stat. 415, as amended, secs. 3, 8, 9, 11, 48 Stat. 340, 341, 342; 12 U.S.C. 95a, 31 U.S.C. 442, 733, 734, 822b. E.O. 6260, Aug. 28, 1933, as amended by E.O. 10896, 25 F.R. 12281, E.O. 10905, 26 F.R. 321, E.O. 11037, 27 F.R. 6967; 3 CFR, 1959–63 Comp. and E.O. 6359, Oct. 25, 1933, E.O. 9193, as amended, 7 F.R. 5205; 3 CFR 1943 Cum. Supp., E.O. 10289, 16 F.R. 9499; 3 CFR 1949–53 Comp.)

Effective date. These amendments shall become effective on publication in the FEDERAL REGISTER (4-23-71).

Dated: April 19, 1971.

[Seal]

PAUL A. VOLCKER,
Under Secretary of the Treasury for Monetary Affairs.

[FR Doc. 71-5678 Filed 4-22-71; 8:48 am]

TITLE 31—MONEY AND FINANCE: TREASURY

Chapter I—Monetary Offices, Department of the Treasury

PART 54—GOLD REGULATIONS

PART 93—OFFICE OF DOMESTIC GOLD AND SILVER OPERATIONS PROCEDURES AND DESCRIPTIONS OF FORMS

Exports of Gold

The Gold Regulations (31 CFR Part 54) and the Regulations governing the procedures and required forms and statements of the Office of Domestic Gold and Silver Operations (31 CFR Part 93) are being amended to provide that the Director, Office of Domestic Gold and Silver Operations may issue licenses authorizing holders of Treasury Gold Licenses to export gold bullion for sale in foreign countries. Export licenses may be granted to persons who hold licenses issued under 31 CFR 54.25(a) authorizing them to acquire and hold gold in the United States for use in industry, profession or art and to dispose of gold in the form and amount for which the export license is requested. They shall be subject to all restrictions in the Gold Regulations governing the acquisition of gold by persons subject to the jurisdiction of the United States and transactions in gold with foreign monetary authorities and to such other terms and conditions as the Director shall prescribe.

Because the amendments relieve existing restrictions, it is found that notice and public procedure thereon are unnecessary.

1. Section 54.25(b)(1) is amended to read as follows and (b)(4) is revoked:

"§ 54.25 Licenses.

* * * * * * *

"(b) *Licenses and authorizations for the exporting of gold.* (1) Except as provided in subparagraph (5) of this paragraph, gold bullion as defined in § 54.4 may be exported or transported from the States of the United States, to the possessions of the United States, to Puerto Rico, to the Canal Zone, or to places not subject to the jurisdiction of the United States, and from the possessions of the United States, from Puerto Rico or from the Canal Zone to places not subject to the jurisdiction of the United States, only pursuant to a separate export license. Such licenses shall be issued by the Director, Office of Domestic Gold and Silver Operations upon application made on Form TG-15. Export licenses issued under this subparagraph may authorize the export of gold for sale or for refining or processing and return of the refined or processed gold (or the equivalent in refined or processed gold) to the United States. No such license shall authorize the export of gold for sale in an amount or form in which the licensee is not authorized to hold or dispose of gold in the United States or the participation in any transaction prohibited by § 54.14 or paragraph (d) of this section."

* * * * * * *

(4) [Revoked]

* * * * * * *

2. Section 93.46 is amended to read:

"§ 93.46 Form TG-15: Application for license to export or transport gold bullion from the continental United States.

"(See § 54.25(b)(1) of this chapter.) Information is required concerning the amount and invoiced sales price of the gold which it is desired to export, the description of the gold, the port of export, the consignee, and the purposes for which the gold will be used abroad."

§ 93.47 [Revoked]

3. Section 93.47 is revoked.

4. Section 93.48 is amended to read:

"§ 93.48 Form TG-15 (General): Application for general license to export gold bullion from the United States.

(See § 54.25(b)(1) of this chapter. Application is submitted on this form instead of Form TG-15 if the applicant desires to obtain a license to cover recurring shipments to regular customers for specified amounts and types of gold. This application is required to be submitted on a semiannual basis, and information is required with respect to each consignee.

§§ 93.49, 93.50, 93.51 [Revoked]

5. Sections 93.49, 93.50, and 93.51 are revoked.

(Sec. 5(b), 40 Stat. 415, as amended, secs. 3, 8, 9, 11, 48 Stat. 340, 341, 342; 12 U.S.C. 95a, 31 U.S.C. 442, 733, 734, 822b, E.O. 6260, Aug. 28, 1933, as amended by E. O. 10896, 25 F.R. 12281, E.O. 10905, 26 F.R. 321, E.O. 11037, 27 F.R. 6967; 3 CFR, 1959-63 Comp. and E.O. 6359, Oct. 25, 1933, E.O. 9193, as amended, 7 F.R. 5205; 3 CFR 1943 Cum. Supp., E.O. 10289, 16 F.R. 9499; 3 CFR 1949-53 Comp.)

Effective date. These amendments shall become effective on publication in the FEDERAL REGISTER.

Dated: April 15, 1970.

[SEAL] PAUL A. VOLCKER,
Under Secretary of the Treasury for Monetary Affairs.

[F.R. Doc. 70-4815; Filed, Apr. 20, 1970; 8:46 a.m.]

TITLE 31—MONEY AND FINANCE: TREASURY

Chapter I—Monetary Offices, Department of the Treasury

PART 54—GOLD REGULATIONS

Gold medals for public display and antique gold medals

Section 54.4(a)(14)(iii) of the Gold Regulations is being amended to authorize the Director of the Office of Domestic Gold and Silver Operations to license the acquisition, holding, transportation and exportation of gold-plated coins or gold medals which are either antique or are for public display by an institution serving the public. Prior to this amendment, licenses could only be issued for special award medals, designed and struck in small numbers for a specific presentation. Other uses of medals have not heretofore been considered as "customary industrial, professional or artistic use" and the holding of such medals was not licensed. However, the acquisition of old medals, especially those struck over 100 years ago, will now be considered for licensing. In addition, limited numbers of commemorative medals for public display will be considered for licensing upon application by museums, libraries, and other public service institutions. Because the amendments relieve an existing restriction, it is found that notice and public procedure thereon are unnecessary.

Section 54.4(a)(14)(iii) is amended to read:

"§ 54.4 Definitions.

"(a) * * *

"(14) * * *

"(iii) The acquisititon, holding, transportation, importation, or exportation of any gold-plated coins or gold medals other than: Special award medals; antique

medals; and commemorative medals for regular public display by a museum or other institution serving the public."

* * * * * * *

(Sec. 5(b), 40 Stat. 415, as amended, secs. 3, 8, 9, 11, 48 Stat. 340, 341, 342; 12 U.S.C. 95a, 31 U.S.C. 442, 733, 734, 822b, E.O. 6260, Aug. 28, 1933, as amended by E.O. 10896, 25 F.R. 12281, E.O. 10905, 26 F.R. 321, E.O. 11037, 27 F.R. 6967; 3 CFR, 1959–63 Comp. and E.O. 6359, Oct. 25, 1933, E.O. 9193, as amended, 7 F.R. 5205; 3 CFR 1943 Cum. Supp., E.O. 10289, 16 F.R. 9499; 3 CFR 1949–53 Comp.)

Effective date. These amendments shall become effective on publication in the FEDERAL REGISTER.

Dated: June 5, 1969.

[SEAL]

PAUL W. EGGER,
General Counsel.

[F.R. Doc. 69–6860; Filed, June 10, 1969; 8:48 a.m.]

TABLE 6.—INVENTORIES OF GOLD BY TREASURY DEPARTMENT LICENSEES YEARS, 1966–72

[In thousands of fine troy ounces]

	Dec. 31, 1966	Dec. 31, 1967	Dec. 31, 1968	Dec. 31, 1969	Dec. 31, 1970	Dec. 31, 1971	Dec. 31, 1972
TGL–13 (refiners)	2,022	2,287	2,529	2,895	2,821	2,915	2,933
TGL–13–A (dealers)	7	8	149	208	256	513	436
TGL–14 (manufacturers)	705	791	939	1,055	907	947	1,038
Total	2,734	3,086	3,617	4,158	3,984	4,375	4,407

Source: Department of the Treasury, Office of Domestic Gold and Silve rOperations, Mar. 30, 1973.

Mr. ULLMAN. Are there further questions.

Mr. Burke.

Mr. BURKE. I would just like to make this comment, that conditions which has arisen since the devaluation of the dollar is the reason why you get involved in this heavy paperwork. It is the hanky-panky that these other people are involved in that causes the problems for all of the groups that you represent. More than likely, 98 or 99 percent of your people are very honest. It is what this small percentage of people are doing on the devaluation of the dollar, and kiting up the price of gold, and committing harmful acts against the monetary policies of this country that causes the enactment of legislation that results in more paperwork. I am not holding you responsible for this, your panel there, but I think that this should be brought to the attention of your people so that they will realize why a lot of this paperwork is being piled up on them, and it is just asking for more problems when they engaged in this type of activity.

Mr. BAYLIS. I think that your point is extremely well taken, and just to conclude on a note that Mr. Karth brought up, as you say in today's releases, the balance of payments for the first quarter was $10 billion unfavorable, but the unfavorable balance of trade was $900 million. That is not good. We are not trying to duck your issue because it is extremely serious for our country. Our job is to take this $900 million unfavorable balance of trade and turn it around to where it used to be coming out $3 billion and $4 billion a quarter favorable and at a profit. If we can reduce the cost of participating by ten percent, which we hope to do by getting rid of this paperwork, that can be done.

Mr. ULLMAN. Thank you.

Mr. Duncan.

Mr. DUNCAN. On this same subject, for my information and perhaps theirs, the gentleman from Massachusetts mentioned embargoing money. Do we have such a law that would permit that?

Mr. BURKE. Great Britain has an embargo on the money going overseas. That is what it might lead to if this type of activity is continued.

Mr. DUNCAN. If it is not an illegal act it would appear that the legislative not the administrative branch is at fault.

Mr. BURKE. I believe we have trusted the honesty of these people and they have abused the trust we have placed in them, the people who are engaged in this activity of speculation.

Mr. DUNCAN. If the fault lies here we ought to do something.

Mr. BURKE. I agree with the witness here. I don't want to throw the baby out with the bathwater. I would like to change the water and still keep the baby clean.

Mr. ULLMAN. To make the record clear, the matter perhaps unfortunately is not one of honesty or dishonesty. The difficulty is that the people overseas who are speculating against the dollar think that they are dealing honestly for their companies. If their competitors in Europe, for instance, are moving against the dollar, they feel that in order to maintain a competitive advantage they have to do it. This is the unfortunate situation.

But what I have been saying, and I am sure what Mr. Karth and Mr. Burke are saying, is that that is not good enough. There has to be an obligation to this Nation on the part of those corporations that go overseas, and we have to have some kind of a new ethical concept that will include the concept that it is not proper to speculate against our own dollar overseas, even though that might be to the advantage of the stockholders of a given corporation. That is why they do it.

I hope as a result of this colloquy we can first bring a better recognition of this problem to the corporations involved that are actually participating and, second, that we through our inquiries can shed some light on who is doing it and what the circumstances are surrounding this speculation against the dollar on the part of our own nationals overseas, on the part of our own corporations operating overseas.

Mr. SCHNEEBELI. I think it should be noted that foreign creditor nations with a lot of U.S. dollars think the conversion to some other currency is desirable. I don't like the inference that all these transactions have been conducted by U.S. corporations. There are foreign governments involved in this.

Mr. ULLMAN. I agree with the gentleman, and what I was trying to say was that as far as our foreign corporations are concerned there has been no ethics or moral principle involved. It has been just a standard business practice to compete with the people with whom they have to compete overseas. It just seems to me, however, that to the extent that it has been going on that it is rendering a disservice to the nation.

Mr. BAYLIS. Perhaps if I may say so, Mr. Chairman, this colloquy points very clearly to the facts of life that we found out when we started studying papers. Everybody had a little piece of the iceberg, but not very much. As Mr. Duncan said, who did it? We don't know whether it was our people or somebody already over there.

Your point on the law is well taken. As far as we have been able to research there is no law on this flow of money here, but there is in Great

Britain. Our Export Control Act that has been renewed ever since the early 1930's, controls only commodities, and we have successfully cut the paperwork on that control over about 8 percent. The remaining controls are just as good, but without paperwork. But there is no control on the flow of dollars regardless of whether it is done by a bank, a bucket shop operator, or a businessman investing in his own business abroad. So this is a case where information is sadly needed to find out what caused this $10 billion unfavorable balance of payments.

Mr. KARTH. Mr. Chairman.

Mr. ULLMAN. Mr. Karth.

Mr. KARTH. I beg your indulgence, I probably should not have brought this matter up, but since it is the front page news today I think it deserves discussion and attention. It is a serious, dangerous matter.

I didn't say, nor did I mean to imply that only Americans are involved. I think there are a lot of people involved who don't care about the dollar, in fact have a certain dislike for it. But there are also people who ought to care about the dollar who are involved, and those are the people about whom I am concerned.

Thank you, Mr. Chairman.

Mr. ULLMAN. Are there further questions?

Thank you very much, Mr. Baylis. Your testimony had been exceedingly helpful.

Mr. BAYLIS. Thank you.

Mr. ULLMAN. Our next witness is Mr. Allen Ferguson and his colleagues from the Public Interest Economics Center.

Mr. CONABLE. I would like to note, Mr. Chairman, that Dr. Hendrik Houthakker is included in this group now approaching the witness table, and perhaps he could tell us more about the situation that we have been discussing than any economist in the United States, because it was his particular province in the Council of Economic Advisors to handle international economics during the early part of the Nixon Administration. So I think that if we wish to pursue the colloquy to any degree that Dr. Houthakker could tell us about it.

I would like to welcome him particularly to the committee.

Mr. ULLMAN. Mr. Ferguson, Dr. Houthakker, Dr. Aliber, and Dr. Atkinson, we welcome you before the committee. If you would further identify your organization for the record you may proceed, sir.

STATEMENTS OF ALLEN R. FERGUSON, PRESIDENT, HENDRIK S. HOUTHAKKER, ROBERT Z. ALIBER, AND LLOYD C. ATKINSON, PUBLIC INTEREST ECONOMICS CENTER, ACCOMPANIED BY LOUISE SISSMAN

Mr. FERGUSON. Mr. Chairman, I am Allen Ferguson, the president of the Public Interest Economics Center.

I appreciate this opportunity to come before your committee on this important matter and to present this panel to you. We have submitted in the necessary number of copies the statements of the three witnesses who will testify substantively on the bill, and some material about the Public Interest Economics Center.

Just so you will know a bit about the sponsoring group, very briefly it is an organization that encompasses about 400 economists around the

country who have indicated a willingness to participate in various ways in what they consider to be public interest economic activities.

One of the main functions of the center is to serve as a channel for providing analysis in public policy matters on the relationship between economic forces and practical issues. I don't want to take any time on the center because I know your time is limited. I would like to introduce the people here because they very modestly did not include very much about themselves in their prepared statements.

Mr. ULLMAN. Would you do that, please.

Mr. FERGUSON. As the Congressman has pointed out, one of the members of our panel is Professor Houthakker, who is professor of economics at Harvard University, and he was formerly professor of economics at Stanford University, and a senior staff economist with the Council of Economic Advisors in 1967 and 1968, before becoming a member of the council in 1969 and into 1970.

He has also been a consultant to the Treasury and visiting professor at the Massachusetts Institute of Technology. He has many honors, one of which I will mention. He received the John Bates Clark Medal in 1963. He has a long bibliography. He is coauthor of "Consumer Demand In the United States", and of "Analysis of the Family Budget". He has also written a book, "Economic Policies for the Farm Sector", as well as many articles in professional journals. Since 1971 he has been editor of one of the main professional journals, the "Review of Economics and Statistics."

The second member of our panel is Prof. Robert Z. Aliber from the University of Chicago. He is director of international studies and business, and an associate professor of international trade and finance at the Graduate School of Business at the University of Chicago. He was formerly Senior Economic Advisor in the Office of Program Coordination with the Agency for International Development. He has also served as staff economist on the Committee for Economic Development, and the Committee on Money and Credit. He is author of the book entitled, "International Money Game", and of numerous articles in professional journals, and is coeditor of "Guidelines to Informal Controls in the Marketplace."

The third member is Prof. Lloyd C. Atkinson of the University of Maryland, where he is in the department of economics. He was formerly teaching assistant at the University of Michigan. He was awarded a Woodrow Wilson Fellowship in 1965, and won the Horace H. Rackham dissertation prize in 1968. He earned his Ph. D. at the University of Michigan, and bachelor's degree from the University of Windsor is Ontario, Canada, where he won the gold medal awarded for highest standing. His writings include a dissertation entitled "Toward a Dynamic Theory of Comparative Advantage," and a number of published articles.

Also with us here this afternoon is Mrs. Louis Sissma, with a long career in the Federal Government, who has played a vital role in organizing this panel.

Our plan is to proceed by having Professor Houthakker, then Professor Aliber, and then Professor Atkinson summarize their prepared statements that have been submitted for the record.

Mrs. GRIFFITHS [presiding]. Thank you very much.

You may proceed.

[Mr. Ferguson's prepared statement follows:]

STATEMENT OF ALLEN R. FERGUSON, PRESIDENT, PUBLIC INTEREST ECONOMICS CENTER

Mr. Chairman and Members of the Committee:

It is a pleasure to present the Center's panel to testify on this major bill. As President of the Public Interest Economics Center, I appreciate this opportunity for a panel selected from among professional economists to testify before your committee on the proposed "Trade Reform Act of 1973."

The Center, which is described more fully in our prepared material, encompasses some 400 economists who are devoted to the public interest. The Center believes that economic forces and their underlying cultural foundations contribute in large measure to the social and environmental problems of American and world society, and we are concerned by the need to provide reliable economic information in lay terms in behalf of the general welfare. A main function of the Center is to serve as a channel for providing objective and deep analyses of the connections between economic forces, and the structure of economic and financial institutions, and vital issues affecting the general public, on a *pro bono* basis.

The Group we are presenting today is:

Dr. Hendrik Houthakker, Professor Economics, Harvard University.

Dr. Robert Z. Aliber, Director of Programs, International Studies and Business, Graduate School of Business, University of Chicago.

Dr. Lloyd C. Atkinson, Assistant Professor of Economics, University of Maryland.

Dr. Houthakker, who is professor of economics at Harvard University, was formerly a professor of economics, Stanford University, and a senior staff economist, Council of Economic Advisers, from 1967–1968. He formely was consultant to the U.S. Treasury and a visiting professor at Massachusetts Institute of Technology and also the University of Tokyo. He received the John Bates Clark medal in 1963. He is the co-author of *Consumer Demand in the United States;* his own publications include *Analysis of the Family Budget, Economic Policies for the Farm Sector* and numerous articles in professional journals. Since 1971 he has been editor of the *Review of Economics and Statistics.*

Dr. Robert Z. Aliber, director of international studies in business and associate professor of international trade and finance at the Graduate School of Business, University fo Chicago, was formerly senior economic adviser, office of program coordination, Agency for International Development, Department of State. He was also staff economist on the Committee for Economic Development and the Committee on Money and Credit. He was co-editor of *Guidclines to Informal Controls in the Marketplace* and numerous articles.

Dr. Lloyd C. Atkinson, assistant professor of economics, Department of Economics, University of Maryland, was formerly teaching assistant at the University of Michigan. He was a Woodrow Wilson Fellow in 1965 and won the Horace H. Rackham dissertation prize in 1968. He received his Ph.D. in Economics from the University of Michigan and his B.A. from the University of Windsor, Ontario, Canada, where he won the gold medal award for highest standing. His writings include a dissertation, *Toward a Dynamic Theory of Comparative Advantage*, various published articles and "Traditional and Modern Explanations of Trade Flow; A Possible Marriage", a forthcoming article.

FIRST SEMI-ANNUAL REPORT OF THE PUBLIC INTEREST ECONOMICS CENTER—DECEMBER 1972

THE NEED FOR PUBLIC INTEREST ECONOMICS

Economic forces and their underlying cultural foundations contribute in large measure to the social and environmental problems of American and world society, and the present unjust distribution of economic power greatly impedes solution of these problems. This inequity is compounded by uneven distribution of intellectual power—of knowledge and information. More often than not, advocates of the public interest in policy debates have no access to adequate economic data, analysis and representation. Thus, informed and rational public dialogue on policy choices and goals is often difficult or impossible to achieve or sustain. While special interests are usually amply represented in legislative, judicial and regulatory proceedings, and their points of view diffused through the communications media, the general welfare is typically neglected. Often many of those most affected by the outcome—the aged, the poor, workers, women, minorities,

consumers—lack the power and resources to compete effectively in political and judicial arenas. Similarly the need to protect and maintain a healthy physical environment has been neglected.

In recent years, the emergence and expansion of citizen movements with broad concerns—racial and sexual equality, consumer and environmental protection, peace, and social and economic reform—has led to more vigorous advocacy of the general welfare. The rise of public interest law and public interest science contributes significantly to this representation. Now citizen leaders from diverse communities of interest have recognized the importance of economics; they are asking that economics be translated into lay terms and that the tools of the discipline be made readily available to public interest advocates. Heretofore, much economic writing and analysis has been politically irrelevant or two abstruse for public consumption, too costly, or otherwise unavailable to citizen groups—especially at the grassroots level.

There has been neither a system for providing reliable economic advice and information to public interest organizations on a *pro bono* basis, nor an organized interaction of professional economists with citizens and consumer groups. Further, many public interest activists do not fully perceive the links between economic policies and their particular constituencies and goals. They have had little time and few resources to devote to deeper analysis of the connections between the structure of economic and financial institutions and such vital issues as peace, civil rights and liberties, or public health. For example, the impact of policies regarding international trade and development, agriculture, or monopoly and economic regulation, on such public concerns as the quality of urban life and environmental protection has too frequently been ignored or examined only casually.

THE ROLE OF THE CENTER AND THE FOUNDATION

To meet these needs, there must be a movement within the economics profession analogous to public interest law and public interest science. The Public Interest Economics Center (PIE–C), a new, non-profit institution in Washington, D.C., has been established for precisely this purpose. A second, subsidiary organization, with identical boards of directors and advisors, the Public Interest Economics Foundation (PIE–F), has also been established as a tax-deductible corporation. PIE–C performs grant or contract research that meets stringent public interest-criteria; such work is currently providing the bulk of its funding (see page 4). The Center also does *pro bono* work on particularly urgent issues and seeks direct involvement in public policy deliberations and decisions. PIE–F will perform such economic research and education as can be undertaken by a corporation with ts itax status. References to PIE–C further on are usually intended to embrace PIE–F.

FUNCTIONS

These institutions have been created to serve certain fundamental purposes. One is to re-examine economic theory as it applies to public policy, in light of developments in the economy in recent decades and of newly emerging knowledge in other fields of intellectual inquiry and, based upon this, to promote greater public understanding of society's options for practical economic reform and remedies. Another purpose is to explore the pragmatic application of economic analysis to specific, critical social and envrionmental economic problems, especially as these are perceived by citizen and consumer groups. Thus, we are striving to effect a systematic interaction between professional economists and various citizens constituencies. This process involves the identification of qualified economists willing to provide *pro bono* or low-fee technical assistance and training to public interest organizations that have been identified as needing economic data, analysis and representation. Ultimately, this process should result in an exchange between the professional community and some politically potent public interest movements, whereby on the one hand, a broad new constituency is created for economic reform, and on the other, the economic dimensions of social and environmental problems receive the professional attention they urgently require and deserve.

CRITERIA

In the pursuit of public interest economics, we aspire to perform work of high professional quality, which is applicable to political reality and clearly intelligible to concerned laymen. To help us achieve this goal, we have established a Board of Economic Advsiors on which many distinguished members of the pro-

fession serve. (See page 8). This Board is now helping us to formulate professional standards for public interest work and to recruit other qualified economists to take part. In referring consulting and/or *pro bono* opportunities to economists we seek individuals who possess special qualifications and skills for the particular issue in question. Further, volunteer or low-fee work done by students will typically receive periodic review by senior economists who will often be donating their time for this purpose.

To help assure social and political timeliness and relevance for our work, we have established a Board of Public Interest Advisors, consisting of prominent national leaders, scholars from other disciplines, and grass roots activists. (See page 6.) With this Board's help, we identify critical needs, establish priorities, test the effectiveness of our educational programs, and seek partnerships with other public interest constituencies. The Public Interest Advisory Board enables us to achieve effective relations with some large and important citizen and consumer groups who might become the ultimate beneficiaries and/or implementors of our professional findings or recommendations.

Our criteria also specify that most PIE–C activities are to incorporate at least three of these elements: *research, translation, dissemination,* and *implementation.* Sometimes original research will be performed; sometimes research by others will be facilitated. Often the task will be to collect existing research and translate it into lay terms for dissemination to appropriate citizen constituencies and to policy-making bodies. Sometimes the task will involve seeking implementation of an explicit administrative or legislative measure.

Conscious attention experimentation will be devoted throughout our work to the educational processes and communications techniques implicit in our goals. We recognize that the practice of public interest economics will inevitably immerse us in turbulent human dynamics, and how well we manage these will make or break our movement. These aspects of our program are equal in importance to the quality of our analysis.

HOW ECONOMISTS BECOME INVOLVED: COMMUNITY ACTIVITIES

We involve economists in public interest work in numerous specific ways: through newsletters, questionnaires, surveys and professional meetings and through contacts with our Board of Economic Advsiors. Economists are drawn from university, college and secondary school faculties and from graduate student bodies. Some are also drawn from nonprofit professional research institutions, from consulting firms, and from government agencies. Retired economists who wish to do volunteer or part-time work are another source of talent, experience and manpower.

These economists are asked to help citizen and consumer groups formulate positions on current issues, to serve on technical advisory committees, to testify at public hearings, and to perform limited research focused on specific issues. They are asked to speak at civic meetings, to conduct adult education programs, to recruit other economists to help and, generally, to translate and provide existing data and knowledge otherwise unavailable to citizens. We stimulate this process by providing "switchboard" services to place economists in touch with appropriate public interest "clients," i.e. *bona fide* citzien organizations in need of and ready to use (as we judge it) such professional help in the public interest. We reinforce this process by offering advice on administrative arrangements, providing some technical review and some professional career services for economists. We also help to secure both professional recognition of work performed and a public forum for presentation of findings.

We hope to augment this process further by organizing community workshops on economic issues, sponsoring programs of adult education (perhaps in conjunction with colleges and universities and/or with educational or cable television) and by producing a series of handbooks (e.g. What Citizens Need To Know About Cost/Benefit Analysis) for widespread distribution to grassroots activists and organizers. We are exploring the possibility of providing special bulletin services to cover issues at state, municipal and county levels. Ultimately, we may place paid coordinators in the field to sustain this process.

NATIONAL ACTIVITIES

Programs at the national level have much the same thrust as those at the community level. We present and/or facilitate testimony before Congress and Federal agencies addressing such issues as redistribution of income and wealth,

protection of the biosphere, revision of economic priorities, and reduction of economic waste. Such testimony may be presented for the purpose of advocacy or to provide more balanced and complete information to policy-makers than has previously been available. PIE–C also plans to conduct educational programs and conferences at the national level. A seminar on economics for leaders of national public interest organizations located in Washington, D.C., is now being planned, which will involve members of the Board of Economic Advisors as faculty. PIE–C joins and supports coalitions formed to combat what we consider to be social or environmental ills and we try to provide some technical assistance from qualified economists for these coalitions.

Work has also begun on building of broader constituencies for economic reform. PIE–C will serve as a citizens' watchdog over governmental institutions involved in economic policy-making and regulation, and over the legislative process. Important developments will be analyzed and interpreted, and findings will be promptly, aggressively and widely disseminated so as to alert and inform the public constituencies affected and interested economists. Where necessary, litigation will be employed.

PIE–C will take the lead in organizing broad-based coalitions around support of specific economic reforms or opposition to economic proposals we find adverse to the public interest. We will seek alliances with consumer and environmental organizations, labor unions, minority groups, and organizations representing the poor, young people, women and older Americans and other inteersts that are usually under-represented in economic policy-making. We will urge mass organizations to educate their members about the relationship of developments in economic policy to their field of interest and will help them to do so, especially through their newsletters and publications.

PIE–C will also serve as a professional center for economists coming to Washington, D.C., to participate in public policy development and in public interest work.

Finally, PIE–C is now contemplating a limited number of major projects on issues we judge to be of exceptional importance. Through such projects we hope to get at some of the economic and political roots of pervasive public problems, to devise solutions (taking into account the barriers to appropriate reform), and to advance these solutions through citizen education, community organization, and participation in legislative, judicial and administrative processes. Typically, such projects will be clearly addressed to public bodies who can act on PIE–C's recommendations and/or to organized citizen constituencies who can pursue action.

We have only begun to examine issues that might be subjects of these special projects, but a list of those ideas being contemplated suggests something of our sense of identity and direction, although—it should be said—we do not actually expect to do major work in all of these areas, or even on most of them:

Quality in the Workplace
The Economics of Reform in Agriculture Policy
The Economics of Advertising and Counter-Advertising
The Role of Multinational Corporations
Economics and Ecology
Alternative Futures for Alaska
The Economics of Leisure and Recreation
Economic Problems of Retirement in America
Economics and the Arts

THE RECORD TO DATE: THE FIRST SIX MONTHS

At this writing, PIE–C has been in existence scarcely more than six months, so our record of achievement is limited and our programs somewhat tentative. But a solid start has been made.

CONTRACT RESEARCH

First, the Center has contracted with the State of Maryland to do a study of the economic consequences to the State of the rail route abandonment program of the Penn Central Transportation Company. Our project has involved compilation of extensive economic data, reconnaissance in the field, monitoring the proceedings of the Interstate Commerce Commission and the Bankruptcy Court, and working with a Steering Committee appointed by the Governor. Our final report will comprise both a model for general application to future railroad abandonment cases and recommendations for State action.

Second, the Center has contracted with the Massachusetts Department of Public Health to undertake a two-part study, dealing with the problems of granting variances from air quality control standards, and the economic regulation of the delivery of health services. The project will be performed jointly by the Center's staff in Washington, and a group of economists from Harvard and MIT, under the guidance of members of the Board of Economic Advisors.

Third, the Center has contracted with the Anti-Trust Division of the Department of Justice to develop testimony before the Federal Maritime Commission pertaining to the proposed pool of containership operators in the North Atlantic. The Center drew together a team of four witnesses: Professors Morris Adelman and Leonard Rapping, Dr. Aaron Gellman and Dr. Allen Ferguson. They presented the major initial testimony against the formation of the pool.

Fourth, the Center is preparing a study of maritime subsidy policy for the American Enterprise Institute. This is expected to result in one of the Institute's brief topical monographs.

PRO BONO SERVICES

To help PIE-F's *pro bono* programs get started, the Stern Family Fund has made a grant for general institutional support. This grant, in part, enables the Foundation to begin identifying and organizing economists throughout the country and will help us initially demonstrate public interest economics. A major effort to recruit economists will be made at the 1972 annual meeting of the American Economic Association in Toronto. Depending on the quantity and geographic distribution of the professional talent we muster there, and on the sorts of specific interests identified, we will line up compatible public interest "clients" and go to work.

However, we have already begun to perform some small but important steps toward *pro bono* services. In addition to PIE-C's contract work on railroad abandonment and maritime regulation, we have been analyzing a number of transportation issues in conjunction with transportation-oriented citizen groups. Mass transit subsidies, highway legislation and freeway issues, the fate of the proposed Surface Transportation Act, deregulation legislation, the revival of the SST are some of the specific issues that have been opened thus far. Cooperative relations with the citizen groups have been achieved and a number of transportation economists have been recruited to help them. A meeting between the two groups was held and initial assignments for public interest work in transportation have been made.

PIE-C has also become involved with the issue of technology assessment. In particular, we have analyzed the potential role of the new Office of Technology Assessment, which was created by and for the Congress in the last session. We have organized a series of meetings with consumer and environmental groups, labor unions, public interest lawyers, scientists, and engineers to examine the implications of and prospects for technology assessment and have helped prepare criteria and procedures by which assessment processes can be rendered comprehensible and responsible to the public.

The energy question has great interest for PIE-C and we have begun to look at some innovative proposals in solid waste management. and have cooperated in limited ways with the Coalition to Tax Pollution, the Coalition on Strip Mining, and others.

Redistribution of income and wealth has also emerged as a major concern for us and we plan to draw together a panel of economists to meet regularly with organizers of the poor and other interested groups to discuss some of the economic and political complexities surrounding this issue and creating barriers to corrective change.

In addition to its recruiting activities at the annual meeting of the American Economic Association, PIE-C has begun a search for public interest economists in both the Washington, D.C., region and the Boston area, and members of the Board of Economic Advisors residing in these regions have been of considerable help in this effort.

In Washington, D.C., one young economist, working with PIE-C as a volunteer, is organizing students of economics to do public interest work for community groups in that city.

Much of the initial *pro bono* activity generated by PIE-C has been in Washington, D.C., simply because PIE-C's office is located there and no funds have been available until recently to extend our work to other cities. PIE-C has responded to some initial requests from Congressional staff members for eco-

nomic advice, and many opportunities for further involvement with both Houses of Congress can be opened up when our resources permit.

If our experience in the Washington region is indicative, there is no dearth of work for public interest economics. PIE-C has been asked by citizen groups to provide economic information on issues so basic and broad that, added together, they constitute almost the whole physical and institutional setting for community life: housing, transportation, energy, health care, recreation, environmental quality, location of public and commercial facilities, economic development, and taxation.

We have been asked to advise on a dozen bitter, complicated transportation controversies, including freeway fights, location and impact of subway stations, noise pollution from aircrafts, mass transit costs and services, revival of commuter rail service, etc. Spokesmen for some racially mixed, moderate-income, stable inner-city neighborhoods have asked for help in their struggles to protect their communities from high-density, commercial development projects.

Small businessmen downtown, who have banded together to oppose urban renewal, have come to us. Help has been requested by citizen groups who have organized in the metropolitan region to prevent large-scale construction projects: a convention center downtown, a suburban sports arena, and a Disneyland-type park in the suburbs. Groups fighting pollution of the Potomac River have asked for assistance, as have groups opposing intensive development of the waterfront. Proposals for construction of new facilities for energy production in natural areas have provoked militant opposition and, here again, PIE–C has been asked to step in.

Because PIE–C is small and new, we have not yet been able to do much for the Washington, D.C., groups who have turned to us for help. Nor have we been able to offer much assistance to the numerous other groups, national and local, who have begun to write or call us with requests for assistance in economics. However, as time goes on and as we obtain resources and develop skills, we believe that public interest economics can serve the society in significant and practical ways and can—by making more information available to more people—enrich society's options for the future. To make it work, we need help from, literally thousands of professional economists. If you care to help, please complete the form included in this leaflet and return it to us soon.

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Dr. Gerard M. Brannon, formerly director of the Treasury's Office of Tax Analysis, is at present a research professor at Georgetown University and Director of Tax Analysts and Advocates, a public interest tax law firm in Washington, D.C

Dr. Charles Cicchetti, Associate Professor of Economics and environmental Studies at the University of Wisconsin, has been visiting lecturer at the School of Natural Resources of the University of Michigan, and Research Associate at Resources for the Future.

Dr. Allen R. Ferguson, President and co-founder of PIE–C, has had substantial experience in policy-oriented economic research and has testified as an export witness at state and federal hearings. Formerly, he served as co-ordinator of research for the National Committee for an Effective Congress.

Ms. Hazel Henderson, writer, lecturer and environmental activist, is Associate, Seminar on Technology and Social Change, Columbia University; Fellow, Scien-

tists' Institute for Public Information, New York, N.Y., and Member, Board of Directors, Council on Economic Priorities, New York, N.Y.

Mr. Byron Kennard, co-founder and Secretary-Treasurer of PIE–C, is an environmental activist and community organizer who has helped citizen groups organize to combat air and water pollution and to oppose freeways. Formerly, he was an Associate of the Conservation Foundation, Washington, D.C.

Dr. Marc J. Roberts is Associate Professor of Economics at Harvard University. He has worked on problems of environmental pollution control, as well as taxation and income distribution problems.

PIE–C STAFF

Besides Dr. Ferguson and Mr. Kennard, the staff includes:

Ms. Joanna Dailey, Research Assistant.
Mr. Victor Habib, Research Trainee.
Ms. Celeste M. Hunziker, Research Assistant.
Mr. Albert Lowey Ball, Economist.
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Prof. Edwin Kuh, M.I.T.
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Prof. E. J. Mishan, London School of Economics and Political Science.
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Dr. Ronald G. Ridker, Resources for the Future.
Prof. Marc Roberts, Harvard University.
Prof. Robert M. Solow, M.I.T.
Prof. John Tepper Marlin, Baruch College, C.U.N.Y.
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Prof. Gordon Tullock, Virginia Polytechnic Institute.

STATEMENT OF HENDRIK S. HOUTHAKKER

Mr. HOUTHAKKER. Madam Chairman, first of all I want to express my appreciation for your committee's willingness to hear a broad spec-

trum of views concerning pending trade legislation. I would also like to thank Congressman Conable for his kind words.

In the past congressional consideration of the subject has too often been dominated by special interests who seek to gain advantages at the expense of the general public. The Public Interest Economics Center, on whose board of economic advisors I have the honor to serve, seeks to evaluate legislation in the light of the broadest national interests, although it must, of course, be recognized that this is a matter on which reasonable men may differ.

The administration bill that is now before you has the potential for contributing significantly to the public welfare, depending on the way in which it is administered. As a general proposition, subject to certain qualifications to which I will return in a moment, the public welfare can best be promoted by removing artificial barriers to international exchange.

The benefits of specialization are obvious enough within a single country, and they are equally important when applied to the world as a whole. Specialization allows us to gain from differences in human skills, in capital endowment, and in natural conditions, and also from the benefits of large scale production. Each of us gains because he can consume much more than if he had to produce everything himself. The benefits of specialization accrue to nations as well as to individuals, and here too it is the increase in consumption that is the primary indicator of the gain from trade.

To put it more concretely, the principal benefit that a nation gains from trade consists in the imports that it is able to acquire. We export in order to obtain imports, not the other way around. Exporting is a sacrifice of domestic resources, which can be justified only by the value of the imports for which they are exchanged. In the rhetoric of trade policy these elementary facts are sometimes lost from sight, but as economists it is our duty to assert them with all the vigor we can command.

In addition to the increased consumption that is the normal result of free international exchange, the possibility of importing is also beneficial because it strengthens competitive pricing in our domestic industries. Even if the volume of imports in a particular industry is small, the accessibility of our market to foreign products puts a ceiling on the prices that can be charged. This is especially important in those markets where, for one reason or another, domestic competition is weak.

Actual or potential competition from imports puts domestic producers on their toes, and thus helps efficiency. There can be little doubt, for instance, that the availability of foreign-made cars has helped keep the prices of American cars down, and that conversely, the import restrictions on dairy products cause us to pay more for milk, butter and cheese than is economically necessary. As a first approximation, we can therefore evaluate alternative trade policies by the freedom they give to imports.

This does not mean, of course, that exports are unimportant. If other nations, by restricting their imports, make it impossible for us to obtain the wherewithal to pay for our imports, then everybody loses. The other countries lose the products they could have acquired from us, and we lose the imports we could have acquired from them, and these losses outweigh the value of the resources that would

otherwise be devoted to exports. Consequently it is in our interest that barriers against our exports are removed.

The bargaining process by which trade is liberalized is often obscured by arguments suggesting that a nation gains in proportion to its increase in exports, but this is only an intermediate step in the realization of benefits from trade. Occasionally, in fact, countries will remove barriers to imports without expecting corresponding reductions in the barriers facing that country's exports. Thus the President recently suspended the import quotas on beef with a view to keeping beef prices lower than they otherwise would be; this obviously made good sense, even though the effect on domestic prices has so far been small because there is a worldwide shortage of beef.

As a result of worldwide inflationary pressures such unilateral reductions have become more common in recent years, but substantial progress in the removal of barriers to trade still depends on negotiation in which such barriers are reduced or eliminated on a reciprocal basis. From 1934 to 1967 the President had the authority to negotiate reciprocal tariff reductions, but at the end of the Kennedy round this authority lapsed. It is most important that this authority be restored, and extended to nontariff barriers, and this is the principal purpose of the Trade Reform Act of 1973. I therefore support this part of the bill.

When it comes to title 2 of the bill, which deals with disruption caused by imports, somewhat greater caution is necessary. It is true that a sudden rapid increase in imports into a particular industry can have adverse effects. It can cause temporary unemployment, and if the industry is located in a region where there are few alternative job opportunities, the unemployment may be prolonged. Nevertheless, we have to recognize that changes in supply and demand conditions are occurring all the time, and that imports are far from being the only, or even the primary, cause of such disruptions.

Even in a boom year such as 1968 some 3 million workers in manufacturing were laid off at some time, and only a small fraction of these lost their jobs because of imports. In a growing economy the pattern of employment is changing all the time, with some workers having to move from less productive to more productive occupations. Adjustment assistance is one way this transition can be facilitated, but to freeze patterns of employment by restricting imports is rarely justified from the national point of view. Considerable experience with import restrictions does not suggest that they are very helpful in encouraging the affected industries to adjust themselves to changing competitive conditions; all too often they merely perpetuate inefficiency.

The use of import quotas to protect particular industries is especially objectionable, because they interfere more with the market mechanism than do moderate tariffs. The President's authority to impose quotas needs to be more severely circumscribed than it is in the bill. Successive Presidents have proclaimed quota schemes of very dubious merit: President Eisenhower put quotas on petroleum. President Kennedy on textiles, and President Johnson on steel; all of these have put heavy burdens on consumers without providing revenue for the Treasury. The so-called orderly marketing agreements envisaged in the bill amount to a form of cartelization in which consumer interests are habitually ignored; if such agreements are to be negotiated at all, they should be approved by Congress in each particular instance.

The best defense against disruptive imports lies not in restrictions but in realistic exchange rates. The overvaluation of the dollar during the 1960's had much to do with the pressure on industries such as steel, textiles and shoes, though it was certainly not the only factor; it also kept down our exports. The devaluations of 1971 and 1973 have greatly strengthened our ability to compete with foreign production. Their effects are already showing up in our trade statistics and will no doubt become more pronounced in the next few years. The recent performance of our exports is especially encouraging. It must be hoped that improvement in our trade balance will in due course allay the exaggerated concern over imports that is still widespread.

Within the allotted time I cannot comment on all aspects of the bill before you. Allow me to conclude by expressing sympathy with the idea of generalized preferences for less developed countries. These should be helpful in encouraging the economic growth of the larger part of the world, thus reducing the need for foreign aid. There is a danger, however, that tariff preferences will create a constituency for tariffs in general; a general reduction in tariffs would clearly reduce the advantage of these preferences. This danger could be overcome by stipulating that preferences will be terminated not by a restoration to previous tariff levels but by a reduction of tariffs on imports from developed countries.

Thank you very much.

Mr. BURKE [presiding]. Are there any further members of the panel?

Mr. FERGUSON. Yes, Mr. Chairman. Would you like them to continue?

Mr. BURKE. Yes. We would like to have the panel complete their testimony and then we will have questions.

Mr. FERGUSON. Fine. It will be Professor Aliber from the University of Chicago.

STATEMENT OF ROBERT Z. ALIBER

Mr. ALIBER. Mr. Chairman, I want to express my appreciation for the opportunity to be here and talk about the Trade Reform Act. I want to speak to certain issues, especially those that border on the interface between the trade issues and money issues.

Rather than read my comments, I would like to highlight several of the major points in my written statement.

The first concerns the request for the delegation of authority. Here we have to make a distinction between the lowering of tariffs to serve foreign policy interests at the expense of domestic industrial interests, and raising tariffs to satisfy industrial interests at the expense of legitimate foreign policy interests. Given that trade off, I think my greater concern is that tariffs might be raised to satisfy industrial interests at the expense of a legitimate foreign policy interest.

The second point I want to speak to concerns the problem of staging in the reduction of tariffs. Under the Kennedy round the staging occurred at five years. It seems to me that this period of staging is unnecessarily restrictive. It is much more important, I think, to develop a plan to reduce tariffs and other barriers than to insist that all tariffs be reduced at the same pace. Therefore, I think it might be possible and might be indeed desirable to identify industries in which tariff

reductions might be likely to cause unusual distress, and to stage the reductions over a period of seven, eight, ten years.

The third point I want to speak to concerns the possibility that tariffs might be raised. Here it seems to me that several criteria should be satisfied. The first is that there be a demonstration that there is a industry problem, not a firm problem. The second is that there be a demonstration that the decline in the well-being of the industry is directly attributable to increased imports and that the shock to the industry is more severe than the shock that domestic industries are subject to from domestic disturbances.

The fourth point I want to deal with is what I would call the free rider problem. The problem is that while many countries are willing to participate in the reciprocal reduction of tariff and non-tariff barriers, a few might not be willing to participate, and may forestall the pace of the negotiations. Here it seems to me that we need a multilateral approach, and I would suggest something along the line of the application of the scarce currency clause of the IMF so that the countries which are willing to participate in the reciprocal reductions in tariffs could deny the benefits of those reductions to the countries not willing to reciprocate.

Finally, the last point I want to speak to concerns the request that a tariff surcharge might be levied on imports. It seems to me that this request for a tariff surcharge on imports to meet a balance of payments problem ought to be accompanied by a request for an export subsidy. If the United States is facing a balance of payments problem, and we find it is desirable to levy an import surcharge, then at the same time an export subsidy be given to U.S. firms and that the import surcharge and the export subsidy be similar in amount. In this case we will be able to alter the value of U.S. goods relative to foreign goods and accomplish the target of improving the U.S. balance of payments.

Thank you, Mr. Chairman.

[Mr. Aliber's prepared statement follows:]

STATEMENT OF ROBERT Z. ALIBER, DIRECTOR, PROGRAM OF INTERNATIONAL STUDIES IN BUSINESS, GRADUATE SCHOOL OF BUSINESS, UNIVERSITY OF CHICAGO, CHICAGO, ILL.

My remarks center on four issues raised in the proposed Trade Reform Act of 1973. Before speaking to these issues, however, it is useful to review three principles that underly some of the trade policy issues, and to scan trade scenarios for the next decade. The first issue deals with the President's request for authority to eliminate, reduce, or increase customs duties in the context of negotiated agreements. The second deals with the proposed test for invoking import restraints. The third deals with the proposal for the extension of Presidential authority to raise barriers against countries which unreasonably or unjustifiably restrict U.S. exports. The fourth deals with the request for flexible authority to raise or lower import restrictions on a temporary basis. With regard to each issue, I suggest a modification of the proposed authority.

Trade policy has two major objectives. One is domestic economic welfare. Reciprocal reductions in U.S. trade barriers and those of other countries will in-increase the welfare of U.S. residents as a whole. There are important redistributional effects. Those who buy imports and import-competing goods and those who produce exports gain. Those who produce import-competing goods become less well off, as they are required to compete with foreign goods on less favorable terms. The costs to the United States of U.S. import barriers and foreign barriers to U.S. imports have been variously estimated at up to $10 billion—which is the excess of potential gains over potential losses. The benefits of barriers go to 5 percent of the labor force who are thus able to tax the other 95 percent. So the trade barriers result in substantial redistribution.

The second major objective of trade policy is the enhancement of U.S. foreign policy interests—the argument is that if foreign countries have more favorable access to the U.S. market or if the arrangements for settling trade disputes are better designed to avoid acrimony, then the U.S. foreign policy interests are enhanced. This is a difficult argument to appraise, and the risk is that it is oversold.

Principles of Underlying Government Intervention

There is general agreement that trade is beneficial—we practice trade on an individual basis, in the family, in the city and the country, and internationally. And there is general agreement that more trade is better than less. As long as firms and individuals can find the opportunity to enter into transactions that they believe are in their self-interest, there is an overwhelming case that they be permitted to do so and that government not intervene with tariffs, quotas, and other barriers. The burden is on the government to make the case for intervention. A case can be made on the basis that certain new industries may need time to develop competitive power internationally and that national security requires that there be a domestic production in other industries.

These few exceptions aside, this principle has led some economists to conclude that an immediate move to free trade or to freer trade is desirable, even if the other countries are reluctant to reduce their import barriers in a reciprocal way.

I differ from this position for several reasons. The first is that employers have made substantial investments in plant and equipment and employees in various industrial skills on the basis of existing sets of trade rules. Whether it was in the national interest to develop these rules is moot; in process to tax the majority. Those who have made these investments have higher profits and wages because import barriers reduce the price-competitive threat of foreign firms; some of them may have been aware that the benefits that they obtain as a result of these government policies can be readily withdrawn. Given that these investments have been made, then it seems appropriate to provide advance information that the barriers will come down gradually so firms and employees can make their plans accordingly.

The second reason why all trade barriers should not be removed immediately is the "free rider" problem. A reduction in U.S. barriers to imports almost always benefits exporting countries; the wages and profits of those involved in producing the exports will almost certainly increase. Some countries may be reluctant to reduce their barriers to imports, presumably because firms and employees who benefit from import protection have sufficient clout to forestall their removal. So such countries get the benefits from the reduction in U.S. barriers without incurring the dislocation costs of reducing their own barriers—and those who produce U.S. exports fail to gain. Selective trade barriers might be applied to the exports of those countries that seek a free ride, to increase its costs of the free ride.

The third reason for raising or maintaining import barriers involves the "bail-out" problem. Industries in some countries occassionally find themselves with substantial excess capacity, either because their domestic market is growing less rapidly than they had anticipated or because one or several of their traditional export markets are suddenly not very attractive. The firms in the industries with the substantial excess capacity might seek to export the products of their excess capacity; they solve the problem by "dumping" it, both literally and figuratively, on the other countries. In this case, the interests of the importing country are served by raising barriers against these dumped exports if it appears likely that the trade flows to be temporary, not permanent. Ideally, it would be a desirable multilateral action to limit the surge in exports from the country with the excess capacity; it may be difficult or impossible to obtain agreement on the need for such measures. In this case the United States may have to act unilaterally.

A financial reason for not unilaterally lowering our trade barriers is what I would call the "John Connally" effect. Under some relaitvely plausible technical conditions, the following is true in the long run. (1) Unilateral tariff reduction by one country increases world income in total, but it shifts world income *away* from the country lowering the barriers and in favor of the other countries (2) Tariff reductions by all countries simultaneously increases total world income *and* increases the income of each individual country. Thus, if the U.S. held out for negotiated reductions in *world* trade barriers, it would be better off than if it unilaterally reduced its own (a parallel is the arms race). And this explains why we cannot legitimately expect other countries to unilaterally reduce their import barriers.

FUTURE TRADE SCENARIOS

Before applying these principles to the request for proposed authority, it may be useful to speak briefly to the need for future trade scenarios. Such scenarios would deal with the growth of world trade, the change in the U.S. competitive strength in both export industries and in import-competing industries, the relation between trade problems and monetary problems. Prediction is always risky. Yet the availability of such scenarios would facilitate determining the most serious trade problems.

One likely scenario—assuming a world at peace—is that the world is likely to become increasingly competitive, with many more countries developing international competitive power in a wider range of consumer products and in relatively unsophisticated industrial products. And because the U.S. market is so large their exports initially are likely to be directed here Brazil is almost certain to become a major competitive force internationally, and so are Mexico and India. And so exports of these countries will increase rapidly so they will be able to get the foreign exchange to buy the much more capital-intensive imports.

There are undoubtedly other scenarios, and they should also be considered. The value of these scenarios is that the trade legislation which best meets future U.S. interests is not likely to be independent of the future trade developments.

THE REQUEST FOR PRESIDENTIAL AUTHORITY TO RAISE AND LOWER TRADE BARRIERS

The request for authority to raise and lower tariff barriers seems symmetric in legal terms, but is not really in economic terms. Several questions are raised by the grant of authority, which concern its potential abuse. Is it possible that the President by lowering a tariff barrier too rapidly sacrifices a legitimate domestic industrial interest for the sake of U.S. foreign policy? And is it possible by raising a tariff that the President might sacrifice a foreign policy interest to enhance his domestic political interest? Stated thus, much greater concern should be attached to the second likelihood. The reduction and elimination of U.S. import barriers will have an adverse impact on the employers and employees that produce import-competing goods. It would be an act of self-deception to believe that these firms are not going to be adversely affected, and compassion suggests that the period of adjustment be extensive. There is no good reason to hurry the process, provided the Administration is firm that the import barriers will eventually be eliminated. Thus I support a plan which places industries whose import barriers are to be reduced into two or even three categories with regard to the length of the staging period over which tariff barriers should be reduced. Most industries might be in a group where barriers are reduced over a five-year period; ten or twenty percent might qualify for a longer period.

THE PROPOSED TEST FOR INVOKING IMPORT CONSTRAINTS

The case for raising import barriers is quite different from that of lowering barriers. Traditionally import barriers are raised in response to an injury or supposed injury that might have resulted from a previous reduction in the import barriers. This seems an unnecessary restriction; if there is a case for import barriers, then it should apply equally well to industries which are adversely affected by increases in imports resulting from factors other than the reduction of import barriers. Before import barriers are to be raised, the evidence should show that there is an industry-wide problem and not the problem of a few marginal firms. Moreover the degree of injury should be shown to be more severe than that encountered by firms which must adjust to loss of markets as a result of domestic shocks.

THE FREE-RIDER PROBLEM

The third problem is the "free-rider" problem—the treatment to be extended those countries who will benefit from the initiatives that other countries make toward freer trade but are unwilling to make effective reciprocal moves themselves. Such countries must not be allowed to stymie the move to freer trade, nor should they be allowed a free ride. But the problem here is essentially a multilateral problem, not a U.S. problem. And the solution to the problem lies in developing a multilateral exception to the most-favored nation treatment within the context of the GATT.

THE BALANCE OF PAYMENTS PROBLEMS

The fourth problem involves the authority to raise—or to lower—tariffs for balance of payments reasons. One aspect of this problem centers on the large, persistent surplus country; how should the international community respond to that country's reluctance to solve its own problems by revaluing its currency, reducing its import barriers, or increasing its foreign aid. The relevant analogy is the scarce currency clause of the IMF. And it is important that the focus be not on the country's payments balance or even its liquidity balance or its basic balance, for they can be readily manipulated, but on its trade balance and its current account balance. In these cases, a multilateral approach is desirable; the airtificial distinction between trade issues and monetary issues that follows the institutional boundaries between the GATT and the IMF should be eliminated.

The second aspect involves a U.S. problem—imports seem large relative to U.S. exports, but the trade imbalance is not directly related to the problems of any one trading partner. This is the classic balance of payments adjustment problem. One solution is a change in the exchange rate structure. One alternative is a uniform increase in tariffs. But this alternative, while in the right direction, is incomplete; the uniform increase in import barriers should be accompaned by an equivalent uniform export subsidy. The pairing of the import tax and the export subsidy would have several advantages—the incentive to the Treasury to retain the tariff for fiscal reasons would be smaller. And the stimulus to the improvement in the U.S. payments position would be larger.

SUMMARY

In summary, I would like to emphasize the following ways:

That any increase in import barriers in response to injury attributable to imports be shown to be an industry problem rather than a firm problem, and that before import barriers be raised, the industry be required to show that its injury be greater than might be attributable to the adverse business conditions.

That the U.S. government join with other governments to design a multilateral response to the free-rider problem.

That the U.S. government join with other governments to deal with the "bailout" problem. Since a multilateral response to this problem may be inadequate, it shonuld be recognized that a unilateral response might be necessary.

That the request for authority to raise import barriers to deal with the balance of payments be amended to make it necessary to provide for an equivalent export subsidy.

Mr. BURKE. Dr. Atkinson.

STATEMENT OF LLOYD C. ATKINSON

Mr. ATKINSON. Mr. Chairman, I wish to express to you my appreciation for having been provided the opportunity to come before this committee to talk about some aspects of the Trade Reform Act of 1973.

Professor Houthakker has expressed well enough the advantages which can accrue to the United States by adopting various policies which move us in the direction of free trade. There are two aspects, it seems to me, that need to be emphasized in this context. When we impose various types of restrictions on imports, we pay for them in the form of higher prices for the commodities which we consume. To the extent that the commodities are consumer goods, the net loss in welfare to consumers as a result of the higher prices is obvious. To the extent that the commodities on which prices are raised are intermediate goods, then the whole host of commodities that utilize these protected goods will experience an increase in price, and this includes not only purely domestic industries but also some of our export industries. In part, the question becomes one of do we wish to import steel as steel, or do we wish to import steel in the form of automobiles?

A movement in the direction of freer trade does allow for the United States a better use of its resources. If we do attempt to move in the direction of freer trade there is a question about the type of governmental assistance which might be provided for firms that experience market disruptions and/or serious injury. The case is rather obvious for temporary governmental assistance in those instances in which there has been some previous trade concession.

The reason for this is relatively simple. The previous trade distortions which existed contributed to the distortion of relative prices and encouraged a disproportionate allocation of resources to the protected sectors and, if the government decides that it desires to change the rules of the game, then it is only appropriate that the government step in and provide some sort of temporary governmental assistance.

Now, there does remain the question, and this is the question which I plan to address to you, ladies and gentlemen of the nature of governmental assistance which might appropriately be provided for firms that experience market injury as a result of imports.

In the Trade Reform Act of 1973 there are two forms of assistance which can be provided. One takes the form of import relief; the various forms of temporary tariff or non-tariff barriers. The second takes the form of adjustment assistance to workers. I would like to see adjustment assistance to firms, albeit in a more liberalized and less complex form, restored to the position of a legitimate tool of assistance, and I shall discuss this in some detail.

Adjustment assistance and import relief are designed to aid firms and give to them the time to adjust to the market injury that they are experiencing. But the impact which adjustment assistance, on the one hand, and the various forms of import relief, on the other hand, have on the economy differ markedly.

In the first instance adjustment assistance is directd quite specifically at those firms and workers who experience injury. Import relief, on the other hand, affects all firms who produce that particular good, whether injured or not. The net cost to society from import relief is higher than under adjustment assistance.

Second, under import relief the burden of adjustment is partially shifted away from workers and firms to the users of the products. This is equivalent to the levy of a tax on the commodity that is being utilized. Now, this results in a transfer of income from the consumers and users of these particular goods to the producers. And to the extent that the net costs to society are larger under import relief than under adjustment assistance, and to the extent that the benefits of free trade accrue to all members of society the burden is inequitably imposed on the users of the commodities.

Third, with respect to our foreign relations, adjustment assistance does not have associated with it the strains which can and do arise when the escape clause is used, or when pressures are applied to obtain orderly marketing agreements. Moreover, in this particular respect, the fact that under the articles of agreement of GATT it is required that the United States grant compensatory concessions to countries who are harmed by our import protection policies, import relief can hurt our exports; adjustment assistance does not have this undesirable feature associated with it.

Fourth, to the extent that it is marginal firms in the industry that are most severely hurt, and this is often the case, and to the extent that it is on the basis of marginal firms that import relief is provided, there is no assurance whatever that under import relief these firms are going to be able to acquire the necessary financial resources to make the adjustment, in view of the temporary nature of the import relief, and also some doubts concerning the viability of that firm after the relief is removed. Adjustment assistance can provide financial resources on terms that are better than those which could be obtained in the private market.

Fifth, and finally, it is all too easy for the Government to shift from a policy of temporary import relief to one of permanent import relief, as has been amply demonstrated in the case of steel and cotton textiles. Now, in addition to the fact that such a movement can thwart the basic objectives of freer trade, it is also true that it can have some rather complicated and perhaps disturbing impacts on our foreign relations.

Thus, I find that the treatment in both chapters 1 and 2 under title II is somewhat unsatisfactory. Whereas under the Trade Expansion Act of 1962 both firms and workers were allowed to apply for adjustment assistance, in the Trade Reform Act of 1973 the President has proposed that we repeal those sections of the Trade Expansion Act of 1962 respecting trade adjustment assistance to firms. Moreover, there is proposed a liberalization of the criteria and a liberalization of the benefits for workers injured by imports. I think this is laudable and ought to be supported.

Finally, there is proposed an attempt to liberalize the criteria for determining market injury, and also some extension of the forms in which import relief may be obtained.

Some of these proposals I find objectionable. It is my opinion that adjustment assistance for firms must be restored, albeit in a less complex and more liberalized form as a legitimate tool of assistance, and further that the President be denied the use of various tariff and non-tariff forms of import relief as spelled out under chapter I, title II.

Thus it is my recommendation that the sole relief from "disruption caused by fair competition" take the form of adjustment assistance to firms and workers; that the existing criteria for determining injury be liberalized; that the benefits to firms and workers be liberalized and; that there be strict time limits on the duration of adjustment assistance and the mandatory phasing out of such assistance.

These recommendations might be objected to on the grounds that a liberalization of adjustment assistance, especially if large industries are eligible, would require too sizable a budgetary allocation. The problem with this objection is that it fails to recognize a very simple point: the costs of adjustment are not lower just because the cost is not reflected in some line of the budget. Indeed, import relief in the form of tariff and non-tariff barriers hides the cost of adjustment in higher product prices borne by users of the protected good, which it seems to me is a rather bad public policy for the government to pursue. At least a budget item for adjustment assistance keeps part of the economic costs of adjustment before the public eye. Moreover, the budgetary costs of adjustment assistance will eventually be recouped

if the program succeeds in increasing mobility and upgrading the quality of U.S. resources.

Finally, I have one last thing to say with respect to the Trade Reform Act of 1973. Under title III, "relief from unfair trade practice," the President is seeking authority to retaliate against any country that engages in various types of unfair competition, when unfair competition is a very ill-defined concept, certainly as far as the General Agreement on Tariffs and Trade is concerned.

It seems to me that Congress should not take the delegation of this authority lightly and, while it is not clear whether the provisions of Section 301 of the Trade Reform Act are in violation of the rules of GATT, the authority granted to the President in this section seems to run counter to the spirit of GATT.

As we approach the new round of negotiations this fall in Tokyo, it is essential that we do not transmit to our trading partners the impression that the United States rejects the basic purposes of GATT. Otherwise no country would take its own commitments under GATT seriously. Moreover, we have not exhausted the possibilities to have a fair code of conduct inserted into the articles of agreement of GATT, the implementation of which should be a matter of top priority. For these reasons it is my additional recommendation that the President be denied the power to retaliate against unfair trade practices at this time.

I thank you very much for your attention.

[Mr. Atkinson's prepared statement follows:]

STATEMENT OF LLOYD C. ATKINSON, ASSISTANT PROFESSOR OF ECONOMICS, UNIVERSITY OF MARYLAND

I. SUMMARY OF TESTIMONY AND RECOMMENDATIONS

The interests of the United States lie in the direction of freer trade.

There does exist a need for temporary governmental assistance to aid firms and workers to adjust to changed economic circumstances.

Adjustment Assistance to firms and workers is preferred to import relief in the forms of tariff and non-tariff barriers.

The power of the President to retaliate against unfair competition should not be broadened.

Antidumping Statutes should be amended to distinguish between the different forms of dumping.

II. INTRODUCTORY REMARKS

The best interests of the United States lie in the direction of policies designed to reduce its barriers to imports and to expand its trade by seeking reciprocal reductions in barriers to its exports. And it needs to be emphasized in this context that if tariff and non-tariff barriers are raised to the flow of goods from abroad, the outcomes for the United States will be a slower growth in output and income, and a deterioration of our relations with other nations.

The simple truth of the matter is that those industries who do benefit from import restrictions, do so at the expense of the rest of society. If import limitation schemes achieve their objective of protecting domestic industry, the prices of these protected goods must necessarily be higher than they otherwise would have been in the absence of restrictions. To the extent that the goods protected are final consumer goods, the loss in welfare to consumers as a consequence of the higher prices are obvious, though perhaps difficult to quantify; to the extent that the goods protected are intermediate goods, the resuplt will be higher prices for the whole host of products using the protected intermediate good as an input—including some of our export industries. And while some offset to these higher prices will occur as a result of the substitution of cheaper commodities for the protected good in both consumption and production, it is nonetheless true that the substitution would not have taken place in the absence of protection, and

the increased allocation of resources to substitute goods is a further reflection of inefficiency in the use of our scarce resources.

Moreover, protectionist devices fail to serve the best long run interests of both capital and labor in the immediate industry that is being protected. The fact that prices are higher than otherwise in a successfully protected industry means that scarce resources are employed there when they would have been employed elsewhere had the import limitation not been present. Because market forces do operate reasonably well in the long run to allocate resources to their most efficient uses, this implies that the incomes of both workers and firms in the protected industry could be higher if resources were in fact allowed to be relocated.

Even though these benefits of specialization are obvious, the dynamics that characterize adjustment and the reallocation of resources are such that a disproportionate burden of the costs of removing trade barriers that benefit society as a whole fall on the workers and the owners of capital in the import-impacted industries. But the existence of these adjustment costs is not an argument in favor of the retention of protective devices; rather it is an argument in favor of distributing the burden of adjustment fairly and equitably to all members of society when restrictions are removed.

In my mind at least, there is little question about the appropriateness of some sort of governmental assistance—in the form of adjustment assistance and/or temporary tariff or non-tariff relief—for those industries experiencing market disruption and serious injury attributable to trade agreement concessions or reductions in tariff or non-tariff barriers. Indeed, since the prior trade restrictions contributed to the distortion of relative prices, thereby encouraging a disproportionate allocation of resources to these industries, it is only proper that some form of temporary governmental assistance be provided when the government decides to change the rules of the game.

For those industries experiencing market disruption and serious injury due to import competition unrelated to trade agreement concessions, the case for temporary governmental assistance is not so clear cut. The most obvious question that needs to be answered in this: Why should governmental assistance be provided to firms that lose their international competitiveness any more than to domestic firms that lose out because of the onslaught of domestic competitive pressures? However, to the extent that political realities dictate that we must make a choice between temporary governmental assistance and long-lived import restrictions, I would prefer that we err in the direction of temporary assistance. Thus, I support the deletion of the causal link to trade agreement concessions for determining eligibility for temporary governmental assistance.

There does, however, remain the question of the most desirable form of temporary governmental assistance-adjustment assistance to firms and workers; or, one or more of a number of actions leading to an increase in, or the imposition of, temporary tariff or non-tariff barriers.

III. TEMPORARY IMPORT RELIEF VS. ADJUSTMENT ASSISTANCE

While temporary import relief, in the form of tariffs, quotas and orderly marketing agreements, and adjustment assistance are designed to provide time for industries injured by import competition to achieve a viable competitive position, either in the same or some other lines of activity—with or without a significant reallocation of labor and capital resources—these two forms of temporary governmental assistance differ markedly in their impact on the economy. In the first place, adjustment assistance is directed exclusively at those particular firms and workers who qualify for benefits as a result of injury due to imports, whereas the benefits of temporary import relief accrue to all firms producing those commodities receiving import relief, whether injured or not. Since some firms will undoubtedly benefit from reduced competition, the net cost to society is greater under import relief.

Second, all forms of import relief, to the extent that they are successful in restricting supply, will lead to higher prices than those which would have prevailed in their absence. This results in a transfer of income from the users of the protected good to the protected producers. This transfer is hidden in the form of higher prices and is equivalent to the levy of a tax on the users of the product, with the proceeds of the tax being advanced to protected producers. Since the net costs to society are in all likelihood higher under import relief, and since the benefits to be derived from freer trade extend beyond the immediate users of these goods, such a distribution of the burden is inequitable. Adjustment assist-

ance, on the other hand, retains for society as a whole the overall benefits of freer trade while easing the reallocation of economic resources.

Third, from the point of view of U.S. foreign relations, adjustment assistance does not have associated with it the strains that can and do arise when the escape clause is used or when pressures are applied to foreign countries to negotiate "voluntary" export restraints. In addition, whereas the use of import relief has the undesirable characteristic of necessitating that the U.S. grant compensatory trade concessions to foreign countries to restore the "balance of benefits"—having rather obvious implications for U.S. exports—no such concessions are implied by the use of adjustment assistance.

Fourth, under import relief marginal firms may encounter difficulties in securing the financial resources that are required to achieve adjustment to new lines of activity in the same or a new industry, in view of the temporary nature of the relief and doubts about the ability of the marginal firm to survive once relief is removed. Under adjustment assistance, on the other hand, financial resources can be made available on terms which are superior to those available in the private sector. Thus, if the reason for implementing import relief is based on the injury suffered by the marginal firms and if the marginal firms are unable to acquire the necessary resources for adjustment purposes, a double cost is imposed on society: (1) the immediate costs to the workers and owners of capital in the marginal firms because the import relief failed to achieve its objective, and (2) the transfer of income from consumers to the marginal and non-marginal firms during the period of time for which import relief is in effect.

Fifth, it is all to easy for the government to shift from a policy of temporary import relief to a policy of permanent relief, as has been amply exemplified in the case of steel and cotton textiles. Not only would such a change in posture thwart the basic objectives of freer trade, it could have some complicated and disturbing consequences for U.S. foreign relations. Adjustment assistance, on the other hand, will, by its nature, be short-lived since Congress will be under continuous public pressure to cease its assistance as quickly as possible.

For all of these reasons, I find chapter I—*Import Relief*, under Title II—*Relief From Disruption Caused by Fair Competition*, in President Nixon's *Trade Reform Act of 1973*, unsatisfactory. Whereas injured firms and workers could apply for adjustment assistance under the Trade Expansion Act of 1962, the administration is asking Congress to (a) repeal those sections of the Trade Expansion Act of 1962 relating to adjustment assistance for firms, (b) liberalize adjustment assistance for workers and (c) liberalize the criteria for determining injury to domestic industry due to imports, as well as expand the forms and amounts of import relief which the President may provide. And while the liberalized administration proposals respecting adjustment assistance for workers, and the liberalized criteria for determining injury to domestic industry, are laudatory and should receive the immediate endorsement of the Congress, it is my opinion that adjustment assistance for firms must be restored, albeit in a less complex and more liberalized form, as a legitimate tool of assistance, and further, that the President be denied the use of the various tariff and non-tariff forms of import relief as spelled out under Chapter 1., Title II. Thus, it is my recommendation that the sole relief from "disruption caused by fair competition" take the form of adjustment assistance to firms and workers; that the existing criteria for determining injury be liberalized; that the benefits to firms and workers be liberalized and; that there be strict time limits on the duration of adjustment assistance and the mandatory phasing out of such assistance.

These recommendations might be objected to on the grounds that a liberalization of adjustment assistance, especially if large industries are eligible, would require too sizeable a budgetary allocaiton. The problem with this objection is that it fails to recognize a very simple point: the costs of adjustment are not lower just because the cost is not reflected in some line of the budget. Indeed, import relief in the form of tariff and non-tariff barriers hides the cost of adjustment in higher product prices borne by users of the protected good—a rather bad policy for the government to pursue. At least a budget item for adjustment assistance keeps part of the economic costs of adjustment before the public eye. Moreover, the budgetary costs of adjustment assistance will eventually be recouped if the program succeeds in increasing mobility and upgrading the quality of U.S. resources.

Of course an improved program of adjustment assistance will fail unless attractive employment opportunities for capital and labor exist elsewhere in the nation. Even if the economy is growing at a healthy pace, the government should, as recommended by the President's Commission on International Trade

and Investment Policy (p. 47) "establish an industrial and manpower policy which would coordinate and augment programs for anticipating and assisting adjustments to economic change arising from international trade and investment." At times when the economy is advancing at a rather sluggish pace with high levels of unemployment, the problems of economic adjustment become very difficult indeed. However, these problems cannot be managed by a program of adjustment assistance alone. Rather, expansionary monetary and fiscal policies, in conjunction with labor and manpower programs, are required at such times to generate the conditions necessary for the successful operation of an adjustment assistance program.

IV. RESPONSE TO UNFAIR TRADE PRACTICES

Under Title III.—*Relief From Unfair Trade Practices*, the President is seeking the authority to retaliate against any country that engages in various types of unfair competition—a very ill-defined concept, to say the least. The Congress should not take this delegation of authority lightly. And while it is not clear whether the provisions of SEC. 301 are in violation of the rules of GATT the authority granted to the President in this section runs counter to the spirit of GATT.

As we approach the new round of negotiations this fall, it is essential that we do not transmit to our trading partners the impression that the U.S. rejects the basic purposes of GATT. Otherwise, no country would take its own commitments under GATT seriously. Moreover, we have not exhausted the possibilities to have a code of fair conduct inserted into the Articles of Agreement of GATT, the implementation of which should be a matter of top priority.

For these reasons, it is my recommendation that the President be denied the power to retaliate against "unfair" trade practices at this time.

V. ANTIDUMPING STATUTES

Since the President has offered a number of amendments to our Antidumping Statutes, it is about time that we faced squarely the issues involved in dumping. Three types of dumping have been distinguished in the literature: sporadic, predatory and persistent. Sporadic dumping occurs when a company finds itself with distress goods which it prefers to dump in foreign markets rather than harm its own domestic market. Predatory dumping occurs when a company sells its goods in foreign markets at a price below its average costs in order to gain access to a market and/or drive out the competition. Once an entrenched position has been established, prices will be raised. It is not in the interests of the U.S. to allow either sporadic or predatory dumping.

Persistent dumping, on the other hand, occurs when a foreign producer sells at a lower price in the foreign market consistently, to the benefit of consumers in the foreign country. Such "dumping" should not be discouraged. The reason why a foreign producer sells his goods at a lower price in the foreign market is that he has more of a monopolistic position in his own home market but faces keener competition abroad. Fair competition does not necessitate that exporters sell at the same price in both home and foreign markets.

Therefore, I recommend that U.S. Antidumping Statutes be amended to reflect the economic consequences of sporadic, predatory and persistent dumping, and the Antidumping Statutes apply only to sporadic and predatory dumping.

Mr. BURKE. Does that complete the panel's presentation?

Mr. FERGUSON. Yes, it does, Mr. Chairman.

Mr. BURKE. Mrs. Griffiths.

Mrs. GRIFFITHS. In the first place I thought your remarks were very interesting, each of you. I would like to ask you in your judgment if we gave this power to the President exactly as asked what products do you think we would be the chief exporters of 5 years from now?

Mr. Houthakker, would you care to answer.

Mr. HOUTHAKKER. That is a difficult question to answer, because our exports are fairly well diversified. We export in quite a number of industries that don't normally catch the headlines. However, I would say that, apart from agricultural exports which will undoubtedly remain important, we will certainly do better in industries such as chemi-

cals, heavy equipment, and computers, which have been, one can say, our traditional exports.

Which additional industries will open up that are not competitive at the moment is a question which would take me some time. I shall be happy to write you a letter on the subject when I have had occasion to study it somewhat more.

Mrs. GRIFFITHS. I would like to see it.

[The information requested was not received in time for inclusion in the printed record.]

Mrs. GRIFFITHS. What you are saying is that the things on which we are going to be good are the things that require virgin resources or heavy capitalization. That is really the things on which we would be very good.

Mr. HOUTHAKKER. I would add one category, those in which our technology is more advanced than in other countries.

Mrs. GRIFFITHS. That is true, but 5 years from now how much more advancd will we be in technology. It seems obvious to me that the rest of them are going to let us go to the Moon or Mars or wherever we want to whenever we want to without any competition because there is a heavy tax strain to do that. There are people who make money of off it, lots of money, but still nobody seems to be competing for these honors.

So on that technology, or the things derived from it in the initial stages. I would assume that we would do very well, but we move that so quickly into other countries. They take the technology that suits them and they are off and gone with it, and we send over the capital to help them do it.

Mr. HOUTHAKKER. Well, if I may reply to this, and I am sure my fellow panelists will have something to say on this, too, our technological advantage I think is not going to disappear in 5 years. We are making progress. We are generally expending more on research and development than comparable industries in other countries. Also, the programs which you mentioned, such as the space program, have a considerable fallout in terms of new products.

Mrs. GRIFFITHS. Yes.

Mr. HOUTHAKKER. For instance, our semi-conductor industry which supplies components to electronics and computers, et cetera was apparently developed largely in response to military and space needs, but it has become a commercially viable industry. It is also well known that in our aircraft industry some of the aircraft which are still our strongest sellers were original, long ago, derived from military planes. So that, without going into the justification of the space program, I would hope that we do not overlook that it does add something to our technological ability, too.

Mrs. GRIFFITHS. I agree with that, but I think that today's technology it seems to me will be Japan's export tomorrow, that the thing we develop we lost. The thing we are not going to lose unless we exhaust it will be the virgin resources and the capital.

Mr. HOUTHAKKER. As it happens, I just came back from a trip to Japan which was among other things concerned with this particular question. It is certainly true that Japan has been very good at adapting technology from other countries and has turned the efforts from various sources into a remarkable and efficient industry. At the same time, the Japanese will be the first to say that they are not in

the vanguard of new technology, that what they have done mostly is to adapt existing technology. They are not doing a lot to develop new ones, whereas we are developing new technology in a number of industries. This will be a source of strength for our exports in time to come.

I don't say that the tendency to export technology hasn't in the past sometimes been frustrated by unrealistic exchange rates. Generally speaking, when we had something that was very labor intensive it was impossible to produce it here economically, and that is why in many cases it went abroad. But this particular distortion has now been corrected, I believe, to a large extent.

Mrs. GRIFFITHS. Thank you very much.

Thank you, Mr. Chairman.

Mr. BURKE. Mr. Schneebeli is recognized.

Mr. SCHNEEBELI. Gentlemen, I gather the general thrust of your statement is that you agree with the administration's request, although in some areas there should be some restrictions.

I would like to talk about adjustment assistance. Your last speaker touched on this. I can see how adjustment assistance for the individual worker is handled. He is paid 100 percent, or 75 percent, or 66 percent of his wage. That is specific, and can last as long as he is out of work, until he gets a job. But adjustment assistance for industry is another matter. I don't know how you judge.

Let's take the elimination of ASP, which has been recommended. Suppose there is a small factory in north Jersey whose sole business is in Benzenoid chemicals, and there is Du Pont which is in the same business, among others. How do we deal with these industries where the effect is so disparate? How do we deal with a company whose sole product may have been eliminated from the market by competition from imports resulting from eliminating ASP? And on the other hand, how do we treat a company that also makes the product which has been wiped out but does not rely on it for existence? It seems to me this can be very difficult to determine.

Let's take shoes. Because of an increase in imports of shoes a marginal producer may go out of business, but a big producer with a much broader shoe production line may continue in business. It seems to me that trying to gage what adjustment assistance should be for industry can pose very complicated problems.

Mr. ATKINSON. I will not deny the complications that are involved in the actual conduct of adjustment assistance. Part of the difficulty that has existed with adjustment assistance under the Trade Expansion Act of 1962 arises because of that particular problem——

Mr. SCHNEEBELI. When we think about adjustment assistance, we generally think about the worker who is out of a job, and we try to help him.

Mr. ATKINSON. We also have to be concerned, and this is certainly the concern of industry, with the owners of capital as well.

Mr. SCHNEEBELI. I agree, but how do we do it?

Mr. ATKINSON. I am not sure I can answer your question as directly as you might like. It is something that I am quite prepared to give some more thought about in terms of writing a communication to you.

Mr. SCHNEEBELI. I wish you would, because it is a problem we have to cope with.

[The information requested follows:]

ADJUSTMENT ASSISTANCE FOR FIRMS

I present this additional testimony in response to questions from a number of committee members who are concerned about the ways in which adjustment assistance to firms, as opposed to workers, can be applied.

Under the Trade Expansion Act of 1962, a firm could apply for adjustment assistance only after an affirmative Tariff Commission finding of injury for the whole industry. I believe that this policy has rather unfortunate consequences for small firms who are highly specialized. Adjustment assistance should be made available to individual firms, and, indeed, to separate units of multi-plant companies, when the injury is substantial to the firm or unit, but not necessarily to the industry or the entire parent firm. At one point in 1969 President Nixon affirmed such a recommendation. Indeed, in the White House Release dated Nov. 18, 1969, President Nixon stated (p. 5) that "direct aid to those individually injured should be more readily available than tariff relief for entire industries." And in the same message, he emphasized that adjustment assistance "can be more readily targeted; it matches the relief to the damage; and it has no harmful side effects on overall trade policy." [This position of President Nixon is consistent with the set of recommendations filed by Special Representative for Trade Negotiations Roth in early 1969 following advice from a broadly-based panel of businessmen and representatives of labor and farm organizations.]

And it needs to be emphasized in this context that the various forms of import relief proposed by the President may not serve the interests of small firms or the interests of society at large. It is not entirely clear from the Trade Reform Act of 1973 as proposed by the administration whether import relief can be instituted if only a single commodity (or a small group of commodities in an industry line) is the source of market disruption, or import relief can be instituted if only an entire industry is injured. If the latter, small firms who experience market disruption may not receive any assistance whatever, despite its justification; if the former, the cost to society of import relief may be out of proportion to the injury incurred.

The same set of factors which would lead the President to institute import relief in instances of market disruption caused by imports under the Trade Reform Act of 1973 could be utilized to establish eligibility for adjustment assistance. And the law can be written in such a way as to enable individual firms or separate units in multi-plant companies to receive adjustment assistance when injured by import competition, even under circumstances in which the President might not employ import relief, given that this is the only tool of temporary governmental assistance allowed in the bill before you.

Mr. ATKINSON. It seems to me that we should stop looking only at industry-wide figures to determine injury, and look also at the injury suffered by those small firms which are not reflected in industry aggregates.

Mr. SCHNEEBELI. Suppose a small company goes out of business completely. What do you do with it? It has facilities in which it has an investment. Do you buy them, or what do you do?

Mr. ATKINSON. To the extent that there is any expansion or any growth in the industry large quantities of these resources can be absorbed within the growing industry.

Mr. SCHNEEBELI. I took the specific example of benzenoids. With the elimination of ASP it has been agreed, I believe, that they would have a difficult time. A lot of the smaller companies would go out of business. What do we do in such cases?

Mr. ATKINSON. It seems to me that we ought to be providing adjustment assistance to those firms for the purpose of aiding them in relocating the capital investments and, secondly, to provide the assistance necessary for workers. Moreover, we should be concerned not only with job relocation but community relocation.

Mr. SCHNEEBELI. Suppose the owner is 60 years of age, doesn't want to go into another business, and says to the Federal Government: "You

ran me out of business. Pay me damages. My equipment is worth so much, and I am not going to start all over."

Mr. ATKINSON. It might be cheaper for the Government to do that than to impose the additional costs on consumers that might arise because of import duties.

Mr. SCHNEEBELI. The question with respect to an industry is so different from that with respect to a worker. The worker can go to another industry. He has a job in front of him. But the businessman is forced out of business.

Mr. ALIBER. I wonder if I might speak briefly to your question, since it is directed at the problem of staging. It is not, I think, a question of forcing the firm out of business overnight. The man who is 60, for example, might be told that, "We will eliminate or reduce ASP, but the reduction in ASP will occur over a 5- or 10-year period."

Mr. SCHNEEBELI. I didn't know it was strung out that long. I thought it was more immediate.

Mr. ALIBER. Legislation could be written that way.

Mr. SCHNEEBELI. It could be, but it is slow death anyway.

Mr. ALIBER. It does seem that we ought not to change his expectations and planning horizons with a sudden shock. This firm has survived behind a very high import barrier, and I think it would be unnecessarily cruel to eliminate that barrier immediately, but that is not a case for not eliminating the barrier in a slow and orderly process.

Mr. SCHNEEBELI. As elimination of the ASP was discussed in the Kennedy round, wasn't it for rather immediate application?

Mr. ALIBER. I defer.

Mr. SCHNEEBELI. I believe so. We will have our negotiators here later to talk about this.

There are so many problems here. If you would give us your thinking on this, it would be appreciated. I think it is quite important.

Thank you very much.

Mr. BURKE. Do you wish to inquire, Mr. Rostenkowski?

Mr. ROSTENKOWSKI. I have no questions.

Mr. BURKE. Mr. Landrum.

Mr. LANDRUM. Thank you, Mr. Chairman.

My first question is to Professor Houthakker.

On page 5 you say that "The devaluations of 1971 and 1973 have greatly strengthened our ability to compete with foreign production."

That tells me that you approve of both of the devaluations.

For the last several days I have read comments and listened to discussions from various Members of the Congress that the second devaluation was not necessary, and that we may be approaching the time when that devaluation will appear to be harmful to us.

What would be your answer to these reports and these comments?

Mr. HOUTHAKKER. Well, sir, I would say that the first devaluation was undoubtedly necessary, and I don't believe there are people who seriously question this.

Mr. LANDRUM. Yes.

Mr. HOUTHAKKER. There is certainly more question about the second devaluation. Actually what I said in my statement is only that it will make our exports more competitive.

Now, as you well gathered from the early part, I don't regard export as the primary purpose of international trade, but I would go so far

as to say that even if the second devaluation was not necessary or was excessive in amount, then it will still be useful in restoring confidence in the dollar.

What we have at the moment is in part the delayed reaction to the very large deficits which we have had on our current account for the last few years.

The only way to overcome this concern is to have a surplus in current account, and I believe it is quite possible that we will be running a surplus in current account shortly.

As was pointed out earlier this afternoon, the trade performance in the first quarter was quite considerably improved from 1972. We may now have some adverse effects from the latest devaluation, but I believe that our trade performance will continue to improve in 1974 and possibly in 1975.

So, in that respect, we are now facing a situation where we will be overcoming the major problem that we have faced.

To my mind the major problem was not the outflow of short-term capital, although I can certainly understand the concern about that; the underlying problem was our current account and the large outflow of direct investment to other countries, investments made by American firms abroad.

In both these areas we are now making progress, and that I think will in due course lead to a reduced willingness to speculate against the dollar.

I should also say that I regard the speculation which we have had in the last few days and which centered around gold, as not very serious. I believe it will come to an end, and that it will show that the new international monetary system which we have now is capable of dealing with such problems.

Mr. LANDRUM. Thank you.

Now I have one question to Dr. Atkinson.

Going back to the conversation you were having with Mr. Schneebeli on adjustment assistance, to get away from the business of one small industry and one large industry where the small one is wiped out and the large one has only a single commodity, let's look at textiles, which has from time to time advocated quotas and for a great many years, until recently at least, has suffered tremendously from imports.

Using my own State, where textiles are located, to a great extent, we have 112,000 people in the State of Georgia employed in that industry. Suppose we came to the point that some have advocated in the past, and we allowed foreign-made textiles to come in freely and to float with the consumer demand and supply. How would you go about applying that adjustment assistance to 112,000 people or 100,000 or more people and to an industry which statewide in our State and at least two others in the Southeast has larger employment than any other industry?

Mr. ATKINSON. In the first instance, I think that we economists have not been as sympathetic as we need to be to the human problems that arise in making adjustments. However, I doubt that we will observe the displacement of all 112,000 workers.

I tend to view the adjustments that would arise in the textile industry to be short-lived. We observed massive shifts in the textile industry

from the Northeast to the Southeast, and Professor Kraves from the University of Pennsylvania has indicated in a study that was presented in the Williams Report that many new jobs were found for displaced textile workers in Pennsylvania and the jobs which many of these workers obtained elsewhere in the economy were superior in terms of income received. Moreover, there were better investments being made in Pennsylvania. Thus it was quite desirable ex post to have this massive shift of resources.

Mr. LANDRUM. Well, if you will allow me an interruption there, I see a danger in what you are advocating, and I want you to think of it as you speak along that line.

That is that relatively speaking textile requires a lower skill than some of the industries where we relocate today. Now, re-training, rehabilitating, and breaking down a natural resistance to changing living locations is all going to be a factor in that if we allow this to develop.

What consideration do you have to give to that?

Mr. ATKINSON. I would certainly not deny, Mr. Landrum, the costs that are involved in adjustment. In some instances we will end up displacing whole communities, but I think that this provides us, in part, with a measure of the costs that are in fact being borne by the users of textile goods in the form of much higher prices for textile products.

Mr. LANDRUM. Now, isn't it true, Professor Atkinson, that the only way we can have a consumer is for that consumer to have an income? That income must come either from his own earnings by producing or come from a distribution of the taxes that the public pays which puts him on welfare. That is the only two ways I know that we can have a consumer. Either he is on welfare or he is working to provide his own purchasing power. Isn't that true?

Mr. ATKINSON. No, it is not true, Mr. Landrum.

Mr. LANDRUM. Why?

Mr. ATKINSON. Because in large part it is going to depend upon the ability of the American economy to achieve the level of growth and level of output that is desirable. We observed from 1967 to 1968 a very large upsurge of imports that did cause dislocation in a number of our industries. Yet the unemployment rate for the United States between January 1968 and January 1969 fell from 3.5 percent to 3.3 percent.

If we can conduct monetary and fiscal policy in such a way as to achieve a high level of output and as we devote resources in such a way as to achieve a high rate of growth, there is no necessary reason why the dislocated capital and labor could not be employed in some of the more dynamic sectors of the economy.

Mr. LANDRUM. Professor Atkinson.

Mr. BURKE. Will you yield at that point?

I think what you failed to point out in 1967 and 1968 there were 500,000 men over in Vietnam, and there was a war on. I don't think it is fair to take those years. I think you should take some peacetime years if you are going to make any comparison here.

Mr. LANDRUM. I thank my friend from Massachusetts for that observation which is significant, but either I have been too clumsy to

get my question across to the gentleman or you are arguing around it, one of the two. I think perhaps the former may be the case.

What I am saying is that the only way we can have a consumer in this American economy of ours, that we are all pledged to support, is that person as a consumer to have some income. Isn't that right?

Mr. ATKINSON. Yes, sir.

Mr. LANDRUM. Now, there are only two ways for him to have income that I know of, unless he inherited it and doesn't have to work. That is, he works, himself, and produces it, or the public through public handout provides it to him on welfare.

The point I am driving at is how are we going to take care of these people who are displaced, who are moved out of their earning arena and can't find new employment. Are you going to increase the welfare rolls merely to let the imports come in? Is that what we are leading to with this legislation?

Mr. ATKINSON. I am sorry I misunderstood your question before. Of course if the economy cannot achieve the level of activity that is necessary to absorb the displaced workers, you are perfectly right. We end up through such legislation really increasing the welfare rolls.

But it seems to me that any form of adjustment assistance must be combined with a decent manpower policy wherein workers are provided with better information regarding job opportunities which are available elsewhere in the economy and governmental information about those sectors of the economy that are opening up and are the most dynamic.

It must also be combined with monetary and fiscal policies, as I said earlier, which allow the economy to achieve a high level of output.

In only these ways can an adjustment assistance policy work in a way that is to the ultimate benefit of the rest of society.

Mr. LANDRUM. Thank you, sir.

My 5 minutes have long ago expired.

Mr. BURKE. Apparently you would like to make an observation.

Mr. HOUTHAKKER. Two years ago I appeared before the Senate Finance Committee. This question was raised in more or less the same form, and at the request of the committee I submitted a study of the shifts that had taken place, in the textile industry in particular.

The experience which we have had in the past is very illuminating this respect. The textile industry was important in New England, as Congressman Burke can testify, it no longer is; it moved to the Southeast. As a result of this there was initially a large loss of employment in States such as Massachusetts, Rhode Island, and New Hampshire.

The State of New Hampshire is especially interesting because no State in New England depended more on the textile industry than New Hampshire, yet the calculations I presented to the committee showed that the State of New Hampshire actually gained in employment on balance after the virtual disappearance of the textile industry, and the average income of the workers was considerably increased.

So I believe our economy does have the capacity to adjust.

Mr. LANDRUM. If the distinguished professor will yield to me at that point, I believe you might have to say, sir, that the study you made about the relocation of the employees from the New England section, New Hampshire in particular, was based not on that commodity which they manufactured coming in from other nations at lower prices and putting them out of jobs. It was based on the fact that the occupation

stayed in this country, remained here, and other people picked it up.

You had in this same country coming back a flow of purchasing power. Perhaps we were more able down home to purchase a few of the things that New Hampshire had made in lieu of manufacturing textiles, where before we had textiles, we couldn't buy a damn thing. We weren't making anything but raw cotton and bootleg whiskey. When we found that we could manufacture these other things, and not be in quite as much danger, we had purchasing power that would let us buy a few shoes from New Hampshire and buy a few hats from Connecticut.

I am afraid your study, as thorough as your studies have always been, I am afraid your study on that might have been thinking in terms of the textile imports that were coming in here when they were in that day relatively small, when textiles were moving from New England to the South.

Mr. BURKE. I would like to make this observation on my good friend from Harvard's remarks on how well New England came out.

Fall River became bankrupt in the State. Commonwealth of Massachusetts had to take it over and establish a commision down there. The cities of Brockton, Fall River, New Bedford, Lowell, Lawrence, and Haverhill never recovered. Those are still areas of high unemployment, every one of those communities that I mentioned. In fact, most of them average about 10 percent unemployment today.

The only time they did recover was during World War II, the Korean conflict, and the Vietnam war, when they were employed in defense industries.

Prior to World War II, prior to Pearl Harbor, the untold misery that took place up in those cities, the history will never be written, but the scars are there.

I wish that the people from Harvard who put out these glowing reports would sometime take the trouble to get down to the grassroot sections of the Nation and find out what really happened. You can't sit there and create the impression that the city of Nashua, N.H., which went into complete bankruptcy at the time that the main plant, the Amoskeag mills, closed up there, you can't give the committee or anybody in this Nation the impression that those communities picked themselves up off the ground, because the only times they picked themselves up off the ground was after World War II was started when they were hired in defense industries.

They are now feeling the effects of imports today.

It is a little tiresome to read these glowing reports by the people from Harvard about how well these communities are doing.

I represent the city of Brockton. We have about 10 percent unemployment there right now.

We have a welfare bill in Massachusetts this year which will total $1 billion. We have 185,000 people walking the streets of Massachusetts unemployed today.

So, all of your rhetoric here is meaningless. Get out into those communities and talk to the people.

Never mind about your statistics. Talk with the human beings and find out what is going on.

Mr. LANDRUM. I yield, but just one second.

This is the first time in all of my experience that I have seen professors that could keep a bunch of people awake after lunch.

Mr. HOUTHAKKER. Mr. Chairman, if you will allow me, I would like to respond.

I am not insensitive to the dislocation that has been created in those communities. My remarks were not addressed to the present situation but to the departure of the textile industry from New England which happened several decades ago. It was spread out over time, and the problems that these communities face at the moment, I think, are only very remotely related to what happened——

Mr. BURKE. The textile industry has not completely disappeared from Massachusetts. We still have over 30,000 people up there employed in textiles. They are interested in their jobs. We have the garment workers. Talk to Phil Kramer down in the International Ladies Garment Workers Union, where they employ an average of 75 to 100 women working in these small garment shops. He will tell you what the facts are and what the cause of the trouble is.

Mr. HOUTHAKKER. I believe the trouble is not primarily in the textile industry. There have been troubles in these areas, and I am not denying that adjustment——

Mr. BURKE. Since 1965 we have lost over 30,000 textile jobs in Massachusetts.

Mr. HOUTHAKKER. How many jobs have we gained in other industries?

Mr. BURKE. We have not gained many. We were looking forward to the electronic industry, but the Orient stepped in and took over the business of television, radio, and transistors and hearing aids and the rest of those items. We lost a lot of our sporting goods industry. You can't buy an American-made baseball glove on the market today.

You can't buy tennis rackets that are not made in Japan, Korea, Taiwan, or Hong Kong.

Walk into some of the stores and see what some of the goods are in the market. I think the trouble is that you are over across the Charles, in that nice, sheltered, quiet community where you don't have the problems that the people out in the teaming tenement districts have.

I would like you to step into Roxbury, Mass., go into Harlem, N.Y., or Brooklyn, N.Y.—in New York City a hundred thousand lost their jobs in textiles and footwear industry alone since 1965.

Mr. HOUTHAKKER. Certainly there are declining industries and there are increasing industries. As we know, the total number of jobs——

Mr. BURKE. They should not be declining while our population is increasing, when there is a greater demand for goods in this country.

Mr. HOUTHAKKER. If it is more efficient for people to produce electronic materials than textiles, then this change will help the population at large even though it will admittedly cause adjustment difficulties in particular localities.

Mr. BURKE. You can't compete with a 10-cent-an-hour wage in our country uless you are going to roll back the clock 100 years, unless you are going back to a 7-day week and 10-hour day and go back to the days of malnutrition and tuberculosis and all the other dread ills of the sweatshops.

You can't become more competitive unless you bring yourself down to their level.

Mr. HOUTHAKKER. I believe you underestimate the progress which has been made in other countries in the way of income.

Mr. BURKE. We don't underestimate the problems. We know what the problems are. We are living with them. This is we the people. We are the closest public officials to the people in the Federal Government. We go back home every two years and we hear from the people. We know what they are talking about.

Mr. Conable.

Mr. CONABLE. Thank you, Mr. Chairman.

Mr. Houthakker, I don't want to belabor you, but I was stimulated by your statement that the purpose of trade is to secure imports.

I suppose we should be delighted then with our trade in recent years. We have been sending greenbacks overseas which are relatively worthless, getting in return things of real value that we can use.

We don't tend to think that way, of course, up here in the Congress. So it does require something of a wrench to re-orient our thinking to encompass the approach that you suggest.

The difficulty comes, I suppose, when people start deciding that the greenbacks are not all that desirable. Is that what is happening now?

Is this $92 billion potential overhang of Eurodollars the basic difficulty?

If so, how are we going to get rid of that in the foreseeable future?

Let us assume that we have a successful trade bill here and give the President authority, and let us suppose that he goes out and gets some tough negotiator who somehow improves the trade relationship so that it will be fair trade and not subject to the non-tariff barriers that we think affect our trade generally.

At best, we can turn around this imbalance only comparatively modestly in relation to the overhang that I mentioned.

It sounds to me as though, if people don't want our greenbacks anymore in return for their things of real value. It sounds as though we are in bad trouble and we will be in trouble for the foreseeable future.

Is that an unduly pessimistic view of our condition right now?

Mr. HOUTHAKKER. Yes, I believe it is unduly pessimistic. I believe that the outlook isn't as desperate as you appear to suggest.

Let me first say I am not in favor of our continuing to run deficits on our trade balance because that, by itself, is an unstable situation which is liable to cause trouble sooner or later, and indeed has caused trouble.

I believe that we should aim at something like overall balance or perhaps a small surplus in our merchandise trade. This is why in my statement I noted the increase in our exports as a particularly hopeful development.

Now as regards the overhang which is the result of the speculation that took place during the last two years, this speculation, I think, was largely the result of the fact that it took us and the world as a whole a rather long time to make the necessary changes in exchange rates.

As I said a little earlier, once we can turn around our current account, that is to say our merchandise trade and services, then confidence in the dollar will improve, I am confident. So this is the significance of the overhang. We may have to work some of it off.

This we can do by running a surplus on our so-called basic balance and perhaps by selling stocks to other countries, which has become an important plus factor in our balance of payments, too.

I believe that if the present international monetary arrangements which started only 2 months ago, turn out to be resistant to speculation, then we can look forward to a place of relative stability in which the dollar will not be in as much suspicion as it has been for some time.

Mr. CONABLE. To paraphrase your answer, you would not advocate having as big an imbalance, as big a deficiency as we can get away with?

Mr. HOUTHAKKER. Well, it is a question of timing in large part. During some years we did get away with large imbalances because foreigners were willing to hold dollars. At some point their willingness may decrease and they may shift their holdings to foreign central banks who generally are obligated to accumulate dollars whether they like it or not.

But in due course, I believe the dollar will become more attractive. That is why the little disturbance we are going through right now is interesting. If this can be kept under control, then I think we have gained an important success for our present monetary arrangements.

If it does turn into another devaluation, then we are, indeed, in very serious trouble.

Mr. CONABLE. Is the biggest element in our first quarter deficit that is so alarmingly high short-term outflows of capital, again?

Mr. HOUTHAKKER. The figures only came out this morning, and I have not had time to study them in any detail, but my impression is that it is indeed overwhelmingly the movement of short-term capital that caused it, and in fact all the other major items in trade were improving. Our trade deficit decreased considerably.

Mr. CONABLE. It halved.

Mr. HOUTHAKKER. Yes. Our direct investment, on which there are no figures yet, probably decreased also, and also purchases by foreigners of U.S. securities increased considerably.

So, except for this one area of short-term capital there does seem to have been an improvement in the areas that really matter.

Mr. CONABLE. Thank you, Mr. Chairman.

Mr. BURKE. Mr. Carey will inquire.

Mr. CAREY. Thank you, Mr. Chairman.

Professor Atkinson, I would like to have you expand on what appears to be a rather harsh consequence of this bill if we pass it in its present form.

Specifically you state that you favor adjustment assistance instead of relief through import restrictions and so forth because it does not disturb our foreign relations. You say adjustment assistance on the other hand will, by its nature, be short-lived since Congress will be under public pressure to cease assistance as fast as possible.

You are saying in return for this kind of adjustment assistance American labor should support this kind of trade initiative, yet you point out that it is not going to live very long, it is not going to do very much because the budgetary squeeze will make it minimal and shorten its life.

Is this a fair trade to American labor to say you are not going to be hurt too much because adjustment assistance will take care of most significantly impaired firms and yet keep in mind the Congress will not be able to give it to you very long?

You destroyed the principal selling point of the bill as far as labor is concerned.

Mr. ATKINSON. One of the difficulties which I have in responding to you is that under the provisions of import relief which the President is proposing he also suggests that there will be a mandatory phasing out of import relief in 5 years, with the possibility of a 2-year extension.

Thus, it seems to me that labor might also be opposed to the various forms of temporary import relief because of the mandatory phasing out. I would submit that adjustment assistance could well be instituted for a period of time as long as import relief.

Mr. CAREY. Labor will have to make that decision for itself. But as an elected official, I look at it this way: The test as to whether this trade bill is going to work or not will be how much adjustment assistance we have to fund by the Federal Governmnt.

If we have to fund it at a large level, the trade bill in my estimate is a failure because in the trading process we are losing ground in the industrial base of our country. That is why we need more adjustment assistance.

If it becomes a failure in terms of a large new program of Congress, then it may be self-perpetuating like the impacted school aid.

Once you get enough districts affected to pick up a constituency for a program, it is self-perpetuating.

If the trade bill fails, we have large adjustment assistance outlays, they will be self-perpetuating.

You say adjustment assistance is the preferable road to follow to import restriction. Do you not envision that possibility?

Labor does because labor is being sold that adjustment assistance and new standards of unemployment compensation are gravamen and rationales for supporting this bill.

Mr. ATKINSON. To the extent that there is a mandatory phasing out of import relief and if the decision has any teeth, then it seems to me there is no necessary reason for adjustment assistance to be as long lived as you perhaps suggest.

Mr. CAREY. These mandatory phaseouts are fine—until those who are receiving them start to get to Congress and say, "You are cutting off my bread." Then we will see how mandatory it will be.

In response to unfair trade practice, you feel that the President will have too much clout in his possession and would run contrary to the spirit of GATT if he employed it arbitrarily or employed it too frequently.

You say we have not exhausted possibilities of a code of fair conduct concerning the articles of agreement in GATT. Where is such a code published now?

Is there any agreed or promoted or proposed code of fair conduct to which we could have access that would perhaps substitute that kind of language for the relief from unfair trade practices that the President would be given?

Mr. ATKINSON. Perhaps my colleagues have more information on this subject than I, but to the best of my knowledge there does not exist a decent fair code for the conduct of trade.

Mr. CAREY. From preliminaries of the GATT meeting I am talking about the attitude of our GATT trading partners coming to the conference with dispositions that are amiable and conciliatory, particularly in my last comment, and I would like to have your response.

What do you think of the statement to the Council of Foreign Ministers only yesterday that in our trading negotiation the American defense contribution is not to be considered as a trade-related matter, the fact that we have troops in Europe, the fact that we hold an umbrella over Europe and other parts of the world, the fact it costs us a great deal of money, this is not to be considered in terms of America's problem in regard to trade and balance of payments?

What is your attitude on that kind of position as far as trading partners are concerned?

Mr. HOUTHAKKER. I would like to speak to the last point which you make here about the relation between our trade policy and our defense posture, especially in Europe.

I believe a case can be made for saying that defense as such should not be made a bargaining counter in trade negotiations.

Mr. CAREY. I don't want to interrupt, but the best way to make sure it is not a bargaining counter is to remove it prior to negotiations.

Mr. HOUTHAKKER. This is certainly a possibility. I have long thought, and I am not a defense expert, that we have troops in Europe because we feel this helps our national security. The presence of troops is there to make sure that no foreign power can attack without involving the United States immediately.

Now, if we are going to suggest these troops are there really as part of an economic policy decision and that we can withdraw them at short notice, then the credibility of a military presence in Europe will be destroyed very quickly.

This is what would worry me about using the presence of troops in Europe as a bargaining counter.

Mr. CAREY. If it is to be given no weight whatsoever in our negotiations, the fact that it is a huge tax commitment of the American public and that we are concerned about the state of our dollar, then I wouldn't open the door for negotiation until we settle that point.

It is certainly, in my estimate, related to the strength of the dollar, the strength of our currency, our trading position, to the consumption of goods by the troops in place there.

I don't know how you can say that the presence of troops are not related to our difficulties in trade.

Mr. GIBBONS. Will the gentleman yield to me?

Mr. CAREY. I yield.

Mr. GIBBONS. I have been in the anteroom back there so I came in late on this conversation. As I think most of the members of the committee know, I was over in Europe last week, and this question came up.

I took pretty much the same attitude that Mr. Carey has taken. After I listened to the Europeans a little while, I understand what their problem is. They have a lot of internal problems within the European Community, the six that have now become nine.

They realize that when all these negotiations are finished, there has to be a balancing of all of these burdens, but they would rather not sit down and negotiate about all of them in one package because of this problem.

NATO is different from the European Community. In NATO, they tell me, there are fifteen countries and in the European Community there are nine.

For instance, France is a member of the European Community, but not a member of NATO. Ireland is a member of the European Community but not a member of NATO. Canada is a member of NATO but not a member of the European Community. Iceland is a member of NATO but not a member of the European Community. Turkey is a member of NATO but not a member of the European Community.

Denmark—I can't remember exactly how it works out for them—but in short, the European Community has so many problems and so many languages and so many things, if they dump them all on the table at one time and try to straighten them all out, they can't do it.

They realize, though, that in the end all of these things do have to be worked out and they are all interrelated.

Of course, as the witness just said, the first thing they throw at you when you say, "Well, before these troops in Germany, . . ." they say you know America's first line of defense is in Germany. This is where the war is going to be fought if there is one. They say we will be glad to sit down and talk with you about whether we ought to share more of the costs involved, but they realize that the whole thing has to be balanced out.

They say they have technical, imponderable problems, trade and monetary matters are tough enough to negotiate on at one time, but if they throw in countries that are not part of the European Community and countries that are not part of NATO, it will be worse than the Tower of Babel.

That is their explanation. I think it sounds reasonable.

I apologize to the gentleman from New York for getting involved on his time, and I yield him all of my time.

Mr. BURKE. Will you yield?

Mr. CAREY. I yield to my colleague.

Mr. BURKE. This view you are advocating, this should not be in the area of discussion of trade, would you also advocate that the Government stop including in their figures of exports all of our military and economic aid that we send overseas as part of our exports which would give a truer picture of what the imbalance really is?

Mr. HOUTHAKKER. Our trade figures do make this distinction. There is special category trade which is not normally included in our exports and imports. I believe you will find it in the statistics.

Mr. BURKE. The statistics that I have indicated that the exports on economic aid and military aid are included in exports.

Mr. HOUTHAKKER. There is a concept which is given prominence in trade statistics which excludes military aid. Economic aid is a different matter. This, of course, is a negative item elsewhere in the balance of payments. I don't believe my confusion can result from it. It would be easy to deduct ships from Public Law 480 from the total exports.

Mr. BURKE. Would you feel that it would be good to exclude even these figure that you say are in there, from our export figures which make the balance of trade figures look much better than they really are?

Mr. HOUTHAKKER. I believe that it is important that all concepts can be obtained from statistics. I don't believe statistics should be used to advocate particular positions. Anybody should be able to draw from the statistics those concepts which he thinks are particularly relevant.

Mr. BURKE. We are going to get facts and figures from the Defense Department and from the State Department on what economic aid and what military aid is being given overseas and how much of those figures are being included in our exports.

I am anxious to have those eliminated from our export figures because I believe they create the false illusion that we have a better trade picture than we have. You can't give something away and then include that as export sales.

Mr. HOUTHAKKER. I will just say that it can certainly be argued. Actually the importance of these items to our total trade has been declining, not increasing. The improvement which we have had in our export position is not due to increased economic and military aid.

Mr. BURKE. There are all kinds of gimmicks going on in the Government.

Mr. CAREY. I think we should research this point and pin it down.

Only last week we heard from the chief military officer in charge of military sales in response to a question addressed by the gentleman from Ohio, Mr. Vanik, that we had an increasing volume of military sales that was included on the export side of our balance of payments. The volume was increasing and he was very elated by that increase. It may not continue.

I hope it will not continue because that is the last thing that we should take pride in—that we are selling more weaponry around the world.

I think the record shows it has been on an increase in the past few years.

Mr. HOUTHAKKER. I think we must distinguish between military sales and military aid. If we sell aircraft for cash rather than in some form of aid program, that is just like any other export, certainly we can discuss whether it is a good export in some sense or not, but nevertheless it is a real export.

It so happens we are good at building military aircraft.

Mr. CAREY. I think you will find when the Pentagon makes military sales to nations that are well disposed to the United States there is an element of credit, element of favorable action in terms of pricing.

I don't believe we get a full sales' dollar in terms of the transaction.

That has been my experience with the military. We do it, as you say, helping to defend the country.

The last point is that I think we are going to need any chip that we can put on the table in order to get a fair shake.

That is what the President says he wants in trade negotiations. Even though NATO is not the same configuration as the EEC, it is very simple, we won't include the NATO commitment we have to Turkey, since it is not a member; we will not include the NATO commitment we may have to Ireland; it is not a member of NATO.

While France is not a member of NATO any longer, she profits generally from the presence of our fleet in the Mediterranean. I think we have to include, at least in terms of the disposition of our forces around the world, some continued desire for understanding of our trading partners that America continues in trouble in the balance of trade and balance of payments and it is specifically because we have to provide assistance to the EEC because the EEC is still unable to defend herself against the other great power in the world who is not a member of the EEC, namely Russia, the Soviet Union.

I think we need those trading chips.

The last thing I ask is: Would you favor that in all of our discussions we state our balance of payments and balance of trade to reflect the c.i.f. value of goods and not the f.o.b. value of goods as statistics are now prepared because, when we omit insurance and freight on cargoes in the trade figures, it makes it look much better than if we include them because on the f.o.b. basis we do not include the insurance and freight factors which are also dollar losses to this country since they must be paid for the import to reach or the export to reach its destination?

That is one of the points in our committee preparation of the bill. Should we require that all figures be either f.o.b. or c.i.f., and which do you favor?

Mr. HOUTHAKKER. Let me first point out that under the question of our defense expenditures abroad and the cost of NATO, we certainly should try to get our allies to share more of the burden. That is a point on which I think there is general agreement.

The only question is whether this should be thrown in with the trade negotiation.

Congressman Gibbons has pointed out the practical problems in doing so. I pointed out the national security problems in making our military preesnce abroad a matter of economic negotiation.

I believe that the question of burden-sharing is one that should be pursued. I believe this is one of the implications of the speech that Dr. Kissinger made a few weeks ago about a new part in our alliances. I was not saying we should not pursue it, but merely that it should not be part of a trade policy discussion.

Now concerning the question of f.o.b. and c.i.f., we have to realize in the first place that for the balance of payments or for the current account, which are the important concepts in this connection, it does not make any difference. The freight we pay and the insurance we pay is appropriately deducted in some other place in the current account, although not under the heading of merchandise trade.

I would say it is logically defensible to have our accounts either on f.o.b. or c.i.f., and it is a little hard to explain why we treat exports one way and imports the other way. I don't see any great problem going to a different statistical concept. This should be done in such a way that anybody who wants to investigate certain problems can categorize the figures in a way that is most useful to him.

Mr. CAREY. I am anxious that it be on a c.i.f. basis because I am very, very determined to find out in trading the subsidies and the export subsidies that are enjoyed by our trading partners in cases where the export itself and the freight for the export is subsidized by a foreign government such as the case of the Norweigian Merchant Marine and things of that kind. I want it in here because I think it is important, for our trade negotiations may consist of an export subsidy on occasion.

Thank you, Mr. Chairman.

Mr. BURKE. Mr. Duncan will inquire.

Mr. DUNCAN. Thank you, Mr. Chairman.

I take it that all of you advocate free world trade.

What would be your views on trade across the board?

Let us sell what we can do best and let the other countries sell what they can do best?

Mr. ALIBER. I think I would consider this a desirable objective in the long run as it is the desirable objective domestically, with perhaps

national security and one or two other exceptions to complete and eventual eliminations of import barriers. I would not advocate, as I have suggested in my statement, an immediate move to free trade.

Mr. DUNCAN. You don't advocate free trade today?

Mr. ALIBER. Tomorrow, next year, or necessarily in the next 5 years. We build up a certain set of expectations behind the existing trade rules, and I think those rules should not be changed abruptly.

Mr. DUNCAN. You don't think we should have free trade today then?

Mr. ALIBER. I don't think we should have free trade today nor should we have free trade tomorrow.

Mr. DUNCAN. I take it you don't advocate free trade then?

Mr. ALIBER. No.

Mr. DUNCAN. Not at this time, is that right?

Mr. ALIBER. I certainly think that I advocate a move toward freer trade over a long-run period. I emphasize the desirability of the long-run period because I think we want to minimize the shocks that will occur from the reduction of tariffs, from the removing of ASP, from the removal of other non-tariff barriers.

Mr. DUNCAN. Do you think that trade, to be free, should also be fair?

Mr. ALIBER. I certainly think that trade should be fair. Indeed, in my statement I have suggested that there may be some desirable multilateral exceptions to the general principle of free trade for a country which may not be following a policy of reducing its own trade barriers.

Mr. DUNCAN. If trade must be fair to be free, then we don't really have free trade in the world today.

Mr. ALIBER. I think we are mincing around with words, sir. I have suggested we ought to move toward freer trade as an objective. If we could have free trade and fair trade, I would say this is desirable.

Mr. DUNCAN. I am not mincing words.

Sometimes it seems that some of the so-called free-traders, they believe in free trade one-way; and they don't think it should go both ways.

Do you think that if the President does not get the right to negotiate, and the countries don't get together and begin to sort matters out, that conditions might get worse?

Mr. ALIBER. I think if one were to study changes in the trading patterns over the last 10 or 15 years, one would see that the number of trade barriers has increased. I think this has meant in the U.S. context a higher cost to the consumer from being denied the opportunity to lower cost goods.

One of my colleagues has made an estimate of this cost, and it turns out to be a rather substantial tax that consumers have to pay as a result of the protection afforded producers of a small range of import-competing products.

Mr. DUNCAN. How would you go about getting Japan and some of the Common Market countries to change their minds and remove some of the trade barriers against U.S. exports?

Mr. ALIBER. Which trade barriers do you have in mind, sir?

Mr. DUNCAN. For example, our electronics exports to Japan; some of the Common Market countries, our agricultural products, computers, television sets, and so forth.

Mr. ALIBER. One bargaining strategy might be to suggest that each country might have two or three products which it could remove for a time from the trade negotiation, that we would not extend reductions in our non-tariff barriers on an across-the-board basis to countries which, in turn, were not making reciprocal reductions in their tariff and non-tariff barriers. Thus, if Japan or the EEC wanted to remove a certain range of sensitive items from the trade negotiation, we would counter by removing similar sensitive items from the list of those on which we would reduce our barriers.

Mr. DUNCAN. What if they didn't want to do it?

Do we reciprocate?

Mr. ALIBER. I think our effort or ambition to reduce trade barriers would end up being frustrated.

Mr. DUNCAN. Should we reciprocate at that time?

Mr. ALIBER. If you are asking should we make a unilateral immediate move and eliminate our trade barriers without reciprocity on the part of other countries, I think the answer is obvious, that we should not.

Mr. DUNCAN. Thank you, sir.

Thank you, Mr. Chairman.

Mr. HOUTHAKKER. May I add something to this, Mr. Chairman. One thing we have to bear in mind is that there is no agreement at all on who has the most burdensome trade barriers. There is some disposition, I think, to think that we are lily white in this respect. This is not the case. It is because of this that there is a possibility for reciprocal reducton of trade barriers.

Mr. DUNCAN. My time is up. Thank you, sir.

Mr. BURKE. Mr. Waggonner is recognized.

Mr. WAGGONNER. Thank you, Mr. Chairman.

Professor Atkinson, you take the position that the power of the President to retaliate against what you refer to as unfair competition should be restricted, and you talk about amending antidumping statutes.

Are you referring to antidumping statutes as being unfair competition?

Mr. ATKINSON. As I indicated in my statement, although I did not address myself to it verbally, I suggested that, since we are observing in the trade reform act of 1973 a number of amendments to our antidumping statutes, that we should begin to face squarely some of the issues that are involved in dumping.

In particular, there is an argument that if an industry sells its commodity at two different prices in foreign and domestic markets, that this is in fact an indication of unfair trade.

In fact, the literature makes distinctions between three types of dumping: sporadic, predatory, and persistent dumping. Sporadic dumping occurs when a firm or industry is stuck with distressed goods and since it has no desire to disrupt its domestic market, it seeks foreign outlets and dumps, causing injury and disruption in the foreign market.

The second form is predatory dumping. By predatory dumping we usually mean situations in which foreign firms seek to sell their wares at a price much below the domestic price in order to gain access to the market and/or drive out the competition and then, subsequently, raise prices.

It seems to me that the U.S. position on this can be clear and that

we should be strictly opposed to any form of predatory or sporadic dumping.

Mr. WAGGONNER. Is this what you mean that constitutes unfair competition from our trading partners?

Mr. ATKINSON. I think those are examples of unfair competition.

Mr. WAGGONNER. Are there any other prime examples?

I will get back to dumping in a moment. Are there any other prime examples of unfair competition? You see, I find unfair trade practices pretty difficult to defend—and I think you will, too, if you think about it—to say that we should not do anything about unfair competition. That is what fundamentally you said, don't let the President do anything about unfair competition. Unfair competition is just bad on the face of it.

You justify for me why we should not do something about unfair competition if we are going to think about American business and jobs first.

Mr. ATKINSON. I am quite sympathetic to your view. To the extent that we can agree on what constitutes unfair competition——

Mr. WAGGONNER. That is what I am trying to get you to tell me.

Mr. ATKINSON. I have listed two examples of unfair competition: sporadic and predatory dumping. These are clear cases of unfair competition, and the President should have the authority——

Mr. WAGGONNER. Tell me why he should not have the authority because you have taken the fundamental position that he should not be able to retaliate against unfair competition.

The two instances you said you considered unfair you now change your position and say he should be able to retaliate.

Mr. ATKINSON. I think we have a bit of confusion, if you will allow me one moment to clear it up.

Mr. WAGGONNER. Yes, sir.

Mr. ATKINSON. In instances where there is persistent dumping, instances in which persistently and consistently foreign producers sell in the U.S. market at a price below what they charge in the foreign market, which may arise because in the foreign market such firms have monopolistic positions which allows them to charge higher prices——

Mr. WAGGONNER. Basically our antidumping statutes are aimed at not the price they sell in another foreign market such as our market would be a part of but the price at which they sell at home in their own market.

Mr. ATKINSON. As I understand it, the price—

Mr. WAGGONNER. Because of freight and some other things they can sell a little cheaper to another foreign market than they can here.

Mr. ATKINSON. A number of the amendments in the Trade Reform Act are designed to remove those differences.

Mr. WAGGONNER. Let us talk about antidumping from this point of view. What do you believe that our position in our Government should be with regard to dumping, two types of dumping, and dumping involves a subsidy in the final analysis. Should they be allowed to provide both a Government subsidy when they dump and a private subsidy, or just one or the other? Comment there. You know what I refer to when I talk about Government subsidy or a private subsidy.

Mr. ATKINSON. With respect to the Government subsidy I must say that is a very complex issue to which I will defer to other members on the panel. With respect to the private—now it is not clear to me what constitutes a private subsidy.

Mr. WAGGONNER. Let me define it for you so that I understand it and I have talked to some American business people about it. Private subsidy involves a subsidy when a product is dumped where in they sell in our market at a price lower than their manufacturing or production cost at home and the business involves subsidizing that product they dump. That is a private subsidy.

Mr. ATKINSON. I defer to Professor Aliber.

Mr. ALIBER. This does seem to be a case in which it would be a legitimate U.S. policy to restrict the import of those products.

Mr. WAGGONNER. Make that statement again. I want to be sure I understood it.

Mr. ALIBER. If the evidence shows that the foreign goods are being dumped in a predatory way——

Mr. WAGGONNER. We are not necessarily talking about a predatory way now because our last discussion had to do with consistent dumping.

Mr. ALIBER. To go to your question, your question was, if the sales price is below the cost of production. Now, if the sales price is below the cost of production, then the firm eventually goes out of business, so it cannot be persistent, it must necessarily be temporary.

Mr. WAGGONNER. That is not necessarily so.

If it is so, if they do it worldwide, it is so. But if they do it only in one market, it is not necessarily so. It is like a grocery store that takes a loss on one item and profit on the two others and they average it out.

I don't know of any business that dumps everything they sell. They do it selectively.

Mr. ALIBER. If the evidence would show that foreign goods are being dumped in the U.S. market, that is, the U.S. selling price is below either the selling price in the producing country or below the cost of production, then it seems to me we have a case for arguing that the fair trade rules are not being followed and a case for levying restriction on imports from that country.

Mr. WAGGONNER. Then you agree with me that unfair competition should be met and the President should have the power to retaliate.

Mr. ALIBER. Sir, in my statement I suggest that one of the exceptions to this general principle of moving toward freer trade consists of appropriate strategies toward countries that are unwilling to follow the trade rules that we would like to follow, that are unwilling to abide by a code of fair competition.

Mr. WAGGONNER. We would like to follow the rules that we have to follow to survive.

We are not doing what we would like to do. We are doing what we think we have to do.

Mr. Chairman, we could go on and on. I just don't think that you can make the case and gain many converts that we should not retaliate against unfair competition.

Thank you, Mr. Chairman.

Mr. BURKE. Mr. Karth.

Mr. KARTH. Thank you, Mr. Chairman.

Professor Houthakker, the first devaluation was good, and I guess you are right, most people agree that it probably was good. The second one was questionable, and I guess most people agree it was questionable. Some think it is good, some bad, so it is questionable.

How would you categorize the third one, whether it is unofficial or official?

Mr. HOUTHAKKER. I think the third one would almost certainly be undesirable. I certainly hope it is not coming about.

Mr. KARTH. As I read the latest news this afternoon on the ticker, I am not so sure. It might one way or another be devalued. That is the reason I asked you that question.

Mr. HOUTHAKKER. You have the advantage over me there. I have not seen the ticker. It would seem to me that it is most unlikely—after all the present parity of the dollar if you can call it that, the present value of the dollar in terms of foreign currencies gives very strong promise of correcting the deficit we have had on our current account and turning it into a surplus.

Mr. KARTH. I am not talking about what we might do, but if all currencies of the world go to a free floating status, for example, and as a result of that their valuation, their value goes up and ours stays constant or goes down, obviously our dollar has again been devalued.

I am asking you how you would categorize that, bad or good?

Mr. HOUTHAKKER. I would characterize it as undesirable.

Mr. KARTH. That is enough of an answer. I understand you.

Let me ask you this question: How much of our imports versus our exports increased since 1965? That is to say, by what percentage has our imbalance of trade grown since 1965? Is it 100 percent, 300 percent, what is it?

Mr. HOUTHAKKER. In 1965 we still had a surplus on trade. So it is difficult to find a percentage. One can certainly calculate the individual increase in exports and imports, but not in deficits as such.

Mr. KARTH. We are in deficit by $6 billion, and then we are in surplus by I don't know how many billions of dollars. At any rate, there has been quite a substantial swing.

How much has the dollar been depreciated since 1965 during the same year, using the same year as a base point, by virtue of increased prices? Does that figure 60 percent? It seems to me I heard today it was 60 percent.

Mr. HOUTHAKKER. On the CPI, Mr. Aliber tells me it is about 36 percent.

Mr. KARTH. You know, the reason I ask these questions is because I have been inclined to be a so-called free trader, that is one who favors the removal of tariffs and non-tariff barriers, to provide competition, as you have indicated, which is good because it tends to keep prices down here in this country, particularly in the areas of efficiently made imported goods.

It causes our own manufacturers to compete with those imports. But since our balance of trade has swung so dramatically in the last 6 or 7 years, and since the cost of living has gone up so dramatically in that same period of time, can we honestly continue to say that?

It seems to be somewhat paradoxical. I have made a number of speeches on this subject back home, and they sounded pretty much like the one you made.

I made them without such excellent supporting evidence as you have presented today, but the question is very difficult to answer.

Okay, if this is true, then why have our prices escalated so dra-

matically during the same period as our imports have escalated so dramatically?

Mr. HOUTHAKKER. There are two answers one can make.

Mr. KARTH. Don't give me the simple aswer now which I have been giving, which is, well, if it had not been for that fact, the prices would be higher still.

Mr. HOUTHAKKER. No, I was not going to say that. I realize that that is not too helpful.

There are two things which one can say. In the first place, prices in other countries have gone up even more. Our inflationary performance, unsatisfactory though it is, is better.

The second reason is, after all, that imports and exports are a very small part of our total supply and demand.

Mr. KARTH. It is now 13 percent. That is not so bad.

Mr. HOUTHAKKER. You mean the total of imports and exports?

Mr. KARTH. Yes, sir, something like that, 13 or 14 percent.

Mr. HOUTHAKKER. It strikes me as being a little on the high side.

I don't think if you add exports and imports together, you would get quite that high, but I will look it up and defer if you are right.

Let me say, though, that our inflation which has been quite serious is the result of our domestic fiscal and monetary policies primarily, and international trade makes a marginal difference to our general price level.

It does make a difference in particular industries good or bad as the case may be, on our overall price level. We cannot expect to have too much benefit from imports there, or, for that matter, too much harm from imports as far as the price level is concerned.

It is true, however, in the case of agriculture our exports have undoubtedly contributed to the rise in domestic food prices. There is some effect, but it is not a major effect. Domestic fiscal and monetary policies are the primary cause.

Mr. KARTH. I have a great deal of respect for the profession that you so ably represent. Why do you professionals in that profession disagree with each other so much and to such a degree?

If there is any science to economics, why do we have such wide variation of disagreement between you professionals?

You know, it is difficult for us to take anybody's advice any longer because the professionals disagree with each other more than this committee does, and it is kind of alarming to me.

Mr. HOUTHAKKER. I am afraid this impression may not be altogether correct. The fact is on the subject of free trade, 3 years ago when the 1970 bill was before this committee, a petition was signed by I don't know how many thousands of economists. I believe there were 3,000 signatures, and only about 10 people were unwilling to sign the petition. On the question which we are discussing here, the economics profession is virtually united.

Mr. KARTH. I am certainly glad to hear that. On how to run the economy you are disunited.

Mr. HOUTHAKKER. On the question of how to run the economy there are some disagreements. They can also be exaggerated. I believe on most issues there is agreement. When we get to more specific details, then there may be disagreement.

Mr. KARTH. It is the specifics that kill us. It is the specifics we have

to deal with in this legislation, Professor. That is the unfortunate part of it.

Mr. HOUTHAKKER. I am not sure on this specific legislation you will find a great deal of disagreement. You will have other economists before you and you can probe that.

Mr. KARTH. The problem is that everyone pretty much agrees generally, but it is the specifics on which they disagree. That is the point I wish to make.

Thank you.

Mr. BURKE. I would like to say this.

I have been reading your brochure here of the Public Interest Economics Center. Many of the ideals I agree with. You have listed I believe 400 economists. Do they all donate their time?

How is this all brought about? I am always interested in how a group of 400 people can get together and get themselves involved for the good of the Nation because I would like to get 400 people like that, myself, sometime, and I don't have the money to bargain.

I often wonder how you people are able to do it.

Mr. FERGUSON. You have as much money to organize as we spent organizing, Mr. Chairman, I am sure.

Mr. BURKE. You say I have enough money?

Mr. FERGUSON. You have as much as we spent, sir.

This 400 economists is a list of men and women around the country and a few abroad, that is correct, who have indicated to us by filling out a form that is on the back of that paper that you have there, and we have about 400 names, and don't hold me to whether it is 390 or 410, of people who have indicated an interest in the center and most of whom have indicated that they are prepared to participate in one way or another in the program.

We don't know at this stage how hard a list that is. By and large, when we have called on individuals on that list to do something, we have gotten perhaps between one-third and one-half affirmative responses.

For example, we tried, as I recall, six or seven people to help a public interest law firm examine a case being made for the subsidization of super tankers. We made, as I say, six or seven inquiries. We got two people who came back and did, in fact, devote maybe 2 or 3 man-days to helping in that way.

Mr. BURKE. I don't want to take too long because we have other witnesses. What I am trying to find out: Do all these people donate their time? Are any of them paid?

Mr. FERGUSON. All of them have indicated a willingness to donate their time. Some of them we have called upon, but we have certainly not called upon 400 and they have never all met in the same room or anything of that sort.

They are people on whom we will call when a particular occasion arises.

Mr. BURKE. What does it cost to operate the center?

Mr. FERGUSON. We have financed the center so far——

Mr. BURKE. I don't want to get down to specifics. I am greatly impressed by this panel that is here today. I know you must have come here under a great deal of expense and time and put together an excellent statement.

I would just like to get acquainted with how this has been done.

Mr. FERGUSON. Every member of the panel has volunteered his time. They have paid their own expenses. Mrs. Sissman volunteered her time to organize this. I am sure she spent a woman-week on the telephone talking with people to see if they would do it.

We have financed the whole thing 90 percent through contract research, and we charge a fee on that contract research just the same as a profitmaking firm would, and we spend the fee with tremendous leverage doing this kind of thing.

Mr. BURKE. None of you people, I imagine, are on the payrolls of any foundations?

Mr. FERGUSON. The Center has about 10 percent of its money now in the form of a grant from the Stern family fund.

Mr. BURKE. I mean none of you have incomes from foundations?

Mr. FERGUSON. As far as I know——

Mr. HOUTHAKKER. I am doing research on other subject for which I have a contract which indirectly is with the Ford Foundation, but it has nothing to do with my appearance here.

Mr. BURKE. You are hitting a tender subject when you mention the Ford Foundation. I just want to commend you. I think you have put some excellent statements together.

I don't agree with a lot of them. I want to commend you for being able to put such high lofty ideals together and principles.

Mr. FERGUSON. May I say one thing to really qualify myself before you?

Mr. BURKE. Yes.

Mr. FERGUSON. I was brought up in Pawtucket. I saw J & P Coates close and Lorraine close and I saw Clarke close. I want to leave no impression that the people here are callous or hard about the imposition that these changes impose upon people. They are really terrible things.

What we are talking about is the need to avoid further barriers that will create new problems, that will some day have to be solved again at this terrible human cost of forcing people out of their jobs and out of their communities.

If the country does not avoid that process of going into further protectionism, why, then, if the country does not avoid going into further protectionism, then the process is just going to be repeated again and again.

Mr. BURKE. I want you to know I was on the committee when the trade bill was passed in 1962, and I voted for it.

Mr. FERGUSON. I was sure.

Mr. BURKE. I listened to all the wonderful promises that the government made at that time about adjustment assistance. But you see, I have gone through the experience. I have seen shoe factories closed in the city of Brockton that was once a shoe city of America. Now they are talking about putting a museum up there as a memorial to the industry that was once there.

I have seen 25,000 electronic people laid off along Route 128, not too far from that great university across the Charles.

I have watched over 30,000 textile workers lose their jobs. So, we have had old industries and new industries both affected by imports.

You know, it is nice for you sitting on that side of the table. I would love to be out there and not have to face the people of the city of

Brockton and all these other areas a year from now and explain to them why they have high unemployment in their area and be able to talk to them as glibly as you people have, that imports are not the cause of the problem.

You see, I would like to ask my good friend from Harvard if he agrees with the prediction of the First National Bank which made a study of New England and predicted that within 10 years New England would become a service-oriented area.

Do you agree with that?

Mr. HOUTHAKKER. I think it is quite possible, yes.

Mr. BURKE. If this happens, where will those hundreds of thousands of people who are in jobs today get jobs?

Mr. HOUTHAKKER. Well, service industries generally have a high employment ratio to their output. This, I think, by itself will not make the employment problem overall more difficult, although I agree that it may make it more difficult for people who have certain skills in manufacturing.

Mr. BURKE. What service jobs do you think they will get outside of being life insurance salesmen?

Mr. HOUTHAKKER. I would have to look up the study which you referred to which I am not familiar with to see which particular industries are involved. I would like to point out that overall employment in New England has, on the whole, weathered the various adjustment problems.

Mr. BURKE. You do not believe the unemployment figures that are being put out by the Government as being accurate, do you? You are a statistician. You recognize figures when they come out, when they gloss over things. Do you believe that 100,000 people who are employed in 1971, a full week in 1971, and that same 100,000 people who are employed only 2 days a week should be put in the same classification?

Mr. HOUTHAKKER. I do not want to minimize the problems of Massachusetts——

Mr. BURKE. I am talking about the country now. I am talking about the Nation. The Department of Labor classifies a person as being employed if he works 1 hour a week. Don't you think we should have some different type of statistics? You know what has happened in the Government. We have changed all kinds of formulas and statistics.

We have a unified budget now which makes it look like we have a much smaller deficit than we actually have. They are setting up a new Federal bank now so that they can extend debts over $15 billion more, so that it looks like our national debt is a lot lower.

There is all kinds of gimmickry going on. That is why I asked the question about economic and military aid being included in our exports. The trouble is that there is a lack of truth as far as letting the people, the public, know what is actually taking place.

One of the worse frauds and hoaxes that is being perpetrated on the public today are these unemployment figures that are going up. How do you account for a State like Massachusetts, where they say that unemployment is dropping down and welfare is skyrocketing?

How can these two things happen? It seems to be inconsistent that welfare could be spiraling up and unemployment dropping. It does not make sense. Apparently, some people must be losing their jobs and more people than the statistics would indicate on the unemployment end.

Mr. HOUTHAKKER. I cannot answer your question as to welfare in Massachusetts. As you know, people have become more aware of the conditions under which they can obtain welfare. The welfare roles have increased in many States, in part, due to immigration.

Mr. BURKE. They have increased in Massachusetts 25 percent over the last year. Would you say that is because the social workers have given them more information this year than they had last year, or does that mean that the unemployment figures are increasing or the unemployment figures are going down?

There seems to be an inconsistency here whereby welfare can take a jump of 25 percent a year and unemployment figures in that same State can be dropping almost 1 percent.

Mr. HOUTHAKKER. I am afraid I do not have the answer to that question without a lot of research.

Mr. BURKE. That is what I would like to have you fellows from Harvard do over there. I like Harvard. I have a great deal of respect for it. I think sometimes you have the tendency to get behind those ivy covered walls over there, and you look out over the beautiful green lawns, and you see that beautiful Charles River flowing down there with the boys rowing up the river and sailing up the river, and think everything is hunkey-dorey.

I would like to have you go over to Massachusetts Avenue, over to North Hampton Street, and talk to some of the people over there. Get down and say to the fellow, "Why are you unemployed? What job did you have?" Or, go down to the employment security office and talk to the long lines of people who are there, and find out which industry they were with, how they lost their jobs.

Talk to the people at the Stetson Shoe Co. that just closed down two weeks ago, in Whitman. Talk to those people. Forget about your statistics and the figures that the government is putting out. Get out among the people and start talking. That is who I hear from.

I go around the district during recess. I invite all the people to talk to me. Of the 2,100 people who came in to see me during the recess, 1,100 of them has lost their jobs in the last year. A lot of them due to the base closing, a lot in the footwear, some of them in the tanneries.

For instance, our great administration here, they talk with forked tongues. Secretary Butts here last week opposed placing any embargo on the export of hides, although hides are very short and tanneries were closing down, because they could not get any hides.

Then, we had Secretary Dent of the Department of Commerce, and he is advocating an embargo on hides. So, they get them happy on both sides.

This bill, if you read it over, you know one of our witnesses here testified where he objected to where we would have retaliation if there was unfair trade practices. It also has some free trade ideas in here that he did not object to. In other words, he is happy with the free trade ideas.

There are other people in the audience who are very unhappy with the protectionist features that are in the bill. This is what this committee is going to be concerned about. We have to decide here just what type of trade bill will come out of this committee.

The first interest we have to have is the interest of the Nation first. Coming from the region I come from, I was a free trader in 1962, and

you can believe it. I was going right down. I was in the vanguard carrying the banner right down the aisle.

When I saw those plants being closed down left and right, falling like tenpins in my area, and I saw 15 factories closing in my district since 1965, employing 450 to 500 people, 165 shoe plants closing in New England since 1965, then over 30,000 textile jobs lost and 25,000 jobs lost in the electronic industry, and thousands of others in sporting goods and other industries, 185,000 people unemployed, I cannot afford the luxury that you gentlemen are now enjoying sitting out there, telling us not to do something about unfair trade practices.

You see, we are confronted with this. I have to go before my people a year from next November and give them an accounting of my stewardship. I won't have a group of bright-eyed young students sitting before me listening to me in admiration of the great free trade philosophy that has been taughtt in all of our great universities since the 1940's.

I am faced with realistic facts. That is why I would expect a place like Harvard, the great brilliant men you have over there and I respect you, believe me. I am not being disparaging about Harvard, but I think there is a tendency in these great universities to do all their studying and speculating on statistics, and they believe the facts and fiction given out by the Government.

But, talk to some of the people around, and you will find out they are losing their faith in the statistics, because they do not turn out to be true. This is why you have this lack of understanding, particularly amongst the young people.

I am not going to blame the universities for this alone, the universities can pick up a part of the blame for it, public officials can pick up part of blame too, and the public and the news media share part of the blame.

Telling the people the truth and the facts is needed.

That is why I took this disagreement with you on what has happened in New England. We never recovered once those industries went out of New England.

We picked ourselves up during World War II and the Korean war came long and the Vietnam war and that created a false economy. When we get down to a piece-time economy that is where you should make your studies. That is where you should find out about a city like Brockton that has 10 percent unemployment today and a city like Fall River that collapsed or a city like Lowell that has 12 percent unemployment or Haverille or Lawrence, those communities.

It is easy to say you can have a conversion, but what happened up in Nashua, New Hampshire, when the Amoskeag mills closed.

That city collapsed and even today they have not recovered fully, but the people from Harvard give the indication that did pretty well.

Mrs. GRIFFITHS. I would like to make an observation. I was trying to convince the Chairman you could put at least 5 percent of those people in Fall River to work once and forever trying to clear up who killed Lizzie Borden's parents.

Mr. BURKE. That is quite a mystery.

On behalf of the committee, we wish to thank you for your appearance and your contribution here today.

Thank you.

Our next witness is the joint appearance of Prof. Walter Adams of Michigan State University, and Prof. Joel B. Dirlam of the University of Rhode Island.

Mrs. GRIFFITHS. I would like to say, Mr. Chairman, before Dr. Adams starts to speak, that we in Michigan are extremely proud of him. I must say that he probably has the best judgment of any man I have ever known for an economist. He had the good sense to act as president of Michigan State and then turned down reappointment as he also refused to run for Governor and you can't be smarter than that.

Mr. BURKE. I will buy that second part.

JOINT STATEMENT OF WALTER ADAMS, PROFESSOR OF ECONOMICS, MICHIGAN STATE UNIVERSITY, AND JOEL B. DIRLAM, PROFESSOR OF ECONOMICS, UNIVERSITY OF RHODE ISLAND

Mr. ADAMS. Mr. Chairman and members of the committee, it is a great pleasure to appear before this committee and to note especially that two of its members, Congresswoman Griffiths and Congressman Chamberlain are both from Michigan and Congressman Chamberlain from my own Sixth District in Michigan.

We have a statement for the committee which is a joint statement prepared by Professor Dirlam and myself. Dr. Dirlam is professor of economics at the University of Rhode Island. I hold the titles of distinguished university professor, professor of economics, and president emeritus of Michigan State University.

Mr. Chairman, we would like to request that our full statement, together with the two attachments, be printed in full in the record at the end of our informal remarks.

Mr. BURKE. Without objection your entire statement and all items appended thereto will appear in the record.

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

Let me state our conclusion first.

We respectfully conclude that the stated purposes of H.R. 6767 are laudable, but that the concern of the legislation is misplaced. In our view the great challenge to the American economy in the proximate future is not imports, but the restriction of import competition in powerful, oligopolistic industries.

Now, Mr. Chairman, we live in a free enterprise economy and in such an economy the major regulatory role is performed by a competitive market and the virtue of competition as a regulatory device is that it makes industries and firms tough, lean, efficient, progressive and viable.

Protectionism or, call it if you please, governmental coddling or governmental permissiveness is the opposite side of the coin. It permits firms and industries to be lazy, lethargic, inefficient and unprogressive.

This means that the economy has to pay a price for that kind of somnolent luxury.

Let me illustrate what we have in mind by being specific. The experience of Professor Dirlam and myself is largely based on studies of the steel industry and the petroleum industry. I think an examination of the record will show that the protectionism in those two industries has had adverse effects on the economy.

Let me cite them. First, with respect to pricing. If you take the steel industry you find, and the Council of Economic Advisers has found, that during the 1950's before imports became a significant factor in the economy, steel prices were the primary engine of inflation. This needs no further documentation.

Starting in 1960 when imports became increasingly significant in the economy, we observe a significant slowdown in the constant price escalation that was found during the 1950's. If you examine the composite steel price index you will find that steel prices from January 1960 to December 1968 increased at an average rate of less than ½ of 1 percent.

I think the exact figure is .45 percent. However, on January 1, 1969, the so-called voluntary steel import quotas went into effect. If you examine the behavior of the composite steel price indx for the 4 years from January 1969 to December 1972, you find that steel prices largely as a result of that protectionism went up at an average rate of 6.6 points on the index or at an average annual rate of roughly 14 or 15 times as much as during the preceding 9-year period while steel imports were significant.

I think it also has to be pointed out that not only does protection mean unrestrained price escalation in the so-called oligopolistic industries because you immunize those industries from competition, in this case foreign competition, but that this kind of protectionism has an adverse effect on certain other domestic industries.

For example, and here we refer to the oil industry, for more than a dozen years we have had oil import quotas in effect. The effect of these quotas has been to raise the domestic price of crude oil above and substantially above the international price of crude oil.

Not only has this adversely affected the consumer public but it has also had an adverse effect on those domestic industries which are compelled to use crude petroleum as a raw material in their production.

I refer to the chemical industry, the petrochemical branch of that industry in particular, which uses crude oil as a feed stock. That petrochemical industry is one of the main factors in producing a favorable balance of trade for the United States in the markets of the world and I am now talking about companies like DuPont, Allied, Dow Chemical and so on.

Yet that industry has to compete in the international markets of the world with countries like Japan and Germany and France and many other advanced industrial nations, which do not have to pay the penalty of unduly high prices for crude oil. In other words, they can get their raw material at a much lower price than can our domestic chemical companies.

It seems to us that by trying to give the oil industry a measure of protection, we disadvantage another American industry, namely the chemical industry. Let me also say this. Protectionism to the extent that it permits oligopolistic and monopolistic to lead the quiet life, to be lazy and lethargic, inefficient and technologically backward, to that extent it benefits neither the industry concerned nor the men and women employed by that industry, nor the national economy.

We can think of no better example than the railroad industry where you had a combination of constant wage escalation by the workers in that industry with a constant rate escalation by the management and

the approval of these practices by the governmental agency charged with their supervision, namely the Interstate Commerce Commission.

The permissive coddling attitude of that Commission has helped put the industry into the deplorable condition in which it now finds itself. I do not think that this represents a happy prototype or felicitous model for Government policy.

With respect to the specifics of H.R. 6767, we have made some comments starting on page 15 of our joint statement. I will try to summarize briefly or would you prefer me to skip those reservations that we have about this bill in particular?

Mrs. GRIFFITHS [presiding]. It would be quite all right to summarize them.

Mr. ADAMS. In title II of the bill, provisions are made for "Disruption Caused by Fair Competition". Now, to begin with, if competition is fair, one wonders whether any policy is called for; one of the foundations of our free enterprise economic system is that "disruptions" caused by fair competition are beneficial, and do not call for intervention.

The bill, however, provides that if a Tariff Commission investigation shows that there is a threat"—section 201(b)(1)—of an import being a primary cause of serious injury, the President may take any steps ranging from raising duties to suspending imports; he may also provide assistance to workers, or negotiate "orderly marketing agreements"—another name for quotas.

Extreme discretion is left to the President, and this exposes him to special pressures from a politically powerful industry—or compaign contributor—to adopt the measure of import relief" the industry prefers.

In addition, "serious injury" is, to all intents and purposes—given the speed with which the Tariff Commission is supposed to make the investigation upon which the President will act to provide import relief—the same as "market disruption".

And market disruption" is defined—section 201(f)(2)—as equivalent to imports that are increasing rapidly both absolutely and as a proportion of total domestic consumption, and sold at prices substantially" below domestic articles.

Certainly, given the President's discretionary authority there is danger that the Tariff Commission will do no more than make a finding of "market disruption" with respect to a single article, that will then lead to imposition of a quota, or imposition of a prohibitive duty.

True, the President might instead provide adjustment assistance, but it is up to him to make the decision.

Of course, duties have to be imposed on articles, but there should be some provision in the law to prevent the Tariff Commission from defining, as it tends to do in dumping cases, the industry and the injury in terms of articles. That is too narrow a definition.

Otherwise, "market disruptions" in conditions of fair competition will lead almost automatically to import relief.

Further, the definition of "directly competitive with" seems so broad as to cause concern about harmful application. This definition of "directly competitive with" is strategic, because in section 201(f)(2) the Tariff Commission can find market disruption if imports of a "directly competitive article" are substantial, et cetera.

Under the definition, the imported article is "directly competitive with" a domestic article even if the economic effect occurs at an earlier or later stage of processing. For instance if gasoline is imported, and this cuts into the market for gasoline, and affects the price of domestic crude, the imported gasoline is considered "directly competitive" with domestic crude, et cetera.

Now, this provision has a superficial appeal, but in view of the tapered integration prevailing in the steel and petroleum industries, the history of squeezes extending from semifinished to fabricated products, the definition masks a very dangerous extension of the Tariff Commission's powers to find "market disruption."

Unless there is also a requirement that the domestic industry be found to be vigorously competitive, the application of the definition might buttress the maintenance of undue oligopoly power.

As far as title IV is concerned, we applaud the even-handed way in which the bill is drawn to permit the President to cope both with balance-of-payments deficits and surpluses. Again, our major reservation relates to the power conveyed to the President by these provisions.

He is authorized to act whenever the official transaction balance or the so-called basic balance are in substantial deficit or surplus for four quarters consecutively, or there have been serious or large changes in net reserves, or the exchange value of the dollar has been or threatens to be "significantly" altered.

The bill seems to ignore, Mr. Chairman, the possibility that a deficit in the official transactions balance or decline in net reserves or exchange value of the dollar may result from many causes other than imports. Why, then, make imports carry the burden of readjustment of the balance of payments, especially since we seem to have adopted the floating dollar as a remedy for balance-of-payments difficulties?

In many ways, a floating exchange rate seems preferable to singling out imports for special restrictions.

Mr. Chairman, Professor Dirlam and I will be delighted to answer any questions that members of the committee have.

[The prepared statement follows:]

STATEMENT OF DR. WALTER ADAMS (MICHIGAN STATE UNIVERSITY) AND DR. JOEL B. DIRLAM (UNIVERSITY OF RHODE ISLAND)

This is a joint statement presented by Walter Adams and Joel B. Dirlam, speaking in their capacity as individual scholars. Walter Adams is Distinguished University Professor, Professor of Economics, and President Emeritus at Michigan State University. He is also director of the university's Program for the Comparative Study of Industrial Structures in the Atlantic Community which has received grants for unrestricted research from the American Institute of Imported Steel. Joel B. Dirlam is Professor of Economics at the University of Rhode Island and director of the university's Institute for the Study of International Competition which has also received grants for unrestricted research from the American Institute of Imported Steel. He is currently an economic consultant to Pechiney-Ugine-Kuhimann in the stainless steel wire rods dumping case before the U.S. Tariff Commission.

1. In commenting on H.R. 6767, we are drawing on our experience in the steel and petroleum industries, which may be taken as representative or domestic industries liable to be affected by the Bill. In both industries, the United States has moved from an exporting nation to a net importer; both industries have been protected by quotas; both are substantial from the point of view of employment; both are strategic, to some extent, for the maintenance of national security. Our

conclusions regarding the impact of H.R. 6767 on the national economic interest in steel and oil would probably extend, *a fortiori*, to other, economically less significant industries.

THE CASE OF STEEL

2. Little, if any, unemployment can be attributed to imports of either steel or oil products. Analysis of unemployment in basic steel during the years when imports were rising to unprecedented proportions of domestic consumption has shown that the unemployment rate in steel continued at rates no higher than the national average.[1] Only in 1971 did the rate reach exceptional levels, and appears to have been due primarily to the depressed level of activity generally. By 1972, as recovery got underway, the streel industry has been suffering as much from a labor shortage as from a labor surplus. Indeed, the mills have had to resort to novel strategems to secure and retain a minimum labor force, including the acceptance of women as production workers.[2]

UNEMPLOYMENT: BLAST FURNACES, STEEL ROLLING, AND FINISHING MILLS

[Numbers in thousands]

	1969	1970	1971	1972
Unemployment level (steel)	9	18	55	27
Unemployment rate (steel)	1.6	2.9	9.2	4.8
Unemployment rate (manufacturing)	3.3	5.6	6.8	5.6
Unemployment rate (durable manufacturing)	3.0	5.7	7.0	5.4

Source: Monthly Labor Review, March 1973, and Letter from John E. Bregger, Division of Employment and Unemployment Analysis, Bureau of Labor Statistics, U.S. Department of Labor, March 30, 1973.

3. It is generally conceded that total employment in the steel industry has declined since 1959, the year when imports first became an issue. But this decline is largely attributable to two factors, which we are attempting to quantity by econometric studies presently underway. First, as the union itself recognizes, and has attempted to overcome by its recent agreement outlawing strikes, the fear of a strike at the expiration of a contract has led to stockpiling by customers. Stockpiling is followed by a period of inactivity and layoffs, while the inventories are being worked off. The pattern has been so marked that the union has given up the right to strike, and will accept binding arbitration rather than perpetuate this form of instability.

Second, as the industry has reinvested vast sums in new equipment, and as the basic oxygen process has replaced the open hearth, output per manhour has risen steadily. The decline in employment, therefore, over the long term, reflects the rising efficiency of the industry with respect to this input. Most notable has been the drop in domestic employment from 1971—when imports were a particularly high percentage of domestic consumption—to 1973, when output was very close to practicable capacity.[3] Labor productivity usually rises when activity moves up from recession to a period of prosperity; but in this instance, the improvement in labor productivity would appear to be attributable to something more than the business upturn. Apparently, the upturn coincided with the realization of economies introduced over a period of time, the shut-down of obsolescent mills, and perhaps the improvement of management.

In any event, while steel output rose by 12,650,000 tons in 1972 over the 1971 level, employment fell by some 9,000 workers. Coincidentally, *unemployment*

[1] A. F. Shorrocks, "Measuring the Imaginary: The Employment Effect of Imported Steel," *Industrial & Labor Relations Review*, January 1971, pp. 203–215.

The following table is also revealing:

[2] "In recent years, steel productivity has suffered because of labor market conditions in a number of the major steel producing areas, most notably Chicago, Detroit and Cleveland, where a rapid increase in turnover rates has required expanded training programs for new employees," Rev. William T. Hogan, S.J., "Productivity in the Steel Industry," *Center Lines*, Vol. VII, Jan. 1972, p. 8. See also "Women in Steel: First in a Generation," *New York Times*, Dec. 28, 1969, Sec. 3, p. 1.

While the labor situation has eased somewhat between 1971 and 1973, volume continues will in excess of shipping capacity, lead times are lengthening, and backlogs continue to rise. See *Wall Street Journal*, April 2, 1973.

[3] According to the American Iron and Steel Institute, employment declined from 519,569 in July 1971, to 493,500 in March 1973. See also *Wall Street Journal*, April 2, 1973.

(as we have just seen) also dropped, indicating that those who were released either retired, or quickly found jobs in other industries.

4. Allegations of unemployment resulting from imports of steel have sometimes been couched in terms of the number of workers who would have been required to produce the imported steel, had it been made in the United States. We submit that this is a misleading, and, indeed, fundamentally erroneous approach to analyzing the effects of imports.

(a) Any import that could also be made in the United States would, by this argument, cause unemployment; and the more expensive it is to make it in terms of U.S. manpower, the more unemployment such imports would generate. Following this approach, we would be pushed into producing the most labor-intensive items, i.e. those which we make less efficiently than anyone else.

(b) The argument ignores the fact that imports generate the buying power to purchase exports: by cutting down imports of steel on the ground that this will expand domestic employment of steel workers, we thereby curtail jobs for workers in the export industries—so that the increase in steel employment would have to be netted out against the unemployment caused elsewhere in the U.S. economy. According to recent quantitative inquiries, the ostensible gain would be nonexistent.[4] Moreover, some of those expert jobs are directly tied to assurance of supplies of competitively priced steel.

(c) The mechanical multiplication of imported tonnage by the number of domestic workers required to make a ton assumes that the incremental tonnage could be produced at average cost. Actually, as the industry has finally admitted, such a large part of what had been formerly classified as steelmaking capacity is obsolete that the imports could not have been produced by domestic mills except at prohibitive increases in price, which only would have accelerated the switch to steel substitutes. In fact, given the tightening steel labor market, it seems extremely unlikely that the steel industry could have found the personnel to produce the volume of imported steel—even if it had the capacity to do so—in modern, non-polluting, efficient mills.[5]

5. We are facing, in the steel industry, a long-term decrease in the demand for labor attributable to the secular decline in importance of steel in the domestic economy on the one hand, and the gradual, but nevertheless substantial—over the long run—improvement in productivity attributable to innovation. Perhaps the level of employment in the industry could be maintained in the face of these trends, but only by raising the price of steel products high enough to cover the inefficiencies of the marginal plants. This would entail a gigantic misallocation of labor and capital.

6. In general, it should be noted that the industry's dire predictions about idle machines and unemployed workers have been vastly exaggerated. These Malthusian predictions came into vogue during the 1960's to buttress the industry's demands for governmental protection from import competition. Thus, in October 1967, Mr. John P. Roche, president of the American Iron and Steel Institute, told the Senate Finance Committee that quotas were necessary because of the chronic excess capacity in the world steel industry: "It has been estimated that steelmaking capacity abroad now exceeds demand by more than 55 million tons. Countries which formerly relied on imports for their steel requirements have tended more and more to develop their own steel industries and to protect them against imported steel. Home markets of some long-established steel producers have grown less rapidly than expected. These producers have, therefore, taken increasingly to invading the markets of other producers—especially that of the United States." Joseph P. Molony of the United Steel Workers presented parallel testimony to the Finance Committee.

Contrast that position with the industry's current rationale for protectionism. By 1980, says Father William Hogan, a sympathetic observer of the industry and a consistent advocate of import quotas, the annual steel demand will require a world-wide capacity of 1.1 billion raw tons as compared to today's capacity of only 780 million tons. "Blazes, that's a short fall, with new and replacement needs,

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[4] W. Salant and B. Vaccara, *Import Liberalization and Employment*, Washington: Brookings, 1961; and L. B. Krause (Assisted by J. A. Mathieson), "How Much of the Current Unemployment Did We Import?", *Brookings Papers on Economic Activity*, No. 2, 1971, pp. 417–28.

[5] According to H. R. Rosen, chairman of Jones and Laughlin Steel Corp., production during the first half of 1973 should show what steel capacity really is, because the industry is now producing at capacity levels. Moreover, 'the steel industry is already lobbying for federal assistance—both direct and indirect—to finance the capacity gap industry officials say is looming." *Wall Street Journal*, February 28, 1973.

of 600 million tons," he says. (*Forbes*, April 15, 1973) Thus, what was considered only a few short years ago a *chronic world steel surplus* has suddenly become an *endemic world steel shortage*—and the way to cure it, so runs the argument, is by higher prices and higher profits which would make additional investment in steel capacity attractive. This, in turn, would require—almost as a *sine qua non*—a "normalization" of world trade in steel, meaning strict regulation of steel imports and the sterilization of their impact on domestic steel prices.

In short, the steel industry has shown a fascinating talent for using contradictory arguments in support of its inflexible position: in boom and bust alike, it persists in its demands for governmental protection from import competition.

7. If we can conclude that, given the current predictions about a shortfall in steel capacity, the domestic industry simply could not replace imported steel except at prohibitive cost, we should recognize that the persons employed in those industries further fabricating this imported steel, and turning it into final product, owe their employment to the imports. They would have to turn to other jobs, or be unemployed for an indeterminate period if the steel were not available. Although we do not insist that imported steel makes a permanent, net contribution to employment—any more than we would conclude that any change in demand or output in one industry would have a permanent effect on employment—it is useful to recognize that, by our preliminary estimates, something like 1,000,000 persons are associated directly or indirectly with the production of goods for final demand, which are dependent on imported steel.[6]

8. Imports of steel have affected the price of steel in the United States, and have therefore tended to check inflation, and to apply competitive pressures to the members of the steel oligopoly. While influences on prices are so diverse that it is difficult to determine the precise amount by which steel prices have been prevented from rising by imports—particularly during a period when both price controls and quotas have been in operation—the fact that imported steel has been available at between 10 to 20 percent below the ruling domestic price for many finished and semifinished shapes has helped to prevent steel prices from escalating. That this has been a consequence of imports needs no demonstration.

The fact that the United Steel Workers and the domestic steel industry finally united to support quotas makes the point. With a price structure under pressure from imports, the two could not combine to exploit oligopolistic power. That is why both the steel companies and the United Steel Workers support quotas: even though higher wages mean higher costs when demand is inelastic, as it is for steel, a higher price may not lead to a decrease in the quantity sold if all domestic firms raise their prices by the same amount, and foreign steel is not available. In the long run, of course, there may be substitution, as there has been, of plastics, aluminum, and cement for steel; but this consequence seems to have been overlooked by the industry. Indeed, the industry and the union seem blithely unaware of the danger that constant escalation of wages and prices under the umbrella of a protective and permissive government are likely to have the same desultory results in steel as they had in our hapless railroad industry.

It is the domestic steel industry's unwillingness to have its pricing discretion threatened by imports that has generated the most powerful opposition to imports. The employment argument, as we have seen, is specious, and has been used even when unemployment in the steel industry and the economy generally was less than 3.5 percent. But to an industry long accustomed to make its own pricing decisions, the introduction of alternative sources of supply introduced a competitive variable to which it was unaccustomed, which called for greater efforts and efficiency to maintain profit levels, and which necessitated maintaining a technological parity with foreign mills. These were conditions which had not prevailed prior to the import surge of the 1960's, and the industry did not relish the competitive adjustments they necessitated.

9. Imports therefore, through their effect on prices, generate pressures to innovate. Although the process of invention may be mysterious, and indeed not subject to economic law in any easily or directly ascertainable way, the improvement and adoption of invention are governed by profit and loss. Industries not characterized by competition may postpone the adoption or introduction of improvements. Whether the competition is actual or potential does not seem to be important. Driven by the necessity for operating at maximum effi-

[6] Unpublished study (1973) by Abgrall and Grigalaunas. The study is a translation of input-output data into labor requirements per $1 billion of final demand, Bureau of Labor Statistics.

ciency from exclusively imported raw materials, that had to be turned into product marketed thousands of miles away, the Japanese have led the world in blast furnace size and efficiency. In the 1950's the steel industry in the United States was not aware of a competitive threat, and assumed that, when a revolutionary invention like the oxygen converter made its appearance in Austria, there was no point in replacing the anachronistic open hearths with the improved equipment until the former were fully depreciated.[7] To await the scheduled retirement of obsolete equipment is a luxury that only an oligopoly or monopoly can afford.

Imports, by undermining oligopoly power in the steel industry, have made the steel giants more receptive to new methods. U.S. Steel—the industry leader which not only did not pioneer the oxygen converter, but did not even introduce it until many years after smaller firms had found it successful—is now, at last, under competitive pressures, and beginning to use its vast resources for pioneering. With the Q–BOP process, a German invention that blows pure oxygen into the bottom of a converter, U.S. Steel seems to have hit upon a genuinely important innovation. We think we can say, without exaggeration, that the industry has resolved not to repeat the oxygen converter mistake. But had it not been for import pressures, the awareness of the potentialities of the Q–BOP process would probably not have been created.[8]

10. Finally, in assessing the overall effects of steel imports on the domestic industry we should take account of, even if we cannot measure, the factor that Professor Leibenstein has called "X-efficiency".[9] (We do not pretend—nor did Leibenstein—that he was doing anything more than giving a fetching name to a phenomenon that has been recognized since the publication of Adam Smith's *The Wealth of Nations*.) Managements of monopolies, or closely knit oligopolies, do not search for ways of reducing costs with continuing, dedicated, unwavering intensity. One of the advantages of being a monopolist, to a monopolist, is that he can lead a more agreeable life, in which tensions can be relaxed, bureaucracies become entrenched, and promotions are given as the reward for long service. The big steel companies would be the first to insist that, in the past 15 years, they have overhauled their organizations, eliminated some fat, and prepared to compete on a more equal basis with their foreign rivals. While this does not deter them, of course, from efforts in the political sphere to erect barriers to competition through quotas, the companies today feel the competitive compulsion to strive for constant cost reduction—thanks largely to import competition.

11. For all the above reasons, we do not support legislation which would make it more difficult for steel imports to enter this country. Indeed, we believe that such legislation would run counter to the best long-run interests of the steel industry, its workers, and the national economy.

THE CASE OF PETROLEUM

12. Our experience with restrictions in the petroleum industry militates toward the same conclusions. Beginning in 1955, quotas have been in effect to limit the importation of both crude petroleum and petroleum products. These quotas have been amended and altered from time to time but, until recent revisions and suspensions, they have limited imports to such an extent that the right to buy imported crude at world prices has been worth approximately $1.00 per barrel, which affords a rough indication of the price-raising effect of the quota limitation. The official justification originally given for the quota scheme was the need to protect our domestic supply of crude. Yet in actuality, the quotas did not accomplish this goal; since they stimulated domestic production by maintaining artificially high prices, they contributed to using up our scarce supply rather than conserving it. Indeed, the quotas have increased rather than lessened our dependence on foreign nations for petroleum, since the oil we produced domestically since 1955 (which could have been replaced by cheap imports) is no longer available to us in time of emergency.

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[7] See W. Adams and J. B. Dirlam, "Oxygen Steelmaking—The Phantasmagoria of Innovative Giantism," *Iron and Steel Engineer*, July 1968.

[8] U.S. Steel is planning to install two 200-ton Q–BOP furnaces at Fairfield, Alabama, which will be the first to be constructed in the Western Hemisphere. At present, there are nine such furnaces in Europe and one in South Africa. See U.S. Steel *Annual Report*, 1972, and U.S. Steel press release, December 15, 1972. See also "Oxygen Bottom Blowing at the LWS Process," by P. Leroy, Assistant Manager of Creusot-Loire, in *Iron and Steel Engineer*, October 1972, pp. 51–55.

[9] H. Leibenstein, "Allocative Efficiency vs. 'X-Efficiency'," *American Economic Review*, Volume LVI, No. 3, 1966.

13. The artificially high price of petroleum in the United States, maintained in large part by the restrictive quota scheme, has had an injurious effect not only on the ultimate consumer but also on those American industries which use it as a raw material feedstock and which must then try to sell their finished products in competitive world markets. Thus, major American chemical companies—du Pont, Union Carbide, Dow Chemical, and others—have estimated that domestic oil prices on the East Coast average $1.25 per barrel more than elsewhere in the world; this amounts to 3 cents a gallon, or 60 percent above the world price. This quota-protected price differential, they point out, can be critical, if not fatal, in petrochemical production, in which, in many cases, raw material costs account for more than 50 percent of the cost of the basic product. "Furthermore," they say, "U.S. petrochemical products have only a shinking level of tariff protection protection in the domestic market. Foreign petrochemicals, on the other hand, need no import quotas for their shipments to the U.S. market and are not restricted in their access to the low-cost oil of the Middle East, Africa and South America." [10]

Clearly, the continued growth of our petrochemical industry—which contributes about $1.0 billion to our balance of trade—is vitally dependent on access to competitively priced feedstocks. Its competitive posture in world markets depends on the transformation or total elimination of oil import restrictions and other government price-support programs for the domestic oil industry.

Professor Wayne Leeman has well summarized this aspect of the problem: "So the oil we keep out of the United States benefits our most important competitors. Manufacturers in Japan and Western Europe buy energy, industrial heat, and petrochemical feedstocks at prices which give them a competitive advantage over U.S. producers. And they have this competitive advantage partly because import quotas give U.S. firms only limited access to cheap foreign oil and partly because oil shut out of the United States depresses the prices they pay." [11]

14. But what about national security? Is it not vital to protect the domestic oil industry from foreign competition in order to assure ourselves uninterrupted access to petroleum and petroleum products in times of war or emergency? Are not the current restrictions on oil imports imperative to safeguard the national security? Quite the opposite is true.

First, the only safe and low-cost storage for oil is underground. If domestic oil reserves are to be conserved for use in an emergency, therefore, they should be kept intact rather than depleted by artificial stimulation of domestic production.

Second, to the extent that domestic oil reserves are in scarce supply, we should resist the temptation to depelete them in peacetime and maximize our peacetime reliance on foreign sources—especially those which might be beyond our reach in the event of military conflict.

Third, it seems to us that national security could be much better served by R&D support for developing the technology to convert our gargantuan deposits of oil shale into a cost-competitive fuel—rather than by subsidizing excess developmental drilling that uses up supply instead of preserving it.

In short, as a general guideline we should import low-cost foreign oil at a time when we have free access to it, and conserve our own reserves for such times as foreign oil may no longer be available to us. In this, as in other cases, the imperatives of national security and the dictates of rational economic policy would seem to coincide.

15. A further point: if, as some argue, the United States is in the midst of an energy crisis, can we seriously defend the honeycomb of import restrictions which artificially curtail supplies and thus become the pretext for maintaining and escalating domestic prices? All the available evidence points in the opposite direction.

16. The major benefits of the import restriction scheme in the petroleum industry have accrued to companies holding import quota rights for crude oil (quota tickets) which, incidentally, were negotiable, and to domestic landowners who could collect higher royalties because of artificially high oil prices.[12] This

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[10] U.S. Senate Antitrust and Monopoly Subcommittee, *Hearings on Governmental Intervention in the Market Mechanism*, Part 1, 1969, pp. 306–07.

[11] *Ibid.*, p. 274.

[12] President Nixon's Cabinet Task Force on Oil Import Control has recently estimated the cost to consumers of the quota program at about $5 billion in 1969 and at approximately $8.4 billion by 1980. According to Ilse Mintz, "Oil import quotas are the costliest of U.S. import restrictions." See I. Mintz, *U.S. Import Quotas: Costs and Consequences*, Washington: American Enterprise Association, 1973, p. 76.

experience should alert us to the danger of government intervention to exclude imports for the ostensible purpose of protecting an industry because of its peculiar importance to the national security. In such cases, as often as not, special interests that ultimately benefit from the restrictionists policy can most easily disguise their true motives in seeking governmental protection from import competition.

COMMENTS ON H.R. 6767

What troubles us about this bill is the extraordinary amount of discretion it gives to the President, and the extraordinary amount of detail involved in (and required by) the investigations to be conducted by the Tariff Commission. Let us explain.

17. In Title II, provisions are made for "Disruption Caused by FAIR Competition". To begin with, if competion is *fair* one wonders whether any policy is called for; one of the foundations of our free enterprise economic system is that "disruptions" caused by fair competition are beneficial, and do not call for intervention. The bill, however, provides that if a Tariff Commission investigation shows that there is a "threat" (Sec. 201(b)(1)) of an import being a primary cause of serious injury, the President may take any step ranging from raising duties to suspending imports; he may also provide assistance to workers, or negotiate "orderly marketing agreements"—another name for quotas. Extreme discretion is left to the President, and this exposes him to special pressures from politically powerful industry (or campaign contributor) to adopt the measure of "import relief" the industry prefers.

18. In addition, "serious injury" is, to all intents and purposes—given the speed with which the Tariff Commission is supposed to make the investigation upon which the President will act to provide import relief—the same as "market disruption". And "market disruption" is defined (Sec. 201(f)(2)) as equivalent to imports that are increasing rapidly both absolutely and as proportion of total domestic consumption, and sold at prices "substantially" below domestic articles.

Certainly, given the President's discretionary authority there is danger that the Tariff Commission will do no more than make a finding of "market disruption" with respect to a single article, that will then lead to imposition of a quota, or imposition of a prohibitive duty. True, the President might instead provide adjustment assistance, but it is up to him to make the decision. The considerations listed in Sec. 202(c) could, if properly weighted, prevent any arbitrary and economically harmful application of import relief methods, but the underlying character of the initiation of the import relief proceedings raises serious questions.

Much of the language refers to "articles which might cause injury" (Sec. 111, Sec. 201(b)(1), 201(f)(2)). Of course, duties have to be imposed on articles; but there should be some provision in the law to prevent the Tariff Commission from defining—as it tends to do in dumping cases—the industry, and the injury, in terms of articles. Otherwise, "market disruptions" in conditions of fair competition will lead almost automatically to import relief—unless, somehow, the provisions of Sec. 202(c) are conscientiously applied. But since these provisions are merely for the guidance of the President, who presumably does have to justify his decision, they seem to be a frail reed.

19. As far as the provision of Title III are concerned, there seems to be nothing particularly dangerous in them. The amendments to the definitions of exporter's price and purchase price introduce perhaps elements that it will be impossible to measure precisely and they leave the Tariff Commission free to hold by the narrow definitions of industry that it has applied in recent dumping cases. It seems undesirable to make injury equivalent in *any* loss of sales.

20. Further the definition of "directly competitive with" (Sec. 705(5)) seems so broad as to cause concern about harmful application. This definition of "directly competitive with" is strategic because in Section 201(f)(2) The Tariff Commission can find market disruption if imports of a "directly competitive article" are substantial, etc. Under the definition the imported article is "directly competitive" with a domestic article, even if the economic effect occurs at an earlier or later stage of processing. For instance, if gasoline is imported, and this cuts into the market for gasoline, and affects the price of domestic crude, the imported gasoline is considered "directly competitive" with domestic crude. Or, if wire rod is imported and this is purchased by independent wire drawers, who sell wire in competition with domestic wire rod firms who are integrated and make wire, the wire rod imports will be considered "directly competitive" with domestic wire.

This provision has a superficial appeal; but in view of the tapered integration prevailing in the steel and petroleum industries, the history of squeezes extending from semi-finished to fabricated products—since we could also find, for instance, under this provision, that the import of wire mesh is competitive with the domestic product, wire rod, which is two stages removed from wire mesh—the definition masks a very dangerous extension of the Tariff Commission's powers to find "market disruption". Unless there is also a requirement that the domestic industry be found to be vigorously competitive, the application of the definition might buttress the maintenance of undue oligopoly power.

21. As far as Title IV is concerned, we applaud the even-handed way in which the bill is drawn to permit the President to cope both with balance of payments deficits and surpluses. Again, our major reservation relates to the power conveyed to the President by these provisions. He is authorized to act whenever the official transaction balance or the so-called basic balance (current account and long-term capital) are in "substantial" deficit or surplus for *four* quarters consecutively, or there have been serious (or large) changes in net reserves, or the exchange value of the dollar has been or threatens to be "significantly" altered.

Since the definition of the key adjectives is left up to the President, he is given what amounts to *carte blanche* to alter duties or impose restrictions (in case of deficits). We would prefer to see a somewhat more structured and constrained procedure. Furthermore, the bill seems to ignore the possibility that a deficit in the official transactions balance, or declines in net reserves, or in the exchange value of the dollar may result from many causes other than imports. Why, then, make imports carry the burden of readjustment of the balance of payments, especially since we seem to have adopted the floating dollar as a remedy for balance of payments difficulties. In many ways, a floating exchange rate seems preferable to singling out imports for special restrictions.

CONCLUSION

For the foregoing reasons, we respectfully conclude that the stated purpose of H.R. 6767 is laudable, but that its concern is misplaced. The great challenge to the American economy in the proximate future is not imports, but the restriction of import competition in powerful, oligopolistic industries.

Auto Makers and Business Catastrophes

The recent improvement in American exports does not entirely allay the rising doubts about the competitive performance of American industry. A large part of the improvement is owed to agricultural exports. The record of the American automobile industry is particularly troubling. Up until 1968, the United States had always exported more motor vehicles and parts than it imported. But then things turned around and last year the country bought $3.5 billion worth of vehicles and parts more than it sold. That amount alone is more than half of the country's entire trade deficit for 1972.

The automobile industry's difficulties seem to go deeper than the conventional accounting of costs and demand. Successful competition is a constant process of rapid adaptation to new circumstances. The industry's struggle with the Clean Air Act offer an example—a small one, to be sure, but telling—of the way that it currently operates. The combined engineering skill of these huge companies has not produced an engine that can adequately meet the original 1975 standards of the act, which was passed three years ago.

The best that they could devise was an attachment known as a catalytic converter, which neither they nor anyone else trusted. The industry and its critics agreed that it offered the prospect of high cost, low efficiency, difficult maintenance and dubious effectiveness. General Motors protested that if it were forced to go into production with the catalytic converter, it would risk a business catastrophe." The episode is something less than a monument to American Technological genius.

There are four engines that appear to have met the original 1975 standards. Two are Japanese, and two are German. Not only are the Europeans and Japanese adapting far more rapidly to world automobile markets than the American manufacturers, but they are adapting faster to our own domestic market. The two German engines are diesels, one of which incidentally, is made by GM's subsidiary. It should be noted that no diesel is likely to meet the act's restrictive 1976 standards. The Japanese Mazda with its rotary engine, has met the 1975 standard with a thermal purifying system that somewhat diminishes performance but

seems to offer more hope. Still more hopeful, Honda has developed a stratified-charge system that not only meets the 1975 standards but seems very likely to meet the 1976 standards as well. In contrast, there is no American engine that even meets the original 1975 requirements without the catalytic converter that, to GM, threatens a business catastrophe. Americans have to begin wondering whether the business catastrophe here does not go considerably beyond the narrow issue of exhaust purification.

Many American industries continue to demonstrate brilliantly their ability to compete worldwide. Aircraft, computers and various other kinds of advanced machinery are doing very well abroad. But the automobile industry is a large enough piece of our national economy that its successes and failures have meaning for us all. Fortune Magazine has just published its annual list of 500 largest American industrial companies, and three of the top five are automobile companies. (The other two are Exxon and General Electric.)

Part of the American manufacturers' trouble arises, evidently, from their habit of putting extremely heavy engines in their cars. Efficiency is supposed to be one attribute of a good machine, but the recent gasoline mileage figures published by the Environmental Protection Agency show that in most weight classes the foreign imports tend to get significantly better mileage than American cars. In response, it might be argued that foreign manufacturers are designing their cars for markets where gas costs twice as much as it does here. But the American companies are making cars for a market in which both the government and the oil companies are now anxiously exhorting drivers to keep their tire pressure up and their speed down to avoid another kind of business catastrophe, a gasoline shortage this summer. The gasoline mileage of the average American car has dropped steadily in recent years.

American automobile makers usually react with hostility to the suggestion that they are producing the wrong kind of car. They keep saying that they are meeting the American consumers' taste. Meanwhile, of course, the level of imports keeps rising. The automobile industry is larger than ever, richer than ever, and central to American prosperity. But there is some grounds to suspect that it is a little less quick and flexible than it used to be, in responding to new challenges.

The New Protectionism

(By Walter Adams) [1]

TO COMPETE IN WORLD TRADE, WE NEED HIGHER PRODUCTIVITY, NOT MORE PROTECTION, PASSAGE OF THE BURKE-HARTKE BILL WOULD MAKE A BAD SITUATION WORSE

"The lessons of history," said Franklin D. Roosevelt in 1935, "show conclusively . . . that continued dependence on relief induces a spiritual and moral disintegration fundamentally destructive to the national fiber. To dole our relief . . . is to administer a narcotic, a subtle destroyer of the human spirit." Society, Roosevelt argued, has an obligation to care for its citizens who cannot care for themselves. For others the overriding aim should be to provide an opportunity to work, not an opportunity to avoid it. The goal must be rehabilitation rather than relief.

President Nixon would heartily endorse this view. This is the Protestant work ethic—an indelible part of Americana. It is the criterion we use to judge welfare programs for the poor, the disadvantaged, the underprivileged. Curiously enough, it is *not* the standard employed in evaluating welfare programs for the rich, the powerful, the vested interests of corporate America. Thus we bail out Lockheed. We rescue the Penn-Central. We subsidize the oil moguls. We protect the lethargic, somnolent steel oligopoly from foreign competition. Welfare programs, it would seem, are not instituted evenhandedly.

The Burke-Hartke bill

The issue of corporate welfarism will once again be joined when the Burke-Hartke bill reaches the floor of Congress, probably some time this spring. In addition to regulating multinational corporations, the bill would impose mandatory import quotas on a wide range of manufactured products whenever an

[1] Walter Adams is a Distinguished University Professor, Professor of Economics, and former President of Michigan State University. He is author of *The Structure of American Industry* and of *The Test*, an account of his tenure as President of M.S.U. Both books have been published by Macmillan.

American industry or its workers could claim to be suffering from "undue" foreign competition. The bill, which some consider the most restrictive trade legislation since the Embargo Act of 1807, represents a high water mark of the new protectionism—what *Barron's* calls "the protection racket." It is aggressively backed, not only by politically influential big business industries but also by George Meany and his AFL–CIO.

What has given the Burke-Hartke initiative additional impetus, of course, is the recent deterioration in the U.S. trade balance and the embattled state of the U.S. dollar. By 1971, merchandise imports exceeded exports by $2.7 billion—the first officially reported trade deficit since 1893. This alarming trend, said the Administration, would be counteracted by the Smithsonian accord (hailed by Mr. Nixon as "the greatest monetary agreement in history") and the devaluation of the dollar. Making the dollar cheaper, it was said, would stimulate exports and discourage imports, thus correcting or reversing the trade deficit. But nothing of the sort happened. By the end of 1972, the U.S. trade balance had worsened—running at an annual rate of $7 billion—necessitating yet another devaluation of the dollar in February of this year. Obviously, a quite different kind of economic medicine was called for.

To the proponents of Burke-Hartke, the answer is clear: if only imports can effectively be curtailed, a trade deficit can easily be turned into a surplus. Imports, they say, are not only a drain of dollars from the United States: they also threaten the profitability and very existence of major domestic industries. They undermine the jobs and incomes of the workers employed in these import-impacted industries. At stake, says George Meany, "are the American standard of living and America's prospects for remaining an industrial nation with a wide range of industries, products, and employment."

I don't happen to view imports in the same light. In some cases, I think, imports are merely the symptom of the declining competitiveness of an American industry so long corrupted by a permissive oligopolistic environment that it has become lazy, lethargic, inefficient, and technologically backward. And when an industry has led the quiet life for prolonged periods, in control of a lucrative continental-sized market and insulated from competition, it eventually tends to fall prey to the erosion of that market by imports and substitutes while pricing itself out of world markets and triggering a decline in its export trade. Shutting off imports, or curtailing them substantially by quota-like restrictions, does nothing to cure the underlying disease. It only makes the disease more virulent and debilitating, requiring ever-mounting doses of protectionism for survival. Moreover, it has indirect effects on other domestic industries, which have to pay higher prices for the protected products and thus find their export potential artificially diminished. This has the effect of further straining our balance of trade. Finally, and by no means least important, protectionism adds unneeded fuel to the cost-push inflation which seems to have become endemic in the American economy.

Let me illustrate these points with reference to two major industries—steel and oil. These case studies demonstrate why voluntary quotas where now in effect should not be made mandatory, and why mandatory quotas should be repealed rather than imposed on additional industries.

Steel

The U.S. steel industry is a classic, textbook oligopoly. Domestic producers do not compete among themselves in terms of price. It is simply not the custom of the industry. Instead of price competition, they follow a regime of strict price leadership and followership—more often than not in a monotonously upward direction.

Since the end of World War II, the industry's notorious policy of constant price escalation has contributed a prime stimulus to successive inflationary movements. Thus, between 1947 and 1951, according to the Council of Economic Advisers, "the average increase in the price of basic steel products was 9 percent per year, twice the average increase of all wholesale prices. The unique behavior of steel prices was most pronounced in the mid-1950s. While the wholesale price index was falling an average of 0.9 percent annually from 1951 to 1955, the price index for steel was rising an average of 4.8 percent per year. From 1955 to 1958, steel prices were increasing 7.1 percent annually, or almost three times as fast as wholesale prices generally. No other major sector shows a similar record." After a quiescent stage during the early 1960s, characterized by the moral suasion and "jawboning" of the Kennedy Administration, steel prices resumed their upward movement in 1964—on a gradual, selective, product-by-product basis at first, and on a general across-the-board basis in 1969. The imposition of "voluntary" import

quotas in January 1969 and the Nixon Administration's refusal to engage in government-industry confrontations simply accelerated the trend.

The one factor which dampened the industry's enthusiasm for marching in lockstep toward constantly higher price levels was the burgeoning of import competition. Thus, between January 1960 and December 1968, a period of nine years, the composite steel price index increased 4.1 points—or 0.45 points per year. Starting in January 1969, however, after the U.S. State Department had successfully persuaded the Europeans and Japanese to accept "voluntary" quotas on their sales to the United States (i.e., to enter into an informal international steel cartel), imports were cut back drastically and the domestic steel prices resumed their pre-1960 climb. In the four years between January 1969 and December 1972, the steel price index rose 26.7 points—or 6.667 points per year. Put differently, steel prices increased at an annual rate 14 times greater after the import quotas went into effect than in the previous nine years. All this in the face of recession, low volume, and the idleness of roughly 25 percent of the nation's steel capacity.

As if the import quotas—supplemented by "Buy American" regulations and assorted trade barriers—were not enough to insulate the steel industry from competition, President Nixon approved (and later withdrew) a temporary 10 percent surcharge on imports, including steel. In doing so, he perverted the "infant industry" argument for the benefit of lusty steel giants whose rambunctious excesses had wreaked havoc with past attempts at inflation control. With his arsenal of import restraints, he neutralized the perhaps most effective lid on steel pricing and, at the same time, built up additional steam in an already overheated pressure cooker. He also penalized such major steel-consuming industries as automobiles, construction equipment, and agricultural implements, which found it increasingly difficult to absorb the higher prices for an essential raw material while trying to maintain their competitiveness in domestic and foreign markets.

The case study of steel yields some incontrovertible conclusions. Giantism in this industry is the result of massive mergers of the past. The dominant firms are neither big because they are efficient nor efficient because they are big. Their technological lethargy, especially during the 1950s, when they lagged in introducing the basic oxygen process, continuous casting, and direct reduction of steel, put them at a comparative disadvantage in world competition. Their insensitive, extortionate, oligopolistic price policy displaced American steel from world markets and opened the U.S. market to erosion by imports and substitutes. And finally, the merchantilist protectionism of the federal government compounded the problems of the industry and the nation's economy and gave legitimacy and endurance to a cartel which could not survive without government succor and support.

Oil

The pattern of protectionism in the petroleum industry is both older and more pervasive. Under the antitrust laws, it is an offense for private firms to fixe prices or allocate markets, yet in the name of conservation the government does for the oil companies what they could not legally do for themselves. The process is familiar. The Bureau of Mines in the Department of the Interior publishes monthly estimates of the market demand for petroleum, at current prices, of course. Under the Interstate Oil Compact, approved by Congress, these estimates are broken down into quotas for each of the oil-producing states, which, in turn, through various prorationing devices, allocate so-called allowable production to individual wells. Oil produced in violation of these prorationing regulations is branded "hot oil," and the federal government prohibits its shipment in interstate commerce. Also, to buttress this government-sanctioned cartel against potential competition, oil imports by sea are limited by a tariff, in effect since 1943, and by a mandatory import quota, in effect since 1963.

Finally, to top off these indirect subsidies with more visible favors, and to provide the proper "incentives" for an industry crucial to the national defense, the government authorizes oil companies to charge off a 22 percent depletion allowance against their gross income. In all, the industry is receiving special favors variously estimated at from $3.5 to $7 billion annually—this in addition to having a government-sanctioned cartel provide the underpinning for its control of markets and prices.

The artificially high price of petroleum in the United States has an injurious effect not only on the ultimate consumer but also on those American industries which use it as a raw material and must then try to sell their finished products in competitive world markets. Not long ago, for example, Japanese manufacturers were able to buy Iranian heavy crude oil at a price of $1.35 per barrel. That same

oil could have been transported to the U.S. East Coast at a delivered price of $2.10 per barrel before payment of tariff. U.S. manufacturers, however, were compelled to buy their crude oil at an East Coast-delivered price of $3.42 per barrel—i.e., at a differential of $1.32 per barrel before the tariff and $1.22 after the tariff. Such a differential obviously could not exist except for the penalties imposed on U.S. manufacturers by the import quota program.

Major American chemical companies—du Pont, Union Carbide, Dow Chemical, and others—have estimated that domestic oil prices on the East Coast average $1.25 per barrel more than elsewhere in the world; this amounts to 3 cents a gallon, or 60 percent above the world price. This quota-protected price differential, they point out, can be critical, if not fatal, in petrochemical production, in which, in many cases, raw material costs account for more than 50 percent of the cost of the basic product. "Furthermore," they say, "U.S. petrochemical products have only a shrinking level of tariff protection in the domestic market. Foreign petrochemicals, on the other hand, need no import quotas for their shipments to the U.S. market and are not restricted in their access to the low-cost oil of the Middle East, Africa and South America."

Clearly, the continued growth of our petrochemical industry—which contributes about $1.0 billion to our balance of trade—is vitally dependent on access to competitively priced feedstocks. Its competitive posture in world markets depends on the transformation or total elimination of oil import restrictions and other government price-support programs for the domestic oil industry.

Professor Wayne Leeman has well summarized this aspect of the problem: "So the oil we keep out of the United States benefits our most important competitors. Manufacturers in Japan and Western Europe buy energy, industrial heat, and petrochemical feedstocks at prices which give them a competitive advantage over U.S. producers. And they have this competitive advantage partly because import quotas give U.S. firms only limited access to cheap foreign oil and partly because oil shut out of the United States depresses the prices they pay."

But what about national security? Is it not vital to protect the domestic oil industry from foreign competition in order to assure ourselves uninterrupted access to petroleum and petroleum products in times of war or emergency? Are not the current restrictions on oil imports imperative to safeguard the national security? Quite the opposite is true.

First, the only safe and low-cost storage for oil is underground. If domestic oil reserves are to be conserved for use in an emergency, therefore, they should be kept intact rather than depleted by artificial stimulation of domestic production.

Second, to the extent that domestic oil reserves are in scarce supply, we should resist the temptation to deplete them in peacetime and maximize our peacetime reliance on foreign sources—especially those which might be beyond our reach in the event of military conflict.

Third, it seems to me that national security could be much better served by R&D support for developing the technology to convert our gargantuan deposits of oil shale into a cost-competitive fuel—rather than by subsidizing excess developmental drilling that uses up supply instead of preserving it.

In short, as a general guideline we should import low-cost foreign oil at a time when we have free access to it, and conserve our own reserves for such times as foreign oil may no longer be available to us. In this, as in other cases, the imperatives of national security and the dictates of rational economic policy would seem to coincide.

One final observation. If, as some argue, the United States is in the midest of an energy crisis, can we seriously defend the honeycomb of import restrictions which artificially curtail supplies and thus become the pretext for maintaining and escalating domestic prices? All the available evidence points in the opposite direction.

The protection racket has no winners

In summary, import quotas are inimical to the public interest. Quotas undermine the competitive discipline of the marketplace. They encourage price escalation and cost-push inflation. They penalize industries using quota-protected products as raw materials, thereby reducing the cost- and price-competitiveness of those industries in domestic and world markets. Finally, like any scheme of protectionism, quotas have a narcotic effect on the patient they are ostensibly designed to help. A sick industry no longer has to face up to its problems—to reform if it is to survive. Under a quota system, it can luxuriate in inefficiency and backwardness without penalty, knowing that a permissive government will support its catatonic refusal to face up to reality.

In the long run, this is not sound public policy. It condemns the protected industries to the fate of our coddled railroads. It exposes labor to job and income losses as export-related industries find themselves incapable of absorbing the constantly rising cost burden and as direct foreign investment therefore becomes progressively more attractive. Finally, protectionism saddles the nation with an inefficient, noncompetitive industrial structure, a declining posture in world markets, mounting trade deficits, and a currency increasingly vulnerable to successive devaluations.

The Burke-Hartke bill should be defeated. The mandatory quotas in oil should be repealed, and voluntary quotas in textiles, steel, and other products terminated.

Mr. BURKE [presiding]. Mrs. Griffiths is recognized.

Mrs. GRIFFITHS. It is not that I have any questions, but I would like to commend you for the full statement, which I have read. It is excellent.

Of course, I agree with it.

I would like to tell you that once in the early 1960's I met the late great Mike Kirwan in a hotel in Tokyo. He had been there for 2 weeks, going through the Japanese steel mills. He said to me: "Martha, I have seen 14 steel mills in Japan. America does not have a single one that can even touch them."

So, it really makes truer your statement. The truth was that we just sat here doing nothing: They had the whole market, they didn't have to.

Just like in railroads. When I first came down here, sometimes I came by plane, sometimes I came by train. I observed that the real answer of the trains to taking your luggage as you entered the airport was, the railroads fired the redcaps.

So these things are competitive.

I congratulate you on your statement. It was excellent.

Mr. BURKE. Mr. Duncan.

Mr. DUNCAN. Thank you, Mr. Chairman. I have no questions.

Mr. BURKE. Mr. Archer?

Mr. ARCHER. Thank you, Mr. Chairman.

Dr. Adams, it seems to me that we almost run into an enigma in discussing this very complex problem. I tend to agree with you that there was a period of time when the steel industry apparently gave in easily to all the wage demands that were made upon them when they knew they could pass on the increased costs in higher prices to their customers.

At that time foreign competition could be looked on as a healthy thing for this Nation. But then we reached a point that foreign competition cut into the profits of the steel industry so that they did not have the capital to plow back in and modernize their plants when they wanted to do so.

So we have virtually an enigma in that situation. I don't know what the proper solution is. But certainly those factors were involved. Maybe you would like to comment on this.

Mr. ADAMS. Congressman Archer, I should state an emotional flaw in my makeup. I tend to be conservative. I do not believe that permissiveness and coddling are conducive to solving the basic structural problems that an industry confronts.

If an industry is in difficulty and you start subsidizing it, either directly or indirectly, you remove the incentive from that industry to do something constructive to get itself out of the fix that it happens to be in.

Now for many years, especially during the 1950's, the American steel industry was technologically backward, not only in terms of invention but also in terms of innovation. As Congresswoman Griffiths pointed out, the Japanese were installing at a headlong pace the newest technology that was available on the world market.

One of these was the basic oxygen process which was developed in Austria in 1950. Do you know that United States Steel, mighty United States Steel, did not install a basic oxygen furnace until 13 years later, namely 1963? If I recall correctly, it was December of 1963.

I submit to you very respectfully that the American steel industry began to wake up to the need for technological adaptation under the stress and spur of the import competition that began to develop in the early 1960's.

Now if I may remind you, and we spell it out in the statement, for the longest time the steel industry has come to the Congress hat-in-hand, demanding protection as if it were an infant industry asking for tariff protection, quota protection, what-have-you.

The juistification offered by the president of the Iron and Steel Institute when he appeared before the Senate Finance Committee in 1967, was that there was unemployment in the industry and there was inadequate use of the domestic steel capacity.

Now the market has changed. There is a steel shortage rather than a steel surplus. The industry still comes to the Government, saying "We need your help in the form of quota protection so that we can increase our prices and profits so that we can provide for the expansion necessary to compensate for the shortfall that is predicted for 1980."

It does not make sense, Congressman. We believe, we very firmly believe, that competition provides the discipline and the incentive for an industry to do those things that will not only be in its self-interest but in the interest of the workers employed by it, and therefore also in the interest of the national economy.

Mr. ARCHER. I think I generally agree with you on that, but I am concerned when we get in depth into some of the specific situations.

A new steel mill was recently built in the vicinity of Houston, Tex., with all modern technology. But it could not operate at full capacity because of the importation of cheap steel from Mexico that was flooding the market in our area of the country.

Even though we had the best technology and we had an aggressive effort on the part of the steel industry in this situation to compete and to do the right things, it was not the answer. Something else was involved.

When we get into the difficulties of what is fair competition, we saw the Sherman Antitrust Act passed many years ago because we decided that certain competitions were not healthy, that they did not tend to make the people in an industry gird their loins for stronger competition but tended to be destructive.

Now where you are dealing with other nations that have depressed labor rates, for example, that have no relationship whatsoever to the pay scales in this country, and you say, that our industry must compete with this, you can very well bring about the destruction of a very healthy industry that is doing its very best. That is one situation.

In addition to that, you have so many other factors that tend to make competition unfair. You do not have the stringent EPA-type

regulations in other parts of the world which our industries have to meet here. You don't have the OSHA-type regulations which have to be met in this country.

You don't have the EEOC-type regulations and restrictions and added cost factors that our industry is forced by Government to meet and then compete with companies that are located outside of the United States that are not faced with these added cost factors.

To me, this complicates the point to where I will have to admit to you that I don't know where the answer is, but I would very much appreciate your comments with respect to the factors I have mentioned.

Mr. DIRLAM. I would like to comment with respect to the labor cost. The difference in wages, as you know, is not necessarily a reflection of the actual labor cost of a product, because our labor may be more productive even though it is paid a higher wage.

As a matter of fact, if you look at U.S. incomes and wages generally we do receive higher wages here because our labor is more productive. Hence, I don't think we should regard lower pay in other countries as being a form of unfair competition for our industry.

Mr. ARCHER. Let me interrupt you a second without trying to detract from your train of thought. If their technological advancement is comparable to ours and they have a wage rate that is half as much as ours is, then it is a factor you have to take into account.

To assume that we are technologically advanced to such a point over all other industries in the other nations of the world that our higher labor rates are not a factor is not always a valid premise.

In Japan, the steel industry is a prime example of a situation where it is not true.

Mr. DIRLAM. I am not saying that they may not have the same technology. I am saying their labor may not be as productive as ours because there are other factors than the technology itself. A company which has cheap labor generally tends to use it in a less efficient way than we do here.

Mr. ADAMS. Basically you are correct, because historically the United States has been a high wage rate country. It always has been. We have survived and we have become preeminent only because of our technological superiority.

For Congressman Burke's benefit, I will call it: Yankee ingenuity that has put American industry where it has been in the early parts of the 20th century. It seems to me that this is the key that we ought to pursue. So, if the question comes up about governmental policy, rather than trying to protect industries either through tariffs or quotas, it would be much more intelligent governmental policy, I submit, to try to emphasize our comparative advantage which lies in the field of technology, subsidized research and development, explorations that are designed to give us a lead over other countries.

What we have found in the steel industry, you see, has been the direct reverse of that. We have found not only that the American steel industry failed to be technologically superior to its foreign competitors, but indeed it was lagging behind them. That is a hopeless situation in terms of competitive viability.

Mr. ARCHER. What do we do, though, to equalize the competitive situation that exists where you have other countries that have signif-

icantly lower labor costs but also have ingenuity and capacity to produce efficiently, such as Japan and West Germany, and where they do not have the other factors that I mentioned that the Government has required of industry in this country—I am not saying these requirements are all bad, but they are cost factors that the industry has to contend with that are not present in other countries of the world.

It is more difficult, it would seem to me, for us to continue to exceed in our yankee ingenuity what other countries can do, particularly when communications are as good as they are in the world and where there are not many secrets, and where this country has now established a policy to export our technology and our ingenuity, in cases where we can no longer sell the products that are produced by that technology and ingenuity.

It seems to me we have reached a desperate condition in the world when we have to sell our "yankee ingenuity" in order to try to combat our balance-of-payment deficit.

Mr. ADAMS. Congressman, it is not as one-sided as that. I refuse to be as pessimistic as you seem to be. If you take the Japanese steel industry as an example, Japan is an island that is devoid of any natural resources. They have to import their iron ore, they have to import their coal, over substantial long distances. When they then manufacture their finished steel, they have to ship it abroad, again at considerable cost.

Now it seems to me that that imposes certain handicaps on them. The comparative cost situation is not as unfavorable as you would seem to imply. For example, the United States is blessed with extremely rich deposits of low-cost coal. We are one of the major exporters of coal, not only to Japan but to the European Economic Community.

This becomes a cost factor to those steel industries when they try to compete with us, both in the U.S. market and in the markets of the world.

Mr. ARCHER. I am not sure that we are apart, but I am not sure that we are together, either. I am searching, as I know the committee is, for answers as to how we go about doing this. I do think we have to keep America competitive. The way to keep it competitive is not to be erecting barriers of different shapes and forms.

But by the same token, I don't think that we can permit what we might call unfair competition, and the previous witnesses talked a little bit about that, plus the fact I don't think we can permit the barriers to exist against our products in other parts of the world without having some tool to use ourselves to combat this, to attempt to get them to be fair also.

Mr. ADAMS. Congressman, we will be much clearer on this point than the previous witnesses. We do not believe in unfair competition. We submit to you that there are mechanisms now available for coping with such unfair competition.

The question no longer is "should the President have the power or should he not have the power to combat unfair competition?" You have statutes like the Anti-Dumping Act of 1921, which certainly copes with that problem. You have the Anti-Dumping Code of the General Agreement on Tariffs and Trade, and it seems to me that these are appropriate remedies that are available for those instances of unfair competition to which American industry is subjected.

One other thing: Sometimes in order to retaliate against others who impose unreasonable trade restrictions, Japan in particular—if you look at the import statistics of Japan, they are deplorable; it is obvious that they impose substantial import barriers.

But is it wise for the United States as a matter of self-interest to retaliate in a form which will hurt the United States? We submit that we ought to do those things, that the United States ought to do those things that are in its self-interest.

The virtue of imports in some situations is, one, an anti-inflationary device; two, to prvide low-cost raw materials used by other American industries that are earning a good portion of the favorable trade balance that we hope to attain.

Mr. ARCHER. But are we not actually doing just about the reverse today? Are we not depending more and more on the exportation of American raw materials and the importation of labor-intensive manufactured products? Isn't that basically one of our major problems today, in addition to the trade deficit? We are not getting the leverage on what we are exporting, but they are getting laborwise on what we are importing.

Mr. DIRLAM. After all, the pattern of international trade changes with changes in demand. We are very fortunate now in agriculture and the increase in export of agricultural products may help us.

Mr. ADAMS. It is not just agricultural products. If you read the trade press in a country like France, the great ogre that the French are talking about is IBM. They say: "How can we ever compete successfully against a large, powerful technological giant, an American giant like IBM?"

The same argument, you see, is posed in reverse. The Europeans don't enjoy those areas of industry where the United states has a comparative advantage. IBM is a prototype example of that kind of industry. You don't see IBM coming to the U.S. Government complaining about high wage rates in the United States as compared to low wage rates abroad, et cetera, et cetera. It does not ask for any protection.

Indeed, if we grant protection to some technologically backward American industries we may invite retaliation against very highly efficient and very progressive firms like IBM and the industries in which it operates.

Mr. DIRLAM. In other words, it is perfectly true that perhaps changes in rates of improvement and technology do differ as between periods and between nations. Regardless of what happens, I don't see that we will benefit by imposing barriers to imports because of the shift. As Professor Adams has demonstrated, those barriers hurt us.

Mr. ARCHER. I certainly hope you are right. I do wonder, though, why this is always a one-sided coin, apparently, that what is good for us, for some reason or another when it comes to other countries of the world in their eyes is not good for them, and as a result they can erect barriers, both tariff and nontariff, and it sems to benefit them. But for some reason or another we are told it does not benefit us. I wonder why other countries can play by different rules.

Mr. DIRLAM. I don't feel that the Europeans feel that tariff barriers benefit them. They got rid of the barriers in their own Community.

Mr. ARCHER. I mean vis-a-vis the United States.

Mr. DIRLAM. They have consistently, as you know, during the Kennedy round reduced their barriers for the same reasons that we have reduced ours.

Mr. ADAMS. There is one other factor. You see, some of these countries are subject to a very serious discipline through the need to compete in the international markets of the world. Japan has to export a large portion of its industrial output in order to survive.

When you are subject to an export discipline you have to compete, you have to compete hard, and you have to charge competitive prices in the world market. This is a competitive force that tends to serve as a surrogate, as a proxy, for the domestic competition which may be absent.

If you look at American industry, you find that, well, this was raised with Professor Houthakker, that substantial segments of American industry are immune from this kind of export discipline, much to their own disadvantage, I would think.

You see, we proceed on the assumption that competition is a good thing because it tends to bring out the best of which firms and industries are capable.

Mr. ARCHER. In this competition, though, which is healthy because it does require certainly that management take every possible step to become more efficient in order to survive, how do you pass through that impetus to the labor unions? In other words, how do you get the labor unions to say: "We also realize we must be more efficient, and we will not demand anachronistic work rules in our contracts. We will no longer say that a man cannot use anything but a hammer, and if a wrench is required in a job you must call another man from across the plant to come in and use a wrench * * *" All of this competition and pressure has not seemed to have any significant effect on the demands of labor to retain anachronistic work rules.

Mr. ADAMS. I don't think that is true, if I may say so respectfully, because if a labor union operates in a competitive industry there is a limit to what it can squeeze out of the management. You can't get blood out of a turnip.

However, if a labor union operates in an oligopolistic industry where it knows the management can pass on to the hapless consumer any increase in wages or labor cost, then the lid is off. So you don't have an adversary proceeding, any countervailing power between labor and management.

What you get is a mutually reinforcing and coalescing power between labor and management passing the higher costs on to the consumer in the form of constantly higher prices.

The only way to put the lid on is through the competitive marketplace.

Mr. ARCHER. I hope that is true, but we have incidents of many, many companies in America that have been faced with requirements and demands of the labor unions and have gone out of business because they couldn't compete and the labor unions continued to demand higher wages and refused to modernize their rules.

Look at the railroads today. And the featherbedding and the difficulties that exist in operating a railroad profitably, and yet we are not seeing the kind of action that we need to see. I talked to a trustee-in-bankruptcy of the Pennsylvania Railroad. He told me that if they had the opportunity to freely manage that railroad in the most efficient

way, to use their labor in the most efficient way, that they could save $10 million a month in labor costs, but they are not permitted to do that.

Mr. ADAMS. Congressman, we cited the case of the railroads. I think what you say is absolutely true, but I think you have to add, in all fairness, that management has also followed a rather ill-advised pricing policy by constantly escalating rates with the approval of the Interstate Commerce Commission.

Mr. ARCHER. I think it is a combination, but I think it is unfair to push it all off on management without pointing to the other part also.

Mr. ADAMS. We did not intend to do so.

Mr. ARCHER. Thank you very much.

Mr. BURKE. I imagine both of you are free traders, is that right?

Mr. DIRLAM. I would say so, yes.

Mr. ADAMS. I think that is a fair assumption for me, too, Mr. Chairman.

Mr. BURKE. Don't you think free trade is a two-way street? Why should we allow free trade into this country and yet have our trading partners erect all the trading barriers that they do? Don't you think there should be an establishment of equal rates and tariffs all over the world?

Why, for instance, should we pay one country seven times the tariff that they pay us to ship the same type of goods into our country?

This was all decided at the GATT agreements. It is unbelievable what our negotiators did over there. Take a little item like the bakery goods; very few people pay much attention to that—cookies, things like that. We pay seven times the import duty to ship cookies into Canada as Canada pays to ship to us. Bread, cake, and other items.

That just gives you an idea of what our trade negotiators are up to. Do you think those bakeries up along the border line there should be faced with the type of competition where if they try to sell 20 miles away from their bakery they have to pay seven times the tariff?

On candy, items like that, up in Massachusetts, Cambridge, Mass., the great candy center of the world, they have disappeared. You go into the stores, you see candies coming from all over the world. They come in there almost free, no tariffs at all.

Our candy manufacturers make candy and try to ship it over there, they have all kinds of trade barriers against them.

These are the problems that you gentlemen don't address yourselves to. You talk about Japan, and we have had people, the Japanese trade group were in here yesterday. They practically assured us that everything was going to be all right. They did that back in 1962 when they testified here. That is all we get, promises and promises and promises.

We find all these tariffs and trade barriers and import licenses, every gimmick that they can think of. We reduced our tariffs on 6,000 items by 50 percent and we allowed it to take place. All those goods can come into our country without any problems whatsoever.

They reduced theirs by 30 percent. They immediately set up border taxes and required import licenses and everything else. Actually, what we negotiated in 1962–65 was meaningless, outside of what they got from us.

We went from a $7 billion surplus in trade to a $6½ billion deficit. I wish you gentlemen from the universities would go back and start

looking at some of these things. As a friend of mine says, a recession is when your next-door neighbor is loafing, but a depression is when you are loafing.

I wish they could take the professors of this country, just take them and strip them of all their money, all their worldly goods, and then tell them here, "Your job is ended," and then have a glut on the market of professors coming over here from all over the world taking up all the jobs in all the universities, and then find out what they would have to say about it.

Mr. ADAMS. Congressman, may I answer that? As a matter of fact, you have described a rather realistic condition in the academic marketplace. There is considerable challenge to the security of a great number of people in the profession. We are also subject to import competition.

Mr. BURKE. At MIT they had quite a confrontation over there at one time about where our priorities should be. They protested the spending of money in space. So I guess the President must have heard about it, because he closed NASA down up in Cambridge. Twenty percent of the employees at NASA were on the faculty at MIT; moonlighting at NASA. I haven't heard of another protest over there along those lines.

When I read about that protest over there, I couldn't understand it. I said, "Here is MIT, more than likely more involved in space than any other university in the world." Here they were, protesting the spending in space.

Mr. ADAMS. Which shows you how high-minded and selfless professors tend to be.

Mr. BURKE. But they became very quiet after things started happening. I think that is the trouble, as I pointed out to our friend from Harvard: it is wonderful, sitting in those nice, ivy-covered buildings, looking over the rolling fields, everything is nice, and say, "I think we ought to have a free trade policy in this country; this is the type of world we would like to live in, everybody loves everybody else."

I would like that type of world. I think it would be nice. If we could get free trade, I would be with it. Believe me, I am more of a free trader than you two gentlemen are. But when you are faced with reality and you see all these roadblocks they put in the way of our goods, then they expect complete access to our market, then people come in and tell us, well, if we try to do what they are doing they will retaliate against us.

You know, if we just institute one little thing, we shake our little pinky at them, they are going to retaliate against us. In the meantime, they are shooting blunderbusses at us. As I said, we are fighting mosquitoes at the front porch and there are lions and tigers clawing at our back doors.

I want to thank you. Both of you gentlemen made good statements.

Martha Griffiths was telling me what a great man you are in Michigan, and we are happy to have you here as a witness.

Mr. ARCHER. Could I make one other comment, Mr. Chairman, and a question? Mr. Adams, you particularly singled out the oil industry and the steel industry. It seems to me that there is a very great distinction between the two.

For one thing, there are many, many more competitors in the oil and gas industry than there are in the steel industry. In addition, you are talking about a manufactured product versus a relative raw mate-

rial when you are talking about the manufacture of steel as compared to production of crude oil.

Where the price of steel went up year after year, the price of crude oil declined. I think it is important to let that show in the record, because to make the comparison on the basis of the inference that the price of oil was also going up as the price of steel was going up is not true.

I assume that you agree with that?

Mr. ADAMS. Yes.

Mr. ARCHER. In fact, the price of crude oil last year was less than it was 30 years ago.

Mr. ADAMS. But you see, Congressman, nevertheless it is not just domestic price of crude oil that matters, but the world price of crude oil. As long as the competitors of the United States, namely Japan and France and Germany, can buy crude oil at a lower price than American companies can, to that extent the American companies are hampered in their international competition with those Japanese and German and French competitors.

Mr. ARCHER. I think, though, that again we should point up the fact that the oil and gas industry has not in effect become complacent or flaccid, the type of attributes that you related to the steel industry. The competition has been intense domestically.

In fact, the finest technology, ingenuity, and capability in the production of oil and gas and discovery of oil and gas has been in the United States of America. To my knowledge, there are not any other countries in the world that are ahead of us in the ability to produce more efficiently.

I think that is because we have had competition in this country amongst a large number of companies in spite of the fact that there was the quota restriction on the importation of oil, of crude oil.

It is interesting now to know that the tables have turned and that foreign oil is more expensive than domestic crude. I think that also ought to be shown in the record.

Thank you, Mr. Chairman.

Mr. BURKE. Thank you. We appreciate your appearance here, gentlemen, and your testimony.

Mr. ADAMS. Thank you.

Mr. DIRLAM. Thank you.

Mr. BURKE. Our next witness is Prof. Malcom D. Bale of the University of Wisconsin.

We welcome you to the committee, Professor Bale. We admire you for your courage, after the way we have been going after professors. I think we will take it easy and we will treat you gently.

STATEMENT OF MALCOLM D. BALE, GRADUATE STUDENT, UNIVERSITY OF WISCONSIN

SUMMARY

The basic points of this testimony may be summarized as follows:

1. On equity grounds, the casual nexus between increased imports and trade concessions as contained in the Trade Expansion Act should be retained but greatly weakened.

2. In order to expedite the certification process, trade-affected firms should be required to report to the Secretary of Labor, the fact that workers from their firm are threatened with unemployment.

3. Adjustment assistance for firms (or for all firms in any trade-imported industry) can be a viable alternative to import relief measures. It promises to reduce the cost of worker adjustment assistance and would minimize the need for other import relief measures.

Mr. BALE. My name is Malcolm D. Bale. I wish to issue a disclaimer right away: I am not a professor; I am a graduate student at the University of Wisconsin. I have been majoring in international economics, and over the last 18 months I have been studying the adjustment assistance provisions of the Trade Expansion Act. The last 9 months of this study has been financed by a U.S. Department of Labor doctoral dissertation grant.

I will summarize the written testimony that I have submitted to you.

As I think is well recognized, the lowering of trade barriers involves——

Mr. BURKE. Without objection, you may summarize. Your entire statement will appear in the record.

Mr. BALE. Thank you.

As is well recognized, the lowering of trade barriers involves both costs and benefits to society. Consumers of the article receive the benefits of lower costs and greater variety, while the owners of the resources displaced by imports suffer a loss. To compensate these resources for the losses incurred, recompense for adjustment assistance is provided in the Trade Expansion Act of 1962.

While the concept of adjustment assistance is very attractive and equally valid today as it was in 1962, experience with it under the Trade Expansion Act is, to say the least, very disappointing. The reason for this, I believe, is because of the very strictly worded statutes rather than the concept itself. Very few petitioners can meet the strict statutory requirements of eligibility for adjustment assistance.

Clearly then, the first step in rectifying the deficiencies in the Trade Expansion Act is to relax the statutory requirement for adjustment assistance, and this has certainly been done in the Trade Reform Act. However, I think the existing double linkage between trade concessions and increased imports on one hand, and increased imports and injury on the other, should be retained. I think it should be retained, but weakened. Specifically, I would like to see adjustment assistance given when imports have increased, causing injury, and where trade concessions have been given on those articles.

Under the proposed Trade Reform Act, adjustment assistance may be given to affected workers if increased imports, whatever their cause, have "contributed substantially" to their unemployment or threatened unemployment. Removal of this causal nexus between Government action and injury makes this part of the act unfair to other workers in the economy who may be injured by the normal sort of changes within an economy. If the Government has caused injury, then I see a compensating justification for giving assistance. If the Government did not cause the injury, then workers may expect equal treatment under the law. This would require a generalized adjustment assistance program for all workers affected by changes in the economy.

From my work at Wisconsin, we have been able to calculate some of the costs of trade-induced unemployment, and I would like to briefly summarize those to you now. We have found that, on average, an im-

port-displaced worker is unemployed for 36 weeks. Loss of wages during this period amounts to $3,600. He receives a little less than $2,000 back in trade readjustment assistance and various other benefits, so that his net loss over the period of unemployment is about $1,000.

However, when the worker is reemployed, we find his hourly wage rate is 35 cents less than it was before he was unemployed. This, of course, adds to the cost of the worker's lifetime loss of income. If he reaches parity with his old wage rate within one year, this would increase his cost to about $2,000; and if he never reaches parity with his old wage rate, then the total loss of wages that this worker will experience is around $10,000.

Between 1966 and 1971 we have estimated that the aggregate loss to displaced footwear workers is about $32 million. While we don't have estimates of the benefits of free trade for footwear, we do have estimates for some other items. The benefits of free trade in textiles have been estimates as $618 million, and in radio and TV as $225 million. So, it therefore appears that the benefits of free trade outweigh the costs.

For the maximum effectiveness of adjustment assistance, it is absolutely essential that workers receive the benefit of adjustment assistance as soon as possible after being displaced. The current delay between a worker's being put off work and receiving the benefits is 55 weeks. That is over a year!

This long lag clearly means that many aspects of the adjustment assistance program are quite ineffective. No worker is going to wait around for a year to see if he is eligible for retraining, but he will of course go out and search for employment, himself. Consequently we find that the more disadvantaged workers, the less skilled ones, are still unemployed after a year and therefore take advantage of these benefits when they finally become available. Thus I find very encouraging the efforts that are made in the trade reform bill to reduce this time lag.

I would, however, like to propose one other method that may shorten this gap. I would like to propose that firms who are suffering from import competitiion be obliged to notify the Secretary of Labor that they may be laying off workers. The Secretary would then have time to check the workers' eligibility and plan for their readjustment before they become unemployed.

I realize that firms may object to this and it may be necessary for the transmittal of this information to be on a confidential basis. However, I think there is no doubt that firms do know at least 30 days in advance, probably considerably more than that, whether they are going to be laying off workers. They do plan ahead.

Turning now to firm adjustment assistance, I think that provisions for firm adjustment assistance should be included in the Trade Reform Act. Of the few firms who have received adjustment assistance under the Trade Expansion Act, most have successfully adjusted. The program operates at very modest cost, and it seems to be a cheaper way of assisting workers than by worker adjustment assistance.

Further, firm adjustment assistance offers an attractive alternative to import provisions. It may be cheaper to compensate injured firms in an industry than to ask all consumers to pay a higher price for those items.

Import relief, in my opinion, suffers from the same shortcomings that some of our agricultural support programs suffer. The large, efficient firms who don't need support, who don't need import relief, are the ones who reap most of the benefits, while the smaller producers get very little. The higher prices that the larger firms get causes them to increase output, and this puts additional pressure on the marginal firms.

Further, import relief measures are likely to discourage adjustment rather than to encourage it, as firm adjustment assistance would do.

In short, the results of my research lead me to support adjustment programs for firms and workers. I see such programs as assisting workers and industries in adjusting to a more rational international policy, and in so doing will result in freer trade with its accompanying benefits to the United States and its trading partners.

Thank you.

[Mr. Bale's prepared statement follows:]

STATEMENT OF MALCOLM D. BALE, UNIVERSITY OF WISCONSIN, MADISON, WIS.

FREE TRADE, DISPLACED RESOURCES, AND ADJUSTMENT ASSISTANCE

For many years economists have been demonstrating that the elimination of tariffs and other trade barriers increases a country's real income. However in the past it was assumed that resources that were displaced by tariff reductions were instantaneously reemployed. This assumption is not correct. There are costs involved in removing tariffs. We need to evaluate these costs and compare them with the benefits of free trade to ascertain whether a move towards free trade is in fact going to increase the country's net wealth.

There appears to be widespread agreement with the United States that the benefits of a national policy should be equitably distributed over the entire population. In the case of a liberal trade policy this requires that those factors of production that are injured by increased imports should be compensated by those individuals who benefit from the free trade policy. Thus the beneficiaries of a free trade policy may transfer some of their benefits via the Federal government to those who are injured, the net effect being that all members of society are better off by the move to freer trade.

It is important when discussing adjustment assistance proposals to identify the various criteria for giving assistance. We identify three general criteria. First, equity considerations provide a basis for approaching adjustment assistance. If a government action taken to further the commonwealth causes injury to a group of persons then compensation may be given. We may cite as an example the financial compensation given under the eminent domain procedures. However when compensation is given on equity grounds identifying the cause of injury becomes critical. Government compensation may be justified on equity grounds only when government action is the unambiguous cause of injury. Before being eligible for adjustment assistance under the Trade Expansion Act of 1962 it must be shown that imports have increased due to trade concessions granted by the government and that the increased imports are the major cause of injury. This double linkage between cause and effect, and effect and injury is, as we have experienced, extremely restrictive. However it does indicate that the primary justification for giving adjustment assistance under the Trade Expansion Act is on equity grounds. That is, the government has caused injury therefore the government may compensate damage parties.

The second criterion for giving assistance is economic. Government intervention is warranted if there are imperfections in the market which retard private decision makers from making those decisions which are profitable for the nation as a whole. Examples are the retraining of workers from obsolete industries and the provision of a centralized clearinghouse for job vacancies. Such government expenditures may be regarded as a national investment. By investing funds in such programs the nation receives future benefits greater than the costs of the programs.

The third criterion for providing adjustment assistance is a political one. Society may grant public expenditures if, for political reasons, various social objectives cannot be achieved without such expenditures.

ADJUSTMENT ASSISTANCE UNDER THE TRADE REFORM ACT OF 1973

Turning to adjustment assistance as provided under the proposed Trade Reform Act of 1973 we may evaluate the assistance provisions in light of the above criteria. Section 222 of the proposed act not only eases the eligibility requirements for adjustment assistance, but completely removes the causal linkage between government action and injury. That is, if increased imports, whatever their cause, have "contributed substantially" to loss of employment then workers are eligible for adjustment assistance. Clearly the justification for giving adjustment assistance under these conditions is not an equity one. This represents a major change in the policy rationale for giving assistance relative to the Trade Expansion Act of 1962. While we can certainly argue for a relaxation of the eligibility criteria for obtaining adjustment assistance under the Trade Expansion Act, complete removal of the causation requirement in the Trade Reform Act makes that act inconsistent on equity grounds. If injury is not government induced then equity considerations dictate that government should have a uniform policy of compensating all or none of the firms and workers affected by changes in an economy. The effect of competition on firms and workers is the same regardless of whether it is from foreign or domestic sources. The signal they receive is that they must adjust. It is reasonable that government should assist the adjustment if it caused the changing conditions, but to assist merely one sector of the economy to adjust when the necessary adjustment may have been caused by changing demand, technical change, etc., is, from an equity point of view, inconsistent.

The basis for giving adjustment assistance under the proposed act therefore must be either political or economic. I think it is clear that in order to pass a lberal trade act the support of organized labor is necessary. Further, it is also clear that in order to get even lukewarm support from labor, satisfactory adjustment assistance provisions must accompany any trade bill. This is patently apparent from perusing the reports of the Williams Commission (1971) and the Culver Commission (1972). However we may also present sound economic arguments for adjustment assistance.

THE ECONOMIC COST OF TARIFF REDUCTIONS

From our analysis of U.S. Department of Labor data on workers displaced by increased imports, data which incidentally has not been analyzed before, we have been able to estimate the cost of trade-induced unemployment to the individual worker and to society. We have found that, on average, import-displaced workers are unemployed for 36 weeks. Their loss of wages over this period amounts to $3,629 per person, or $1,668 when we subtract the average trade adjustment allowance paid to them. When a worker becomes reemployed our studies show that his average hourly wage is 35 cents less than in his previous job. Depending on how long it takes the worker to achieve parity with his past wage we need to add to his cost of displacement the value of the decrease in his wage. This adds from $655 to $7,916 to his loss, in the first instant if it takes the worker one year to reach parity and in the second instant if he never reaches parity over the rest of his working life. Thus our estimate of the lifetime loss in wages to the average worker displaced by imports is $2,300 at the lower extreme and $9,600 at the upper extreme.

Society also incurs a loss of potential production by having idle resources in the economy. We estimate the cost to society of a trade displaced worker being unemployed for 36 weeks at $3950.[1] In the footwear industry, for example, we have estimated that between 1966 and 1971 the aggregate cost to society of displaced shoe workers was $72.8 million while the aggregate loss to displaced shoe workers themselves was $32.2 million. Studies on the benefits of removing tariffs have not been completed for footwear, but estimates for textiles, primary iron and steel, and radio and TV equipment are $618 million, $218 million, and $225 million, respectively.[2] It therefore seems that the benefits of freer trade outweigh the costs.

Further, the cost of displaced workers can be greatly reduced by ensuring that workers become rapidly re-employed. Expenditures on retraining, job placement, etc., have generally been shown to yield a positive rate of return to

[1] This calculation is made by evaluating the worker's marginal productivity at his past wage rate ($3.05), times his average work week (36 hours), times the average period of unemployment (36 weeks).

[2] These estimates are from Robert E. Baldwin and John H. Mutti, "Policy Problems in the Adjustment Process." World Bank Seminar on Industrialization and Trade Policies in the 1970's, October, 1972.

society.[3] We may expect the same of expenditures on worker adjustment assistance.

However, the economic rationale for funding such programs is independent of the source or cause of injury. Therefore, such reasoning argues for a generalized adjustment assistance program, based on economic criteria, for all displaced workers. There is, in other words, no special reason on economic grounds to assist only those factors whose injuries are trade related. Given that such general adjustment assistance proposals are not being seriously considered at this time I believe that for equity reasons, a clause requiring that trade concessions have been given on that particular item should be included in Section 222 of the proposed act. What I think is required in the legislation is a clause which, while weakening the causality requirement between increased imports and trade concessions, still makes a presumption that increased imports have been initiated by government policies. I will elaborate this point later.

THE NEED FOR A RAPID CERTIFICATION PROCESS

It is clear from my earlier testimony that the cost of readjustment to the displaced worker and to society is greater the longer is the average duration of unemployment. One way to reduce the period of unemployment (and therefore the cost of adjustment) is to expedite the delivery of the adjustment assistance package to the worker. The average total delay between worker dislocation and receipt of the trade adjustment check is approximately fifty-five weeks under the Trade Expansion Act. This delay is three weeks longer than the basic fifty-two week eligibility period for trade readjustment assistance! Major time lags are produced by the bureaucratic maze which workers must transcend before receiving adjustment assistance.[4] We even have a report on cases where the Tariff Commission has altered the definition of "filing date" so that the Commission may take longer than its mandatory 60 days to return a finding.[5] A breakdown of the delay at each step of the certification process is found in table 1.

TABLE 1.—*Time periods involved in receiving trade readjustment allowances under the Trade Expansion Act*

Item:	*Number of weeks*
Average lag between impact date and separation	18.2
Average lag between separation and certification (1)	32.7
Average lag between certification and application (2)	14.9
Average lag between application and first TRA check (3)	6.9
Average lag between separation and first TRA check (1+2+3)	54.5

Source: U.S. Department of Labor. ILAB Survey.

From our analysis we have shown that workers who have received the various employment service benefits of adjustment assistance (under the Trade Expansion Act (such as counseling, testing, etc.) are worse off, in the sense of receiving a lower current wage, than those trade displaced workers who do not receive adjustment assistance. The reason for this is simply that the better trained, more motivated workers are not going to wait over a year for those benefits but they search out employment opportunities for themselves. It is only the disadvantaged, difficult-to-employ persons who remain unemployed until their adjustment assistance petition has been fully processed. Thus the usefulness of adjustment assistance benefits is directly related to the time it takes to deliver them to the recipients. The benefits are only marginally helpful when the delay is long. On the other hand we can expect them to be most useful in placing a worker in a new job if they are given to a worker immediately following his displacement.

Accordingly, efforts to reduce the time lag between lay-off and delivery of adjustment benefits contained in the Trade Reform Act are indeed very welcome. The 60-day period within which the Secretary of Labor must determine the eligibility of petitioners should markedly reduce one step of the procedure. (As table 1 indicates, that step currently takes 229 days!) I would like to suggest a further step that may greatly hasten the delivery of adjustment services and would certainly assist in the planning and scheduling of them. I would

[3] See, for example, Einar Hardin's article in *Cost-Benefit Analysis of Manpower Policies*. G. G. Somers and W. D. Wood, editors.

[4] In describing the process for obtaining assistance a U.S. Labor Department officer has facetiously suggested that a pamphlet explaining the adjustment assistance program under the 1962 act be entitled, "TRA . . . How to Get Yours in 274 Easy Steps."

[5] Testimony of Meyer Bernstein. Culver Commission. p. 92.

suggest that firms which are incurring increased competition from imports and are contemplating a reduction in their labor force be required to report that fact to the Secretary of Labor sixty days prior to the layoff of those workers. While the requirement would not bind the firm to lay off those workers (the workers after all are only "threatened to become . . . separated" at that point), it would mean that a trade-impacted firm could not lay off workers without sixty days notice to the Secretary. Similarly early warning schemes have been in effect for all types of layoffs in several European countries for up to a decade.[6] The planning horizons of firms are typically longer than two months so no hardship on those grounds should result to firms. Further, table 1 indicates that the average length of time between impact (the date after which unemployment is considered to be caused by import competition) and separation of workers from their trade-affected firm is over four months. It therefore appears that firms are well aware of the fact that they are suffering import competition and are accordingly likely to scale back their operation, well in advance of the actual layoff of workers. Thus it would take little effort on their part to so advise the Secretary of Labor. With this advance warning the Secretary could initiate his investigation and following affirmation arrange for the delivery of the adjustment services. Such a scheme would minimize the workers period of transitional unemployment and thus reduce the cost to the worker and society of adjustment to changing trade policy.

TRADE ADJUSTMENT ASSISTANCE FOR FIRMS

The proposed Trade Reform Act of 1973 would repeal those sections of the Trade Expansion Act dealing with adjustment assistance to firms. In his message accompanying the proposed bill, the President states that he ". . . believes this program (of adjustment assistance to firms) has been largely ineffective, discriminates among firms within a given industry, and has needlessly subsidized some firms at taxpayer's expense." I do not believe that there is sufficient evidence to support these assertions. In fact, the little evidence available suggests the opposite. I think that adjustment assistance to firms could be made more successful and offers an attractive alternative to reinstating tariffs by escape clause action.

As of December, 1972 only ten firms had received or were authorized to receive adjustment assistance amounting to $18.6 million. A further eight to ten firms are in the process of either developing their adjustment proposal or awaiting certification of their proposal by the U.S. Department of Commerce. The first firm to receive assistance was certified as eligible in July 1970 and obtained financial assistance shortly thereafter, while five firms were certified as eligible in 1972. Accordingly, the actual information on the success of the adjustment of these firms and the usefulness to them of adjustment assistance is far from conclusive.

We can, however, make these observations based on those firms.[8] With the exception of one firm, firms that have received adjustment assistance appear to have adjusted successfully. Patterns of declining sales, profit, and employment experienced during the years 1967 to 1970 have largely been reversed and the Presidents of these firms are optimistic regarding their ability to compete in the future. Department of Commerce assistance, while being incredibly slow in coming, has markedly helped those firms and given them a new direction. On this limited evidence, I think that we may say that the firm adjustment program under the Trade Expansion Act has been successful in effecting adjustment in those firms who have received assistance. Certainly, the program has had minimal impact but that is because of the strict eligibility requirements under the 1962 act.

The goal of the worker adjustment assistance provisions is to maintain the earning power of workers by assisting them in their reemployment effort. This goal can be partially achieved by giving adjustment assistance to trade-affected firms. A successful firm adjustment assistance program would not only redirect firms but would maintain their employment of workers and so reduce the cost of the worker adjustment assistance package. In fact, from our calculations, it appears that the cost of assisting firms to adjust to government-induced import competition is less than the cost of assisting in the adjustment of individuals who

[6] See Arnold R. Weber, "Manpower Adjustments to Technological Change: An International Analysis." *International Labor*. New York. Harper and Row, 1967. pp. 132–160.

[8] I have personally interviewed five firms and have information on others from a questionnaire mailed to them.

will become unemployed if that firm closes down.[9] On these grounds we can further support a firm adjustment assistance package.

IMPORT RELIEF PROVISIONS

There is a third ground on which we may support firm adjustment assistance. Under the provisions for import relief in the proposed act, the President may give relief to industries in the form of marketing agreements, higher tariffs, or quotas, which may extend from five to seven years. Such measures while providing firms in that industry with time to make adjustments, do so as some cost to the consumers of that good. It may be cheaper to compensate the firms in that industry directly by loan guarantees, etc., rather than have all consumers paying higher prices for those goods for the next five to seven years. I believe that the President should at least be given the option of granting adjustment assistance to firms in an import-injured industry.

Further, import relief helps all members of the affected industry regardless of need or injury. The net effect is a situation similar to that found in the agriculture-support programs. The large efficient producers which do not need assistance receive most of the benefits while the small producers collect few benefits. The assistance given to larger firms leads them to expand their output which puts even greater pressure on the marginal domestic firms. Thus, the benefits of import relief measures are not evenly distributed and in fact have a perverse effect on those firms that it is suppose to help.

Finally, under Sections 201 and 202 of the proposed act, the President may invoke import relief to an industry if imports are the primary cause of injury regardless of the cause of increased imports. The complete elimination of the clause requiring increased imports to be caused by trade concessions, as found in the Trade Expansion Act, eliminates the basic policy rationale for giving import relief. On equity grounds there is little reason to ". . . facilitate the orderly transfer of resources to alternative employment and other means of adjustment to new conditions of competition"[10] of import-competing industries only when other domestic industries are not given assistance. Had government caused the need for adjustment by lowering tariffs, the case for compensation on equity grounds would be substantially changed. Thus, I would advocate the inclusion of a clause loosely tying increased imports to trade concessions. Other increased imports are, as the proposed act states, merely the result of changing "conditions of competition" and are no different in nature then various regional or technological changes experienced by firms and industries within the United States.

With the inclusion of an import causation clause, import relief and adjustment assistance would only be available to firms and industries where imports had increased *and* where trade concessions had been given on those goods. Since concessions have been staged in the past and will be staged under the proposed bill, the need for additional import relief in the form of increased tariffs, etc., would not be so necessary. Firms would know that with government assistance they will have five years to adjust (under the staged reductions) and thereafter they are "on their own". The incentive therefore, is to adjust rather than to resist adjustment in the hope that tariffs may be reimposed for a further period. Such a scheme is enhancing the functioning of the market rather than inhibiting it.

Mr. BURKE. Thank you.

Do you wish to inquire, Mr. Duncan?

Mr. DUNCAN. I have no questions. I want to thank Mr. Bale for his statement.

Mr. BURKE. On behalf of the committee, we wish to thank you for your appearance and the contribution you have made on a very important subject.

Our next witness is Andrew L. Gray of Washington, D.C.

We welcome you to the committee, Mr. Gray. You may identify yourself and proceed.

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[9] The typical trade-impacted firm aided under the Trade Expansion Act received adjustment assistance to the value of $30,000. This includes the cost of preparing the adjustment proposal plus an allowance for loans provided at concessional rates. (Often only loan guarantees are provided.) This expenditure of $30,000 is equivalent to the average trade readjustment allowance paid to 40 displaced workers (which does not include the cost of the many other employment services that they may receive.)

[10] Section 201 (a) (1) of the proposed Trade Reform Act of 1973.

STATEMENT OF ANDREW L. GRAY, WASHINGTON, D.C.

Mr. GRAY. Thank you, Mr. Chairman.

I come before the committee as the former Director of the Office of Trade Adjustment Assistance of the Department of Commerce. I held this job from November 1971 to February of the current year; that is a longevity record in this position.

I have submitted to the committee already a somewhat lengthy statement which I would, with your permission, like to introduce for the record.

Mr. BURKE. Without objection, your entire statement will appear in the record.

Mr. GRAY. Thank you so much.

I will offer a few comments from the firing-line having run this program which has had a highly controversial history. It has been the object of a great deal of exasperation—congressional, press, and otherwise—some of it definitely merited, some of it unfortunate, given the structural problems in the Trade Expansion Act of 1962 which you know, and which this committee has addressed on previous occasions. That is to say, the eligibility criteria we all know are too stringent.

Nonetheless, I am here just briefly to offer several examples of how adjustment assistance to firms can work and to state that probably the greatest enemy of trade adjustment assistance is administrative delay, against which I have fought as best I could during my tenure in office, not always with success.

I think there is a German proverb which says that he who gives quickly gives doubly. The converse is certainly also true. Benefits that are delayed are of course thereby in part destroyed.

I was interested in the testimony of my predecessor stating that a displaced worker on the average is eligible for adjustment assistance only 55 weeks after he becomes unemployed. The average time, I suppose, which a firm has to wait before delivery of benefits from the time the injury has occurred has, I am sorry to report, as you well know, run into years—several years have elasped between the actual perception of injury and the final delivery of benefits, if at all.

I think the best example of how the program can work and has worked successfully is in the sheet glass industry, where the industry petitioned for escape relief in 1969. After a tie vote of the Tariff Commission, the President affirmed it and prescribed adjustment assistance while he later rescinded the Kennedy round tariff reduction.

The two big companies—and this is the key point—in the industry, these are PPG Industries, Inc., and Libbey-Owens-Ford, were not eligible for trade adjustment assistance, owing to the operation of the "means test."

It has been brought up here today in testimony that it is really not sensible to conduct an adjustment assistance program for duPont on the one hand and a tiny merchandiser of benzoid products on the other. A "means test" has to be devised that is sensible, useful, and workable.

In this case, it eliminated the two biggest firms—and the two smaller companies in the industry, these were ASG Industries of Kingsport, Tenn., and the Fourco Co. of Clarksburg, W. Va., were eligible for assistance and are receiving it; the one a direct loan of $4 million

and the other a direct loan of $7 million, to construct a float glass facility.

In this case, adjustment to foreign competition means the licensing of the construction of float glass facilities, at a price tag of $20 million and up.

Now these two smaller companies would not have been able to finance this kind of investment via the bond market. They would, absent trade adjustment assistance, probably be unable to effect the kind of long-term adjustment that is needed and which they will, we trust, with this assistance succeed in achieving.

Both of these loans, incidentally, are subordinated to private creditors who are contributing $2 in private funds for each governmental dollar disbursed. I think that is the proper use of the trade adjustment assistance dollar. You want to generate as much as possible outside financing.

In closing, I would say—and in offering that as an example of how trade adjustment assistance has worked, whereas everyone knows the many cases where it has not worked, really never had a chance to work—I would say that one should not, merely because trade adjustment assistance for firms has disappointed many hopes and exasperated many applicants, "throw out the baby with the bath water."

The provisions of the Trade Expansion Act of 1962, title III, were very ingenious; a great deal of very fine drafting effort went into that legislation. With a few changes and with effective delivery, I would strongly urge this committee to believe that this title III of that act and adjustment assistance for firms is a viable and useful mechanism.

It will never be able to absorb the whole weight of the liberalized trade policy, counteract all of the consequences. One should not ever attach tremendous hopes to it. But the remedies that it can provide to medium-sized firms and small ones as well, not as instantly gratifying to everybody as escape clause actions, are beneficial in the short run and probably far less costly in the long run.

Thank you very much.

[The prepared statement of Andrew L. Gray follows:]

STATEMENT OF ANDREW L. GRAY

"Like justice," Mr. Donald M. Kendall remarked three years ago in testimony before this Committee, "Assistance delayed is assistance denied." In recent debates on trade adjustment assistance, the palpable difficulties of the existing programs in timely delivery of benefits have been attributed chiefly to structural flaws in the Trade Expansion Act of 1962. This statute, it is true, imposes unduly stringent eligibility criteria on prospective applicants, and its drafters erred severely in establishing identical fail-safe procedures for the nuclear weaponry of escape clause action and the modest conventional armament of trade adjustment assistance. Yet Title III of the Act abounds with ingeniously arrayed terms of art, offering opportunities to design delivery mechanisms that could accommodate, if need be, a greatly augmented flow of benefits.

In its new trade bill, the administration now proposes to abolish the existing trade adjustment assistance program for firms. According to this plan, the superseding "Trade Reform Act of 1973" would drop the adjustment assistance sections of the decade-old statute, and such programs as prove necessary adjuncts to enactment of the bill would be concocted subsequently. Whatever the outcome of this legislative strategy, the manner in which benefits are delivered, and not the niceties of statutory draftmanship, will determine success or failure of these programs.

Program management is the crux of the problem. For example, a "means test" of sorts will always be a necessary precondition to the distribution of

benefits to injured firms, and the present law sensibly stipulates that an applican firm must make "reasonable efforts to use its own resources" in financing its economic adjustment to import competition. Obviously, any such term as "maximum use of own resources" has to be defined operatively, on the basis of actual trade adjustment assistance cases, and this definition continually refined to reflect useful distinctions between applicant firms with regard to this crucial test. Provision of adjustment assistance, in other words, will always have to be governed primarily by whatever regulations and guidelines are issued by the Departments administering the programs. If the programs are to evolve beyond the larval grab-bag stage, it will be necessary to develop a comprehensive body of doctrine permitting widely differing firms and groups of workers within divergent industries to assess clearly their potential eligibility for trade adjustment assistance and the types of benefits for which they might qualify. For purposes of program definition, of course, approvals will be less significant than denials. The current trade adjustment assistance regulations for firms promulgated by the Department of Commerce in February, 1972, offer little comfort. The job remains to be done.

Why has the performance to date been so ragged and spotty, not only as to delivery of benefits, but also as to creation of workable programs? For one thing, there are disagreements concerning the degree of flexibility to be properly exercised in interpreting the more stringent provisions of the adjustment assistance sections of the Trade Expansion Act of 1962. Listen, for instance, to Tariff Commissioner Will E. Leonard, Jr., on the subject: "We are not to guess what Congress intended. We are to do what the language passed by that Congress and enacted into law tells us to do." Mr. Leonard has yet to cast an affirmative vote on an adjustment assistance petition brought by a firm before the Tariff Commission. Of course, some of his fellow Commissioners, past and present, have adopted a more pliant position in regard to the baffling eligibility criteria, and in particular to the requirement that a finding of serious injury resulting from imports must be directly traceable to U.S. tariff concessions effected pursuant to prior trade agreements. Otherwise, the lugubrious record of the Commission during the first seven years after enactment of the law in 1962, when all petitions brought by firms and workers were rejected out of hand, would have continued unbroken to the present day. Such lengthy periods of inanition are not, however, atypical in the history of a Commission that allowed 32 years to elapse before coming up with a single affirmative finding of unfair import trade practices on any petition brought pursuant to Section 337 of the Tariff Act of 1930.

The U.S. Tariff Commission is a superb fact-finding agency, but its record as an adjudicatory body is quite another story. For one thing, the Commission's findings are exempt from judicial review. This adjudicatory no-man's land would be less dismaying if the six-member Commission could be compelled to construe the statute systematically, establishing useful, workable, and *binding* precedents for future applicants. But in fact, the Commission rarely reports its findings in terms of statutory *interpretation* but rather as orphic pronouncements. Each of the six commissioners is, after all, utterly independent as to voting behavior, and as the law is administered today, adjustment assistance petitions brought before the Commission will often stand or fall according to the vacation schedules of the individual commissioners.

Strait is the Tariff Commission gate, and strait it will no doubt remain until the eligibility criteria are relaxed or until, as the administration now implicitly recommends, the Commission is removed from the adjustment assistance process entirely. As a result, firms applying for adjustment assistance continue to reach the Department of Commerce at the sclerotic rate of scarely more than one per month. Yet even at the delivery stage there remain unresolved questions of program objective and differences in statutory interpretation. The existing statute stipulates, for example, that trade adjusment assistance loans must have "reasonable assurance of repayment." Given this provision, the Commerce Department has been somewhat uncomfortable in the role of lender of last resort. Construed strictly, this language requires trade adjustment assistance loans to be supported by copious collateralization, and amortization schedules to be strictly consonant with the useful life of whatever plant and equipment is to be financed. Moreover, the extent to which the Government should subordinate its lien on the assets of recipient firms in return for additional contributions by one or more senior creditors depends upon whether the program's principle objective is to obtain maximum leverage for the trade adjustment dollar or to secure "reasonable assurance of repayment." These two objectives cannot be easily reconciled. If

the program is a true lender of last resort, trade adjustment assistance loan agreements should not impose limitations on the amount of additional borrowing a recipient firm may contract in future years, but rather devise provisions to foster such additional borrowings as and when needed to finance the adjustment process. As the Japanese proverb suggests, "If you have to bow, bow low."

Another vexed question is the proper treatment to be accorded creditors with past-due claims on applicant firm. Obviously, creditors of injured firms want to be repaid as quickly as possible, aand three aggrieved claimants acting in concert can generally trigger bankruptcy proceedings, the vagaries of which are difficult to influence, let alone control, by any government agency in Washington. Here again the Trade Expansion Act of 1962 gives little guidance for program management, specifying merely that "working capital" (which is not defined) shall be provided to recipient firms only in "exceptional" cases. This is not very helpful, save possibly as an indication of statutory intent that trade adjustment assistance funds should not in the first insance be applied o the reimbursement of current creditors. In practice, the Department of Commerce has been willing to permit use of trade adjustment assistance funds to pay past-due municipal, county, state and/or federal tax obligations. Other creditors with past-due claims must be induced by applicant firms to execute stand-by agreements providing for temporary deferment of their claims until such time as the adjustment process allows them to be paid from expanded cash flow. Creditors of an applicant firm who are also shareholders of that firm, however, are flatly required to execute stand-by agreements remaining in effect for the duration of the trade adjustment assistance loan. The governmental contribution to succesful adjustment, after all, will eventually inure to the benefit of the shareholders of a recipient firm; and there is no good reason why they should be repaid before a federal loan is fully amortized.

There are, on the other hand, several provisions of the statute that, far from being overly vague, are painfully precise. For example, the provisions governing the use of the guarantee in trade adjustment assistance loans afford too little flexibility for program management. First of all, the 90% statutory limitation pertaining to the guaranteed amount causes difficulty for many potential commercial lenders, as many firms applying for trade adjustment assistance are close to insolvency, show substantial impairment of net worth and a record of continued operating losses. Thus, even the 10% exposure that would necessarily have to be assumed may prove unsustainable. Secondly, the statute imposes an interest ceiling of 1% (in "exceptional" cases 2%) above the rates stipulated annualy for this program by the Department of the Treasury. But these rates are based upon annualized average cost of Treasury borrowings at different maturities, and while they are quite properly applicable to governmental direct loans, their rigid statutory application to guaranteed transactions, which involve use of a private lender's own resources at a given point in time, is incongruous. Thirdly, the typically lengthly maturities of trade adjustment assistance loans (up to 25 years, if necessary) make it difficult for banks or other institutional lenders to acquire portfolio assets in the form of 90% guaranteed notes which are likely to remain liquid assets throughout the life of the loan. In the course of time, a secondary market for such instruments may evolve, but of course there is no such market at present.

Given these myriad obstacles, can trade adjustment assistance for firms ever be effective? Poor management and not imports, it is often said, is frequently the true cause of injury to applicant firms. Whatever element of truth lies at the bottom of this contention, the Department of Commerce has itself managed the program of assistance for firms poorlly enough to be in a glass house in this respect. For one thing, trade adjustment assistance, yet another federal subsidy and yet another intervention in the "free market economy," has been generally distasteful to its principal officials. As a result, from the time the first cases began infiltrating Tariff Commission defenses, the Department has conducted a delaying action of sorts, a kind of fighting retreat,. To make matters worse, the first adujstment assistance loan of nearly $3 million in 1970 to a Chicago manufacturer of barber chairs, the Emil J. Paidar Co., exploded into an almost immediate fiasco, the applicant becoming insolvent less than six months after drawing down the copious government funds. This quite naturally left those who had recommended and approved the loan a bit gun-shy.

Another obstacle to effective management of the program is its location in the Departmental table of organization as a constituent office of the Domestic and International Business Administration. There have been, in the past six years, six different Assistant Secretaries in charge of this heterogeneous administrative body and the position has been vacant for the past three months.

Understandably, perhaps, none of the more recent incumbents has been particularly enthused at the task of sorting out the problems and possibilities of trade adjustment assistance under the existing statute. Such reluctance is, in part at least, attributable to the fact that the Assisant Secretary for Domestic and International Business is denied legal counsel of his own choosing, but is rather serviced, willy-nilly, by the Departmental Office of the General Counsel—a division of authority in trade adjustment assistance matters that has greatly inhibited effective decision-making and has caused stupefying delays in resolving some of the more difficult policy questions arising from the cases. Moreover, like most of the older agencies of the executive branch, the Commerce Department relies heavily on a lengthy clearance process for all action papers, and in the past, some trade admustment cases have required as many as eleven *sequential* clearances before reaching the Secretary or his designee for signature.

The President, at any rate, has now termed the existing trade adjustment assistance program for firms "ineffective," and one can scarcely quarrel with this adjective when measuring promise versus performance over the past decade. But the performance, however disappointing, offers some recent evidence of promise—enough, at least, to warrant reconsideration before abolishing the existing program summarily. Consider, for example, the role of trade adjustment assistance for the U.S. sheet glass industry and its effect on Presidential decision-making in regard to tariff concessions on sheet glass imports. Late in 1969, several glass manufacturers brought an escape-clause petition before the Tariff Commission, which split three to three in making its finding. This tie vote was then broken by the President in favor of the petitioners, and escape clause relief—i.e., restoration of the Kennedy-round tariff cut for imported sheet glass (principally from Belgium)—was afforded the industry. At the same time, however, the President prescribed adjustment assistance for the import-injured firms. By operation of the "means test," the two giants of industry, Libby-Owens-Ford, Inc. and PPG Industries., were precluded from receiving any such benefits, for, after all, both these companies enjoyed ready access to the bond market, if need be, to finance long-term economic adjustment measures. For the sheet glass industry, the necessary adjustment involved the licensing of the so-called Pilkington process and the construction of float glass facilities—at a minimum price tag of $20 million and up. The two smaller members of the industry, ASG Industries, Inc. of Kingsport, Tennessee, and The Fourco Company of Clarksburg, West Virginia, were faced with the need to make this massive investment to remain competitive, and both applied for trade adjustment assistance to do so. Accordingly, the Office of Trade Adjustment Assistance is providing direct loans of twenty-year maturity of $4 million and $7 million, respectively, *subordinated* to private institutional lenders that in each case contributed two dollars in long-term financing for the float glass plants for each adjustment assistance dollar disbursed.

The government, however, takes the longer maturities, with provision to accede to the first lien position on the plant and equipment to be financed when the commercial lenders are repaid. In each loan agreement, earnings recapture clauses provide for accelerated repayment of the government loans as and when operating earnings exceed minimum projections. Without these trade adjustment assistance direct loans, it is probable that neither of these two smaller companies in the industry—large employers in Kingsport and Clarksburg—would be able to adjust to import competition, particularly inasmuch as the President lifted the temporary escape clause relief for the sheet glass industry on May 31, 1972. While possibly the chief executives of Libby-Owens-Ford, Inc. and PPG Industries, Inc. have been less than enchanted at the operation of trade adjustment assistance for firms, it is surely fair to contend that the program has in this instance afforded the President an additional option and facilitated a decision he might otherwise have found too risky. That trade adjustment assistance can in certain instances serve as an alternative to the more drastic forms of relief no doubt accounts for the lukewarm support it has received from industry spokesman. Yet it is conceptually wrong to view adjustment assistance solely as an alternative to tariff increases and imposition of quotas. Under no circumstances can trade adjustment assistance plausibly be expected to absorb and counteract all the consequences of an aggressively liberalized U.S. trade policy, and the various remedial mechanisms are by no means mutually exclusive. Effectively administered, however, trade adjustment assistance can provide small to medium-sized firms within certain industries remedies that, while not so instantly gratifying as escape clause actions, will nontheless be equally beneficial in the short term and far less costly in the long run:

The novelist Norman Douglas once remarked what a pity it is that 95% of the wisdom of the race is embedded in two dozen platitudes. In adjustment assistance matters, nevertheless, a stitch in time saves nine. Benefits must be delivered to firms, if at all, before irremediable injury has occurred, and not during terminal stages of corporate illiquidity after all other remedies have been exhausted. Administrative delay, which loves to masquerade in government as consumate prudence, is thus a serious threat to the potential effectiveness of adjustment assistance. The challenge lies in timely delivery of benefits. Adaptability, innovativeness, and willingness to act quickly whenever necessary—these qualities should certainly be required of all recipients of these benefits. If trade adjustment assistance is to work, government will have to demand no less of itself.

Mr. BURKE. Are there any questions, Mr. Duncan?

Mr. DUNCAN. I would like to compliment you on your statement. I have glanced through while you were talking.

In how many instances did we use the Trade Assistance Act in the past year?

Mr. GRAY. How many cases?

Mr. DUNCAN. Yes, sir.

Mr. GRAY. During my 14 months, I suppose we were able to give adjustment assistance in some form—and there are several forms which it can take—to some 16 firms.

Mr. DUNCAN. How many applications have you had?

Mr. GRAY. Of course, the applications have to go through the Tariff Commission. That has been the bottleneck. Maybe 20 or 25. No more than one per month.

Mr. DUNCAN. Do you know how many were filed with the Tariff Commission?

Mr. GRAY. For each one that gets through the Tariff Commission barrier, I suppose two to three have been filed. Perhaps in the recent past the batting average of applicants has gone up a little bit. Of course, the batting average was zero for the first 7 years. In 1969, maybe one in five, and maybe this year one in two or one in three.

Mr. DUNCAN. Thank you very much.

Thank you, Mr. Chairman.

Mr. BURKE. The information I have is that about 5 percent are acted on favorably.

Mr. GRAY. This is from 1963?

Mr. BURKE. In my own district, I believe there were something like 30 applications in the greater area, contiguous to my congressional district. There wasn't one application that was acted on favorably.

Mr. GRAY. This is in the Tariff Commission?

Mr. BURKE. Tariff Commission. It eventually reached a successful conclusion. In fact, we have a case there now on the shoe industry that has been sitting down at the White House for 2 years. No decision down there. All the President has to do is either accept it or reject it, but he won't move.

Mr. GRAY. That is, of course, true.

Mr. BURKE. You see, that is the problem that we face.

Another trouble with giving the firms the adjustment assistance, the great majority of them didn't seek the assistance because they are part of conglomerate set-ups and other set-ups where they are better off taking the tax loss. Of course, this left the employees out in the cold.

Some of these companies made applications but they made weak applications. They didn't present too strong a case to justify their application. Of course, the application was blown up. The main loser in the whole thing was the employee.

There was not one shoe worker in my district that got assistance. I must say there must have been at least 10,000.

Mr. GRAY. May I comment on that briefly?

Mr. BURKE. Certainly.

Mr. GRAY. In the district of your colleague, Congressman Harrington, three companies have receiver direct assistance from the trade adjustment program of the Commerce Department. This is an encouraging beginning.

Mr. BURKE. There were 115 factories closed, and three in New England got adjustment assistance.

Mr. GRAY. Of course the delivery cannot take place until the eligibility.

Mr. BURKE. That is even less than 5 percent. As I say, their track record is not too good. That is why you will hear the question raised by the members of the committee; we have been down this road before. This talk about adjustment assistance—it is not going to be there. I would rather have them eliminate the whole thing. To promise the worker in case he loses his job because of imports they are going to get some adjustment assistance, is the wrong thing; it is not a moral thing for the Government to do, to hold out some hope to people when there is no hope.

They either should give them adjustment assistance or they should not give it to them. If they don't want to give it to them, don't try to raise a false illusion they will give them something. They gave them nothing; only 5 percent of the cases.

The trouble is, when you are unemployed and you are seeking assistance, you don't have the time to sit around waiting and finding out if you are going to get something; you still have to buy the groceries and pay the rent and all the other things that the working men are faced with.

It is a cruel thing to do, to put this provision in the bill. This provision is supposed to be liberalized over the present act, and actually cut the 52 weeks back to 26 weeks, so they give them something with one hand and take it away with the other.

I don't know if it will be easier under this bill or not. I have talked to the Tariff Commission up there, trying to prove to them that imports cause the loss of jobs. Moving the Washington Monument down here in front of the Capitol with your own hands would be an easier task to perform.

All this talk about adjustment assistance, to me, is a cruel joke. I think it is a cruel joke. It is a cruel joke for the administration to come in here trying to tell people that there is going to be adjustment assistance.

There is none in this bill. It is a bad thing when a person loses his job. Imagine the U.S. Government—have we lost all our integrity? Have we lost all of our honesty? Is there no decency in the country today—to come out and talk about adjustment assistance.

You even mentioned 7 years—nothing. Now we are going through the same act again with a different group of performers, but they are giving the save promises.

Don't you think it is a cruel hoax to play on people who have lost their jobs—telling them there is some relief coming for them?

Mr. GRAY. I think the administration has, however, recommended abolition of title III. I am sure you have heard testimony here from officials about that.

Mr. BURKE. The administration goes this way and that way and nobody knows which way they are going next. I don't think there is a free trader in this country who can depend on what the administration is asking for, and I don't think there is a protectionist in this country, and I don't think there are people as moderate as I am who can understand what they are going to do.

Mr. GRAY. I think you are justified in being highly skeptical of delivery when there has been nondelivery for over 10 years. In my testimony, I state why the Commerce Department has not done well. I have made some recommendations to speed adjustment assistance. There is no point in talking about assistance if you don't deliver it.

Mr. BURKE. They should take it out of the bill and tell the people you are not going to get anything because what they get you could put in a thimble. Instead of cluttering up the law books of this country and the statutes of this country with a lot of mumbo-jumbo and words that are meaningless, we would be far better off if we were more honest with the public.

It is a cruel joke.

Mr. DUNCAN. If the gentlemen will yield, we are not prohibited from writing legislation in this committee. Let's talk about "we."

Mr. BURKE. I would like to put a provision in this bill that has nothing to do with trade.

Mr. DUNCAN. You have a majority. Let's do it.

Mr. BURKE. We have a lot of free traders here who won't go along with me. I would like to put in a bill whereby if anybody lost his job as the result of policy of this Government or any State government, where the rates are higher than the national average, that person should be paid 52 weeks' compensation out of the Federal Treasury.

Mr. DUNCAN. I think you are on the right track. This is the committee that writes the legislation.

[The following was subsequently received:]

GENERAL COUNSEL OF THE DEPARTMENT OF COMMERCE,
Washington, D.C., May 16, 1973.

Hon. WILBUR D. MILLS,
Chairman, Committee on Ways and Means,
House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: I note from the tentative list of witnesses for the Committee's hearings on the proposed Trade Reform Act that Andrew Gray of Washington, D.C. is scheduled to appear on Wednesday, May 16.

Mr. Gray was formerly Director of the Office of Trade Adjustment Assistance at the Department of Commerce but, effective February 18, 1973, was assigned to the Office of the Director, Bureau of Resources and Trade Assistance, and detailed on a research grant assignment under the auspices of the Brookings Institution Program for Federal Executive Fellowships. Thus, as of February 18, Mr. Gray had no connection with the Office of Trade Adjustment Assistance. Additionally, I wish to advise you that in February, it was agreed that Mr. Gray's appointment on the staff of the Office of the Director, Bureau of Resources and Trade Assistance, would terminate effective August 18, 1973.

Accordingly, Mr. Gray is appearing before the Committee in his individual capacity only, and will not be speaking for this Department or for the Administration. We neither have seen nor do we intend to see Mr. Gray's testimony before he testifies. He has not discussed the substance of his testimony with any officials of the Administration as far as we know.

Sincerely,

KARL E. BAKKE,
Acting General Counsel.

Mr. BURKE. Our last witness for today, and I want to compliment him for being so patient, is Charles H. Taquey. We welcome you to this committee. You may identify yourself and proceed with your testimony.

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

Mr. TAQUEY. Mr. Chairman, Mr. Duncan, I thank you for recognizing me. This is a great privilege for me to be before you, and it is also a great responsibility.

I am a naturalized citizen of French origin who still speaks French better than he speaks English, I am afraid.

I have always tried to be an international man, which does not mean I have not served Government. I have served the French Government in the past, the American Government in the Foreign Service and both Governments in the Army for 7 years. I believe in government service.

I believe also in internationalism and, more than anything else, I believe in free trade. I am an advocate of trade liberalization. I am one of the free traders you are talking about, and I believe in it very strongly. It is a question of faith with me, and you will pardon me if I am a little antagonistic about it.

I have a statement which is not very long, but it would certainly be too long to read it to you in the 5 minutes you have given me at this late hour of the day. I will submit it for inclusion in the record.

Mr. BURKE. Without objection, your entire statement will be included in the record.

Mr. TAQUEY. Thank you, Mr. Chairman.

I am in favor of free trade. I outline in my statement the impact of free trade on multilateral corporations, on the technological gap, on inflation, and on unemployment. On most of these things, I think I can only tell you that I subscribe entirely to most of what Prof. Walter Adams said before me, so we are in the same boat.

However, there is one thing I would like to talk about very briefly and will not take more than a few minutes because I think it is the gut issue of all of these debates we have had on trade policy. The gut issue is nothing but unemployment and jobs.

Mr. Chairman, because I am a free trader, I am as concerned about jobs as you are, sir. You have been very eloquent in mentioning the cases where the displacements of labor by foreign imports was bringing hardships to various members of the community. This is an important issue, but we should raise it carefully. At the present time, labor is under the illusion that the Government can in one way or another do something to limit the number of unemployed, that the Government can do something to provide jobs for the people.

Mr. Chairman, a few minutes ago, you were talking about a certain illusion in our legislation, the illusion of adjustment assistance. You said it was a cruel hoax, this adjustment assistance. Now, I believe holding up before the people the possibility of the Government providing jobs through protection or other means is a cruel hoax, even more so. At the present time, we are in the throes of a crisis. There is a crying need for redistribution, reallocation of resources from industries which are now superannuated industries, industries that the con-

sumer does not want more of, like the automobile industry, and there are other industries for which there are needs, not only in the fields of service but everything that concerns the quality of life and everything that concerns the recovery of value from waste, the development of renewable resources and other improvement of the environment, mass communications and others. There are the new activities for which there is need. We have too many automobiles and we do not have enough commuter trains, for instance.

Certainly we cannot prevent this redistribution from taking place without some temporary unemployment, and certainly we cannot prevent this temporary unemployment by protection.

If we cannot, then why should we have protection, when we observe that protection itself is at the root of our troubles, at the root of our balances of payments' deficit, at the root of our technological gap and certainly at the root of our inflation.

Mr. Chairman, I am a perennial witness before this committee. When I appeared before, it was in 1970. I tried to demonstrate that unilateral liberalization was the only effective economic stabilizer; that one could not rely on fiscal or monetary policies to stabilize the economy. There is a certain thing called the Phillip's curve: If you get stabilization and less inflation, you have more unemployment. But if you have to accept the possibility of unemployment, if instead of saying we are trying to limit unemployment, if you look what can be done to make unemployment bearable, then I think you have started to resolve the problem of the economy, for this is the only approach possible. It is a question of finding out what can be done, asking ourselves a few questions—does our society need all the people we seek to keep busy to operate the economy? Definitely not: it does not need all those people to operate the economy. Instead of being concerned about works redistribution, we need be concerned with making more leisure time available to a greater number of people. I would say unless we recognize this, it is absolutely impossible to take any effective measure to control the economy. We will go from inflation to more inflation. We will do what we have done in the last two years when I spoke with you before in 1970. I tried to show how illusory protection was. I said that protection could lead only to greater balance of payments' deficits. Now, see what happened: We have had two devaluations of the dollar which are protectionist measures—after all, what is devaluation if it is not a tariff on all goods and services—and where is inflation today?

With your permission, I will end up by making a strong plea for my old favorite unilateral trade liberalization. I know this is not going to pass at this session of Congress, but I shall come again and again and make my plea for this policy. This is the only policy that can save this country.

[Mr. Taquey's prepared statement follows:]

STATEMENT OF CHARLES H. TAQUEY

Mr. Chairman and Members of the Committee: thank you for recognizing me, a perennial witness before your Committee, who, to his regret, continues to represent only himself in advocacy of unilateral trade disarmament.

In a previous appearance, on June 5, 1970, I described trade liberalization as the only reliable economic stabilizer; I indicated the limits of fiscal, monetary and direct controls in an inflationary situation, and I suggested that the good way to restore stability and to maintain the economy's dynamism was to reduce tariffs unilaterally, to give up quotas and to weed out other non-tariff barriers from our own backyard.

CONTINUING INFLATION

During the intervening period, my thesis has been tested in two ways: directly, first, in the instances of meat and petroleum where the Administration called upon foreign competition to contain domestic price increases. The thesis was further tested indirectly when the effect of those measures was negated by other, distinctly protectionist moves: the establishment of a surcharge on foreign importations in August, 1971, and two devaluations of the dollar since then. A devaluation being a double-jeopardy limitation on imports compounded by export subsidy, the current inflationary trend—a more serious problem now than in 1970, to say the least—tends to prove my case.

Now, we are faced by legislative proposals which, under one guise or another threaten more protection in an attempt to cure the ills of the U.S. economy. One might, therefore, ask oneself whether protectionism is a drug addiction leading the patient from use to abuse and from inhaling to "mainlining". One might wonder whether the addiction can be arrested. This is indeed a challenge to the wisdom of democracy and to the effectiveness of the legislative process. Should I believe that the challenge will not be met, I would not have asked to be heard today.

My purpose, now as in the past, is to make a plea for unilateral trade disarmament. Generations of economists have demonstrated that free-trade was advantageous to nations not only because of the benefits of increased exportations but also because of the favorable impact on the domestic economy of a free exchange of goods and services, regardless of any reciprocity on the part of other nations. Conversely, now as in the past, protection can be found at the root of the malfunctions which it pretends to correct. The following instances are cases in point.

THE TECHNOLOGICAL GAP

In the first place, what of the technological gap? True, whether the gap is narrowing or broadening, confidence that technological superiority affords a position of strength to the United States in the markets of the world is now being shattered: American technology has been made available to our foreign competitors, they have developed some advances of their own and they are now invading our markets. It is too late, however, to lock the barn and the real question is: What made American technology lose its superiority? Is it lack of protection or, rather, excessive protection? Savants are at a loss to explain technological progress by any other incentive but competition. Since they can hardly increase the level of domestic competition, the only recourse our public powers have to help us regain our advance is to give full play to foreign competition. Should we try to protect ourselves, we shall stagnate technologically and we shall become increasingly more vulnerable to the invasion of superior goods produced by foreign labor. Thus, a vicious circle will be created and the only outcome will be a deterioration of our standards and of our national power.

THE MULTINATIONAL CORPORATION

Let's take now the multinational corporation, the most glamorous new participant and exposed target in the age-old debate between free-trade and protection. Undoubtedly, the multinational corporation—a world power without territorial base—offers a challenge to the nation-state. It is natural for the nation-state to defend itself against the encroachment of the newcomer but is protectionism an effective defense? The multinational corporation is not the offspring of long-range plans of its managers: as it is well demonstrated in the Tariff Commission's study prepared for the Senate Subcommittee on International Trade and Finance, multinational corporations have developed along an evolutionary process largely directed by marketing considerations, i.e. the need to avoid the effects of international trade restrictions and the expectation of trade protection on the part of the European Economic Community for instance. If the power of the multinational corporation now challenges the sovereignty of the state, should the state encourage its challenger by begeting the very conditions from which this power rose? New restrictions would only create new opportunities for large combinations of international interests. The remedy to the excess of the latter does not reside, therefore, in restrictive measures on which the latter would thrive but in liberalization in the United States which will deprive the multinational corporation of its most fertile ground and other nations of the best argument they have to bolster their protective system, one of their main attractions for our corporate citizens.

TRADE BARGAINING

The United States is still a leader, indeed, and much of what other nations do is inspired by our own actions. Some, while paying tribute to the ideal of trade liberalization, honestly believe that increased protection or the threat of protection is a necessary weapon in trade negotiation. The conventional wisdom seeks to impose free-trade by erecting trade barriers and to preserve peace by war preparations. Those are patently spurious arguments which have been too long tolerated. Following conventional wisdom, the classical pattern of tariff bargaining is a dialogue that goes somewhat like this: "Listen! unless you do yourself a favor, I shall inflict upon myself irreparable damage!". It is high time for the United States to abandon this wornout path. Instead of extending the scope of old-fashion tariff bargaining to the negotiation for the removal of non-tariff barriers, the United States must place its confidence on a non-adversary system of trade deliberations, such as one proposed three years ago by Mr. Robert B. Schwenger in a statement following my own. For such a type of deliberations no bargaining power is needed. Any other approach is faulted by ignorance or neglect of the United States' major clout in international trade negotiation as elsewhere: the power of its example.

DOLLAR OVERVALUATION AND THE BALANCE OF PAYMENTS

It will be said, of course, that the United States balance-of-payments problem is too urgent to wait until other governments have made up their mind, that in the long run we shall all be dead and that the urgent business is to reduce the balance-of-payments deficit by locking out foreign goods. Well, let's look at the record: in 1971, the United States was faced by a deficit of 22 billion dollars and "something had to be done". A surcharge was imposed on importations and the dollar was devalued. The result is clear to be seen: the deficit in trade accounts was not reduced, it grew by a thumping 156% from 1971 to 1972. In the first year, it was 2.7 billion of dollars, or 12% of the balance-of-payments deficit, in the second year, it rose to 6.9 billion of dollars, representing more than one half—instead of 12%—of the total balance-of-payments deficit.

This calculation made over such a short period of time certainly does not demonstrate that protection necessarily exercises a negative influence on the balance of trade, even less that liberalization will necessarily create a trade surplus. The above figures should, however, remove some of the still prevailing illusions with respect to the effects of trade policy on international accounts and incline us to search for the causes of our balance-of-payments problems among such matters as excessive sovereignty expenditures abroad, doubts as to the valuation of the dollar and financial policies primarily concerned with heedless expansion of the domestic market. In view of the true location and the true dimensions of the problems, protection is practically irrelevant as a remedy.

UNEMPLOYMENT

There is a common ground underlying the refusal to leave the growth of the economy to its own devices, to cease tinkering with the monetary circulation, to welcome foreign competition, in one word: to accept fully the discipline of the free market. The common ground is the terror of unemployment.

The pursuit of full employment of human resources is a great goal but it should not degenerate into the fetish of formal employment. There are many ways in which man's resources can be put to good use, and many ways in which governments can assist in the development and utilization of those inner resources of man that do not find an outlet on the labor market. This is, I believe, the highest responsibility of the Houses of Congress and a task which, in conclusion for this statement, I would urge you to undertake.

Perhaps, we should ask ourselves whether the aim of the industrial society should be to spread around the work needed for the operation of the economy, whether the economy really requires full employment of the labor force to produce for the market, whether, on the contrary, it can perform its necessary tasks with a fraction of the labor force and afford opportunities for the rest to develop their inner resources clear from the market place, finding their fulfillment in the family, in the home, in spontaneous and not-marketable group activities, whether, in short, the goal of the industrial society is full employment or whether it is full leisure.

Stopping half-way in our quest, we might wonder whether employment, even of a formal nature, can be created for the entire labor force by protecting existing activities and preventing thereby a reallocation of resources in favor of mass transportation and communications and better health services, of the development of renewable resources and of the recovery of value from waste, of repair and maintenance services and of so many other services for which there exists a crying need. There is no doubt in my mind that the protection of superannuated activities, and blindness to emerging requirements of society are germs of economic depression, if not of social revolution.

The least that can be said is that protection is irrelevant to those broader problems, if not counterproductive in its social and economic effects. Protection is a course in which man redoubles his efforts when he loses sight of his goals. Promoting reliance on government action, it deprives man of true freedom. It makes him vulnerable to the temptations of his worse demon who is not the demon of sloth but the demon of evasion through makeshift work. If we follow that demon we shall end up by doing useless things, by being incapable to live unless we do useless and irrelevant things. We shall hire people uselessly. And when people are hired to do useless things they end up by doing dangerous and immoral things. It would be unwarranted to compare events in our present history with the drama that unfolded in Europe between the two wars when irrelevant economic protection served as a training ground for tyrannical governments in their deadly course from the abolition of economic freedom to the gas chamber. The historical precedent should be, however, a lesson to us.

It should be a lesson which shall lead us to ask for a new covenant between people and government, for a covenant under which government shall promise only what they can give and people shall not ask the public powers for what they can find only in themselves.

Mr. BURKE. Do you wish to inquire, Mr. Duncan?

Mr. DUNCAN. Thank you, Mr. Chairman.

I notice you say in your statement that protection is counterproductive in its social and economic effects. Are you referring just to the United States?

Mr. TAQUEY. I am talking about all the countries of the world. I was born in a country where people were born protectionists.

Mr. DUNCAN. Do you not think that the Japanese, with all the protection they have given their industry, have certainly grown?

Mr. TAQUEY. Sir, I do not think that the Japanese industries needed that protection to grow. In any case, I think there was a time at which we could have been in a position to give another orientation to the Japanese economy.

Mr. DUNCAN. Would you like to see free trade across the board?

Mr. TAQUEY. I am in favor of free trade across the board, and I am in favor of the United States giving the example for free trade, and the reason is a simple reason: I don't think the United States needs bargaining clout.

Mr. DUNCAN. Do you not think the United States has always taken the lead in free trade?

Mr. TAQUEY. Sir, certainly Cordell Hull did but since then we have always bargained in our negotiations as hard as anybody else, and that is as it should be.

The point I would like to make, with your permission, as somebody who still has a finger on the pulse of foreign countries so to speak, is that the influence of the United States, the simple power of the example of the United States is something fantastic, something few people realize. Whatever we do, other countries do, they will always imitate us. They say they don't like America, this big giant, but they will do what we will do. If we try to tell others, such as Japan, to remove their trade barriers, they will say, "What about you?"

If on the contrary we take a little step in the direction of free trade unilaterally, without negotiations. I promise you that you will see results; you will see them doing the same thing.

Mr. DUNCAN. These other countries such as Taiwan, Hong Kong, Japan do not want free trade. They just want it coming this way.

Mr. TAQUEY. I am no authority and I cannot quote chapter and verse that they want free trade. I have not been there recently. I have not talked to their leaders. I don't know what the feeling of a country stands for. I don't know about the economic education of people in those countries. I can only say one thing and with absolute confidence: if the United States announces unilateral steps toward free trade, beginning to take steps in that direction, the others will follow.

Mr. DUNCAN. Thank you, Mr. Chairman.

Mr. BURKE. That completes the testimony for today, and on behalf of the committee, we wish to thank you as our concluding witness today.

The committee stands adjourned to meet at 10 o'clock tomorrow morning.

[Whereupon, at 6:20 p.m., the committee was adjourned, to reconvene at 10 a.m., Thursday, May 17, 1973.]

TRADE REFORM

THURSDAY, MAY 17, 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.

We are very pleased this morning to have as our first witness the very distinguished leader of organized labor, Mr. I. W. Abel, chairman of the AFL–CIO Economic Policy Committee as well as president of the United Steel Workers Union. We are pleased to have you, sir. You are recognized.

STATEMENT OF I. W. ABEL, CHAIRMAN, ECONOMIC POLICY COMMITTEE, AMERICAN FEDERATION OF LABOR-CONGRESS OF INDUSTRIAL ORGANIZATIONS, ACCOMPANIED BY NAT GOLDFINGER, DIRECTOR, RESEARCH DEPARTMENT, AND RAY DENISON, LEGISLATIVE DEPARTMENT

Mr. ABEL. Thank you, Mr. Chairman and members of the committee. I appear here this morning as chairman of the AFL–CIO Economic Policy Committee, and joining me are Mr. Ray Denison of the Legislative Department of the AFL–CIO and Nat Goldfinger, economist for the AFL–CIO.

The CHAIRMAN. We are also pleased to have the gentlemen at the desk with Mr. Abel. You are recognized, sir.

Mr. ABEL. Mr. Chairman, if it meets with the committee's approval, I should like to submit for inclusion in the record the attachments to my testimony which discuss in full America's problems stemming from our world trade position, the AFL–CIO's views on the administration's trade bill, and the discussion of the Burke-Hartke bill and the AFL–CIO's reasons for supporting it.

The AFL–CIO welcomes the opportunity to appear before this committee to present its views on one of the most critical and important issues of the day.

There is no remaining question that this nation's misguided and misapplied foreign trade and investment policies have gotten the American worker, the American consumer, American business—in fact, the whole American industrial society—into deep trouble.

The AFL–CIO doesn't believe that we are being alarmist—or protectionist—when we say:

The Congress must move quickly and decisively to slow the massive flood of imports into the U.S. market which are sweeping away jobs and industries in wholesale lots.

The Congress must move to stop easy export of American technology which is undermining America's domestic industrial base.

And the Congress must move swiftly to check the flow of American capital away from the United States into foreign investment.

To fail in these actions will assure the decline of the standard of living which has made America the world's foremost industrial and economic power and leave this nation a fourth-rate industrial society.

What America needs and needs urgently is not just a revision of trade policies but an entire restructuring based on the recognition that the concept of "free trade versus protectionism" which dominated the thinking and actions of the thirties and forties is badly out of phase with the vastly changed world of the seventies.

America needs a positive policy that will put the well-being of the United States and its people above all else. The United States needs a policy that will assure American taxpayers, consumers, workers, and businessmen a fair and up-to-date set of laws so that the United States can deal with other nations for the mutual benefit of all. Unfortunately, the Administration's trade proposals would achieve none of these pressing needs.

LABOR'S HISTORIC ROLE IN TRADE

We of the AFL–CIO are no strangers to the world of foreign trade and investment. The workers we represent have long made the products which this Nation exports. Our members have had first-hand experience—disastrous experience in too many cases—with the effects of a policy which has left the door to the rich American market wide open to a flood of imports. This has turned America's reciprocal trade policy into a one-way street.

Starting in 1934, the trade union movement—the AFL and the CIO before merger and the AFL–CIO since—provided consistent and firm support to the U.S. reciprocal trade policies and the expansion of world trade. We believed that this was the appropriate vehicle to achieve the goal of increasing employment and improving living standards both at home and abroad.

In the thirties and forties, when the world was recovering from first a global depression and then a global war, expansion of trade brought expansion of employment and benefits to the majority of the people, not only of the United States but the world.

Starting in the fifties and accelerating during the sixties and seventies, new changes appeared on the world economic scene which significantly changed the world economy. These included:

The spread of managed national economies abroad which raised more and more direct and indirect barriers to imports, particularly from the United States, while embracing a Government policy of capturing a larger share of the world export market, particularly the vast American market.

THE INTERNATIONALIZATION OF TECHNOLOGY

The skyrocketing rise of investments by U.S. companies in overseas subsidiaries as a substitute for American production, and the unchecked spread of U.S.-based multinational corporations under

government policies which made the export of goods from plants abroad more profitable than domestic production.

The U.S. share of the world's trade declined; exports rose less rapidly, and a tide of imports washed away first American jobs, parts of product lines, then full product lines, and finally entire industries. Persistent and growing deficits in U.S. balance of international payments in the sixties have been followed by deficits in the balance of trade in the seventies for the first time in this century. These events have been at the heart of the two devaluations of the dollar within a 14-month period—and world confidence in the dollar continues to dwindle.

It should be alarming to every American, and particularly to those who are experts in trade, that this industrial giant is, for the first time in modern history, a net importer of manufactured goods. America's once clear world lead in technology and productivity is dwindling.

When you go looking for reasons, it is incredible to discover that America is losing its lead because U.S. businessmen are sending abroad or are selling off abroad the capital and technology which is the Nation's industrial base and transferring the U.S. high productivity to low-wage foreign countries where the profit bucks are bigger. America is the only nation in the world that is running a fire sale of its industrial capacity; and the beneficiaries are the corporations, not the citizens and not the government.

The AFL-CIO has sought to point out for some time what has been happening, but we have found few listeners. Since 1963, we have been calling attention to the need for action to stem the outflow of U.S. capital because of its devastating impact on the domestic economy.

Since 1967, we have sought to turn the attention of the Congress and the administration to the danger of maintaining special low tariff provisions which provide the excuse for American business to export plants and jobs. We have sought specific tax revisions to halt the avoidance or evasion of U.S. taxes on profits from foreign investment and production. We have sought government actions to meet the rising threat of imports and the growing dominance by multinational corporations of the world economy.

We not only had few listeners but those who did listen told us we were wrong, that the problems we were talking about didn't exist and, if they did exist, they weren't doing any real damage.

Let me cite an example that shows we were not wrong. For some years now, we have been saying American imports under item 807 of the Tariff Code were directly causing a substantial loss of American jobs. Item 807 is the provision under which American firms export components for assembly outside the United States and then pay duty on the value added to the finished product when it is returned to the United States for sale in U.S. stores.

In 1967, using this device, $146.6 million worth of goods were exported across U.S. borders. Subsequently, this $146.6 million was shipped back to the United States as part of finished products with a value of $931.6 million. By 1972, use of this device had grown so that the United States shipped out $681.6 million worth of components and they came back in products worth $3.1 billion. America had a reported increase in exports all right but a $2 billion increase in imports.

Even the U.S. Tariff Commission, which seems reluctant to concede that the American worker suffers any damage from imports,

reported that the use of item 807 by U.S. firms had, by 1970, cost over 100,000 U.S. jobs. This is only one example. The losses in all segments of U.S. manufacturing—and parts of the service economy—have cost America many times more jobs.

We don't take any gratification in the fact that there is now wide recognition that the worsening trade situation we sought to alert the Nation to indeed exists.

We are concerned by the failure of the administration to come to the realization that the entire new set of facts and forces facing the Nation demands a complete change in thinking. The recycled phases, concepts, and clichés of the thirties and forties are still muddying the discussion.

It is time to get the terms "free trade" and "protectionism" out of the debate. They no longer apply. For the U.S. Government to talk and act as though the Nation lives in a world of free trade is to ignore the painful lessons of this world of these seventies. It just isn't so.

The United States has marched along the free trade route before, only to find out that other nations are using a different road map. They are concerned, and rightly so, with looking after their own interests. If U.S. interest and theirs conflict, there is no question and no hesitation for them about which comes first.

And it is time that the United States learned something from those nations which have managed to come to grips with their own trade problems and have put the primary interests of their own citizens first.

Instead of getting the help needed to meet our problems, concerned Americans are getting harassment.

America can cure its problems, the Nation is told, if the American workers will just try harder and be satisfied with less pay and if the American businessman will sell harder.

But, at the same time, the game is being rigged in favor of the overseas producer and the multinational corporations.

THE AMERICAN WORKER'S MISSION IMPOSSIBLE

Americans are told to seek jobs and help themselves. But their jobs are being exported out from under them. A suffocating tide of imports is driving them out of work. The loss of export markets is resulting in a further loss of employment. American plants, technology, and patents are being shipped overseas.

And the Government does virtually nothing to help the Americans affected.

Americans are asked to improve productivity at home to keep labor costs down and improve exports from the United States. The U.S. worker is the most productive in the world. Government figures show productivity shot up at an annual rate of 3.2 percent in the period from 1947 to 1971, against a 2.2 percent yearly gain in the previous 28 years.

A 1973 Tariff Commission report to Congress on the direct investments of some U.S.-based multinationals in seven nations in relation to overall U.S. productivity declares that "all firm data for the United States showed unit labor costs to be generally lower" than in five of of the nations studied—the United Kingdom, Belgium-Luxembourg, France, West Germany, and Canada.

But what affects the relationship of productivity, wage rates, and unit labor costs is the accelerating transfer abroad of U.S. technology. The effect of these transfers, through direct sale, through licensing, through the shipment of entire plants abroad, through patent agreements, and through the operation of U.S. subsidiaries overseas, is to transplant sophisticated American productivity capability into other nations.

THE RESULT

Foreign nations are able to use American productivity not only to increase their own efficiency but to compete more effectively with U.S.-produced goods. Thus the U.S. industrial base is not only eroded by these transfers but America's own technology and productivity are used against it. Under these conditions, it is no wonder that the U.S. productivity lead is being undermined.

Americans also are asked to reduce trade barriers for expanded trade. But other nations increasingly raise barriers to our goods, and U.S.-based multinationals, through their foreign affiliates, use these trade barriers to compete with domestic U.S. companies.

Americans are asked to understand that other nations have the right to curb U.S. investment in their country, to regulate the output of that investment, and to require U.S. firms which have located there to export from the host country. But, if we or other Americans suggest that the United States should put a damper on imports and provide some regulation for the outflow of capital, we are told this would provoke retaliation and start a trade war. There is no logic in saying that what is good for nearly every other nation in the world is bad for the United States.

Americans pay taxes to help develop new technology to support America's economic strength. But American business is shipping this technology abroad in wholesale lots to foreign subsidiaries and foreign companies. Not long ago, the AFL–CIO disclosed that the Thor-Delta launch rocket and its entire missile launch system is now in the process of being sold to the Japanese by McDonnell-Douglas Corp., a multinational corporation.

The Thor-Delta system is considered by space experts to be this Nation's most effective and reliable launch unit. The basic system was developed at taxpayer expense and cost millions of dollars in research and development funds; it has been a positive factor in the Nation's balance of payments through contracts with other nations to provide them with satellite launch services. Now it is being sold to the Japanese at a fraction of its cost for the exclusive profit of McDonnell-Douglas.

This is costing the United States the loss of a basic resource, while the Japanese are getting a sophisticated piece of technology—which it did not develop on its own—to add to its productive base. The sale of this technology means that the highly skilled American workers who built and operated this system are out of work, with no assurance that further technology in this area will be developed.

In addition to Thor-Delta, much of the Nation's military fighter aircraft, including the F–4 Phantom and much of the commercial aircraft program are being shipped abroad.

Since this is what is happening in our higher technology industries, what is going to be left to provide the jobs the Nation has been assured

would be available for those workers who have lost their jobs as a result of the export of lower technology industries?

Americans are paying more taxes to give tax breaks to U.S. firms to encourage them to stay at home and export. But the multinationals can and do take advantage of the tax breaks at home and still go abroad—and get further tax breaks for going abroad.

Americans are being told that the foreign operations of U.S.-based multinationals are creating jobs at home. Citing various studies, the Government and the multinationals claim that the growth of employment among multinational concerns rose more over recent years than did employment in the United States as a whole. We are supposed to be persuaded by this that it is the multinationals' foreign operations which are responsible.

This is statistical quackery.

U.S. multinationals are among the largest of America's corporations. They are the largest employers, the largest defense contractors, largest Government contractors, largest manufacturers, largest financial institutions, as well as the major exporters and importers of products, technology, money, and jobs. It is what happens in the American economy that affects their employment levels, not what happens as a result of their foreign operations.

Just to show how vulnerable their statistics are, subtract their employment additions as a result of mergers and acquisitions and their gains will be about the same or lower than U.S. employment gain for all corporations.

There is a massive campaign to brainwash the public on this issue. Special business interests, such as the National Association of Manufacturers and the chamber of commerce and the American Importers Association, are now posing as champions of the consumer, claiming that imports keep prices down.

Restrict imports and the consumer will have to pay more, they say. However, since 1962, foreign imports have tripled. Since 1968, imports just of manufactured goods have gone up from $21 billion to $38 billion. But prices have gone through the roof.

The NAM and the Chamber of Commerce also claim that, if the United States raises barriers to foreign goods, other nations will retaliate. Already, other nations have made a pretty regular business of putting up barriers to imports to safeguard their own industries and interests; they have been retaliating for years.

These are the same organizations, along with the Government free-trade experts, who have been telling the country that, even though the Nation's trade position has been getting worse, it hasn't had a significant impact on jobs. When the AFL–CIO seeks data to substantiate this claim, we are told that no precise information on the direct job loss from imports is available and that estimates of the job impact of exports are clouded.

Unfortunately, the foreign-trade experts show little interest and even less knowledge about the employment impact of developments in foreign trade. But the Government has presented some rough calculations indicating the net loss of some 500,000 jobs and job opportunities in the period from 1966 to 1969.

The AFL–CIO, employing the same methods of calculation, has determined that the further deterioration of the U.S. position in world trade through 1972 has brought the total loss of job opportunities to about 1 million, and that is probably conservative.

Today, imports affect almost every manufacturing industry. These imports more and more are largely in goods which could be—and once were—produced in the United States. The job losses are no longer the result of slight displacement but of deep penetration of our markets, with the wholesale elimination of entire industries with no comparable job replacement.

The rapid expansion of manufactured imports in the sixties and continuing into the seventies was particularly great in several areas in which the United States had previously been the world leader: steel, autos, machinery, electrical products, including TV, radios, and telecommunications equipment. Imports of these products joined with the continued rise of imports in other areas which had previously suffered import problems, such as shoes, textiles, clothing, glass, and leather goods.

Mr. Chairman, 9 out of 10 radios sold in America are now made abroad; 1 out of 4 cars, 7 out of 10 sweaters; 19 out of 20 motorcycles, 1 out of 2 nails and staples, 9 out of 10 baseball mitts used in our great American sport. The rollcall of decimated industries of high and low technology from imports is almost endless.

It is time the Nation paid closer attention to what it is doing to itself. It is time to look at where present policies are taking the country. America's problems in the world economy are likely to get more difficult in the coming decade, particularly if the forecast of serious shortages of energy and raw materials come to pass.

If you want a sobering picture of what could be America's future, go into a community where the main or a major job-supplying industry has been shipped abroad or overrun by imports. The jobs are gone; the payroll is gone; the tax base is eroded.

What are these communities left with? A loss of local purchasing power, the loss of taxes to pay for the services that community once had and still needs. Other taxpayers must pick up the slack. Either that or the community must cut the services, and its standard of living goes down.

How many more goods can this community buy from other communities when its taxpayers must support the burden of higher service costs, the burden of unemployed workers who once had a living wage but who must now live on unemployment insurance or welfare because there aren't any more jobs?

All of the above are added costs to America and must be shared by all. These are very real growing consumer costs of our present foreign trade policies. You won't find much consumer purchasing power in these communities once the industrial base is gone, but every American must pay the costs of the destruction left by the overrun industry or the moved-abroad firm.

The argument is made that America is losing only its unsophisticated industries, such as shoes, textile, and apparel. But those are badly needed industries and mean jobs for millions of Americans. Further, the loss is in every industry, even the most sophisticated, such as aerospace and computers, where we are supposed to be dominant.

It is most frightening when the Secretary of the Treasury, Secretary of State, and the administration's Executive Director of International Economic Policy agree before this committee that our chief export 5 years from now will be agricultural products. Are we regressing to the status of a developing nation?

ADMINISTRATION'S TRADE BILL

The administration has sent Congress a so-called Trade Reform Act which it promises will cure America's foreign trade problems and create jobs if the Congress gives the President virtually unlimited authority.

The administration's proposal is bad legislation, containing confusing and conflicting provisions wrapped in not-so-plain language. It is a patchwork of yesterday's answers for tomorrow's problems. It ignores the realities of today.

1. At a time when the United States is suffering a massive trade deficit and the costly effects of two currency devaluations, the Nixon administration's trade proposal fails completely to meet the need of the times. The export of jobs, the loss of U.S. productive capacity, and the lowering of the U.S. standard of living are ever-increasing casualties of this failure to offer an effective remedy.

2. The administration's trade proposals provide no specific machinery to regulate the flood of imports and, indeed, would cause greater damage to American employment and industrial production. Many of the so-called new tools in the proposed legislation are already on the law books and have been unused or used only to a very limited degree.

3. The administration's trade proposals do not deal at all with the export of U.S. technology and capital now being transported to other parts of the world where corporations can maximize profits and minimize costs.

4. The administration's proposals on taxation of the profits of foreign subsidiaries, though finally recognizing this as a problem, do virtually nothing to close lucrative tax loopholes for American-based multinational corporations. In the administration's proposal, American workers' jobs are not made more secure; in fact, their jobs are more threatened and the adjustment assistance funds provided are less than was provided by the trade law of 1962.

5. Climaxing the trade proposal is the provision that the President can be given virtually unlimited authority to negotiate on any trade issue and make virtually any concession he sees fit. Thus, America's present nonpolicy on trade would become an uncertain, unstable, and capricious tool for great harm. Further, this unlimited, unaccountable power to regulate the lives of American people, with only token congressional review, is unacceptable in a democracy.

I will not detail in my testimony all of our objections to the administration trade proposal; that is taken care of in an appendix to this statement.

The major request of the President's plan is for 5-year negotiating authority to make agreements to raise or lower tariffs without limit for any of a variety of reasons. The President can seek advice on tariff changes from the public or Government departments or the Tariff Commission, but he can act without paying heed to any of them. No one would know what the President had approved in the way of tariff action or the reason for it until he had done it.

Tariffs could be raised by the President or quotas imposed temporarily to grant "import relief" from fair competition, to meet "unfair competition," to retaliate for unjustifiable barriers abroad, for balance

of payments reasons, for domestic inflation, and for other reasons. But these tariffs and quotas also could be removed for balance of payments reasons and/or inflationary factors.

The basic change from prior law is the provision for presidential discretion almost without limit, the right to negotiate changes and impose them almost at will, and the authority to act without prior congressional or public approval to impose decisions reached abroad in secret with little of these actions subject to congressional veto.

The President's proposal also asks for advance authority from Congress to negotiate the removal of nontariff barriers. One of these nontariff barriers is marking of origin. That means that a product imported into this country must carry a stamp showing the country of origin; if it was made in Hong Kong, it must show it was made in Hong Kong.

We think this is an important provision in the present trade law that we would want to be made even more definitive. We want to know where the goods and components are coming from, and the American people want to know where they are coming from.

A recent survey by the pollster Louis Harris found, according to the New York Post, that:

> There is a distinct sense among the American people today to rally in support of our own economy here at home. The proposition that "if our people don't 'Buy American' more in the products we purchase, the U.S. economy will be in real trouble here at home" meets with 61–17 percent agreement.

But many people—among foreign nations, U.S. multinationals, and U.S. importers—want this marking-of-origin requirement eliminated.

That would mean that American brand name products could be produced abroad and brought into this country without any identification as to where they were made.

This would be a fraud on the American consumer. We are sure the Congress would not want to be a party to this deception.

By granting this advance authority, Congress would abdicate its right to review the terms and effects of such negotiated agreements.

Much of the authority in the bill to change trade barriers is permanent. But the timing and direction of its use is uncertain. American industry could be further ravaged and more jobs lost from the on-again-off-again results of moving tariff barriers up and down.

Even the changes in traditional provisions for determining and treating import injuries would leave U.S. business and workers more helpless.

The "escape clause" would be changed. The whole section is aimed at "adjusting" American industry to import competition long after the injury has occurred, long after many industries have left the United States. In the first step, for escape clause relief the administration claims that it will be easier to show that imports cause injury. Imports need be only the "primary" cause. But, in the second step, some of the tests for whether an industry was hurt badly enough to receive relief are stricter. This is done by the addition of the word "significant," such as "significant unemployment," et cetera.

Other technicalities make the road to relief full of the kinds of legalistic brambles which have frustrated American industry and American workers seeking relief for many years. The Tariff Commission would, under the administration proposal, have even wider dis-

cretion, with more criteria. But, if a finding is made, the President would have discretion only to grant temporary relief—or no relief at all.

Experience with Presidential discretion, even under current law, shows that the President seldom takes action even when he has this discretion and the industry has been injured over a long period of time.

A prime example is the American shoe industry. After asking for help from the Government for more than a decade, the shoe industry went to the Tariff Commission with an "escape clause" petition.

In January 1971, the Commission reached a tie vote on a determination that the industry had been injured. That gave the President tie-breaking authority which would permit higher tariffs or quotas on shoe imports. In more than 2 years, he has done nothing with this authority and has done nothing to help the injured parties.

UNEMPLOYMENT COMPENSATION

We find the administration's proposals barren of any mention—beyond vague assurances—of how the trade bill would provide the American worker with the jobs or job opportunities he so desperately needs. In lieu of jobs or job programs, the administration's attitude toward the import-injured worker is demonstrated by the bill's repeal of the adjustment assistance program of the 1962 Trade Act. That program has been ineffective and few workers have received aid, but in its place would be substituted an unemployment compensation program that would permit the States to make it more difficult to qualify for benefits and would pay many jobless workers lower benefits and for a shorter period of time than under the current law.

This provision is a step backward. Under the bill, State programs are not required to meet any minimum Federal qualfiication standard nor any minimum Federal duration standard. A particularly odious provision would forbid any States to pay strikers even after a fixed disqualification period in cases of unemployment related to labor disputes. In a measure aimed at trade and trade-related worker injury, such a provision is obviously aimed at provocation.

It was the existence of these very inadequacies, together with the woefully inadequate benefit structure of State programs, that resulted in the enactment of a special adjustment assistance program in the 1962 legislation. We don't think much of the present program, but we are not going to stand still for scuttling it for something that is much worse.

It must be remembered that the entire program of adjustment assistance was designed and viewed by its supporters in 1962 as a stopgap program for small groups of workers adversely affected by foreign imports in the implementation of a new trade policy. It was not meant for use against the critical onslaught we are now suffering.

Adjustment assistance at best is burial insurance, not a jobs program. What we want is the restoration of a diversified industrial society that provides jobs, not jobless pay.

The idea of adjustment assistance was proposed by organized labor in 1954 and supported by us ever since. It finally became part of the 1962 Trade Expansion Act. The AFL–CIO conditioned its support

for the Trade Expansion Act on the promise that adjustment assistance would be made available to those adversely affected by imports. That promise was not kept.

What has been the 10-year record of adjustment assistance? Every petition for adjustment assistance by workers, companies, and industries was denied from 1962 to late 1969 because the language of the law was considered an insurmountable barrier by many legal experts, economists, an the Tariff Commission.

Since 1969, the Tariff Commission has changed its mind about the insurmountable barrier. But of the 189 worker adjustment assistance cases processed since 1969, only 44 have received a positive finding by the Tariff Commission; 33 more determined by the President. Of the 77 groups approved for assistance, about 34,000 people should have received help; about 22,000 of these were estimated by the Labor Department to have received it.

And that is the record for 10 years.

That is not a record; that is a rip-off.

PENSIONS

The President's so-called pension reforms would do nothing for younger workers, nothing for workers over age 60, and nothing for any worker for at least 10 years, including those who lost their jobs because of imports.

THE IMPACT OF MULTINATIONAL FIRMS

The administration's bill does nothing about multinational concerns and their operations and impact on American trade, the American economy, and the American worker. In other words, the President proposes no protection at all.

We do not claim that all of America's trade problems are the fault of the multinationals, but we are convinced that there is a definite need for legislation to curb the devastating impact of the activities of multinationals. These losses include:

The shutdown of American production at home and its relocation abroad, where production can be used to serve foreign markets and where exports to the United States can be manufactured.

The location abroad of facilities for corporate expansion and the production of new products and improved products. This is giving foreign nations access to new and improved technology to the detriment of the United States, where the multinational is based.

The export of technology much of it paid for by the American taxpayer, by direct transplant, by licensing, by patent agreement, and by other methods, thus eroding the base on which America's industrial society is built.

The export of capital to build an industrial base abroad at the expense of U.S. industry, the profits of which have been used to speculate in the world's monetary markets against the U.S. dollar at a time when it was under severe international pressures.

These massive operations by American multinational corporations in Taiwan, Mexico, Taiti, Hong Kong, Singapore, Brazil, Europe, Japan, and virtually the entire globe are taking a heavy toll among American families and American communities from coast to coast.

The shutdown of manufacturing operations here and their relocation abroad where low-cost operations are more profitable depresses

the entire American economy by the loss of domestic jobs, payrolls, domestic corporate revenues, local purchasing power, local taxes—and has a "ripple out" affect on the local service economy from the loss of an industrial base. Hard-hit communities face empty factories. slackened business, unemployed workers, and heavy revenue losses.

Today, there are thousands of these firms, operating as supranational entities. Each makes decisions solely in its own interests. These are decisions which have major consequences for the America of today and of the future.

The multinational firms are, or they would like to be, stateless in their operations, freed of any responsibilities except to themselves. Robert Stevenson, when he was in charge of Ford Motor Co.'s international operations, expressed what they have in mind when he said:

> It is our goal to be in every single country there is, Iron Curtain countries, Russia, China. We at Ford Motor Company look at the world map without any boundaries. We don't consider ourselves basically an American company. We are a multinational company. And when we approach a government that doesn't like the United States we always say "Who do you like? Britain? Germany?" We carry a lot of flags. We export from every country.

And the multinationals never let national interest stand in the way when corporate interest is at stake. Take a look at International Telephone & Telegraph.

According to an article based on records in the U.S. Archives and reported recently in the Washington Post, ITT produced in American plants high-frequency-direction finders to protect Allied convoys at sea, while its German plants were producing Focke-Wulf bombers which attacked the same Allied convoys, killing untold numbers of Americans.

ITT "carefully arranged to become German"—and "deliberately invested in the German war effort," the article said. But at the same time it carefully stayed American—so much so that it presented itself as a victim of the war and in 1967 actually managed to obtain $27 million in compensation from the American Government for war damage to its factories in Germany.

TAXES ON FOREIGN INCOME

The President's trade reform act fails to reform the tax treatment of the foreign based subsidiaries of U.S.-based corporations. Through the loopholes available to these corporations, the U.S. taxpayer subsidizes their foreign operations. The result is that American workers lose their jobs, the economy loses part of its industrial base, the Federal Government loses revenues and the American taxpayer picks up the tab.

The President, in his message accompanying the trade bill, declared that "our income taxes are not the cause of our trade problem, and tax changes will not solve them."

But taxation certainly is a major part of the problem. John Nolan, until recently President Nixon's Deputy Assistant Secretary of the Treasury for Tax Policy, told the President's Commission on International Trade and Investment: "There is a clearcut bias in our existing tax structure favoring the manufacture of goods abroad through foreign subsidiaries as compared to exporting, in order to benefit from

the deferral of U.S. taxes. . . . The distortion in our tax system simply makes no sense at a time when the United States has substantial balance of payments deficits."

As long as America's tax policy makes it more profitable to invest abroad than at home, the foreign export market will be increasingly supplied from foreign-based plants instead of from domestic-based industry, and the domestic industrial base on which the economy depends will continue to erode.

Two tax loopholes are the most significant in discriminating against American production and American jobs: (1) The deferral provision, which permits U.S. corporations to pay no income taxes at all on the profits of their foreign subsidiaries until such profits are brought back home—which may be never; and (2) the foreign tax credit which permits taxes paid to foreign governments to be subtracted, dollar for dollar, from the parent corporation's tax liability.

As a result, in 1970 U.S. corporate profits from foreign operations totaled $17.5 billion, yet the Treasury received only $900 million in tax revenue—an effective tax rate of 5 percent.

Tax deferral is an interest-free Government loan which in practice can result in the equivalent of an outright tax exemption. But the tax advantage of the deferral privilege goes beyond the interest-free loan aspect, because substantial amounts of corporate profits are continually invested and reinvested and do not come home.

To that extent, deferral amounts to total tax immunity for the individual corporation and continuing tax losses to the U.S. Treasury.

The foreign tax credit permits corporations with foreign subsidiaries to subtract, dollar for dollar, taxes paid to foreign governments from the parent corporation's tax liability—when the corporation decides to send a portion of its profits back to the United States. In contrast, a firm operating domestically and paying taxes to State and local governments cannot defer its Federal income taxes. And taxes levied by State and local governments are treated as costs of doing business and can only be listed as a deduction—a considerable difference from a credit.

This is grossly unfair tax treatment for the rest of the American taxpayers. The closing of these loopholes would not only bring in some $3 billion a year in added and badly needed revenue, but would remove an unfair advantage now afforded U.S. corporations with foreign subsidiaries.

The President's proposed changes in the tax treatment of income earned by foreign subsidiaries of U.S. corporations was described as a "minimum position" by a Treasury spokesman.

The claimed effect of these proposals are:

1. That American companies taking advantage of tax holidays granted by some foreign nations would have their income taxed in certain cases when that income is earned rather than when the profits are returned to the United States as they are now.

2. That companies which build plants abroad expressly for the purpose of reexporting products back to the United States would also be subject to U.S. taxes when they earn the income rather than when they bring the profits back home.

These proposals, however, would eliminate the deferral of tax payment only in cases where corporations are making new or additional

investments in countries that grant tax holidays or other tax inducements, or where corporations are making new or additional investments in manufacturing for U.S. markets in countries where the effective tax rate for these corporations is significantly lower than the U.S. corporate tax rate.

Moreover, these provisions would apply only if the investment is new or additional and in excess of 20 percent of the firm's assets in the year in which the tax incentive was in effect.

Here again, the President would be given discretionary authority to exempt companies if he decides it is in the public interest to do so.

Because there is relatively little in the way of U.S. corporate investment in countries that meet these criteria, these proposals would have no effect on income from existing U.S. income abroad and would have a minimal impact at best on income from additional investment.

These proposals go little beyond implicitly recognizing that a problem loss indeed exist. They do nothing to close the lucrative tax loopholes which are contributing to the erosion of our industrial base and contributing to the export of jobs. We don't regard them as coming even close to meeting our objections.

An Assistant Treasury Secretary told this committee last week that U.S. corporations go abroad for business reasons rather than tax reasons.

If this is true, why have these corporations asked for more tax relief to keep them in the United States and oppose any change in their tax status abroad?

GENERAL SYSTEM OF PREFERENCES

The trade bill asks Congress to declare that preferences—zero tariffs—for imports from developing country are in the national interest, because the U.S. national interest is enhanced by economic well-being of developing countries. The specific provisions grant authority to the President to remove all tariffs on imports of most manufactured products and parts from any developing country the President decides is eligible. The provisions allow the President to withdraw or limit preferential treatment at any time on any product to any county.

The preference provisions are against the interests of the United States and the developing countries. The exports of manufactured goods from countries like Taiwan and Hong Kong, for example, have risen from $59 million in 1960 to $1.6 billion in 1971—without preferences. Therefore the granting of preferences could add to the already growing flood of imports.

The preference provisions would also benefit multinational companies in the developing countries more than the people or the economies of those countries. In effect, zero tariff for most manufactured products from developing countries, means special non-tariffs, added to all the other low-cost benefits multinationals enjoy in such countries. The proposal would merely add to the already mounting export of U.S. jobs and transfers of production and technology from this country, without benefiting the people in the poorest countries of the world.

MOST-FAVORED-NATION PROVISION

We find objectionable the President's request for authority to extend most-favored-nation treatment to Communist countries.

The bill would permit the President to negotiate and put into effect 3-year bilateral commercial agreements which extend MFN treat-

ment to the products of Communist countries. He could also deny or suspend the agreements or the most-favored-nation treatment.

Most-favored-nation treatment means that products from Communist countries would get the same tariff rates that all other countries trading with the United States now receive. Therefore products from Communist countries would have their tariffs lowered by this provision and could enter the United States more easily than they do now. Safeguards against injury from these imports are not required by the bill.

MFN treatment therefore will provide for massive increases in imports from countries which operate slave labor camps, repress their populations, stifle any legitimate expression of dissent and systematically thwart the formation of free and democratic trade unions.

The provisions would give the status of normal commercial arrangements to trade with countries which use trade for political and military objectives.

The provisions would increase the U.S. domestic economic problems caused by imports.

We already are in a period of expensive generosity toward the U.S.S.R. As a result of the 1972 agreement negotiated by President Nixon in Moscow, our large-scale shipments of grain have contributed to the sharp increase in the price of bread and meat for the American people. In addition, the Soviet Union has been receiving far more generous credit terms than those available to Americans trying to buy or build a new home or expand a small business or medium-sized plant.

Too many American businessmen and bankers are short-sighted when they forget that commercial relations with the U.S.S.R. are not ordinary normal trade deals between buyers and sellers in the free world. The Soviet Government has a total monopoly on the buying and selling of all goods and access to all raw material resources in the U.S.S.R.

Whole American technological knowhow turned over to Russia stays there and helps develop its resources. The Soviet rulers can shut off their markets or natural resources at any time they see fit. The benefits of our technological help to the Russians are permanent and will sooner or later reduce Russia's need for buying from the United States.

We don't confine our opposition to granting favored trade treatment and trade concessions to the Russians. We don't think the cause of world peace and stability is furthered by the extension of these concessions to any totalitarian nation which refuses its people the right to control their own working conditions through the formation of free trade unions. It is most urgent, first of all, that our country should improve its relations with friendly democracies and allies before even thinking of making any new concessions to aggressive dictatorships. Expanded trade with and extension of long term credits to totalitarian regimes wherever they are will not help them or their peoples "evolve toward world democracy."

THE BURKE-HARTKE BILL

The AFL–CIO supports the Burke-Hartke Foreign Trade and Investment Act of 1973 now pending before Congress. We believe that

H.R. 62 provides a rational, logical, reasonable framework for attacking the pressing problems we face as a result of our world trade position. These problems are, as we have said, the result of a fundamental change in America's economic position in relation to the rest of the world, and this change requires a fundamental shift in policy.

We believe the Burke-Hartke bill provides this fundamental change. It points the way to getting at the specific problems we see threatening our future economic well being. It is not a protectionist theory, it is a pragmatic approach based on any analysis of the problems for their causes.

What is needed at the present is some effort to restore America's economic health, and to regain a balance in international trade and investment which is now sadly lacking. Such an effort is essential to maintaining the United States as an industrial, producing nation and preventing its deterioration into a low-wage service economy. We want other nations to buy from the United States, but we want the jobs that would provide these goods here and not in some foreign nation. We want to buy from other nations, but not at the expense of opening our doors to imports so wide that they destroy jobs and our purchasing power.

Burke-Hartke is not a bill to close the American door to all imports. But it would regulate their flow. And Burke-Hartke would not eliminate all foreign investment by U.S. based companies—but it would regulate the flow of capital, equipment, technology and patents to see that America's industrial base is properly safeguarded. Burke-Hartke would not penalize U.S. corporations for their overseas operations, but it would make the tax rules on those relate more closely to domestic tax rules.

A key provision of the Burke-Hartke bill establishes an entirely new "sliding door" concept to imports. This sliding door would replace the wide-open door currently periling the United States. Under this concept, production of U.S. goods would be insured by the guarantee of a share of the U.S. market for imports. No other nation offers such a guarantee to the goods at a foreign nation. U.S. based manufacturers could recover from the heavy import onslaught of recent years.

The bill provides that all products that come into the United States would be awarded an annual import quota of the number of units that entered the United States during the 1965–69 period. Thus, all foreign goods would be guaranteed an annual percentage of our production. In addition, goods which are not produced here would be excused from quotas. Also excused from quotas would be those goods already under quotas and those products under voluntary agreements. The Commission established by the bill would have great flexibility in providing for orderly transition and market stability.

In succeeding years, the number of imported units would rise or fall in relation to the number of units produced in the United States. Thus, in order for a foreign producer, or a U.S. multinational firm abroad, to sell more in the United States, the production of U.S. made units would have to increase.

Appendix 10 to this testimony provides a detailed explanation of the bill.

In brief, other provisions of the bill include:

TAXES

Profits of foreign subsidiaries of U.S. corporations would be taxed in the same manner as domestic companies. The present tax credit provision would be eliminated, so that foreign taxes on corporate profits would be deductible instead of being credited dollar for dollar.

Depreciation allowances would be tightened for foreign operations. Tax free treatment for U.S. firms' incomes from licensing and transferring patents to foreign corporations would be ended. The special tax exemption presently allowed on the earned income of personnel who spend at least 17 out of 18 months overseas in employment of U.S. corporations would be halted.

TRADE COMMISSION

A new Foreign Trade and Investment Commission would be responsible for all the trade matters now spread throughout the Government. This five-man body would regulate the new law and oversee all imports.

ANTIDUMPING AND COUNTERVAILING DUTY

Both of these long-standing laws have been ineffective due to interpretations, procedures, and long delays in making findings. The administration of both laws would be put under the new Commission, the procedures would be streamlined and the findings made more swiftly so that workers' jobs could be saved.

AID FOR WORKERS AND INDUSTRIES

While the establishment of quotas would reduce the likelihood of escape clause action, there remains the possibility of instances of serious injury. If the Commission determined that an industry has been seriously injured, it would determine—after investigation—what level of quota is required to remedy the injury and would put that quota into effect. In making a determination, it is required only that increased imports "contribute substantially" to causing serious injury. The President would retain discretionary authority to grant adjustment assistance, but he could not substitute adjustment assistance for quotas, only as a supplement.

CONTROL OF EXPORT OF CAPITAL AND TECHNOLOGY

The President would have the authority to regulate the outflow of funds for private investments whenever he determines that employment in the United States would be decreased by such a transaction. He would also have the discretionary power to limit the export of technology through the granting of export licenses. He could prohibit any holder of a U.S. patent from producing abroad or having someone else produce abroad.

REPORTING

Adequate data on the impact of foreign trade on U.S. jobs has been sorely lacking. The Export-Import Bank would include in its reports the effect its operations are having on U.S. exports, imports, extent that its projects abroad are exporting goods to the United States.

PRODUCT LABELS

American consumers do not have the information they need to make intelligent purchases of foreign-made products. They are not clearly labeled to show country of origin for components or parts as well as the final product. All goods having foreign-made components must be so labeled and the advertising of such goods must provide the same information.

FOREIGN ASSEMBLY

The provisions under present law—item 807 and 806.30—would be repealed, ending an abuse whereby U.S. companies assemble components in foreign countries and reimport the final product into the United States as "Made in U.S.," paying only a minimum duty.

In sum, the Burke-Hartke bill seeks to protect the best interests of America against the worst practices of international corporations.

It also seeks to meet the challenge of foreign imports by better insuring that American manufacturers can compete equitably with foreign producers. If enacted, the bill will be a giant step toward restoring America's economic health and regaining balance in international trade. Without it, the heavy export of jobs, technology, and capital will continue. The administration's trade bill does not come to grips with these problems, the Burke-Hartke bill does.

For that reason we urge its serious consideration and enactment.

Thank you.

[Appendixes to the prepared statement follow:]

APPENDIXES

Appendix 1. Analysis of the Administration's Trade Proposal
Appendix 2. The Administration's Tax Recommendations that Affect Trade
Appendix 3. The End of Adjustment Assistance and the Proposed Changes in Unemployment Compensation
Appendix 4. The Administration's Pension Proposal and Foreign Trade
Appendix 5. Answering the Argument that Multinational Firms' Operations Abroad Spur Job Growth Here
Appendix 6. Answer to Argument that U.S. Consumers Would be Hurt if Burke-Hartke became law
Appendix 7. The Myth of Retaliation and the Right of America to Self-Interest
Appendix 8. Answer to Argument that if U.S. Acts in its own behalf imports would fall and trade would diminish
Appendix 9. Answering the Claim that Providing the President with options will answer U.S. trade problems
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Appendix 11. Aerospace: The sell-off of an industry by multinational corporations
Appendix 12. U.S. Productivity Remains High
Appendix 13. Export of Jobs by Multinationals. Some Examples
Appendix 14. Now American Exporters can help the Government byn ot paying all their income taxes
Appendix 15. AFL-CIO Executive Council Statement on East-West Trade

APPENDIX 1

ANALYSIS OF THE ADMINISTRATION'S TRADE PROPOSAL

H.R. 6767, the Trade Reform Act of 1973, grants the President almost unlimited authority to change many U.S. laws and practices. The authority is designed not only to regulate foreign trade and to achieve international political objectives but also to use foreign trade and international objectives to regulate the domestic economy. But it does not answer the problems now facing the United States in a changing world. The bill has no clear direction even for trade policy. Its provisions can make America's deteriorating trade position even worse. The patchwork of Presidential power in H.R. 6767 can affect almost every part of the American system—the Congress, the business community and the citizens of this nation.

The descriptions of specialized economic and legal provisions of the bill are misleading, because the subtitle and explanations given to the Congress are not borne out by the actual provisions of the bill. For example, a section called "relief from import competition" does not even guarantee relief for injured industries or unemployed workers. It encourages the further destruction of U.S. industries at home and encourages further expansion abroad.

Moreover, the meaning and effects of specific provisions are often unclear, because the provisions of various titles are contradictory. The following analysis suggests some of the basic confusion of these provisions as well as the possible impact of its enforcement. The bill creates new problems in three ways:

(1) It makes the U.S. economy and U.S. laws subject to arbitrary action under secret international agreements, both current and future.

(2) It makes some provisions in present U.S. trade law more complicated and less effective.

(3) It allows future changes in international agreements without sufficient Congressional review or sufficient regard to the needs of the U.S. economy.

Thus the bill is a patchwork of yesterday's answers for today's and tomorrow's trade problems, cloaked in advertising slogans.

THE BILL'S CONFLICTING AUTHORITY

The authority to change U.S. trade barriers up or down for different reasons and for different time periods is granted throughout the bill.

*The President would have five-year negotiating authority to make agreements to raise or lower tariffs without limit or leave them intact for any of ten domestic and international purposes. The bill provides for advice from public or government departments or the Tariff Commission but the advice need not be heeded by the President's negotiators. (Title I)

*The President could raise tariffs to grant "import relief" from fair competition temporarily, to meet "unfair competition," to retaliate for unjustifiable barriers abroad, for balance of payments reasons, for domestic inflation, to stop import disruption, to carry out international agreements, and for other purposes. In various provisions, the authority lasts for one year, some has an indeterminate length, and some may be established for negotiating purposes. Some is permanent. (Titles III, IV, V, VI, and VII)

*The President could set quotas for many of the above reasons, sometimes temporarily, sometimes for an indeterminate period. Orderly marketing agreements with other nations may be reached to regulate imports. But even such quotas—on past, present and future agreements—may be removed arbitrarily.

*The President could remove or reduce tariffs and quotas for balance of payments surplus reasons, for domestic inflationary reasons and for carrying out "compensation" under international agreements (i.e. if a product has its duty raised in order to relieve injury to the U.S., the President may reduce tariffs on another U.S. import to "compensate" our trading partners). He may also renegotiate tariffs on individual products and put them into effect. This is permanent authority to the President under Title IV.

*The President could reduce tariffs to zero on most semi-manufactured and manufactured products imported from the developing countries he chooses.

*The President could reduce tariffs on imports from Communist countries to make them equal with tariffs for products from other countries ("most-favored-nation" status). Some Communist countries could also receive "developing country" status. This would give imports from those countries even more favorable tariffs than imports from democratic countries. (Most-favored-nation status

means that imports from a country charged the lowest tariffs given to imports from other countries under agreements).

**The President would have new authority to remove non-tariff barriers through international agreements.*

(a) The Congress would mandate the President to seek the end of harmonization of non-tariff barriers, both U.S. and foreign. Ironically one non-tariff barrier, specifically provided for in other sections of the bill, is a quota on U.S. imports.

(b) Advance authority is granted to the President to negotiate the removal of some "non-tariff barriers" such as the American Selling Price valuation and marking of foreign origin. (The American Selling Price is the practice of setting tariffs based on the U.S. market price of the imported product rather than the foreign exporters' price. It applies to relatively few products, mostly some chemicals and rubber footwear). Marking of foreign origin now requires the identification "Made in Japan, Mexico, England" or other country somewhere on the imported product. Thus the Congress would abdicate its right to review the terms and effects of such negotiated agreements. Consumer information would be even less available than it is now, because even the minimal requirement now in law to state where a product is made would be removed. Products with American brand names could be made totally behind the iron curtain or in Brazil or Mexico or Japan or Korea, and the American consumer would lose even the right to know where it is made. The product would be sold as an American product at American prices.

(c) The Congress would have 90 days notice and 90 days to veto agreements which affect any other non-tariff barriers the negotiators might change in international agreements. In effect, U.S. laws on standards, taxes, consumer protection, health and safety, environmental standards and other domestic protections are in jeopardy. Each Presidential agreement could require action by the Congress to preserve some law that has already been enacted for the benefit of the citizens of the United States.

Much of the authority specified in the above paragraphs already exists in international agreements or in domestic law. The basic changes from prior laws are the provisions for Presidential discretion almost without limit, the right to negotiate changes and impose them almost at will, and the authority to act without Congressional or public consideration to impose decisions reached abroad in secret—much of it not even subject to a Congressional veto. Thus the authority is so broad and so conflicting that there is no clear direction or comprehensive purpose to this bill.

INJURY TO U.S. EMPLOYMENT AND PRODUCTION COULD INCREASE

Injury to U.S. industry and employment could be increased under the bill. The fact of past, present and future injury is lost in a maze of provisions emphasizing why the injury occurred, temporary and long-range foreign, political and economic issues, and temporary domestic economic conditions. U.S. and foreign-based multinational firms and transfers of technology in a changed trading world are ignored. Action to prevent injury or to repair past injury is neither required nor emphasized. Even "relief" from injury is temporary, subject to sudden removal without a hearing, and not related to the need of the U.S. economy for a strong, productive, diversified base.

(1) "Relief" from injury caused by imports in "fair competition" is discretionary and temporary under the new "escape clause" section of the bill. The Tariff Commission has wide discretion to determine whether imports have caused injury. If injury is found by the Tariff Commission the President has complete discretion to grant temporary "relief." The President may remove this "relief" without notice or hearings.

The steps for such "relief" are steeper in present law.

(a) The tests of injury from imports have been changed. The casual relationship between imports and injury is slightly less strict, but test for the actual injury is stricter. Thus the increase in imports need not be caused by a tariff concession, nor must imports be the "major" cause of injury, but only the "largest single" cause. But a new test requires that unemployment be "significant." A "significant" number of firms must suffer economic problems, is another factor. A requirement for a finding of "market disruption" is established, but no result necessarily follows from such a finding.

Several other factors for consideration have been added, which could be used to explain Tariff Commission findings for or against injury. But there is no

definition of U.S. industry. Thus U.S. multinational firms can continue to go abroad behind foreign barriers and join foreign exporters to send goods into the U.S. (A Tariff Commission report showed market penetration of 27% in the American radio and TV industry after U.S. radios were virtually non-existent.) The U.S. production and employment may no longer exist, but "U.S." industry will not be considered injured under the tests of the Trade Reform Act.

A new finding of "market disruption" must be made in each Tariff Commission investigation, but it has no force unless the Tariff Commission finds injury to the industry.

(b) If injury is found there is no mandate to act. The President may raise tariffs or put on quotas, negotiate orderly marketing agreements, temporarily suspend item 806.30 and 807 of the Tariff Schedules, or tell the Secretary of Labor to expedite so called "adjustment assistance." He may take any combination of these actions or none. If he does act, the law states that the "'relief" should be phased out in five years. It may be removed suddenly without hearings. These provisions are unrealistic. For example, orderly marketing agreements have taken more than five years to negotiate. Without clear authority and mandate, other nations would not want to agree.

*The repeal of item 806.30 and 807 was requested in 1967 by AFL–CIO because they exported jobs, especially to the lowest wage countries, added to imports, and helped transfer huge parts of whole industries (consumer electronics production for example) out of the U.S. Under these provisions U.S. traiffs are not charged on U.S. parts of a product which have been exported for assembly or processing. This means preferential tariffs for imports with U.S. parts. These tariff items have lubricated the expansion of the multinational firm by adding a special advantage for foreign operations. The temporary repeal of these items is too little and too late for billions of dollars of lost U.S. production and hundreds of thousands of jobs. Between 1967 and 1972 imports under these items rose more than $2 billion while exports rose about $400 million. The 806.30 and 807 provision conflicts with other provisions in the bill for duty free-entry (preferences) for manufactured products from developing countries. Zero-tariff preferences make preferential items 806.30 and 807 unnecessary for many products from those countries.

The so-called "adjustment assistance" provision is analyzed in detail below. The bill ends the existing adjustment assistance of the Trade Expansion Act of 1972. "Relief" and "adjustment" are words without meaning in an economy with high unemployment, and fewer jobs available in America's basic industries than in 1966.

The operations of the world's largest firms (either U.S.-based or foreign-based) are considered "fair" competition for U.S. production and employment in the bill. Foreign state monopolies and other differences are also "fair."

(2) Unfair Competition. The bill gives the President even more authority to retaliate against unjustifiable foreign trade barriers, than is now available in Section 252 of the Trade Expansion Act.

U.S. firms with plants abroad do not want their foreign subsidiaries, partners, licensees to press for removal of foreign barriers to U.S. products. Nor do they want the U.S. to raise barriers to exports from abroad to the United States. Neither is necessarily beneficial to the corporate interest. While the President would clearly have authority to act against foreign barriers by raising U.S. barriers, past performance shows that such provisions are seldom used. Since the official reasons given for the proposed legislation include statements against raising tariff barriers or imposing quotas in the United States, there is no reason to expect such a requirement to be implemented.

Current provisions on other unfair trade practices—dumping, relief against subsidized imports, unfair trade restrictions—are changed in the bill. But the results could be even more unfair and confusing than current practice, which largely ignores the existing provisions in law. For example, the President's message on United States Foreign Policy for the 1970s (May 3, 1973) stated, without evidence, "Enforcement of anti-dumping and countervailing duty laws, which protect American workers and industry from injury due to unfair import competition, has improved markedly." There has been much investigation, but little action. The bill's provisions would probably have the same result. U.S. producers and workers do not have the right to redress even against unfair competition under the bill.

Antidumping provisions of current law are amended in the new bill. Dumping is the sale of foreign product to the U.S. at price below the price in the exporting country and injury to domestic industry there from. The bill's amendments:

(1) Limit the time for processing dumping cases, provide for public hearings, and reduce some dumping assessments. The time for cases can be extended to one year—enough to destroy an industry. The right to hearings is automatic only for foreign exporters and U.S. importers. Under present law, worker groups have participated in antidumping cases. Under the new bill, even their right to hearings is not automatic. Thus neither U.S. workers nor U.S. producers will have an automatic right even to present their case at hearings. The section-by-section analysis of the bill states that the new bill's provisions give them a right to court review. But the bill's provisions do not include that right.

(2) Reduce the antidumping duty (difference between the foreign exporters' price and the price at which the product is sold to the U.S. importer) in some cases. Thus the provisions appear to make tiny steps forward, but actually would be even more discriminatory against U.S. production. Antidumping action has not often prevailed against foreign and U.S.-based multinational firms, which do not want to admit that their foreign operations can add to the destruction of U.S. industries. The imposition of dumping duties is a minimal action for such serious erosions of U.S. production. Too little is often too late, both under current and proposed law. But the bill would make some of these duties even lower for technical conformity reasons. Thus foreign producers ("U.S." or others) can continue to dump from every nation of the world without speedy action.

Countervailing duties, seldom enforced now, would be even more difficult to obtain under the new bill. The countervailing duty is designed to meet unfair competition from imports which have been subsidized abroad. A countervailing duty is an added charge on an imported product which equals the amount of a foreign subsidy. Under current law, the Secretary of Treasury must put on a countervailing duty automatically whenever a finding of a "foreign bounty or grant" is made. This provision has been enforced only 13 times since 1967.

The bill would (1) set a one-year time limit for investigation and decisions and (2) would make duty-free imports subject to such a duty. But it removes the requirement for automatic action, requires a finding of injury to U.S. industry, and gives the Secretary of Treasury discretion whether or not to apply the duty. Under present law, worker groups have participated in countervailing duty actions. Neither U.S. worker groups, nor injured industry can get court review under current or proposed law. Thus the unfair subsidies of imports into the U.S. can continue without U.S. government action. The policy of the U.S. government would become; foreign subsidies of exports to the U.S. are all right. We are only going to take action if an industry can prove injury. This encourages U.S. production abroad and further destruction of U.S. industry from foreign imports. A U.S.-based multi-national opposes countervailing duties on imports from its foreign plants. American importers do not want countervailing duties. Foreign exporters do not want countervailing duties. Therefore, the mere right of action is unlikely to result in effective relief.

Other unfair trade practices are transferred to the jurisdiction of the Federal Trade Commission, under the new bill. The Federal Trade Commission Act is amended under a separate bill.

Amendments to the Federal Trade Commission Act are:

(a) The Federal Trade Commission is given power, formerly held by the Tariff Commission, to investigate antitrust and other unfair competitive practices in prior Tariff law. However, even if FTC finds a violation of antitrust law, the Secretary of the Treasury is granted discretion to decide whether keeping out the import would have an adverse effect on U.S. economic interest, so that no action would necessarily follow.

(b) The Webb Pomerene Act (which allows immunity from antitrust laws for associations of exporters) is also amended so that services (architectural, engineering, training, financing and project or management services) are considered as exports. The Federal Trade Commission would have the right to determine whether or not U.S. groups of managers or producers or both could set up export activities without being in violation of the antitrust laws.

The only provision kept in the jurisdiction of the Tariff Commission is the protection of patents against infringement.

PERMANENT AUTHORITY

Title IV of the bill grants the President permanent new authorities to take action for balance of payments, domestic inflation, in order to carry out international agreements and other reasons. The Congress has power in the Constitution to regulate interstate and foreign commerce and to pass laws concern-

ing changes in tariffs, etc. But this section of the bill would make much of this power permanently subject to Presidential discretion and international decisions.

One example is the permanent authority to renegotiate agreements and impose new tariffs or take them off without ever going to the Congress. Another is the authority to change tariffs to "compensate" foreign nations for their claims of trade losses from action in retaliation against their barriers to U.S. exports.

These arbitrary powers are largely related to economic theory that has no relevance to modern problems. For example, the authority to remove tariffs (or to expand imports of products formerly under quota restraints) to reduce domestic inflation ignores the experience of recent years in American domestic production and markets. Prices for U.S. lumber, scrap steel, and hides have skyrocketed—not because of import restrictions, but because of additional exports. These raw material prices have made it impossible for some of American producers of furniture and steel products and shoes to stay in business. But the bill would grant the authority to increase imports of finished products made from these raw materials. Thus hides would continue to go out of the country and no barriers to imports of shoes would be applied. But hide prices are higher at home and revaluation makes imports more expensive. Shoe prices rose more rapidly than the overall cost of living during the 1960s, despite rising imports. Hide prices shot upward. U.S. shoes producers face not only competition from increases of shoe imports, but also higher costs for hides to make shoes at home.

The result is higher costs for producers and higher costs for consumers in the U.S.—more inflation. This effect is now felt in other industries as import prices and domestic prices rise. But this provision maintains the fiction that imports restrain price increases.

The permanent authority to take temporary actions could therefore continue to disrupt and hurt U.S. production and worsen the conditions of the U.S. economy. But the Congress and the public would have little knowledge of when or why such actions would be taken.

Title IV also provides for an authorization of special funds to pay the expenses of the GATT. Congress has never granted special authorizations for GATT expenditures. At a time when the U.S. economy is starved for budget funds for necessary domestic improvements, this new authorization seems inappropriate.

TRADE WITH COMMUNIST COUNTRIES

The bill authorizes the President to change most-favored-nation status and to make commercial agreements with Communist countries.

(a) Most-favored-nation treatment (extending to imports from a country the lowest tariff-rates that have been negotiated with other countries) could be granted to Communist countries which do not now receive it. The bill gives the President authority to negotiate three-year commercial agreements with Communist countries. No safeguards are required for these agreements but many are stated. The President may act to remove the mfn treatment either by product or by country for the Communist or non-Communist countries under other provisions of this bill.

This provisions would lower tariffs on imports from countries with slave labor camps, countris which do not provide the right of workers to have unions, countries which have completely different systems of production and pricing from that of the United States. Thus a massive rise of imports from these countries could be expected.

The equal treatment for tariffs from these countries will not mean equal treatment for U.S. producers or for U.S. trading partners (because these countries do not engage in "business as usual" normal commercial trade relations.

(b) There is a market disruption provision in this section of the bill which does not require any action, but allows the President to impose special quotas on imports from these countries if the U.S. market is disrupted under new tests in the escape clause section of the bill.

(c) Commercial agreements with countries that will use the trade for political, military and other purposes, controlled by state monopoly do not make sense.

(d) U.S. firms, which have already shipped some of the newest U.S. technology to these countries, will be encouraged to transfer even faster out of the U.S. In these cases, the transfers are to countries who use trade for political purposes and whose goals are against the objectives of the United States. Thus, the newest technology will be available, often from U.S. firms, to produce goods

with cheap, oppressed labor, behind state-controlled walls, with special rights into the United States markets for their exports.

At present, the U.S. has more imports than exports in its trade with almost every part of the world. The largest surplus of U.S. exports with any country last year was with the Soviet Union. But the subsidized exports and transfers of U.S. technology with special entry rights will make that surplus vanish too.

(e) Preferences (zero tariffs) for 10 years would be available to some Eastern European countries as developing countries if the President so decided. The oppressed labor of any Communist country could be used by U.S. firms who locate there by foreign state controlled industry to ship duty free to the U.S.

GENERALIZED SYSTEM OF PREFERENCES

For developing countries, the bill asks Congress to declare that special benefits (zero tariffs) for imports from these countries to markets of the U.S. and other developed countries will benefit the interests of the United States and the developnig countries. The bill allows the President to grant ten-year zero tariffs on most manufactured and semi-manufactured imported products from whatever developing countries the President chooses.

The declaration and the special provisions imply that such countries have not had access to U.S. markets. But the U.S. has had more imports than exports from some of these countries already. Future privileges would further distort our economy. Imports have risen rapidly. Between 1960 and 1971, exports of manufactures from Brazil rose from $23 million to $424 million; from Taiwan from $59 million to $1.6 billion; from Portugal from $171 million to $1.2 billion. But the economic development and social well-being in these countries are not healthy. They have not necessarily improved their economic and social health despite the end of production of U.S. musical instruments, shoes, TV sets, radios, and auto parts in cities and towns across America.

The real beneficiaries of such special rights are often U.S.-based (or foreign-based) multinational firms, who are required to produce in some developing countries in order to sell there. Some developing countries also require the companies to export and subsidize these exports. The bill's special provisions for zero tariffs on imports into U.S. market would merely encourage more unfair disruption of more U.S. industry and further runaway plants from poor and rich countries.

Item 806.30 and 807 prove that preferential entry coupled with governmental help can force imports into and production out of the U.S. at a rapid rate. Now that such countries have attracted many U.S.-based firms whose expansion was lubricated by preferences, the whole product is made in those countries, and item 806.30 and 807 are not needed.

The President's *International Economic Report*, March 1973, page 38, shows that preferences are expected to continue the export of U.S. production and jobs behind foreign barriers to send goods into the U.S. market: "Our exports will face higher import barriers than goods coming from participating countries. Moreover, rather than export goods from their U.S. plants our manufacturers may be forced to build plants abroad, behind the higher barriers, in order to remain competitive in those markets."

The realities of international trade in the 1970's are ignored in the new bill. What is missing in the proposals is more important than what is included. These ideas are missing:

> A framework is needed for promoting the United States interest at home so that this country can work out effective agreement with other countries—to benefit this country as well as others. The Congress is not asked in this bill to make it a matter of United States policy to assure the growth of all kinds of industry in keeping with the skills and resources and needs of the United States and its citizens at home. Instead, the Congress is asked to declare that trade barriers are wrong for the U.S., but that developing countries need to improve their access to the U.S. market. Thus the bill puts the cart before the horse. A strong America cannot continue to exist in a misdirected world. A mechanism is needed for slowing the flood of imports into the U.S., so that the U.S. can have a strong, varied economy.
>
> Investment, tax, technology and other policies are crucial to the economic health of the United States in relation to every nation of the world. The bill does not contain effective provisions to remove tax breaks on overseas invest-

ment, to stop the wholesale exodus of America's newest technology and production units, and to affect the rising prices in the United States caused by trade and investment problems.

Consumer protection and information are denied in this bill and consumer interests are ignored.

Tax burdens of American citizens and communities who are forced to pay the social and economic costs of a rapid change must be eased.

Employment of American workers at every skill level—the professional, the skilled, the unskilled and the job-seekers—with job opportunities available for a growing labor force should be promoted.

The new proposals are therefore merely a patchwork of power designed to please negotiators and technicians. What is needed is a comprehensive modernization of laws and policies to promote America's economy at home so that America can deal effectively with nations abroad.

APPENDIX 2

THE ADMINISTRATION'S INEFFECTIVE TAX PROPOSALS RELATING TO U.S. FIRMS ABROAD

The proposals for taxation of the profits of certain foreign subsidiary operations of U. S. corporations go little beyond implicitly recognizing that a problem exists. The proposals do virtually nothing to close the lucrative tax loopholes that are eroding the industrial base of the nation, contributing to the export of U. S. jobs, the export of technology, and the loss of billions of dollars in federal revenue.

Under present law, U. S. taxes on income of foreign corporations operating abroad are deferred until such time as the income is brought home—which may be never. The AFL–CIO has advocated that such foreign source income be taxed in the year earned just as U. S. source income is taxed. The Administration's proposal would eliminate tax deferral only in cases where:

1. Corporations are making new or additional investments in countries that grant tax holidays or other tax inducements to private industry.

or:

2. Where corporations are making *new* or *additional* investments in manufacturing for U. S. markets (test is 25% of gross receipts) in countries subjecting those corporations to effective tax rates significantly *lower* than the U. S. corporate income tax rate.

Moreover, these provisions would only apply if the investment is new or additional and in *excess* of 20% in the year in which the tax incentive was in effect; *and*, the President would be given discretionary authority to exempt companies if he determines it's in the public interest to do so.

Since there is relatively little in the way of U. S. corporate investment in countries that meet these criteria, the impact of these proposals would be minimal.

Moreover these proposals would have *no* effect on the income from existing U. S. investment abroad.

As to the *foreign tax credit*, the AFL–CIO has advocated that foreign taxes be treated as a legitimate costs of doing business and, therefore, a deduction from taxable income rather than the present system whereby foreign taxes are deducted dollar for dollar from the U. S. tax liability. The Administration's tax credit proposal would, first of all, only apply to those companies effected by the proposals on deferral. Moreover, all the Administration's proposal would do would be to disallow, in those cases, the use of the so-called "overall limitation." Under present law, a company in using the foreign tax credit may elect to lump all its foreign income together in order to balance income from high tax countries against income earned in low tax countries so that "excess credits" are not lost.

Under the Administration's proposal, the overall limitation would not be permitted for companies affected by the changes in federal. They would, however, still be allowed to credit all foreign income taxes against their U. S. income tax when the money is repatriated, but, it would have to be done on a per country basis.

The proposal on treatment of foreign losses is appropriate and a step in the right direction. However, it is our view that the 25% ceiling is entirely too liberal, it should be raised substantially.

APPENDIX 3

THE END OF ADJUSTMENT ASSISTANCE AND PROPOSED CHANGES IN UNEMPLOYMENT COMPENSATION

The AFL-CIO considers the adjustment assistance proposals in the Trade Reform Act of 1973 as a step backward because of the serious inadequacies in state unemployment compensation programs. The Administration's proposals would place new and increased demands upon the unemployment compensation program, but fail to provide even minimum assurances the program will operate efficiently. State unemployment compensation programs are not required to meet any minimum federal qualification standard. In addition, state programs are not required to meet any minimum federal duration standard.

It was these very inadequacies, together with the woefully inadequate benefit structure of state programs, that resulted in the enactment of federal standards for the adjustment assistance allowances in the Trade Expansion Act of 1962. The failure of the Administration to propose legislation to remedy some of the major deficiencies of the unemployment compensation program make these trade reform proposals unacceptable.

BACKGROUND

Under the Trade Expansion Act of 1962, the Labor Department has the responsibility to determine which workers are eligible to apply for adjustment assistance after the U.S. Tariff Commission has certified that loss of their jobs was attributable to import competition resulting from this country's trade agreements.

The cash readjustment allowance for certified workers is equal to 65 percent of the worker's former average weekly wage, but the weekly benefit may not exceed 65 percent of the national average weekly wage in manufacturing. The maximum weekly benefit payment is computed on the basis of the national average weekly wage for the previous calendar year. (The maximum weekly benefit for 1972 was $93, and it has been increased to $101 for the year 1973. The average weekly wage in manufacturing, upon which the maximum weekly benefit is based, was $142.44 in 1971 and $154.69 in 1972.)

Duration of payments is usually limited to 52 weeks, but an additional 26 weeks may be allowed if a worker needs it to complete an approved training course, and a further 13 weeks may be allowed workers who were over 60 years of age when separated from their jobs.

The qualifying requirements for trade readjustment benefits are contained in the Act:

78 weeks of work at $15 or more in the prior 156 weeks, and
26 weeks of work at $15 or more in the prior 52 weeks.

The Act also authorizes the Secretary of Labor to establish equivalents of these qualifying requirements, if needed.

THE TRADE REFORM ACT OF 1973

The Trade Reform Act of 1973 would terminate existing trade readjustment allowances in three stages:

1. The very few workers who currently are certified as eligible for benefits and those workers, if any, certified as eligible prior to passage of this legislation would be permitted to complete their eligibility under the existing program.
2. During the transition period—from the effective date of the Trade Reform Act until the state unemployment compensation program meets the new federal standards—the federal government would supplement state unemployment compensation benefits up to the level of the required federal standards.
3. Upon enactment of the Trade Reform Act of 1973, adjustment assistance would be provided under state unemployment compensation programs with temporary supplements where necessary. By July 1, 1975, states would be required to provide unemployment benefits equal to at least 50 percent of the individual's former weekly wage, up to a state maximum weekly benefit amount equal to at least 66⅔ percent of the state average weekly wage. At this time, supplemental unemployment compensation payments would terminate.

When stage 3, outlined above, takes effect, the provisions of state unemployment compensation programs, with the exception of weekly benefit amounts—

qualifying requirements, eligibility, and duration—become the major determining factors for weekly benefit payments. The present Trade Act duration standard of 52 weeks would be repealed.

The Trade Reform Act of 1973 apparently would permit larger numbers of workers to be identified as adversely affected and eligible for the new adjustment assistance benefits. This would be accomplished by granting increased authority to the Secretary of Labor to determine the import-related causation of workers' unemployment.

The proposed legislation also establishes a new qualifying requirement to determine who is an adversely affected worker eligible for the supplemental benefit payments during the transition period. In addition to the time period during which the worker must have been employed, it requires that the individual have, in the 52 weeks prior to job separation, 26 weeks of work at wages of $30 or more.

This qualifying requirement raises the possibility—these may be rare situations—that a worker determined to be adversely affected and entitled to all other protection provided in the Trade Reform Act of 1973 would not be qualified for state unemployment compensation. There are, at present, 5 states in which the qualifying requirements for unemployment compensation are greater than 26 weeks of employment at $30 per week or more.

TABLE I.—WAGE AND EMPLOYMENT REQUIREMENTS FOR BENEFITS

State	Wages required for minimum benefits	
	Base period	High quarter
Idaho		$416.01
Illinois	$800	
Massachusetts	900	
Washington	1,200	
Wyoming	800	
Qualifying requirements of the 1973 act: 26 weeks at $30 or more	780	390.00

UNEMPLOYMENT COMPENSATION

The Congress is well aware of organized labor's support for minimum federal benefits standards. The AFL–CIO has repeatedly urged enactment of a minimum federal standard providing a weekly benefit amount of 50 percent of former wages to jobless workers up to a state maximum of 66⅔ percent of the state average weekly wage. But we have coupled this weekly amount standard with a call for qualifying and duration standards.

Two of these essential elements are omitted in the Administration's unemployment compensation proposals. AFL–CIO state organizations are in a better position than any other group in the nation to gauge the enormity of these omissions. They know, if federal standards are enacted for weekly benefit amounts, state legislatures will be subjected to overpowering employer pressure to tighten qualifying requirements and shorten existing benefit duration periods.

For example, Connecticut made major changes in the composition of its state legislature at the last election. The only serious change the new legislature has made in the state unemployment compensation program, that the Connecticut labor movement worked for years to bring to a level of adequacy, has been a response to employer criticisms of the program. The qualifying requirement of earnings equal to at least 30 times the claimant's benefit amount has been increased 33⅓ percent to require earnings equal to at least 40 times the weekly benefit amount.

Every member of Congress knows the intent of this type of legislation. It is designed to deny the benefits of the program to low-wage and irregularly employed individuals who have the greatest need for it.

We are certain the consequences of enacting weekly benefit amount standards without eligibility and duration standards would be disastrous for the future of the entire program. In fact, without federal benefit standards, we are fairly close to the disaster point in some states already. In far too many states (at least 12) existing qualifying requirements prevent 25 to 30 percent of new claimants from establishing eligibility. When other states permit 90 percent or more of new claimants to establish eligibility, the AFL–CIO is convinced a reasonable federal minimum qualifying standard is needed.

These disparities in state qualifying requirements are a direct result of employer pressures on state legislators to manipulate the program for their own selfish ends. However, these pressures are not confined to qualifying requirements; they reach every element of state programs, including duration periods. How else can you explain the differences in the reported average potential duration of claimants? In some states, the average potential duration of benefits is approximately 18 weeks (18.6) and in other states, average potential duration is as high as 30 weeks. Organized labor, particularly our members who are the victims of unemployment, know from personal experience the payments unemployed workers receive are uncertain and inadequate.

We have referred to the omission of qualifying standards and duration standards in the Administration's unemployment compensation proposals as a step backward. This is a mild characterization. The Administration's proposal would reduce the amount of payment for workers displaced by imports from 65 percent to 50 percent of their former earnings. If these provisions were now in effect, every worker thrown out of a job due to imports earning less than $154.69 weekly—1972 average manufacturing wage—would receive a lower weekly benefit amount. Low-wage earners will be hit the hardest by this proposal. However, 1971 wage data—the average weekly wage in covered employment, by state—indicate the maximum weekly benefit at 66⅔ percent of the state average weekly wage would be higher than 65 percent of the national average manufacturing wage in 25 states. This proposed federal benefit standard would entitle a significant number of additional workers to receive an honest 50 percent wage replacement weekly benefit, and this has to be an important consideration in terms of high-wage earners and benefit adequacy.

In addition to the lower weekly benefit amount proposed for some workers, the benefit duration for every jobless individual is at best questionable. At this time, the majority of state programs provide for a maximum duration period of 26 weeks. The state duration provisions are not only far short of the federal standard contained in the Trade Expansion Act of 1962, these provisions are easy prey for legislative manipulation similar to the Connecticut example cited earlier. A federal duration standard is the only protection jobless workers can rely upon for assurance weekly benefits will be available for a reasonable period of time. Surely, some such standard is needed for workers displaced by imports who find it especially hard to obtain other jobs.

We recognize the qualifying requirements of the Trade Expansion Act of 1962 may be inappropriate for a comprehensive unemployment compensation standard. However, the principle of establishing a federal standard for qualifying purposes applying to all workers is sound. The qualifying standards contained in the Trade Expansion Act could be improved and, with some modification, be applied to a comprehensive unemployment compensation program.

The AFL–CIO has for many years urged enactment of reasonable qualifying requirements with a maximum limit for state laws not to exceed 20 weeks of work or its equivalent. A standard of this type is essential if the program is to function efficiently. The need for this standard is particularly important if readjustment assistance for workers made jobless by imports is to be eliminated and replaced with unemployment compensation benefits.

LABOR DISPUTE DISQUALIFICATIONS

Finally, one of the more objectionable features of the Administration's unemployment compensation proposal would prohibit the states from establishing or maintaining a fixed disqualification period in cases of unemployment related to labor disputes. The rationale for this proposal is to safeguard the neutrality of the system.

A requirement of this nature would have an exactly opposite effect. It would place the entire program on the side of employers in all labor dispute situations. Employers would attempt to link every layoff to a labor dispute in order to avoid benefit charges to their account and maintain a favorable tax rate. It is conceivable multinational firms would attempt to link layoffs to a labor dispute overseas in their effort to invoke the proposed disqualification on workers in this ocuntry.

However, more alarming and vicious practices would be introduced into labor-management relations. Many employers can anticipate economic downturns that will lead to reduced operations. It is inevitable that some employers, encouraged

by this type of disqualification, will promote labor dispute situations in order to lay off workers and have them disqualified from benefit entitlement. Some firms may also be encouraged to resort to the increasing use of strikebreakers in labor disputes. The firm's regular force will be denied benefits, but strikebreakers can be assured by the employer of the availability of unemployment compensation if they are replaced. This will permit and encourage employers in some situations to recruit just enough strikebreakers to starve the regular labor force into submission and reward them with unemployment compensation when the dispute is settled.

The AFL-CIO is distressed that a proposal of this nature should be put forward in an Administration message that is completely silent on other matters of much greater importance in terms of the program. Organized labor has a position of long standing on this issue. After a fixed disqualification period—if a disqualification is imposed—all jobless workers should be permitted to claim their benefit rights. Unemployment compensation benefits are, and always have been, based upon earned rights subject to other limiting conditions. Every claimant must be able to work, willing to work, and seeking employment. Failure to satisfy these requirements can result in disqualification. However, after a reasonable period of time labor market conditions and other economic factors which reduce employment opportunities should be the paramount consideration for benefit entitlement in all cases in which the claimant meets the other qualifying and eligibility requirements.

APPENDIX 4

THE ADMINISTRATION'S PROPOSAL AND FOREIGN TRADE

The Administration statement on The Trade Reform Act of 1973 claimed the President's proposal for Retirement Benefits Tax Act (S. 1631) "would help protect workers who lose their jobs against loss of pension benefits." Actually, the Administration pension reform proposals would do nothing for younger workers, nothing for workers over age 60 and nothing for any worker for at least 10 years, including those who lose their jobs because of imports.

The Administration's pension program establishes unacceptable Federal minimum standards of vesting as well as minimum funding standards. It also provides a new tax loophole for wealthy individuals and expands the existing tax loophole for the self-employed.

VESTING

The bill establishes a minimum standard of vesting called the "rules of 50." That is, pension plans would be required to vest 50 percent of an employee's accrued benefit when his age and service combined totaled 50 years. However, the legislation permits a waiting period of 3 years before an employee must be allowed to join a pension plan. Thus, the rule of 50 is actually a rule of 53. An employee under age 30 need not be covered by a pension plan. After the rule had been met, an additional 10 percent of an employee's accrued benefit would vest each year. Thus, a worker who was displaced from his job because of imports, and who first began to work for his employer at age 20 would have to be 45 years of age to be entitled to a fully vested benefit. A worker displaced at age 50 would have had to begin working for his employer at age 30 to have a fully vested right to his accrued benefit.

For younger workers, most pension plans today have more liberal vesting provisions than the "rule of 50." For example, full vesting after 15 years of service, not a liberal standard today, would mean a worker who was hired at age 20 would be fully vested at age 35. A worker displaced at age 50 with full vesting after 15 years of service would have a fully vested pension if he began working at age 35. Younger workers would not, therefore, be helped by the "rule of 50."

The Administration bill allows all workers who are hired after age 60 to be excluded from participation in the pension plan. This bill does not, therefore, help older workers.

This discrimination against older workers by the Administration's vesting standard would hit older workers displaced by imports particularly hard.

The "rule of 50" would only provide relatively liberal vesting for employees at or the near age of 50.

Were the bill enacted, those near age 50 who lose their jobs shortly after the effective date of the Act, would receive a vested right to zero benefits. This is

because service performed for an employer prior to enactment of the bill would count toward meeting the vesting standard but not for the purpose of computing benefits. Only service performed for the employer after the effective date of the bill need be counted in computing the accrued benefits. The Administration bill could not, therefore, benefit any displaced worker for at least 10 years.

FUNDING AND INSURANCE

The minimum funding standard of the Administration bill would not protect employees against loss of benefits in the event that their employer was forced out of business because of imports or chose to move his factory abroad. In fact, the minimum standard of the bill does not require sufficient assets in the pension fund to pay for all past service-costs—even after 25 years. No pension plan termination insurance (reinsurance) program is proposed to protect the pension rights of employees whose employer goes bankrupt or whose production is cut or who goes out of business because of import competition—or who relocates abroad.

TAX RELIEF PROVISIONS

The Administration bill provides that individuals may take an income tax deduction amounting to 20 percent of earned income up to a maximum of $1,500 per year for sums set aside for an individual retirement plan. But as a practical matter the plan has little value to those with low incomes.

How many families with an earned income of $5,000 per year can save $1,000?

How many with a $6,000 income can save $1,200?

How many with a $7,500 income can save $1,500?

How many families with an annual income of even $10,000 can save $1,500 in this time of sky-high living costs?

Now, ask the same question for those with annual earnings of $15,000, $20,000, $50,000 and up. Clearly, the percentage of families which will be able to take full advantage of this deduction will rise with income. Thus, the effect of this provision will be extremely regressive, benefiting all the rich who wish to take advantage of it, none of the poor and hardly any middle income workers.

Even if a family of four could save $1,000 out of $5,000 income their income tax would be reduced by only $98. Thus, the Federal government would be subsidizing the retirement savings at the rate of 9.8%. The same family of four earning $10,000 would save $285 in taxes and the Federal government would be subsidizing their retirement plan at the rate of 19%. The $50,000 family of four would recoup 48 percent of their retirement contribution or $720 in taxes. The Federal subsidy to the retirement savings of individuals at various income levels is summarized in the following table.

EFFECT OF TAX CHANGES, S. 1631 (MARRIED COUPLE WITH 2 DEPENDENTS)

Wage or salary income	Tax 1972	Tax under H.R. 12272	Tax reduction	Percent of pension contribution paid for through tax relief
$5,000	$98	0	$98	9.8
$6,000	245	70	175	14.6
$7,500	484	245	239	15.9
$10,000	905	620	285	19.0
$15,000	1,820	1,490	330	22.0
$25,000	4,240	3,820	420	28.0
$50,000	13,100	12,380	720	48.0

Note: Assumes tax burden based on personal deductions equal to 10 percent of income, the low-income allowance or standard deduction, whichever is higher, and each taxpayer takes full advantage of pension deduction.

The bill would also raise the deductible limit on pension contributions made on behalf of the self-employed from 10 percent of earned income up to $2,500 per year to 15 percent of income up to $7,500. The AFL–CIO opposed the original Keogh bill as a tax avoidance program and we oppose the expansion of this tax loophole now. The main beneficiaries of this program have been doctors and lawyers and not proprietors of "mom and pop" groceries or other small businessmen.

Hardly any workers displaced by imports could take advantage of either tax loophole.

For the Administration to claim that their pension program would help protect workers against the loss of pension rights when they are displaced from their jobs is not credible. The program is primarily a tax bill to benefit the wealthy.

APPENDIX 5

ANSWERING THE ARGUMENT THAT MULTINATIONAL FIRMS' OPERATIONS ABROAD SPUR JOB GROWTH HERE

One of the most widely utilized arguments by multinational corporations is that their foreign investments over the past years have not resulted in the export of jobs but, in fact, are responsible for America's job growth. The extension of this argument, directed specifically against the Burke-Hartke bill, is that if the overseas activities of multinationals are curbed, a shrinkage of jobs in the U.S. will result.

Because this argument is so crucial to the problems of U.S. multinationals, it is worth closer examination.

The claim of job creation in relation to foreign investment made by multinational corporations stems partly from a set of statistics compiled by the Department of Commerce. These hold that the firms most active in direct foreign investment in the years 1966 to 1972 showed a greater gain in employment in their U.S. facilities than did other U.S. corporations. The multinationals and their organizations also have studies of their own, which not surprisingly reach the same conclusion.

It can be completely true that those corporations which invested most heavily in foreign investment showed the greater gain in U.S. employment, but that does not make it true, as the multinationals would have everyone believe, that foreign investment is thus responsible for the faster job growth at home. To maintain that is so is the most dangerous sort of nonsense.

The multinationals examined by the Commerce Department are not just corporations which invest overseas. They include America's largest concerns, which are the largest employers, the largest defense contractors, the largest recipients of government contracts at all levels and those most heavily involved in mergers and acquisitions.

These firms are not a cross-section—a slice—of America. They are the commanding heights of our industrial structure. This was pointed out in a Tariff Commission report to Congress in early 1973. "The multinational firms are neither minor employers nor a special case which can be analyzed independently of the national economy. They are the backbone of the demand side of the labor market, the firms which . . . have the biggest quantitative punch in terms of the numbers of people they hire."

Rather than foreign investment creating jobs in the U.S., a closer look at the broad evidence available from government statistics is that employment growth from domestic influences is masking job losses resulting from direct overseas investment and from imports. Unfortunately, the evidence in some cases is presented in such a way that it is subject to selective interpretation. The President's report to Congress on international economic policy, for example, cites the tariff commission report as providing "a realistic set of assumptions that U.S. multinational corporations created a net gain in U.S. employment of

about one-half million jobs."—while ignoring two other sets of assumptions in the Tariff Commission report that led to the conclusion that between 400,000 and 1.3 million job opportunities were lost to Americans because of investment and trade changes in which the firms' activities were a factor.

In addition, claims of net job creation by the multinationals from overseas investments are highly vulnerable. As well as being active in direct foreign investment, multinational concerns during the 1960s were heavily engaged in domestic mergers and acquisitions. Subtract the employment additions to these concerns as a result of these activities from the claimed job growth statistics, and a different picture emerges. Furthermore, foreign investment activities of large U.S. corporations have the impact of wiping out the jobs and businesses of American firms. For example, the vendor firms, the service firms and the spinoff firms all lose heavily when a firm abandons a U.S. community or fails to locate its expansion here.

The Emergency Committee for American Trade claims, from its own studies, an employment growth among multinationals in the decade from 1960 to 1970 of 36.5 percent compared with an employment growth of 30.3 percent for all industries to prove its point that foreign investment creates U.S. jobs. But without the job additions to these concerns as a result of mergers and acquisitions, the multinationals' growth is 21.6 percent—considerably less than the all industries figure.

The often quoted Commerce Department figures on direct foreign investment do not deal directly with the loss of job opportunities in the U.S. but Labor Department statistics show substantial job losses between 1966 and 1972, in major industries at home in which direct foreign investment by multinationals expanded rapidly. These include transportation equipment, with a loss of 170,900; non-electrical machinery, a decline of 45,800, and electrical equipment with a loss of 75,700. (see table I) A tabulation of employment changes in selected electronic, electrical and other "technologically advanced" industries from September of 1969 to September of 1972 (table II) shows an overwhelming pattern of job losses.

In seeking to support their opposition to the Burke-Hartke trade bill, which the AFL-CIO supports, the multinationals place themselves in the absurb position of arguing that while barriers to trade in the U.S. are bad, barriers to U.S. trade by foreign nations are good. This stems from the contention by multinationals that the existence of foreign trade barriers "forced" them to go abroad to capture foreign markets. If they did not invest abroad to capture these foreign markets, their logic runs, they would not be able to create American jobs at home. Ergo, foreign trade barriers are good for American employment. The logical extension of this, then, is that if we can export enough of our industry abroad, we will have full employment at home.

TABLE I.—CHANGE IN EMPLOYMENT (ALL EMPLOYEES) IN MANUFACTURING INDUSTRIES WITH HIGH DIRECT INVESTMENTS[1]

	1966–72 change in number of employees	1966–72 percent change
Nonelectric machinery	−45,800	−2.4
Electrical equipment	−75,700	−4.0
Transport equipment	−170,900	−8.9
Chemical and allied products	+40,800	+4.2

[1] Commerce Department "Survey of Current Business" and studies emphasize direct imvestment between 1966 and 1970. Employment changes are for 2 digit SIC classifications, Bureau of Labor Statistics.

TABLE II.—EMPLOYMENT CHANGES IN SELECTED ELECTRONIC, ELECTRICAL, AND OTHER "TECHNOLOGICALLY ADVANCED" INDUSTRIES, SEPTEMBER 1969–72 [1]

Industry sectors	September 1969 (number)	September 1972 (number)	Change (September 1969 to September 1972)	
			Number	Percent
Electronic components and accessories:				
Production employees	281,900	237,200	−44,700	−15.9
Nonproduction employees	121,300	108,700	−12,600	−10.4
Communication equipment:				
Production employees	262,400	218,800	−43,600	−16.6
Nonproduction employees	269,000	214,100	−54,900	−20.4
Metalworking machinery:				
Production employees	254,100	211,900	−42,200	−16.6
Nonproduction employees	86,800	78,300	−8,500	−9.8
Aircraft engines and engine parts:				
Production employees	114,700	74,100	−40,600	−35.4
Nonproduction employees	90,200	64,600	−25,600	−28.4
Office and computing machines:				
Production employees	143,800	112,000	−31,800	−22.1
Nonproduction employees	134,000	135,100	+1,100	+.8
Special industry machinery:				
Production employees	137,200	116,700	−20,500	−14.9
Nonproduction employees	70,300	61,500	−8,800	−12.5
Miscellaneous machinery (not elsewhere specified):				
Production employees	178,300	164,300	−14,000	−7.9
Nonproduction employees	50,300	46,300	−4,000	−8.0
Radio and TV receiving equipment:				
Production employees	121,000	107,200	−13,900	−11.5
Nonproduction employees	40,300	36,500	−3,800	−9.4
Electrical industrial apparatus:				
Production employees	161,900	149,300	−12,600	−7.8
Nonproduction employees	69,000	64,300	−4,700	−6.8
General industrial machinery:				
Production employees	193,300	180,800	−12,500	−6.5
Nonproduction employees	98,800	87,200	−11,600	−11.7
Electrical test and distribution equipment:				
Production employees	145,000	134,600	−10,400	−7.2
Nonproduction employees	68,100	61,100	−7,000	−10.3
Mechanical measuring and control devices:				
Production employees	72,600	65,900	−6,700	−9.2
Nonproduction employees	42,500	38,600	−3,900	−9.2
Engineering and scientific instruments:				
Production employees	38,200	32,600	−5,600	−14.7
Nonproduction employees	39,500	32,500	−7,000	−17.7
Engines and turbines:				
Production employees	78,000	73,000	−5,100	−6.5
Nonproduction employees	36,900	38,500	+1,600	+4.3
Electric lighting and wiring equipment:				
Production employees	162,000	158,600	−3,400	−2.1
Nonproduction employees	47,400	46,000	−1,400	−3.0
Watches, clocks, and watchcases:				
Production employees	29,100	25,800	−3,300	−11.3
Nonproduction employees	6,300	5,600	−700	−11.1
Optical and ophthalmic goods:				
Production employees	38,300	40,100	+1,800	+4.7
Nonproduction employees	15,700	15,900	+200	+1.3
Miscellaneous electrical products:				
Production employees	96,100	99,300	+3,200	+3.3
Nonproduction employees	28,500	27,300	−1,200	−4.2
Household appliances:				
Production employees	154,900	162,000	+7,100	+4.6
Nonproduction employees	39,300	40,100	+800	+2.0

[1] Ranked in order of total number of production jobs lost.

Source: Employment and Earnings United States 1909–71, bulletin No. 1312 and Employment and Earnings, vol. 19, No. 6, December 1972, Bureau of Labor Statistics, U.S. Department of Labor.

TABLE III.—CHANGE IN EMPLOYMENT (PRODUCTION WORKERS) IN MANUFACTURING INDUSTRIES WITH HIGH DIRECT INVESTMENTS[1]

	1966–72 change in number of employees	1966–72 percent change
Nonelectric machinery	−107,700	−8.0
Electrical equipment	−86,900	−6.6
Transport equipment	−117,100	−8.6
Chemical and allied products	+6,900	+1.2

[1]Commerce Department survey of current business and studies emphasize direct investment between 1966 and 1970. Employment changes are for 2 digit SIC classifications, Bureau of Labor Statistics.

APPENDIX 6

ANSWER TO ARGUMENT THAT U.S. CONSUMERS WOULD BE HURT IF BURKE-HARTKE BILL BECAME LAW

One of the most persistent of arguments voiced by proponents of "free trade" is that imports are good for the consumer, and any move to regulate them is bad.

To bolster this argument, experts trot out the textbook theory, no matter how old it may be, that imports automatically mean a greater choice of products for the consumer, more competition and hence lower prices. Regulation of imports the theory goes, reduces the selectivity of the consumer, lessens competition among U.S. businessmen, and permits American manufacturers to charge higher prices.

In the vastly changed world of the Seventies, this theory is no longer valid. The U.S. has been providing a wide-open door to imports. The result has been rapidly rising prices, lessening competition, and a narrowing of selectivity for the consumer.

For example, the market in home electronics has been all but taken over by imports, or by "American" products which have been produced and assembled abroad—and prices have headed upward. The consumer has the "choice" of buying a television set which may be made—even though it bears a U.S. label—in Taiwan, Hong Kong, Japan, Mexico or some other low-wage country. And the consumer pays the American price for the product, not the foreign price. Competition? Try to find a truly American made set. Selectivity? Only among foreign-made sets.

Imported shoes are now half the size of U.S. production and almost 37% of the U.S. market. What has happened? Shoe prices in the decade from 1961 to 1971 rose a whopping 41 per cent—and were increasing at an annual rate of 5.5 per cent at the end of that decade.

The fact is that the American consumer, as a result of America's deteriorating trade position and the outmoded and unrealistic government trade, is paying through the nose.

The costs to the consumer run far beyond the price paid for a product at the store counter. Go into a community where a plant has closed because it has been suffocated by imports. The jobs are gone. The payroll is gone. The tax base of the community is eroded. The taxpayers who still have jobs must pay more to support the services still needed by the community, or see those services diminished. They must pay more to support the welfare costs of those thrown out of work.

The loss of local purchasing power and the loss of taxes has a "ripple out" effect on the local service economy, further decreasing the jobs which depended on the industrial base. So there is a substantial hidden cost to the nation's present policy on foreign imports.

Further, the nation's import policy in important cases has helped contribute directly and substantially to the present inflation. Again, the shoe industry is an example.

When the shoe industry saw that imports were going to be allowed to flood the nation without any move by the government to provide safeguard for domestic producers, many of them relocated abroad, leaving behind empty factories, unemployed workers, decimated communities, depleted tax rolls. Now these formerly American producers are using foreign nations as a base from which to send shoes made by low-cost foreign labor back to the U.S., competing with domestic producers. In addition, the overseas producers are bidding up the price of hides,

thereby influencing the flow of supply of U.S. hides to go into export markets. This makes the domestic price of hides for domestic shoe and leather goods manufacturers higher, and these increased prices are passed along to the American consumer.

The inundation of the American market from imports has been a large factor in the huge U.S. balance of international payments deficits over recent years which were at the heart of two devaluations of the dollar within a 14-month period. These devaluations, according to Federal Reserve Board estimates, have cost the American consumer some $3 billion.

One purpose of a currency devaluation is to "cheapen" a currency against other currencies. The U.S. devaluations made the dollar worth less in international trade; that is, Americans had to pay more dollars for the same amount of imports as a result of devaluation. The theory of a devaluation is that it tends to curb imports because they will be higher in price. Americans, the theory goes, would then turn to U.S. products, where the devaluation would not affect the price of goods.

However, the pace of import purchases by Americans seems so far to have been little affected by devaluation. In many cases, consumers have little or no choice but to go on buying the imported products, paying higher prices. This is because, certainly in the field of home electronics, imports have so taken over the market that there is little or no choice; the consumer can't "Buy American" because the American products are not there. Imports dominate the market not only in home electronics but in typewriters, 35 mm cameras, radios, phonographs, shoes, just to name a few. And foreign prices of these and other items are heading still higher.

To put restrictions on these imports, according to the textbook theory, would send prices even higher because American producers would face less competition and thus would be able to charge what they wanted. However, facts don't always follow the theory. For example, a study of automobile prices by Stanley H. Ruttenberg & Associates, a Washington economic consulting firm, shows that between 1958 and 1963, when the number of foreign auto sales in the U.S. stayed fairly level—and declined as a portion of the total sales market—auto prices in the U.S. went down by as much as 5 percent. Between 1966 and 1971 the share of foreign cars in the U.S. more than doubled, from 10 percent to 24 percent. Rather than falling, as theory says they should, price movements of autos was just about identical with that of all other industrial commodities.

Thus, a free import policy is no guarantee of lower prices for consumers. And the imposition of quotas to curb imports does not automatically lead to higher prices. The following table is an illustration of this; it shows a lesser price increase on items for which there were quotas than on those for which there were no quotas:

Percentage increase—From 1967 average to January 1973

Price rise of imported goods not subject to quotas:	
Fish, fresh or frozen	67.9
Ladies casual shoes	28.0
Plastic handbags	46.0
Suits, year-round weight	29.4
Cola drinks	29.6
Paper napkins	35.6
Price rise of imported goods subject to some quotas:	
Undershorts, cotton	21.1
Shirts, business polyester/cotton	10.7
T-shirts, chiefly cotton	18.6
Sugar	16.7
Butter	5.7
Cheese	28.3
Overall Consumer Price Index: All goods	27.7

American consumers are aware of the damage that the flood of foreign imports is causing to the U.S. economy. In a recent poll, the Louis Harris organization found a distinct sense among the Amercian people to rally in support of their economy. The survey, taken among a national cross-section of 1,472 households, found that the proposition "if our people don't 'Buy American' more in the products we purchase, the U.S. economy will be in real trouble here at home" met with 65–17 percent agreement.

One of the dangers in the administration's proposed Trade Reform Act on 1973 now pending before Congress is that it would deny consumers the chance to know whether the product they were buying was American. This is because the administration measure would remove the "marking of origin" requirement. Present trade law says that every product coming into the U.S. must be clearly marked as to its origin; if it is made in Hong Kong, or Japan, or Taiwan, it must say so.

Without this marking, the consumer who wanted to "Buy American" would have no way of knowing whether the product he was purchasing was American made. Indeed, because there would no longer be any requirement for such identification, it is likely that more U.S. manufacturers would switch to foreign production for profit purposes, and consumers would have a choice of even fewer American-made goods.

APPENDIX 7

THE MYTH OF RETALIATION AND THE RIGHT OF AMERICA TO SELF-INTEREST

Fear slogans like "retaliation" and "trade war" are scare symbols. These slogans represent the claim that higher trade barriers might be raised by other nations if the U.S. takes legislative action in its own interest. Factually, other nations have been putting up new trade and investment barriers constantly to assure their own well being. They have been "retaliating" against us and others for years, and have erected many more such barriers than the United States. Furthermore, our government expects these barriers to continue to go up—with or without legislation.

Since these are recognized facts, it is time to stop the scare talk aimed at deterring the United States Congress from its right to pass laws in the interests of the people of this country. This is a constitutional obligation. We recognize that other sovereign nations have rights and are exercising them. We have the same rights—free of scare slogans.

The U.S. faces very real trade barriers today—and tomorrow. No clear, detailed documented references are available to the Congress to illustrate the relationships of the trade, investment and other barriers to U.S. exports by foreign countries or their spurs to export to the U.S. Most of the detailed information is considered "foreign policy confidential" or "business confidential." What is available to labor unions is from published government documents, the statements by businessmen and the press. But even the available evidence shows that the threat of retaliation is a scare word from yesterday.

Everyone knows that the U.S. is now confronted by complex governmental economic arrangements in other countries to spur exports (direct and indirect subsidies, etc.) and to bar or hold down imports (direct or indirect barriers). The examples usually given are Japanese quotas, licenses in European countries to import specific products and laws in many nations which require foreign subsidiaries to produce a certain amount of goods for exports, as in Mexico, Brazil and Spain. These countries also have controls on capital flows and technology flows—either by law or practice.

The *International Economic Report of the President*, March 1973, states generally that "import barriers in virtually every developed country are the highest and most restrictive in many areas where our greatest competitive advantage exists" (page 37). The report recognizes that "some developed countries impose restrictions before imports reach a large share of consumption" (page 38).

As for developing countries, the same report states, "Our exports will face higher import barriers than goods coming from (developing) countries."

Moreover, rather than export goods from their U.S. plants, "our manufacturers may be forced to build plants abroad, behind the higher barriers, in order to remain competitive in these markets" (page 38).

Thus the expectation of trade war is not realistic. The expectation of continued discrimination against the U.S. economy—if that is the issue—is accepted by U.S. government spokesmen. They are surrendering in the trade war without firing a single shot.

How does foreign "retaliation" work? That's the real question. Vague talk about quotas and licenses and retaliation really doesn't mean much. What are the current actions?

The European Economic Community, for example, is a barrier in itself, and it is going to be a large barrier. The European Economic Community, the Common Market, is not a United States of Europe as most Americans believe. It is a group of nine nations, with their own national governments, policies and practices and their own special relationships with third countries. Around and above the nine

nations are a common outer tariff wall, a common agricultural policy for farm prices and growing common policies on products standards and internal taxes. The EEC also has a set of special trade arrangements with a growing number of other European and non-European countries—which exclude the United States. There is no need for "retaliation." It is a fact of life that foreign barriers are going to continue to rise, according to the U.S. government.

A European Community Information Service press release stated on March 26, 1973, "The European Community is not yet, in the strict sense, the common market which its popular name suggests. There are still some technical barriers to trade between the member states." That is a mild comment for a complex maze of barriers.

And the *Wall Street Journal* reports how the EEC reacts as a whole: "We're taking about all the Japanese imports we can, says an official of the European Communities Commission in Brussels." But the report goes on to report that "France and Italy" two of the Common Market countries "have imposed quotas on some Japanese goods."

Still another publication, *Common Market Reports, Euromarket News,* of April 25, 1973, adds that three other Common Market countries, the Benelux countries—Belgium, the Netherlands and Luxemburg—have ordered controls on imports of Japanese products in the field of home electronics. "In announcing the joint Benelux move, the Dutch economics ministry in the Hague confirmed that protection of domestic industry was the purpose." Now, the story continues, the governments are talking with the Japanese government. Meanwhile, they have acted, quite naturally in their own interest. There is no screaming of retaliation or trade war.

The way they have acted is to stop the "indiscriminate issue of import licenses." The U.S. has tariffs and quotas—but licensing of imports, a common practice in many countries of the world—is not even an issue in the United States, because it is not generally known to the public.

Nor did the public know that Chrysler-Mitsubishi was producing the Dodge Colt in Japan in 1970 for the U.S. market. Yet most U.S. cars still cannot easily surmount the maze of barriers into Japan. Japanese and U.S. brand cars can move into the U.S. The list could go on indefinitely but in 1973, the issue is still not solved. U.S. company after company met barriers to trade with Japan by finding a Japanese partner, a Japanese licensee or some other Japanese source to produce in Japan—behind the trade barriers. Meanwhile it claimed publicly that U.S. labor costs were too high, forcing the transfer of U.S. production and jobs abroad. The route to Japan is often virtually closed even in 1973. Quotas still exist for many products, including integrated circuits and leather. But the route to the U.S. is still open. Where are the cries in the U.S. for retaliation?

In Europe, a business magazine *Vision* reported in April 1971 that "The major reason for manufacturing in Europe is that European governments prefer to place orders with a local U.S. subsidiary rather than going in for straight imports." Country after country has non-tariff barriers to trade within the Common Market. Yet, U.S. companies which adjusted to the preferences forced upon them by European governments screamed "trade war" in full page newspaper ads when Congress tried to act in the U.S. interest in a 1970 trade bill.

Recent reports show that the situation has grown worse in many areas. In the so-called non-industrial countries like Spain, Brazil and Mexico, the law requires production in those countries for local sales and requires exports from those countries by foreign investors who produce there. In December 1972, the *New York Times* reported that auto manufacturers were required to have "only 50% of their production with Spanish-made components provided that the original investment is more than $158 million of fixed assets and two-thirds of the production is exported." In April, the *Journal of Commerce* reports that Ford, Chrysler and possibly GM will make cars in Spain for the European market. Why isn't someone in the U.S. crying for retaliation?

The Mexican government announced in October 1972 that foreign investors would still be required to fit their investments into the Mexican government's national policy. For example, President Echeverria on October 23, 1972, issued an announcement on automobiles making it the "obligation of automobile manufacturers to employ a minimum 60% of Mexican-made components in car production."

The Brazilian government recently decreed that foreigners who wish to invest must bring into Brazil their fully-operating plants that have been producing efficiently in a developed country before the Brazilian government will permit investment. Then the production must be exported from Brazil except for the

amount the Brazilian government allows to be sold in the Brazilian market under quota.

Trade rules are only part of the story of America's changing economic circumstances as foreign countries regulate investment in their countries. Foreign nations are sovereign states. They have the right to pass new laws. U.S.-based firms must meet those regulations abroad and so must foreign firms. They create production incentives in those countries and thus affect the U.S. economy and trade.

When Mexico announced a 17-point program for foreign investors, the *New York Times* headlined its story on November 24, 1972, "U.S. Investors Accept Mexico's Policy." The story began, "The Mexican Government is making it clear that it will want greater Government participation with foreigners who want to invest here. But after a month of major policy statements to that effect, key American business spokesmen say they still believe Mexico remains an attractive investment possibility." There were no full-page ads in U.S. newspapers about the problem, certainly no ads suggesting "retaliation" against Mexico.

Likewise, when Canada decided to screen foreign investments last year, no outcry greeted the move.

Australia recently announced new curbs on foreign investors. *Business Week* headlined its story, "Australia: the picnic is over for foreign business. Australia, with $12 billion foreign investment, one-third from the U.S. has decided to make sure it owns its own future." *Business Week* reported that "U.S. multinational companies with interests in Australia profess to be unworried—although they are watching the new government carefully. The concern over local participation is reasonable and we welcome it," says a spokesman for American Metal Clima, Inc. AMAX has a 25% share of the vast Mt. Newman iron ore fields in Western Australia, where development is expected to cost $600 million.

Every study by and for multinational firms cities foreign trade barriers as the reason for investing abroad. What they do not show is the fact that *Electronic News* on Monday, March 12, 1973, pointed out:

"Multinational companies—supposedly avid free traders—often become protectionists overseas where they have plants flourishing behind foreign trade barriers. State Department negotiators and industry sources claim many U.S. firms with overseas operations do not welcome increased trade in foreign markets where they may enjoy some edge today . . .

"Purely domestic American firms—those screaming loudest for greater protection—often are the first to grab a quick buck by selling their technology to foreign competitors. For a cheap investment, overseas firms frequently leapfrog years of costly research and development to come back shortly to this country with price-undercutting imports . . .

"Unfortunately, some leading State Department officials say, multinational officials overseas tend to take on the trade prejudices of the countries in which they are located. This becomes especially true with the growing trend of multinationals to hire foreign citizens to head plants in their countries."

Look at the behavior of the U.S. companies that signed the full page advertisements in 1970 which raised the threat of a trade war if new trade legislation was passed. Many of the companies which signed the ad were even then operating behind complex trade barriers erected by other nations. In Japan, for example. Caterpillar Mitsubishi was producing in 1970 behind a multiplicity of administrative controls on imports . . . and a licensing system covering all imports. It produced in Japan for the Japanese market. Now Caterpillar plans to send a small tractor, made by Caterpillar Mitsubishi to the U.S. It is to their corporate advantage to keep Japanese barriers high and ours low.

IBM—a signator to the ad—was one of the few firms with 100% ownership in its Japanese subsidiary in 1970. Computer exports from the U.S. met barriers to trade requiring import certificates for quotas from MITI, according to *Forbes* magazine in May of 1971. IBM was comfortably behind Japan's barriers.

American Smelting told an Australian Senate select committee last year that Australian participation in its holding company had grown from 5% to 39% in the past 20 years. "And the company has no U.S. directors," a spokesman adds. (*Business Week*, January 20, 1973.)

Time magazine reported on November 13, 1972, "Country after country is imposing or contemplating restrictions on American investment that it was once pleased to get."

Every country in the world, it seems, has a right to have a sovereign government, to change its regulations on investment or imports from abroad or to abroad, but suggestion that the U.S. change its rules is greeted by howls of dismay by the U.S. multinationals. Multinationals have not emphasized these

problems for the U.S. because they oppose new U.S. legislation. But for the U.S. not to act, in the face of this sweeping change, is to make the American economy a helpless giant, pummeled by adverse changes.

Companies abroad have to conform to local rules, of course. Among the more enjoyable rules are investment incentives through taxes. Some nations have tax free holidays to attract investors, others have special programs for areas with high unemployment.

The U.S. has various investment incentives, too, just as it has regulations. But every proposed restrictive change in U.S. law is proposed by the same companies that have been able to adopt to the massive changes now occurring around the world. Each company has a different problem—and each company represents its individual view to the Congress. But the U.S. economy at home is not treated as an entity in their statements, except as an extension of their multinational corporate interest.

The American workingman believes—as do the people of other nations—that we have the right to our own future.

Even the basic statistical argument used for years to "prove" that retaliation would cost U.S. jobs has changed completely. The sloganeers used to explain that if foreign countries put up barriers to U.S. exports, the U.S. would lose jobs and retaliation would start a trade war. Inasmuch as the U.S. had more jobs related to exports than to imports, this was a serious threat, they claimed. They did not explain that U.S. companies would merely surmount the barriers abroad and join the foreigners to ship goods into the U.S.' third markets from abroad or back to the U.S. market as they chose.

Now that the U.S. has a deficit in trade and a deficit in our balance of payments, the time has come to stop the scare talk about retaliation and ask our friendly trading partners to remember that trade is a two way street.

When Japan had serious trade and payments problems, when Britain was in trouble, when France had problems, when the Germans and Italians tried to recover from their war-devastated economic blight, we worked to ease their trade plight. We are not saying that the past policy was wrong. But we are saying that practices must change and meanwhile, the United States needs the same kind of patient understanding that the U.S. gave to other countries in the past quarter century.

International forums for talks exist. International mechanisms still need to be worked out. But the United States needs to have a framework for mutual negotiations. That famework is the concept of the Burke-Hartke bill.

Appendix 8

ANSWERING THE ARGUMENT THAT IF THE U.S. ACTS IN ITS OWN BEHALF, IMPORTS WILL BE REDUCED AND TRADE DIMINISHED

The argument is made that if the U.S. acts to limit imports, both imports and U.S. exports will suffer, thus causing a shrinking of world trade. If this argument were valid, Japan would be a poor, bankrupt nation, instead of a world leader. Japan, as with most nations, already strongly limits access to its markets.

Americans are naive if they believe that other nations do not move to protect themselves when they feel threatened in world trade. Throughout the world it is government policy act at once without the rhetoric of "free trade" or the straw man of "retaliation" where problems arise.

Regardless of what comes out of trade legislation this year—every nation in the world will continue to act in its own self-interest. They intend to keep their industries, their productive capabilities and will continue to expand them. They will not shut them down nor will they give them to us. They will not negotiate away any favorable trade stance, nor will they open their markets to a torrent of goods from this or any other nation that would threaten to overwhelm their productive capacity.

In the world of today, tariffs are only the tip of the trade iceberg. It is the above-water area of gentlemanly negotiations where long standing trade exchanges are "fine tuned." But when a nation is threatened it will move immediately to other, more protective, means of guaranteeing their international positions.

Regardless of what self-interests in the U.S. and elsewhere say, nations are increasing, not lessening, the barriers to their markets and seeking to maximize exports wherever they can penetrate markets.

Tariffs, non-tariff barriers licensing restrictions, quotas, protective government purchasing policies and other restraints are increasing daily throughout the

world. For example, recent reports show that the situation has grown worse in many areas. In the so-called non-industrial countries, like Spain, Brazil and Mexico, the law requires production in those countries for local sales and requires exports from those countries by foreign investors who produce there. In December, 1972, the *New York Times* reported that auto manufacturers were required to have "only 50% of their production with Spanish made components provided that the original investment is more than $158 million of fixed assets and two-thirds of the production is exported."

The Mexican government announced in October 1972 that foreign investors would still be required to fit their investments into the Mexican government's national policy. For example, President Echeverria on October 23, 1972 issued an announcement on automobiles making it the "obligation of automobile manufacturers to employ a minimum 60% of Mexican-made components in car production."

The Brazilian government recently decreed that foreigners who wish to invest must bring into Brazil their fully-operating plants that have been producing efficiently in a developed country before the Brazilian government will permit investment. Then the production must be exported from Brazil except for the amount the Brazilian government allows to be sold in the Brazilian market under quota.

The list could be longer, but much of the information needed is available only to companies and governments—not to labor unions. But the facts are clear. U.S. firms, producing in other countries, for reasons that seem pressing in their own interest, expand in those countries behind foreign trade barriers and follow those countries' rules requiring exports to the U.S. Thus they operate as both a sword and a shield against expansion of U.S. trade.

These walls to genuine trade will not bend to "negotiations" or the so-called authority in the Administration's Trade bill.

The U.S. can expand its exports in non-agricultural products only if it has a manufacturing capacity with which to produce the goods. If the U.S. market is inundated and smothered, it is unlikely to produce the goods necessary for export. For example, how is the U.S. going to export typewriters, bicycles, black and white TV sets, home radios or cameras? We are virtually out of business of producing these products other products will soon follow. At the moment, the U.S. policy is to allow this nation to give up every producing industry and every service industry. So what will we produce for export? We are ready to give up computer hardware and computer software; we are prepared to give up aircraft manufacture and aircraft operations; we are prepared to give up electronics manufacturing; we are prepared to give up service printing; we are prepared to give up all but those few industries where we have made voluntary trade agreements or where we have statutory quotas—a slender list of goods and products. This course can only cause fewer exports—and fewer imports.

In the long run, if the U.S. market prospers, we can absorb billions of dollars in imports; if it falters, we will import very little. If we are able to establish and maintain a healthy ratio of imports and exports in all our traditional areas of goods and products, then we will be an ever-growing world trading entity and market when the United States is smothered by imports and its exports are excluded by tens of thousands of trade exclusions, there must be a shrinking of our purchases and sales. America—and our trading partners, the emerging nations, all depend upon a healthy U.S. economy for their survival. A shriveled U.S. would be a disaster to the whole world. The "sliding door" concept of the Burke-Hartke bill, which gears imports to the ability of U.S. industry to produce and for the U.S. to prosper is the best solution for insuring that we will maintain a high standard of living, a strong market for imports and a strong position as a world exporter.

APPENDIX 9

ANSWERING THE CLAIM THAT PROVIDING THE PRESIDENT WITH OPTIONS WILL MEET THE U.S. TRADE PROBLEMS

Existing legislation contains many provisions, seldom used, to enable the United States to keep imports from destroying domestic industry. Legislation exists to take action against increasing prices and to strengthen bargaining power with other nations. This legislation has seldom been used although the President has the authority to use it. Now the Administration claims that the President needs new authority for "bargaining" weapons to bring foreign tariff and non-tariff barriers down. With this background, why would anyone assume that he would use these weapons?

Section 252(a) of the Trade Expansion Act of 1962 allows the President to "retaliate" whenever any foreign country maintains restrictions against U.S. agricultural products. He can put barriers on manufactured imports as well as farm products. This has not been put into force in response to the many barriers which have been mounting abroad. The Administration claims that section 252 applies only to agriculture and asks new authority in the bill. Thus they concede that the U.S. now can act under 252(a) on farm barriers abroad. But the U.S. has not acted except on rare occasions, such as chickens and more recently some kinds of citrus. So we have the U.S. claiming (a) that it has no authority to act except on agricultural policy and (b) foreign agricultural barriers are its major problem in expanding more farm exports.

252(b) and (c) give the President authority to withdraw tariff reductions whenever he believes foreign trade barriers unjustifiably affect U.S. exports. Thus, in addition to agricultural products, the law applies to manufactured products and to so-called "third country" competition (that is, where a country makes an arrangement for special preferential trade with another country and cuts out U.S. exports to the third country.)

The President's bill would widen all of this authority. But the President has not even used the authority he has. Why give him more authority not to act?

The Trade Expansion Act of 1962 contains an "escape clause," which, in effect, says that whenever imports are increasing in major part as a result of a tariff concession at such a rate as to be the major cause of import injury, the President may put on tariffs, negotiate orderly marketing agreements and take other steps. How has this been used? The U.S. shoe industry has been asking for help for over a decade. The U.S. shoe industry went to the Tariff Commission. The Commission finding in January, 1971 by a 2–2 vote was a tie on the question of whether the shoe industry had been injured under law. The President therefore has the tie-breaking authority—absolute right—to redress the injury by using the authority of the escape clause to aid the workers and businessmen in the U.S. shoe industry. No action has been taken in more than two years. Now the President is saying he needs authority to act when U.S. industry is injured. Can anyone question that the shoe industry has been injured? Shoe imports now account for one out of every two pairs sold here. Joblessness has mounted in the past decade. Towns in New England and elsewhere have been adversely affected. But no action has been taken by the Administration. Why give more authority?

The Tariff Act of 1930, Section 303 requires (mandatory) the U.S. to apply a countervailing duty (tariff) whenever a foreign country subsidizes exports to the U.S. with a "bounty or grant." This is automatic and mandatory in the law. It has not been invoked, except on rare occasions. Now the President is asking for new discretionary authority. (This provision would automatically give the importer and the foreign producer the right to be heard, but not the injured U.S. producer or any worker group.)

Both the Export Administration Act and the DISC legislation (a special tax break for exports) give the President the authority to take action to restrain exports of products in short supply. In fact, as lumber exports zoomed until the price zoomed, as demand pressed on already short domestic supply, the President took no action either to restrain the export of logs or to remove the DISC provision which gives a special tax break to log exports who have DISCs. (Public Law 92–178 Sec. 993(a)(3)). Here consumers have had to pay the price for the President's failure to use the discretionary legislation already on the books.

These are just a few examples. The Administration should be asked to supply a list of the many existing statutes which enable the Administartion to take action in the interest of the American producer and consumer by assuring a large enough domestic supply of all kinds of goods. Further, the Administration should explain why, since it has not used this authority, it now need new authority.

Credibility is important in the United States today. No businessman, industry worker or housewife will believe that the purpose of new legislation is to help people in the United States unless it is proved that existing authority under prior laws is used to protect America.

Appendix 10

The world has changed, why the Administration's trade bill won't work why the Burke-Hartke bill meets today's problems

Since 1934, the trade union movement—the AFL and the CIO before merger and the AFL–CIO since—has provided consistent support to United States reciprocal trade policies and the expansion of world trade, based on our goal of

increasing employment and improving living standards both at home and abroad.

For more than two decades, as world trade expanded greatly, the majority of Americans and, for that matter, the majority of the people of the world benefitted.

But during the 1950s, changes in world economic conditions began to appear, and the concerns rose that while trade expanded some Americans were being hurt and their industries affected. On March 19, 1962, George Meany said in support of the Trade Expansion Act of 1962, "Let me say again that we regard these two features of the bill—trade liberalization and the safeguards against injury, especially adjustment assistance—as inseparable. We would not support additional safeguards without trade liberalization, and we would not support trade liberalization without the additional safeguards." In the 1960s, the world trade changes accelerated. The benefits to Americans of expanded world trade decreased and the problems grew, industry by industry.

The world economic scene of the 1970s is altogether different from 1934 or even from 1960. Changes in world economic conditions require changes in United States trade, investment and related policies. The hard facts of life require that the government's foreign economic policies be modernized with speed, in the light of what has been happening.

This isn't a new idea for us. Since 1965, the AFL-CIO has been seeking a shift in government trade policy. To date, our urgings have not been met and the situation has grown worse.

The AFL-CIO has been seeking action on the outrush of U.S. capital and technology by calling for supervision of capital outflows and recognition of the changes in the balance of payments problems, as well as their impact on the economy at home.

In 1967, the AFL-CIO called for action on trade and investment policies, criticized the agreement to repeal the American selling price, and urged the repeal of tariff provisions that subsidized the export of jobs, often to the lowest wage countries. In 1967, the AFL-CIO also asked for specific policies to prevent avoidance or evasion of U.S. taxes on profits from taxes on foreign investment.

In 1968, the AFL-CIO appeared before this Committee, welcomed studies on changing world economic problems affecting trade, but urged action against market disruptions, unfair imports. We called attention to the impact of multinational firms on international trade.

In 1969, the AFL-CIO opposed efforts to remove supervision of U.S. exports of capital, and urged stronger supervision and regulation of U.S. investment abroad.

In 1970, the AFL-CIO appeared before this Committee, the Joint Economic Committee, the Senate Finance Committee and others to urge new attention to new problems in the changing international economic environment of the United States.

In 1971, the AFL-CIO presented a comprehensive statement on international trade before the Subcommittee on International Trade of the Senate Finance Committee concerning the need for international trade and investment policies which would end hardship to America's workforce, saying that "almost no segment of America's workforce has escaped some adverse effect." The emphasis on the transfer of technology and on multinational firms, as well as a changed trading world was clear.

In 1971, the AFL-CIO appeared before the House Committee on Science and Astronautics Subcommittee on Science, Research and Development on the Export of Technology, Production and Jobs.

In 1972, the AFL-CIO appeared before many House and Senate Committees to call attention to the mounting urgency of these problems and the failure to respond to them.

There can be no doubt about the deterioration of the United States position in world trade and payments in recent years. America's share of greatly expanding world markets has been declining—particularly in the export of manufactured goods. During most of the 1960s, imports into the United States increased much faster than exports. As a result, the surplus of American exports over imports dropped sharply. In 1971 the trade surplus disappeared. In that year imports were $2 billion highter than exports—the first trade deficit since 1969—despite the fact that the reported volume of merchandise exports includes shipments financed under such government programs as AID and Food for Peace. In 1972, the trade deficit soared to $6.4 billion,. Prospects for the future show that America's mounting raw material and energy needs will make the ability to reduce the trade deficit increasingly difficult.

Imports have had an increasing impact on almost all U.S. industries, with growing adverse effects on an increasing variety of industries, product-lines and parts of product-lines. This deterioration is undermining the industrial base of the United States economy. At stake is the American living standard, the nation's productivity advance and American job opportunities.

The adverse impact of the deteriorating U.S. economic position is particularly harsh on workers and their communities, though all Americans are affected. Shutdowns of plants or departments usually result in the loss to workers of their jobs, as well as seniority and seniority-related benefits. Workers and their families cannot easily move from one town to another and, when they do, they incur the expenses of moving as well as the loss of friends, school, church and social relationships developed over many years. Affected communities, particularly small towns, can experience a shrinking tax base, losses for merchants and professionals and the waste of public facilities.

Unfortunately, this is not a temporary situation. It is not going to go away, just by wishing so. The causes of this situation are deeply embedded in the world economic scene. Even comprehensive actions cannot reverse the trend quickly.

For example, since World War II, most countries moved to manage their economies. As part of such national economic management, governments have direct and indirect export subsidies and import barriers, technology and capital regulations, and domestic policies of many kinds that affect flows of trade and technology.

Obviously, countries have every right to protect and advance their interests as they see them. But subsidies for exports and barriers to imports are not free trade.

Moreover, such policies are one of the reasons for the flood of imports into the United States—the most open market to imports of all major industrial countries and a big, rich market at that. At the same time, the expansion of United States exports is held down by direct and indirect barriers imposed by other governments.

Under these kinds of conditions, it is not rational for the United States government to talk and act as if we lived in a world of free, competitive trade relations among nations. It is not even rational to pretend that trade alone is the problem.

That just isn't the way it is and is time the government stopped pretending and took a good, hard look at things as they are.

We don't think it is asking too much to suggest that the Government of the United States should consider the primary interest of its own citizens. After all, that's what the other trading nations do.

There are additional factors affecting the United States position in world trade. One is the skyrocketing investments of United States companies in foreign operations since the late 1950s.

Investments in U.S. firms' foreign subsidiaries, plants and other facilities soared from $3.8 billion in 1960 to $15.4 billion in 1972, and to an estimated $16.3 billion this year—partly from U.S. money sent abroad, partly by plowed back profits and other earnings overseas and partly from capital raised abroad. The book value of such investments rose from almost $32 billion in 1960 to well over $80 billion in 1972.

These developments have caused an export of American jobs as well as technology. This means a rapidly accelerating change in the position of the United States in import trends, export trends and the shape and structure of the U.S. economic base at home.

U.S. industries which expanded abroad rapidly in the 1960s and other industries in the United States, once known for their leading export strength—steel, automobiles and chemicals—now have become net importers. And services accompany the outflow of investment—management, sales, insurance, advertising.

These investments—combined with licensing arrangements and patent agreements—have transferred American technology to plants throughout the world. Many such plants, operating with American machinery and know-how, pay workers as little as 15 cents an hour.

Such operations obviously displace U.S.-produced goods in both American and world markets.

They export American technology—much of it developed with the expenditure of government funds, the taxes of American citizens.

They export American jobs. All kinds of American jobs are affected.

Moreover, when such goods are sold in this country, they are sold at American prices. So the American worker loses his work and the American consumer pays the same price. Only the companies benefit and all because of a government policy that favors the fast buck for the companies.

Connected with the rise of foreign investments of United States companies has been the mushrooming development, in the 1960s, of multinational corporations and international banks—many of them United States-based. These multinational companies operate plants, sales agencies and other facilities around the world. They can juggle the production of parts and finished products, prices, profits and dividends from one subsidiary to another. They juggle them across national boundary lines for the private advantage of the companies, with no other interest than profits.

By 1973, a large and growing share of United States exports and imports are merely transactions among the subsidiaries of United States-based multinational companies.

The Tariff Commission has found that "An immense amount of world trade is generated, outside the United States" by the multinational firms. "As an indicator of how important these flows are, available data show that the majority-owned affiliates' exports to countries other than the United States were an estimated $33 billion (in 1970), compared with exports to the United States of $10 billion and local sales of $118 billion."

Thus multinational firms have been exporting from their foreign subsidiaries—including their exports back to the United States—more than the United States has been exporting to the world. Clearly efforts to expand exports from the United States will meet increasing competition not only from foreign firms, but also from U.S. firms abroad. This new network of world sales and money transfers by a new type of world business enterprise is not competitive trade in the sense that most Americans think about competition.

In the 1960s and 1970s, the growth of these firms and international banks which also move funds easily from one country to another beyond the easy reach of the policy of any government, including our own, has changed much of the meaning and effect of U.S. trade policies. The effects now are being felt by a growing number of workers in numerous industries—skilled and unskilled, professional and non-professional, service and manufacturing. The effects are felt by every housewife who buys products in retail stores and in the food chains. The effects are felt by every businessman who tries to produce and sell goods in this and other markets. This growth of a new institution marks a major change in the world of the 1970s.

But the same theories, the same advice, the same expectations of 1962 are contained in the Trade Reform Act of 1973, with some modifications, of course, but the policy is more of the same—as if nothing had really changed.

Thus the Trade Reform Act of 1973 stands in isolation from realities. It ignores the fact that America is a nation which needs to help its own people find business, jobs and well-being. The Trade Reform Act of 1973 is a bill for a theoretical world economy, not a law for the U.S. government to use for its already distorted economy as it seeks to negotiate with other nations or with regional blocs of nations.

The Trade Reform Act does not recognize that free trade vs. protectionism have little meaning in the modern world. It would have the U.S. flounder by raising or lowering barriers to trade without regard for the realities of a necessary policy to promote this nation at home so that it can deal fairly with foreign nations abroad.

The Trade Reform Act does not recognize that tax policies, investment policies, technology policies and capital controls are the day-to-day considerations of other governments who act not only on trade, but on all these other questions.

The Trade Reform Act does not recognize that market disruption is not a future prospect but a past fact for huge parts of America's automobile, electronic, garment, shoe, aerospace industries, and other new and old service and manufacturing industries because the new world of technology transfers does not lend itself to yesterday's trade policies.

The Trade Reform Act does not recognize that America's taxpayers, consumers and workers need a chance to have a healthy economy whose laws represent their interest for a change. Instead, the bill could wipe out consumer, tax and other legislation whenever the so-called experts the President hires so determine. The Trade Reform Act ignores the tax subsidies that encourage losses to the U.S. economy of all types of industry.

The Trade Reform Act does not recognize that multinational firms exist here or abroad. It talks of foreign exporters and American importers as if they were different groups with different interests and not parts of huge multinational firms.

The Trade Reform Act does not concern itself with the job losses—and lost job opportunities of millions of Americans whose future is being exported to other countries. Instead it would continue the export of jobs through the many loopholes in the Tariff Schedules, tax and other U.S. laws.

The Trade Reform Act does not promote job opportunities in the U.S. or make the goal of a healthy U.S. economy at home a primary concern. The hypocrisy of widely expressed concern for American workers is pointed up in removal of the provisions for the few benefits now available to a few American workers under past law.

Thus the Trade Reform Act of 1973 does not recognize in its provisions that the world has changed. Multinational firms, transfers of technology, tax subsidies to export American jobs and production, new and old capital, technology and trade barriers of foreign nations and blocs—none of these realities is meshed into the framework of the Trade Reform Act of 1973. The needs of America's 83 million employed are not even considered and America's millions of unemployed are ignored.

The Trade Reform Act of 1973 is a legalistic compounding of past confusions that now exist in conflicting U.S. agencies within the federal government. The Trade Reform Act of 1973 virtually ignores the Congressional right and duty to establish the laws of the United States for today and tomorrow. The Trade Reform Act of 1973 looks backward, makes changes in what some experts might have wanted yesterday or what they might want tomorrow, but it does not answer the need for a new policy for the United States in a changing world.

The Foreign Trade and Investment Act, H.R. 62, introduced by Congressman James Burke and co-sponsored by 58 members of the House of Representatives, provides the framework for a reasonable and clear alternative. This bill has been attacked by those who do not recognize that its provisions are in fact directed to the changes in the United States in a changing world. H.R. 62 makes comprehensive changes in a bill for the U.S. Congress.

BURKE-HARTKE—AN ANALYSIS

Burke-Hartke would restore U.S. competitive position in world trade.

Closing tax loopholes would curb economic exploitation by multinationals.

Domestic jobs would benefit under balanced trade rules.

Realistic restraints on rapidly-rising imports would boost U.S. production.

We need a constructive foreign trade policy to restore an equitable balance between the United States and the rest of the world.

The Burke-Hartke Bill (H.R. 62, S. 151) would help to restore that balance by dealing with the problems that have placed the United States in a precarious economic position domestically and internationally.

Burke-Hartke would encourage the further expansion of trade by establishing a mutually fair system through which the United States and other nations can conduct an orderly exchange of goods and services.

At the same time, the new trade legislation would lead to a termination of those practices that are causing heavy unemployment, loss of work opportunities, a deficit in our trade balance and a substantial decline from our position as a leading technological and manufacturing nation.

WHAT BURKE-HARTKE AIMS TO DO

1. Burke-Hartke would check the economic exploitation practiced by multinational corporations in their search for high and easy profits—at the expense of the United States and its workers. It would do this by closing tax loopholes that offer multi-national corporations tax advantages for producing goods in foreign countries.

2. Burke-Hartke would place realistic restraints through quotas on the rapidly rising imports of products of foreign nations, which in some cases have virtually taken over U.S. markets. The quotas would not be applied in case of government-to-government agreements or where a U.S. manufacturer does not modernize to meet foreign competition.

3. Burke-Hartke would ban the dumping of products on the U.S. market by foreign nations at prices less than those products are sold for at home, in order to undercut the market of our own products.

4. Burke-Hartke would close the loopholes that permit U.S. firms to set up plants in low-wage countries to assemble U.S.-made components into finished products to be shipped back to the U.S. at reduced duties.

5. Burke-Hartke would provide for regulation of foreign investments by U.S. corporations and give our government control over licensing of newly-developed products ot foreign firms, where these practices could be damaging to the United States.

6. Burke-Hartke would revise the federal rules involving "finding of injury" to both workers and firms in industries in which foreign imports have cut employment and dried up markets to assure that their cases are treated fairly and promptly.

7. Burke-Hartke would coordinate the nation's trade policies through a new five-member tripartite commission (public, employees, workers)—policies that are now diffused and disorganized among a number of federal agencies charged with trade responsibilities so that few benefits are realized.

Taken together, these provisions of the Burke-Hartke Bill furnish the vehicle for overhauling our trade policy—a policy which in recent years has been increasingly destrucitve of American jobs and economic interests; a policy which, if left to drift, means for this nation a loss of control over its own economic destiny.

SECTION-BY-SECTION ANALYSIS

The following section-by-section analysis of the Foreign Trade and Investment Act of 1973 provides brief descriptions of the problem areas and how they would be treated in this trade legislation.

Title I—Taxes

Title I of Burke-Hartke would strengthen existing tax regulations dealing with U.S. croporations and their role in international trade.

1. Problem.—Taxes on overseas profits.—The profits of foreign subsidiaries of U.S. corporations are taxed only when profits are returned to the U.S. and go into the coffers of the parent corporations. To avoid such taxes, these corporations continually expand their operations abroad to use their profits for expansion of foreign plants—this at the expense of the domestic economy.

Solution.—Profits of foreign subsidiaries of U.S. corporations would be taxed in the same manner as domestic companies, which means they would be taxed as soon as profits are earned.

2. Problem.—Tax credits.—A domestic U.S. corporation pays a federal tax of 48 percent on profits, which is calculated after subtracting state and local taxes paid by the corporation. But for a corporation located abroad, federal tax policy permits it to subtract from its U.S. taxes the total amount of taxes it pays to a foreign country. Under this system, a U.S.-based corporation pays the full 48 percent federal tax in addition to state and local taxes. But the corporation with subsidiaries located abroad is required to pay *only up to a maximum* 48 percent, if the foreign nation's rate is that amount or less.

Solution.—The same tax rules would apply to U.S. corporations based in the United States and abroad—so that a corporation would gain no net advantage by operating in foreign countries. The present tax credit provision would be eliminated, so that foreign taxes on corporate profits would be deductible instead of credited dollar for dollar. Here's a sample of how it works at present:

	U.S. plant in Pennsylvania	U.S. plant in England
Profits	$1,000,000	$1,000,000
Local tax	[1] −120,000	[2] −450,000
Balance after local tax	880,000	550,000
U.S. corporation tax—48 percent	422,400	480,000
		[3] −450,000
Total		[4] 30,000
Total taxes	[5] 120,000	[6] 450,000
	+[7] 422,400	[7] 30,000
Total	542,400	480,000
Profit after taxes	457,600	520,000

[1] Pennsylvania rate, 12 percent.
[2] United Kingdom rate, 45 percent.
[3] Paid to England.
[4] Paid to United States.
[5] State.
[6] Foreign.
[7] Federal.

Note: Profits increased by operating plant in England instead of Pennsylvania, $62,400.

3. *Problem.—Depreciation benefits.*—U.S. corporations are encouraged to invest in foreign property and facilities because extra-generous depreciation allowances provide tax advantages for owning business property in foreign lands.

Solution.—Depreciation allowances would be tightened for foreign operations. The allowances would be computed on the basis of actual useful life of property to the corporations and on the basis of the straightline accounting method rather than an accelerated method.

4. *Problem.—Taxes on patent benefits.*—U.S. corporations are relieved of paying taxes on any income arising from the corporation's transfer of a patent or similar right to foreign corporations. This extra tax benefit encourages U.S. corporations to export their technology, and many companies (some 1,700 of them in 1968) receive patent royalties or licensing fees from foreign corporations.

Solution.—Repeal of tax-free treatment for U.S. firms' incomes from licensing and transferring patents to foreign corporations.

5. *Problem.—Tax breaks.*—Special tax privileges help to entice skilled U.S. manpower to work overseas, with the subsequent loss of their talents to this nation. Under present tax law, American administrative, technical and professional personnel are able to work for foreign operations of U.S. corporations without paying taxes on their earnings.

Solution.—Removal of the special tax exemption presently allowed on the earned income of personnel who spend at least 17 out of 18 months overseas working for a foreign branch, partnership or subsidiary of a U.S. corporation.

Title II—Trade Commission

Title II of the Burke-Hartke deals with the proposed United States Foreign Trade and Investment Commission.

6. *Problem.—Trade Commission.*—Responsibility for trade matters is spread out through the government, with the six-member U.S. Tariff Commission playing a major role—but with the Departments of State, Commerce, Agriculture, Treasury, Labor and the White House executive staff also having specific duties involving foreign trade. In addition, the Tariff Commission, with three members appointed from each political party, is frustrated by division and as a result little is accomplished.

Solution.—The ineffective Tariff Commission would be replaced by a new Foreign Trade and Investment Commission. This five-member agency alone would have authority to regulate all imports.

Title III—Import Quotas

Title III of Burke-Hartke deals with quantitative restraints on imports.

7. *Problem.—Rising imports.*—Between 1966 and 1971, some 900,000 job opportunities were lost to U.S. workers because of the rapidly rising amount of imported products sold in U.S. markets in competition with U.S.-produced goods. This influx of foreign goods hit many industries very hard.

Solution.—To stem the rapidly rising tide of imports and to prevent further severe damage to U.S. industries and their workers, a quota level on all imports would be established. The Bill provides that most products that come into the U.S. would be awarded an annual import quota based on the number of units that entered the U.S. during 1965–69 in relation to the number of units produced in the U.S. during the same years. Thus most foreign goods would be guaranteed an annual percentage of our production.

If the U.S. economy expands in the years ahead, more imports of products would automatically come in; if the economy shrinks, fewer imports would come in. In addition, goods that are not produced here (bananas, for example) would be excused from quotas. Also excused would be those goods already under quotas and those products under voluntary agreements.

The new Commission would be authorized to exempt articles from the quota when they are otherwise covered. This would also apply to products from competing domestic industry which has consistently failed to modernize its production facilities.

Title IV—Antidumping

Title IV of Burke-Hartke deals with the Anti-Dumping and Countervailing Duty Acts.

8. Problem—Antidumping.—One form of unfair competition to U.S. products in domestic markets can be seen when foreign producers illegally "dump" their products in the American market at prices less than the cost of production, distribution and marketing—i.e., their fair market value. A recent example of this is a finding by the Treasury Department that TV sets made in Japan were being dumped in the United States *at prices below what they were being sold for in Japan.*

The dumping problem is magnified by ineffective procedures under the Anti-Dumping Act of 1921. Long delays in findings, sometimes up to two years, frustrate relief from the practice. Also, the law is not being clearly interpreted to make certain that employment and working conditions are part of the test of injury to an industry.

Solution.—The new Commission would be authorized to make both the less-than-fair-value and injury determinations; and it would be required to make both findings within four months of a complaint. The proceedings would be subject to the Administrative Procedure Act, to assure procedural fairness and either party would be entitled to appeal for judicial review.

9. Problem—Export subsidies.—The Countervailing Duty Law allows the U.S. Treasury to impose a duty or tariff on imports which have been produced abroad under special subsidies, or bounties. So if country "X" has subsidized the production and export of a commodity, the Treasury should be able to balance things by imposing an additional "countervailing" tariff duty equal to the amount of the original subsidy provided by country "X." But the proceedings under the present law are complex and take for too much time. They do not permit adequate enforcement of the law at all.

Solution.—Complaints for countervailing duties would be filed with the new Commission instead of the Treasury Department. The Commission would be required to complete its findings *within four months.* The Commission proceedings would be subject to the Administrative Procedure Act and judicial review.

Title V—Relief for industries and workers

Title V of Burke-Hartke deals with ground rules under which relief would be applied in cases of damage due to imports through amendments to the Trade Expansion Act of 1962.

10. Problem—Worker injury.—Domestic industries and workers displaced by imports of competing foreign products are not effectively protected by the Trade Expansion Act of 1962 which was supposed to provide adjustment assistance through discretionary authority of the President—or through the application of tariffs or quotas. Under the Act's existing Escape Clause, a determination of injury must be related to a tariff concession and imports must be found to be a "major" or primary cause of injury. The procedure doesn't make it easy to show damage. Moreover, once the Tariff Commission makes a finding of injury, the President subsequently decides whether or not to impose a tariff or quota or to provide adjustment assistance.

Solution.—In making a determination of injury, it would no longer be required that imports complained of be the result of trade agreement concessions and would only require that increased imports "contribute substantially" to causing

or threatening to cause serious injury. The new Commission would receive complaints, conduct investigations and have the power itself to impose quotas (not tariffs). Loss of fringe benefits and stagnant wages would be considered as an element of "serious injury" to an industry, and the statute could be invoked if imports are only *relatively* increasing—i.e., increasing their share of a declining market. Adjustment assistance may be granted but only as a supplement to quotas. The President retains discretionary authority to grant adjustment assistance but he cannot substitute adjustment assistance for quotas. The Administrative Procedure Act and judicial review apply to the Commission's findings.

Title VI—Controls over exports of capital and technology

Title VI of Burke-Hartke deals with Foreign Investment and Technology Export Controls.

11. Problem—Exporting capital.—Without effective regulation, expenditures for plant and equipment by foreign subsidiaries of U.S. corporations have increased dramatically compared with capital spending increases in the United States. U.S. Commerce Department estimates show that such expenditures abroad rose 31.5% between 1969 and 1971, compared with the 7.4% increase in capital spending in the U.S. in the same period.

Our trade balance is directly affected by plant and equipment investments by foreign affiliates of U.S. corporations. As these big American corporations transfer U.S. technology and plant capacity to foreign shores, the goods produced are distributed not only in the host country where the factory is located, but around the world—including right here in the United States. With such distribution, these foreign-made goods are in competition both with U.S. exported goods in other markets and with domestic products here at home.

The book value of U.S. direct investment overseas increased more than six times between 1950 and 1970, from $12 billion to $78 billion.

The increase in U.S. imports and the much smaller rate of growth for exports due to this dramatic expansion has had a serious effect on employment opportunities of U.S. workers, cutting them by hundreds of thousands. This increase has gone virtually unchecked because of loose, inadequate controls that are not related to trade and production.

Solution.—The President would have the authority to regulate the outflow of funds to other countries for private investment by American citizens or corporations whenever he determines that employment in the U.S. would be decreased by such a capital transaction. Violations of the act or regulations issued under it would be punished by criminal penalties.

12. Problem—Exporting technology.—The U.S. competitive advantage that is attained by new technological developments is short-lived because technology developed in the U.S. is quickly exported. In 1968, some 800 companies reported income from royalties and license fees paid by independent foreign companies abroad. Another 900 corporations reported royalties and license fees from their own foreign branches or subsidiaries. As a consequence, U.S. efforts to maintain this country's technological superiority have been hampered by this kind of "in the corporate family" arrangements.

The problem is identified in a guest editorial in Chemical and Engineering News by Nathaniel Brenner, Director of Marketing for the Coates & Weller Corp. He notes, "When a multi-national corporation licenses a product abroad, it gives away the technology created by Americans educated at public expense, and the American jobs which produce that product, for the 5 or 10% profit represented by the license fee or return on invested capital. Result—the American worker loses a job; the U.S. loses an export product and becomes an importer of that product, but the coropration still nets 5 or 10%.

Solution.—The President would have the discretionary power to limit the export of technology. He could control the granting of licenses to produce a product abroad. Specifically, the President could prohibit any holder of a U.S. patent from producing the patented product abroad or from licensing someone else to produce it abroad. The penalty for violating the statute or regulations issued under it would be to make the patent unenforceable in the U.S. courts. This would permit other producers to make and sell the product in the U.S. without paying royalties.

Title VII—Reports on Impact of Trade on Jobs

Title VII of Burke-Hartke deals with other foreign trade provisions.

13. Problem.—Foreign Trade Data.—There are not adequate data on the impact on U.S. foreign trade of agencies such as the Export-Import Bank and AID

(Agency for International Development) programs, nor is there sufficient information on the wages and working conditions of workers employed overseas by the U.S. Government and U.S. corporations.

Solution.—The Export-Import Bank would be required to include information in its reports on the effect its operations are having on U.S. exports, imports and employment. AID reports would contain a statement about the extent to which projects financed by our funds are exporting goods to the U.S. Data on the conditions of employment of workers abroad by the U.S. Government and U.S. corporations would be collected by the Bureau of Labor Statistics.

14. Problem.—Product Labels.—American consumers do not have the information they need to make intelligent purchases of foreign-made products. These are not clearly labelled to show the country of origin for components or parts as well as the final product. Often an American consumer may purchase a product with a "made in U.S.A." label when many of the components—if not all—were in fact made overseas.

Solution.—Goods containing foreign-made components must be so labelled and advertising for goods containing foreign-made parts must state this fact and list the countries the components came from.

15. Problem.—Foreign Assembly.—The flight of U.S. companies to the low-wage area of Northern Mexico illustrates how multi-national corporations operate at the expense of the working people under present tariff loopholes. Wages on the Mexican side of the border range from 20 to 46 cents an hour. U.S.-owned plants are granted special Mexican tax breaks for locating there, and then receive a special tariff break from the U.S. Government. The U.S. Tariff Code, under Sections 807 and 806.30, grants tariff breaks when goods are partially processed in Mexico or other countries and then returned to the U.S.

Solution.—Section 807 and Section 806.30 of the Tariff Code would be repealed, ending this abuse whereby U.S. companies assemble products in foreign countries and ship them into the U.S. as "Made in U.S. paying only a minimum duty on the so-called "value added."

AN EFFECTIVE, PRACTICAL APPROACH

The provisions of Burke-Hartke, when added together, apply effective restraints on imports and on the outflows of U.S. technology and capital. The legislation represents a practical way to meet America's needs in a world of managed national economies and multi-national corporations.

APPENDIX 11

AEROSPACE: THE SELL-OFF OF AN INDUSTRY BY U.S. MULTINATIONAL CORPORATIONS

It is important that Americans understand the major phenomenon of the multinational firm and its impact on America's standard of living, on America's trade balance, its balance of payments and its industrial future.

Today, thousands of giant firms are supranational entities, each making decisions in its own interest with major consequences in shaping the America of the Seventies and the America of the future. These corporations make private decisions for private purposes, but they are as far-reaching as major decisions of a political state.

Multinational firms come in all shapes and sizes. They produce, sell, license and finance operations of magnitudes greater than entire budgets of sovereign nations. They jump national boundaries. They overwhelm international systems of trade and finance. They stagger currencies, they shake governments and they wipe out whole major industries.

In the U.S., multinational firms include America's largest employers, largest defense contractors, largest government contractors, largest manufacturers, largest financial institutions. Multinationals are America's major exporters and importers of products, technology, money and jobs.

Let us examine this phenomenon in more detail. Let's look at U.S. jobs, U.S. technology and U.S. industry in the Seventies, as they relate to the multinational firms. Virtually every U.S. industry is affected but we will confine our examination to one single industry—aerospace. Americans have been told that this particular industry is securely ours because it is strong in exports, high in technology and vital to America's national security.

But events in the aerospace industry explain how job and technology exports affect all skill levels—and why reports on trade statistics or foreign direct investment alone fail to cover the whole story of the new interchange in the world of the 1970s.

The aerospace industry, where U.S. has held technological supremacy, is steadily being exported abroad. At this moment, for example, an entire missile launching complex—rocket and all—which has the potential for intercontinental missile capability, is being exported to Japan.

The AFL–CIO has learned that the *Thor-Delta launch rocket and its entire missile launch system* is now in the process of being sold to the Japanese by the McDonnell-Douglas Corporation, a multinational firm. A prototype rocket is being built in nearby Santa Monica. It is expected that upon completion, the system will be set up on an island west of Japan. The Thor-Delta rocket and launch system is considered by space experts to be America's most effective and reliable launching unit. The system is presently used to launch satellites, the most recent being the Earth Resources Technology System.

The Thor-Delta system is capable of carrying several hundred pound objects into space orbit or, with little modification, can carry a nuclear warhead in the 1,500-to-5,000 mile range, clearly a potentially offensive weapon.

The export of the Thor-Delta system to the Japanese means that the capability of satellite and intercontinental missile launching system will no longer be the exclusive property of the U.S. and the Russians.

For several years the Japanese attempted to develop a system of their own and after its failure made a contract with the multinational McDonnell-Douglas Corporation to buy plans and production capability for a modified Thor-Delta rocket system. The basic system was developed at taxpayer expense and cost millions of dollars in research and development funds before it became operational. It has been used to launch satellites for Canada, France and a multination weather watcher for seven North European nations. Such launching work has provided the U.S. with millions of dollars in funds, helping to offset the U.S. balance of payments deficit.

This one-time sale, which, of course, benefits the U.S. balance of payments this one time, will adversely affect U.S. balance of payments for years to come.

Workers involved at the Vandenberg base are understandably upset over the transfer because of its many implications for U.S. defense and aerospace capability. They fear that the system is being sold for the exclusive profit of McDonnell-Douglas while the nation loses a basic resource. They point out that the education of highly trained Americans, millions of dollars in U.S. funds and expensive trial and error testing brought about a basic technological system which is now being sold out at a fraction of its worth.

In addition, they fear that putting another nation into direct competition in the satellite launching business will mean an end to development of further U.S. technology in this area. The sale of America's most sophisticated technology, they feel, will cause highly trained jobless personnel to disperse and be difficult to assemble again, even if further development is considered. In addition to those who work at the launch facility, additional hundreds of workers have been employed in the manufacture of the Delta rocket in California aerospace factories. Involved in the project at the present time are an estimated 1,200 to 2,000 skilled aerospace workers.

Initiative for the Japan-McDonnell-Douglas deal was developed at a 1971 meeting in Tokyo between U.S. cabinet officers and their Japanese counterparts. That meeting in effect ratified the negotiations that had been under way for the missile system sale.

Estimates at that time were that the bilateral understanding could mean up to $100 million in profits to U.S. concerns over four to five years. Of added incentive to the U.S. companies was the agreement by Japan at that time to move ahead on permitting foreign investment by U.S. multinational firms in its automotive industry. Both moves would profit stockholders of the corporations involved at the expense of U.S. aerospace and automobile workers.

The 1973 Tariff Commission report on multinational firms disclosed that such firms (which would include McDonnell-Douglas, even though the Commission did not include aerospace) "dominate the development of new domestic technology. They are also the principal institutions through which technology in its various forms is exported and imported."

Throughout the aerospace industry there are many other illustrations of the export of technology, in what has been this nation's industry with the largest export of manufactured goods. The long range implications for U.S. jobs, U.S. technology leadership, U.S. defense, and balance of payments should be ominously clear. There are many other illustrations. For example:

Since 1971, hardware for the *Safeguard anti-missile system* has been assembled in Hong Kong. Under a subcontract for Western Electric, Lockheed Electronics Corporation of Commerce, California, is assembling components of the missile

system's memory core racks in a Hong Kong factory. The Lockheed plant—only a few miles from Red China—employes 700 workers at $2 per day. The export of work cut several hundred workers from the company's Commerce facility at a time when there was heavy unemployment in the California aerospace industry.

In military aircraft, too, American industrial leadership is being rapidly sold off and exported abroad. McDonnell-Douglas has licensed Mitsubishi of Japan to build 91 *F–4 fighter* planes, the famous Phantom fighter. After building two prototypes in St. Louis, the company made a contract with the Japanese to furnish the blueprints, the technology and, where necessary, technicians to build the other 91 F–4 in Japan. The result is a heavy loss of employment among highly trained U.S. aircraft technicians, the loss of paychecks to St. Louis, the loss of an export industry and the transfer of a total military production facility to another nation. The potential for balance of trade was considerable.

Also in military aircraft, the Northrop Corporation is reported in the press as about to license the production of the American *F–5E fighter* plane in Taiwan. Currently all nationalist Chinese military aircraft are bought in the United States. One U.S. official, commenting on the deal, regarded it solely in military terms. "Whether we manufacture the planes here and sell them to Taiwan, or let it manufacture them shouldn't make all that much difference." In economic terms, the impact is far greater. Not only will Taiwan manufacture the planes for its own use and thus cost Americans their jobs, but Taiwan is expected to export its manufacture of F–5E aircraft to other nations, thus cutting further into U.S. exports and balance of payment receipts among other nations buying U.S.-made aircraft.

Ironically, Taiwan is doing very well in terms of its trade with the United States. In 1972, the United States exported $630 million in goods to that nation. During the same period, the U.S. imported a torrent of TV sets, electronic equipment and other products for a total of $1.3 billion, mostly produced by U.S. multinational firms. Thus with the F–5E export and job loss here, America's very heavy trade deficit with Taiwan will become worse.

Earlier, the *F–104 Starfighter* followed the same export route. When Japan wanted the F–104 Starfighter, then built by Lockheed in California, it arranged to have it built in Japan. Lockheed not only shipped over the designs, tools and equipment, but supplied the supervision needed to train the Japanese workers. Now, of course, Japan has the technology as well as the plane. The same is true in Italy where the Italian Air Force, which currently has 165 F–104 aircraft now plans to manufacture the plane in Turin.

Technology in the *engine* for the *B–1 bomber* also nearly became an export but was halted only because it contained military secrets. General Electric and SNECMA, France's state-owned aircraft engine maker, arranged to build a "quiet engine" for airliners. Under the deal, the French would lend half of the $500 million needed and GE would supply much of the technology. The deal was vetoed by the State and Defense Departments on the ground that GE's technology sale involved disclosing a U.S. military secret: the core of the F–101 engine it has developed for the new B–1 bomber. At last reports, the companies were trying to get around the problem. The production, of course, and all the technology, would move to France. U.S. workers would be squeezed out of the project.

In commercial aircraft, the export of U.S. superiority is also accelerating.

Recently, the Boeing Company entered into an agreement with the Japanese government to develop a new wide-bodied *air bus*. Technology for the short haul airliner will come from Seattle; the work will be done in Japan by employees of three manufacturers—Mitsubishi, Kawasaki and Fuji.

Boeing has also entered into a joint arrangement with Aeritalia of Italy to build the 7X7 airbus, with part of the production to take place in Italy. When the agreement was made, Boeing President Malcolm Stamper declared: "They've got the money and we've got the smarts."

At the same time, United Aircraft is helping Mitsubishi produce *gas turbine aircraft engines*. The technology comes from East Hartford, Conn., an area with very heavy unemployment.

It is no secret in Seattle that 200 Italians are being trained there by Boeing. Eventually they will go home to tool up an Italian aircraft plant to produce short take-off and landing aircraft (*STOL*) for the European market. Until now, Boeing planes sold to European airlines have always come from Seattle.

America's largest manufacturer of private aircraft, *Cessna* of Wichita, Kansas, is working with Rheims Aviation of France. Of the 500 Cessnas expected

to be sold in Europe this year, three-fourths will be built in France under a license agreement. This arrangement benefits Cessna stockholders but not Cessna's American workers. Cessna's transfer of production abroad is not limited to France. It is producing planes in Argentina, as is Piper, which is building 150 executive and crop-dusting planes per year in that country.

Other commercial and military exports—with resultant job losses—are the production in Japan of the *Sikorsky S–61 helicopter* and the Pratt & Whitney *JT8D turbofan* engine for the C–1 U.S. military transport.

The implications of this ever-accelerating sell-off of American technology and the export of aerospace jobs is not only obvious to the workers involved, it has also aroused the concern of specialists in the field.

Dr. Harvey Taufen of the Hercules Corporation recently reported that Japan has paid about $90 million per year or $1 per capita "to get all the results of all the successful, proven technology in the world." As a result, Taufen says, "Japan's shopping has brought it one of the most incredible bargains in the world."

Supporting the Taufen claim, Nathaniel Brenner, marketing director for Coates and Welter Instrument Corporation, stated in Chemical and Engineering News last year:

"Technology is not an aesthetic pursuit like music or poetry, but rather a commodity of commercial value, with an investment cost that can be measured, a dollar value that can be computed and a clear market advantage for those who have it versus those who don't. . . .

"The product of this investment, like the product of the oil well or the factory, cannot be given away to foreign countries, by multinational corporations or any other channel without a clear, measured quid pro quo or the United States will suffer exactly what a corporation suffers that sells below cost for an extended period—bankruptcy . . .

"Anyone who is naive enough to believe that the Japanese or British governments permit foreigners to license their processes as freely as the U.S. does ours has simply never tried to negotiate these transactions."

Translate the losses being suffered in aerospace into all the other industries in America in terms of thousands of jobs and loss of technology and you can begin to comprehend the massive change that is overwhelming this country.

Appendix 12

U.S. PRODUCTIVITY REMAINS HIGH

One of the most frequently heard reasons from U.S. businessmen as to why they transfer plants, technology, operations—and American jobs—abroad is that U.S. labor costs are too high and productivity is too low to meet foreign competition.

Statistics are cited, such as those in the President's international economic report, to show that while American productivity is growing, that of other industrial nations of the world is growing faster. The conclusion drawn from this set of statistics, as expressed on the editorial page of the Washington Post in April is that the other industrial nations of the world "are not only improving their productivity, but doing it "a good deal more effectively than American industry."

The fallacy in this conclusion is that it is analogous to comparing the growth of an infant over a period of a year with the growth of a teenager. The baby will win on percentages every time.

Productivity and hourly wage rates are important in relation to price as they combine to determine unit labor costs of a product. America's traditional prowess in world competition has been based on the fact that while U.S. hourly wage rates are high by comparison, their combination with high productivity has enabled unit labor costs to be kept low.

This is still the case. A 1973 Tariff Commission report to Congress on the direct investments of some U.S. multinationals in seven nations in relation to overall U.S. productivity showed that "all firm data for the U.S. showed unit labor costs to be generally lower" than in five of the nations studied. In addition, the Organization for Economic Cooperation and Development's publication Economic Outlook for December of 1972 shows that American unit labor costs have risen less rapidly than in many competing nations in the past few years. The international economic report of the President declares: "In most industries

(the U.S.) still is more efficient—that is, U.S. labor produces more units of output per manhour than any other labor force in the world."

American productivity, statistics show, have not been laggard. Government figures show that productivity shot up to a yearly rate of increase of 3.2 percent in the 1947–71 period as against a 2.2 percent yearly gain in the previous 28 years.

What has happened, and has affected the relationships of productivity, wage rates and unit labor costs, is the emergence of an entire new set of factors.

Chief among these, in impact on U.S. and foreign productivity, is the accelerating transfer abroad of U.S. technology. The heavy movement began in the sixties and is snowballing into the seventies. The effect of these technology transfers, through licensing, shipments of entire plants abroad, is to transplant sophisticated American productivity capability onto the productivity base of the nation so benefitted. The result of this process is to enable these foreign nations to use American productivity not only to increase their own productivity rates, but to compete more effectively with U.S. produced goods. It is this which has enabled these nations to show sharp advances in productivity advances which in some cases have substantially reduced America's clear lead.

The fact that the productivity of foreign nations started from such a low base makes the increases, in comparison with that of the U.S., all that much more dramatic.

Along with the increasing transfer of technology, a major factor affecting foreign trade has been the rise in prominence of the multiantionals, which through rapidly rising direct foreign investment have been the chief purveyors of technology abroad. Through their foreign subsidiaries, the multinationals have been able to take maximum advantage of the sophisticated productivity they have transferred to foreign nations in combination with lower foreign wage rates and their ability to manipulate the locations of their operations depending on labor costs, taxes and foreign exchange rates from one country to another—all within the corporate structure. As long ago as 1968, Fortune Magazine pointed out that "when (the multinational) operates in many different markets with varying labor conditions, market demands, money market rates, tax laws, etc., the corporation finds multiplying opportunities to buy cheap and sell dear if it can closely coordinate all parts of its operations. Carrying multinationalism to its logical extreme, a corporation will concentrate its production in the area where costs are lowest and build up its sales where the market is most lucrative. Thus, some U.S. electronics manufacturers are using plants in the Far East to make components for equipment sold in the U.S. market and the apparel industry is, for the first time, hinting at farming out some of its production."

The combination of the maximum use of low-wage labor in combination with modern U.S. technology operated at or close to U.S. productivity levels is an unbeatable formula for high profits. This point was touched on by Professor Peggy Musgrave in a paper prepared for the Joint Economic Committee last year, in which she remarked that "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 shares of national income. Foreign investment may enhance 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."

With the U.S., it is the high productivity of the worker which helps permit a level of wages which is sufficient to supply the market for the output resulting from that productivity. Abroad, however, the efforts of the multinationals appears to be to manipulate productivity in combination with low wages for the maximum of profit. The Tariff Commission study earlier this year notes that "in setting wage rates, the (multinational) companies almost invariably approximate local standards . . . but they always show greater productivity than for all firms in the host country. Theoretically, the higher productiviy of the foreign worker in the MNC-owned plant should justify a higher wage than the national average for his trade or industry." If indeed this were the result, the improvement in well being of the people of those countries would be sufficient enough to create markets for American exports.

It is indeed ironic that the American worker is exhorted to improve productivity so that his wages can improve—and so that the goods he makes can compete in world markets—but at the same time the American concern abroad does not—for a variety of reasons—even pay the lowest wage workers as much as their gains in productivity have earned. With the export of technology and

the use of its high productivity in competition with Amercan output, the U.S.-based worker and industry is fighting a losing battle. No amount of attention to productivity and unit labor costs will solve America's problems as long as multinationals operate with different rules.

The trade effects of this sort of operation by the multinationals are also a losing battle for American based industry and workers. Without the expansion of consumer purchasing power through a rising wage level afforded by higher productivity, the goods produced must seek markets where they can be afforded. These markets are either where they come in competition with U.S. produced exports, or within the U.S. itself. Professor Musgrave, in the earlier noted paper for the Joint Economic Committee of Congress, notes that "it is possible that production by U.S. affiliiates abroad, paricularly in manufacturing, may serve to displace U.S. exports and even domestic sales in the U.S. This displacement effect is the more likely since those corporations accounting for the bulk of manufacturing investment abroad are also major exporters. Moreover, sales of manufacturing subsidiaries abroad are now two to three times the level of U.S. exports of manufactured products."

The effect on trade from the operations of multinationals has been only partially explored. But the Tariff Commission report states that there is "prima facie evidence of an erosion of U.S. markets by foreign sales of MNC affiliates abroad." While this minimal report of the Tariff Commission is based on theory and estimates, the case seems clear from Commerce Department data on foreign direct investment and trade. According to these data, investment by U.S. firms in foreign factories and equipment in 1971 was $6.8 billion, up from $1.4 billion in 1960. During this period, sales abroad by U.S. companies' foreign affiliates increased rapidly, well in excess of sales from the United States. Also in this period, the U.S. was losing its share of exports markets; chemical exports declined from 29.6 per cent to 19.9 per cent; electric machinery, from 28.2 per cent to 21 per cent; non-electric machinery from 32.7 per cent to 25.5 per cent; transport equipment from 33.2 per cent to 29.5 per cent.

Meanwhile, affiliates of U.S. multinationals accounted for 10 per cent of French exports in 1970, providing $3.6 billion to the French balance of trade, according to former ambassador Arthur K. Watson in France, 1972. Studies by the Council of Americas in the 1960s claim that U.S.-based multinationals account for 40 per cent of Latin America's exports: many of these Latin American imports into the U.S.—as well as those from Japan, Korea, Canada, Taiwan, Germany, France and other nations now bear American brands names and are often produced by U.S. firms' subsidiaries or licensees abroad.

In some of the nations where U.S. direct investment and licensing have expanded rapidly, exports showed fantastic growth in the sixties in manufactured goods; Germany's exports rose more than 200 per cent; French exports rose 160 per cent; Belgium and Luxembourg and the Netherlands more than 200 per cent; Italy 450 per cent; Japan almost 500 per cent—while U.S. exports climbed only 123 per cent.

Putting it mildly, the Tariff Commission report states that "an immense amount of world trade is generated outside the U.S. by the MNCs. As an indicator of how important these flows are, available data show that majority-owned affiliates exports to countries other than the U.S. were an estimated $33 billion, compared with exports to the U.S. of $10 billion and local sales of $118 billion."

This $43 billion of exports (including exports back to the U.S.) by U.S. based multinationals is more than U.S.-generated exports. The conclusion is inescapable, from all of this, that efforts to expand exports from the U.S. are meeting increasing competition not only from foreign firms—but from the foreign affiliates of U.S. based multinationals.

APPENDIX 13

EXPORT OF JOBS BY MULTINATIONALS—SOME EXAMPLES

More than 1,000 steelworkers' jobs were exported from Meriden-Wallingford, Connecticut, area to Taiwan by Insilco (International Silver) by 1971. The stainless steel flatware formerly made in Connecticut now is imported by Insilco. This is just one example of the export of jobs of steelworkers by multinational firms which have sent thousands of jobs in ball bearings, roller chain and other steel products out of the U.S.

Six hundred machinists' jobs in Elmira, New York, were exported from the United States when the Remington Rand typewriter plant, which once employed over 6,000, closed in 1972. High costs and imports were some of the many factors

blamed by local managers for the shutdown. Some production was moved to Canada. But this year the local union reported that some of the machinery was sent to Brazil, where Sperry Rand, the multinational owner of Remington Rand, also has an interest. Typewriters made under license to Remington Rand specifications in Japan have been imported. The Elmira machinists joined an estimated 30,000 other typewriter employees in Missouri, Connecticut and other states whose jobs were exported in the five years before 1972.

One hundred and eighty ladies garment workers' jobs in San Francisco were exported by American Hospital Supply to Juarez Mexico, in 1972 where the paper garments they made could be shipped to the U.S. market from an area just south of the U.S. border. Along that strip another 50,000 jobs in toys, electronics, apparel, replace the jobs of American workers from Indiana to Los Angeles, from Pennsylvania to Wisconsin, as the giants of American industry joined small employers to export assembly jobs from the nation's cities and towns to Mexico, where goods for the U.S. markets are produced.

2,000 machinists in the GE plant of Utica, New York, had their jobs exported to Singapore between 1966 and 1972, when GE made its last radio in the U.S.

2,000 auto workers' jobs were lost in Los Angeles when Chrysler shut down. From Japan Chrysler Mitsubishi began to send the compact Colt to the West Coast of the United States in 1971.

1,600 workers' jobs in Philadelphia Ford-Philco were affected in 1972 by the latest of a long history of jobs exports and relocations that has persisted in that city since 1963, when Ford-Philco began to make its world-wide shifts in electronics. Ford-Philco is one of the major exporters from Taiwan to the United States, now that Taiwan has become the largest supplier of black and white TV sets to this country. "The jump in imports from Taiwan is attributable partly to the Japanese, but the bulk comes from a continued transfer of output from U.S. to Taiwan by Admiral, Motorola, Philco Ford, RCA and Zenith." (Consumer Electronics, Television Digest, February 5, 1973.) Henry Ford reportedly told the Mayor of Philadelphia that he did not expect to build any U.S. plants in the foreseeable future. 500 glass workers lost their jobs in a Libby-Owens Ford sheet glass plant in Shreveport, Louisiana. Pittsburgh Plate imports sheet glass from abroad.

The service jobs of America's ships have been exported until the U.S. home fleet carries only about five percent of the foreign trade volume, and U.S. employment in shipping and shipyard work is low.

19,000 shoe workers in Massachusetts alone lost their jobs in the 1960s as American shoe manufacturers faced foreign competition and followed the policy of "If you can't lick them, join them." Large conglomerate multinationals like Interco and Genesco produce shoes in France, Canada, Belgium, England, Italy and South America. A Milwaukee shoe firm announced five years ago that it would make shoes in Ireland, exclusively for the U.S. market.

No action has been taken to protect these workers. The U.S. government has studied and restudied the problem for years on end, while each day, each week, each month tens of thousands more jobs are exported—despite the denials of the corporations involved.

To these men and women, there is no question about whether U.S. jobs have been exported. They know they have. They have lost their jobs.

And for the schoolteachers whose jobs are affected by lost bond issues, for taxpayers who have lost the tax base of their community, for firemen and policemen and other local and state government employees, the problem is growing. This is not a problem of a few Americans. This is a problem for America itself.

APPENDIX 14

[Advertisement from the Wall Street Journal, Mar. 7, 1972]

NOW AMERICAN EXPORTERS CAN HELP THE GOVERNMENT BY NOT PAYING ALL THEIR INCOME TAXES

By setting up a DISC. A DISC or Domestic International Sales Corporation is a new type of U.S. company created by Congress that will make doing business overseas more profitable to American businessmen.

What DISC does.

A DISC serves as the export sales arm of a United States company and operates under greatly simplified intercompany pricing procedures. By offering

significant tax benefits to U.S. companies who operate through a DISC, the Administration has put American goods and services in a more competitive posture in foreign markets.

What DISC can do for you.

The new law provides an indefinite deferral on 50% of export earnings. In order to take advantage of this benefit, a company must file a DISC election with the IRS . . . in some cases before March 31, 1972. Your attorneys can give you the necessary legal guidance to comply with Internal Revenue Service directives in this area.

What we can do for you

Chemical Bank can help by giving you the financial advice needed in setting up and operating a DISC. Our international officers have followed the development of DISC legislation for some time and are experts on the financial implications of this new law.

What we've already done for you

As a matter of fact they've even written a book on it: *DISC—A Summary of Pertinent Facts for the Financial Officer* which explains many of the details in setting up a Domestic International Sales Corporation. Chemical Bank also has in operation a computer model that can assist you in forecasting various tax impact alternatives between a DISC and the parent corporation. The computer service is available at a nominal cost. The booklet is free. Both are extremely valuable in evaluating DISC.

In addition, Chemical Bank has a wide range of international banking experience that our officers can use to help you properly invest the increased cash flow that a DISC will produce.

If you would like more information on DISC or on Chemical Bank, or would like a copy of our DISC brochure, contact your Chemical Bank representative or write to: DISC, Box 5161, Chemical Bank, 20 Pine Street, New York, N.Y. 10015. But do it today. March 31 is only 28 days and 16 hours away from this morning's coffee—Chemical Bank, we do more for your money.

APPENDIX 15

STATEMENT BY THE AFL–CIO EXECUTIVE COUNCIL ON EAST-WEST TRADE—MAY 9, 1973

The Soviet leaders seek to overcome the crisis of their economy by getting concessions from the Western democracies without making any concessions in return. What is more, Moscow seeks to utilize Western aid not so much for improving the living conditions of the Russian people as for expanding and modernizing Soviet industry in order to further the Kremlin's ambitious plans abroad and increase its influence and power in the world arena.

Under the Brezhnev-Nixon agreement of May 29, 1972, the Administration has promised the Soviet Union most-favored-nation (MFN) treatment with accompanying tariff benefits. MFN treatment would be a political and economic triumph for Moscow. It would also open the American market to Russian commodities produced under slave-labor conditions.

The Executive Council of the AFL–CIO, therefore, urges Congress to reject the proposed trade package (October 18, 1972) which provides for most-favored-nation status for Soviet exports to the U.S. and for the extension of large-scale credits for Russian purchase of American goods and technological know-how.

We, likewise, urge Congress to reject the deal made in the same trade agreement between Washington and Moscow under which the Soviet Union is to settle its $11.1 billion World War Lend-Lease debt for a few pennies on the dollar, while our Export-Import Bank provides the USSR with huge credits. This U.S. Government bank has already authorized $200 million in loans to the Soviets at a bargain rate of 6%. This is much lower than the credit terms available to Americans trying to buy or build a home or expand a small business enterprise.

American businessmen would be well-advised to guard against various pitfalls in their chase for trade with the Soviet Union. Trade with Communist governments is not "business as usual". It is a highly political affair. It should be governed by the principle that it must serve the national interest of our country and the interests of the free world as a whole. Otherwise, it will only rescue the Communist regimes from the consequences of their own folly and the deserved wrath of their people. This would only encourage and equip them for more subversion and aggression.

The AFL–CIO Executive Council urges Congress to pass the Jackson amendment which will give our country the continuing leverage needed to deal with the arbitrary and capricious emigration policies of the USSR, the East German regime and other totalitarian governments in Central and Eastern Europe.

The West should not grant the Soviet Union any economic concessions without receiving in return political concessions like halting support of Hanoi's aggression in Indochina and Arab war preparations and guerrilla activities against Israel; dismantling the Wall of Shame of Berlin; and granting the German people the right of self-determination.

The CHAIRMAN. Thank you, Mr. Abel, for your presentation of the views of your very fine organization. You have done it very effectively and very ably. We will include the appendix to which you referred in the record.

Mr. ABEL. Thank you, Mr. Chairman.

The CHAIRMAN. We appreciate all of you being here with us this morning.

Are there any questions?

Mr. Ullman.

Mr. ULLMAN. Thank you, Mr. Chairman.

Mr. Abel, I want to commend you for doing an excellent job of putting together the material to back your position on this whole matter of trade. It is going to be very helpful to the committee.

While I cannot agree with all of your conclusions, I generally agree with your analysis of the problem, and I think we all have to readily admit that we haven't really thought through the problem of where the jobs are coming from in the future.

I have been somewhat concerned about this problem of industrial versus service jobs.

Do you have anywhere in your testimony an analysis of the percentage of industrial jobs versus service jobs in this country over a period of years, and the trend?

Mr. ABEL. I think if my memory is correct, we recently reached the point where there are fewer manufacturing jobs percentagewise in this country than there have been. Less than 50 percent are now engaged in manufacture, and more than 50 percent engaged in service activities.

Mr. ULLMAN. You don't have any information on the trend, as to whether that is continuing?

Mr. ABEL. I think very definitely the trend is continuing. It is being accelerated almost daily.

Mr. ULLMAN. In your organization, the AFL–CIO, do you represent both manufacturing, industrial, which you obviously do, and service industries?

Mr. ABEL. Yes; we do, sir.

Mr. ULLMAN. About what percentage of each do you represent?

Mr. ABEL. I would have to make an offhand guess, but I would say it probably runs about 60–40, about 60 percent engaged in manufacture and 40 percent in so-called service trades.

Mr. ULLMAN. Is there a difference, a marked or noticeable difference in wage levels between the two segments?

Mr. ABEL. Well, I would say that you would find about the same conditions prevailing in many manufacturing industries where you do have still low wage earnings as you have in the service trades.

But on the other hand, you have the teaching professions, govern-

ment service employees, and the sciences, as well as areas in industry that are high-earning areas, too.

So that it is again, without detailed analysis, pretty much evened up. We have low-paying jobs in the goods producing services. We have low-paying jobs in the service industries, and we have high-paying in both.

Mr. ULLMAN. Turning to the foreign side of the labor picture, do you have statistics as to the increase in labor costs abroad in recent years?

Mr. ABEL. Well, the wage increases in some of the countries abroad have been fairly substantial in recent years. I think offhand in Germany, in Japan, I think even in Britain in the last year or two they have had substantial wage increases, but in relation to our own, I would say that the increases over recent years are about on par.

Mr. ULLMAN. You have indicated that a study showed that unit productively in this country generally exceeds that in some of the developed nations that you studied. Do you think that is generally true?

Mr. ABEL. That is correct. There is no question. Everybody will acknowledge, I think, or most of those who are familiar with the problems will acknowledge that American industry and American workers can out-produce any other industry or workers in any country in the world.

Mr. ULLMAN. There has been pretty widespread speculation and stories about the fact that the American workers are getting more lackadaisical about their jobs and less dedicated to doing a good job. What is your reaction to that?

Mr. ABEL. This I can certainly say to you is not true. The opposite is true. There is not this lackadaisical attitude on the part of American workers, and this is attested to by the fact that our productivity is higher today than it ever was.

As I point out in my statement, over the past 10, 15, or 20 years, we have averaged a 3.2 percent increase in productivity, and this year, 1973, is running much higher than that. So that there is not the lackadaisical attitude that some people would like to convey on the part of American workers.

As a matter of fact, I would point out to you, sir, that in my own industry, the basic steel industry, we have joint productivity committees made up of industry leaders and union leaders who work jointly at each workplace on improving ways and means of increasing productivity and reducing costs in the basic steel industry of this country. What happens in our industry is happening in a lot of industries in this country.

Mr. ULLMAN. The AFL–CIO is involved in this process and is promoting this kind of better working relationship with management, is that right?

Mr. ABEL. That is right. Mr. Meany and five or six others of us from the labor movement serve on the President's committee on productivity and have served for several years now since the beginning of that activity.

Mr. ULLMAN. And it is part of the union program to encourage this?

Mr. ABEL. Correct.

Mr. ULLMAN. Considering then the whole problem, both wage in-

creases and the productivity factor, it is your general conclusion that the wages abroad in the developed countries are increasing at about the same rate as the wages here per unit wage cost?

Mr. ABEL. Percentagewise a little greater there, but again, you have to take into consideration the base to get the overall impact.

In other words, a 12 percent increase on a $1-an-hour wage is not so impressive as a 10 percent increase on a $5-an-hour wage.

Mr. ULLMAN. Let's turn to the manufacturing unit. Would you say that in any given manufacturing unit produced in the developed countries as against the United States that the wage factor abroad is increasing more rapidly than the wage factor in this country?

Mr. ABEL. Yes, according to the records that are available, and this includes the records of the Department of Labor, our government.

Mr. ULLMAN. In other words, we are somewhat narrowing the differential between the wages in the other industrial countries and our own, is that right?

Mr. ABEL. There is no question. There has been a narrowing of the differential, yes.

Mr. ULLMAN. There is some hope that at least that differential might become less, so that we can from that point of view become more competitive in the future?

Mr. ABEL. You might, ultimately, when it comes to countries such as Germany or Great Britain or Japan.

When you talk about Taiwan and Hong Kong, these countries are still paying 8 and 10 and 12 cents an hour. It is going to take an awful lot of percentage increases to even begin to make a dent in the wide spread of wage costs.

Mr. ULLMAN. Yes. My question was concerning the developed countries, the other industrial countries. Certainly, we cannot deny that in the less developed countries there is a rather wide wage differential.

On the other hand, are there some signs in those countries that wages are on the increase?

Mr. ABEL. I happen to think it seems to be the opposite. Even our multinational corporations and now even those of Japan are moving into Taiwan and Hong Kong and those places to take advantage of the still cheaper labor costs.

Mr. ULLMAN. Thank you. My time is up. I have one final question. Does your statement represent the thinking of Mr. Meany? Are you speaking for the whole AFL–CIO?

Mr. ABEL. Yes, I am, sir.

Mr. ULLMAN. You are. Thank you very much. You have been very responsive.

Mr. ABEL. Thank you.

The CHAIRMAN. Mr. Schneebeli will inquire, Mr. Abel.

Mr. SCHNEEBELI. Mr. Abel, as one Pennsylvanian to another, welcome to the committee.

Mr. ABEL. Thank you, sir.

Mr. SCHNEEBELI. I would also like to congratulate you on your leadership in connection with the recent 5-year, no-strike agreement reached in the steel industry. I think this is going to be very, very helpful and I think you should be recognized for the achievement.

Mr. ABEL. Thank you, sir.

Mr. SCHNEEBELI. Following up Mr. Ullman's question as to whether yours was the AFL–CIO position, I believe that Mr. Woodcock, who was here two days ago, adopted an opposite view from yours. In

general, he endorsed the thrust of the legislation before us. Do you have any comments on Mr. Woodcock's position being so opposed to your position?

Mr. ABEL. No; other than that Mr. Woodcock, the union he speaks for, happens to have a great number of their members employed in the country's largest multinational corporations. Certainly General Motors is the largest multinational corporation in the world.

The United Automobile Workers have had, and maintain today, a broad relationship with auto workers in other parts of the world.

As a matter of fact, they have been working toward development of a worldwide automobile workers union or relationship, and I can see where that would account for a good deal of the UAW's thinking and the position taken by President Woodcock here before this committee.

Mr. SCHNEEBELI. Do you know if any other large labor organizations adopt a similar attitude?

Mr. ABEL. Well, there are some unions that certainly are removed from the threat of any foreign competition who feel yet, you know, that even they have an advantage in cheap imports or at least lower cost imports. They have not, in my judgment, taken the time to analyze fully the overall impact of this problem and haven't yet come to the realization that there is no such a thing anymore as cheap foreign imports because they all sell at, or close to, the going prices here in the United States regardless of where they come from.

We do have some unions, I am concerned to say, that really don't in my judgment appreciate the full impact because they are removed from it. They are not affected by it and they are still operating under this age-old theory in the United States that we have all had of being great free traders.

Mr. SCHNEEBELI. Thank you.

On page 20 of your statement you say, as to profits of foreign subsidiaries, that the foreign taxes on these profits would be deductible instead of credited.

Mr. GOLDFINGER. Mr. Schneebeli, according to our proposal, the foreign tax payment would be treated as a deduction similar to the tax payment that a multiplant corporation would make on a plant's operations in the State of Pennsylvania, for example.

Mr. SCHNEEBELI. Suppose the foreign tax is 50 percent. Would the total U.S. tax then be 48 percent of the remaining 50 percent or another 24 percent? Would it be 50 and 24?

Mr. GOLDFINGER. No, they would be granted a deduction as a cost of doing business rather than a dollar for dollar credit.

Mr. SCHNEEBELI. That is a deduction of 50 percent. Let's say the foreign tax is 50 percent and they made a million dollars. The foreign tax is $500 thousand. Then the American tax would be 48 percent of the remaining $500,000 so that the remaining tax would be 74 percent.

Mr. GOLDFINGER. In that case, on that foreign subsidy, yes, sir.

Mr. SCHNEEBELI. Assuming that foreign taxes generally parallel our taxes or are pretty close, you would get a combined tax of 74 percent, which I think would be a little discouraging.

Mr. ABEL. Of course, our purpose, sir, is to discourage this kind of activity.

Mr. DENISON. Mr. Schneebeli, in our appendix on pages 9 and 10 is a breakdown showing the taxes for a U.S. plant located in Pennsylvania and a plant located in England.

Mr. SCHNEEBELI. But the corporate tax in the United States is so small. What is it in Pennsylvania?

Mr. DENISON. 12 percent.

Mr. SCHNEEBELI. That is so small compared to the foreign taxes.

Mr. DENISON. If you take these two corporations with their plants, one in England and one in Pennsylvania, when you get to the bottom line, the profit after taxes in Pennsylvania for a million-dollar profit would be $457,000 and the plant in England would be $520,000.

Mr. SCHNEEBELI. How about some of these other countries like Germany and France?

Mr. DENISON. They probably have an effective tax rate of about that amount.

Mr. SCHNEEBELI. Mr. Abel, we had some excellent testimony earlier this week from Caterpillar Tractor. That firm has 53.000 employees, 20,000 of whom are hired for the production of goods that are sold overseas.

We also have had testimony from other multinationals with parallel experience; that is, a large percentage of their domestic employment is employed at producing goods that are sold overseas.

Do you have any figures to counteract testimony such as this?

Mr. DENISON. Mr. Schneebeli, we have appendix No. 5 which goes to that. While we don't go to Caterpillar specifically, we do go to an analysis of the figures that the Tariff Commission has used and also that the Emergency Committee for American Trade has used, and these of course are overall figures, but they do contradict Caterpillar. We do not contend that there have not been jobs created in the United States by these multinational corporations. What we do contend is that the growth here is far less than what would be the case if these industries were to be located here.

Caterpillar, for example, if memory serves me correctly, is in the process now of developing a tractor overseas that will be sold exclusively in the U.S. and certainly will displace tractor workers possibly in some other corporation—it doesn't always displace within that corporation—and overall could hurt American workers.

Mr. SCHNEEBELI. It might be noted that we do have a tax proposal with respect to controlled foreign corporations exporting to the United States.

Mr. DENISON. I think our analysis of that tax proposal shows that it would apply to five different countries and would be very limited.

Mr. SCHNEEBELI. I thought the thrust of that was supposed to be international.

Mr. DENISON. Perhaps that is the thrust, but the application.

Mr. SCHNEEBELI. That is the intent as we understand it.

Mr. DENISON. It is to new investments.

Mr. GOLDFINGER. It is only on new investments, sir.

Mr. SCHNEEBELI. I have used my 5 minutes. Thank you very much. Congratulations again, Mr. Abel. You have done a fine job.

The CHAIRMAN. Mr. Abel, I would like to introduce you to Mr. Burke of the famous Burke-Hartke pair. Mr. Burke?

Mr. BURKE. It is very refreshing to have you here today, Mr. Abel. We have been listening in the past few weeks to all the people who have been crying all the way to the bank about the problems they are having.

You are recognized as one of the most responsible labor leaders in this nation. You have proved that by your record.

I think you have outlined here very ably the problems the working men and women of America are facing. I was wondering if you knew that the First National Bank of Boston had made a study of the New England region and have predicted that within 10 years New England in its entirety would become a service oriented area.

Mr. ABEL. I am not familiar with their study but certainly from our own studies and the participation of workers from that area in their unions this has been crystal clear for sometime, particularly now with the closing of many of the armament operations up through the New England States.

Mr. BURKE. Up in Massachusetts we seem to have a sense of this, and we have been recognized for standing alone sometimes, but we recognized this problem back in 1965.

Many of us had supported the trade bill but, when we saw the textile mills being closed down and the shoe factories and the electronic workers being laid off and the sporting goods people being laid off, we realized what was happening up there and if this trend were to continue throughout the country it could very well destroy the industrial complex of this nation.

As Mr. Denison has pointed out as far as the Caterpillar Co. is concerned, they now are making plans to manufacture their tractors and ship them back over here.

I was wondering about firms like General Motors and the Chrysler

As Mr. Denison has pointed out as far as the Caterpillar Co. is

Corp. and the Ford Co. who have now had a taste of the profits that they are enjoying as a result of their foreign investments and whether or not they will continue to build their cars here in America or whether or not they will take the road that these other multinationals have taken where the big profits lie.

Do you think that the Chrysler Corp. if they do well in this car that they are manufacturing in Japan to which they are giving such wide publicity, if they find out their profits are going to be much bigger over there than in some of their plants here in America, will continue to build plants in America or do you think that they will move the way all profitmaking groups usually move when they make bigger profits?

Mr. ABEL. I don't think there is any question, Congressman, but what they will go to foreign countries. We have a good example with respect to Chrysler right in our backyard in Pittsburgh where they started building a brand new assembly plant several years ago and got it fairly well underway and all of a sudden just stopped the development of it and they started moving toward Japan.

This plant has laid there all this time. There are no signs of them completing it.

I would point out to you that, when they went into Japan to produce this car, their arrangement with the Japanese people was to export that car to the United States but not to take U.S.-made cars into Japan, rather to take cars that they were building in Australia into Japan.

So we lost both ways. I would say on that basis that there is no question in my mind which way they will go when it comes to expanding their productivity.

Mr. BURKE. There has been talk about being more competitive in this country. Isn't it true that after World War II we sent all of our modern technology overseas and most of our plants kept the old equipment that they had to continue to operate on.

Countries like Japan and West Germany got the best and we got the second best.

Mr. ABEL. There is no question about that. I happened, Congressman, to be one of the individuals that President Kennedy selected to go over to Germany and review the developments of our Marshall aid to Germany and we were taken through the plants, the clothing plants, the coal mines if you please, the automobile plants, all of them which had been rebuilt with Marshall plan aid and the communities that were redeveloped with Marshall plan aid.

So that there is no question we helped a lot and the same is true with respect to our trends from Japan.

I would point out to you that 25 years ago at the end of the war the Japanese steel industry was able to produce only 5 million tons of steel a year. Last year they surpassed the U.S. steel industry.

Mr. BURKE. They talk about the American workmen being more competitive, with the foreign workmen and having a differential in their wage scales.

I was glad that you pointed out the wage scales that are in Taiwan and Hong Kong. As you pointed out if there is an increase of a wage scale, say, in Korea, if they get a 100 percent increase they would only go from 10 cents an hour to 20 cents an hour. This is kind of a ridiculous statement for them to be making.

Do you believe some of the people who use this argument would like to push our country back to the days of the sweat shops and the conditions of malnutrition and tuberculosis that the American working men were faced with back over 150 years ago.

Mr. ABEL. They may not admit it but certainly by their actions they are working in that direction. They are doing just exactly that when they go to Taiwan and Hong Kong. They are exploiting these people and they are keeping them in dire poverty.

I have been there and witnessed it. It is certainly a disgraceful thing when you think that American industry with the kind of capital resources we have will in this day and age of 1973 revert to exploiting labor the way they have.

I have no question that when it comes to maybe protection of their profit standards they would force the American workers to do just the same thing.

I went through that in the depression as many people did and we know what American manufacturers and American business, all of them, will resort to if the climate and conditions are that way.

Mr. BURKE. My 5 minutes are up.

I just wish to commend you, Mr. Abel. I hope we continue to have great labor leaders like you who can speak out for the working men and women of America.

Mr. ABEL. Thank you, sir.

The CHAIRMAN. Mr. Collier will inquire.

Mr. COLLIER. Thank you, Mr. Chairman.

Mr. Abel, there has not been any compliment paid to you by my colleagues here today with which I cannot sincerely concur. Having said that, I would like to get to one aspect of your testimony.

You say that the trade policies of this country have gotten the American worker, the American business, the American consumer in deep trouble.

I cannot take issue with that either. However, the 1962 Trade Act which has represented our trade policy as it has been administered and negotiated at GATT was strongly supported by the AFL–CIO and organized labor before this committee as a panacea to a host of domestic and international ills that we were faced with at the time.

Yet following its enactment and until the authority expired we had years of shrinking imports and growing exports and certainly growing deficits in our balance of payments.

I opposed that legislation at the time because I thought it was oversold as a cure-all for these problems and yet as late as the fall of 1964 the AFL–CIO publicly called my position an anti-labor vote particularly in the campaign of that year, and I am constrained to say that I now find the paradox very interesting.

But during this interim period of time when we were heading down the road in pursuing a trade policy that was getting us into all the troubles to which you alluded, what efforts were made by organized labor during that time to reverse the trend that obviously had developed following the 1962 Act?

Mr. ABEL. Well, I think, Congressman, you will find that the record will show for almost that period that you have mentioned the AFL–CIO in testimony on various pieces of legislation here in the Congress has been trying to alert people to some of these problems that you make reference to.

Specifically in the steel industry as one example, I can take you back to 1965 where we joined with the steel industry leadership in trying to focus public attention, and the attention of members of Congress and administration leaders, to these very same problems.

We had meetings with many members of Congress, joint meetings between our industry leaders and our union leaders pointing up what was happening to our jobs.

But quite frankly our appeals fell pretty much on deaf ears and we have continued to be down and I am frank to tell you that when we started talking about this problem within our own house, the house of labor, there were many who felt we had no problem and were proud to be still free traders. But one by one they got themselves enmeshed in the same problem.

I recall when we started these discussions Mr. Reuther who was still President of the UAW then, still with us, was a strong opponent of this program on the grounds that his industry was not affected, but today his industry is affected here by 20 percent of the automobiles sold in this country being imports.

Perhaps Mr. Reuther's mind might have changed too over this period. Apparently Mr. Woodcock hasn't changed his mind, but many of the other leaders of labor did.

Mr. BURKE. I was one of those who strongly supported your effort in 1965 notwithstanding the fact that we took divergent positions in 1962, sir.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Rostenkowski?

Mr. ROSTENKOWSKI. Thank you, Mr. Chairman.

I would just like to compliment Mr. Abel on some excellent testimony, thank him for his appearance and express my appreciation for some sage observations in the question and answer period.

Mr. ABEL. Thank you, sir.

The CHAIRMAN. Mr. Conable.

Mr. CONABLE. Thank you, Mr. Chairman.

Welcome to our committee, Mr. Abel. We are happy to have you here.

You mentioned that you were dismayed by the testimony that 5 years from now if there was no Burke-Hartke bill our major export would be agricultural products.

Mr. ABEL. That is right.

Mr. CONABLE. What do you think our major export will be if we do have the Burke-Harke bill?

Mr. ABEL. Well, I think we will have come out of the world trade problem with a fair and reasonable approach to trade relations and I have an idea that we would have an exchange of all kinds of products with all foreign countries.

I think this is the thing that is needed. This country has to take the kind of steps that we are proposing in order that one day the leaders of this government along with the leaders of other governments will sit down at the table and come up with "fair" trade provisions just as well as "free" trade provisions that will give all of us a chance to engage equitably in the exchange of goods and services.

Mr. CONABLE. Well, I would like to say I am not sure our major export wouldn't be arms.

Mr. ABEL. I hope not.

Mr. CONABLE. Perhaps you are right. I have some misgiving about why there would be much incentive to export with a Burke-Hartke bill.

Let me ask you this, sir.

What does the American labor movement do now to try to encourage the development of international working standards?

Mr. ABEL. Well. No. 1, we join with the workers of other countries in the ILO as an example, also in the International Confederation of Free Trade Unions, and additionally in the International Metal Workers Federation. We exchange representatives from our respective countries and we sit down together and discuss our status, our wages and conditions, and the kind of agreements that we think are best for all concerned. We seek a better idea of our mutual problems, to assist each other, and in developing countries we try to lend assistance in the development of free trade unions.

Mr. CONABLE. I know the AFL-CIO has done a lot of consultative work and has been interested in foreign labor in that respect, but I have the impression that there is virtually no international labor movement as such at this point, that to the extent we have international union now we have it with Canada.

Is this an incorrect assumption?

Mr. ABEL. Yes, that is incorrect because we do have these relationships and there is almost a constant exchange of groups going and coming. I am on some of them. Mr. Meany goes on some of them.

Various leaders of our respective international unions visit in Japan. We visit in Germany, in Switzerland and Britain, and there are

these constant exchanges. We even have some delegations going, unofficially perhaps but nonetheless going to the Soviet Union and meeting with some people over there.

Mr. CONABLE. Well, I would urge you, sir, to put the full weight of your great organization behind an approach that would put the emphasis on the upgrading of international labor standards rather than the building of walls.

It seems to me that we put ourselves in a strange position when we say we are not going to share our commerce with the rest of the world or our system with the rest of the world and instead we are going to put the emphasis on restraint and restriction.

Mr. DENISON. If I may, Mr. Conable, I would like to make one comment which I think might be illustrative of the problem.

Mr. CONABLE. Yes.

Mr. DENISON. In the situation in Brazil a labor movement is virtually forbidden there, and as a matter of fact one of the problems we are constantly faced with there is labor leadership being imprisoned and sometimes even tortured.

If a U.S. labor leader got off a plane in Brazil he would be put back on the plane and sent back here. The Brazilian Government has a program where if you locate a factory in Brazil you must export those products from Brazil and they cannot be used in the Brazilian markets and, when you bring that company to Brazil it must be already in operation in another country. That is not free trade but that is a wall.

Mr. CONABLE. I don't think Brazil is typical.

Mr. DENISON. No. but that is a problem.

Mr. CONABLE. I know there is a wide range of labor practices and economic practices in the various countries of the world and of course one of our hopes is that we can and should try to rationalize those practices so that we can have improving conditions for laboring people everywhere.

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

The CHAIRMAN. Mr. Waggonner?

Mr. WAGGONNER. Thank you, Mr. Chairman.

Mr. Abel, you made the statement in which I find some concurrence that "It is time to get the terms 'free trade' and 'protectionism' out of the debate, that they no longer apply, that for the U.S. Government to talk and act as though the nation lives in a world of free trade is to ignore the painful lessons of the seventies, that it just isn't so."

I agree with that statement and I think you would perhaps agree that, even though we live in a world we could better define under existing circumstances as involving reciprocal trade with one restriction or the other from both ends of the spectrum, it would be best if we could do something to move in the direction of freer trade, would it not?

Mr. ABEL. Correct. That is very correct but it has to be accompanied with some measures to guarantee fair trade.

For example, we can't exist forever, you know, as a free enterprise nation competing with socialized nations who subsidize their industries especially for export business.

Mr. WAGGONNER. I agree with that and I think we are probably trying to get to the same point and the question is how do we get there. I have the feeling that nobody buys anything from anybody else that

he can produce for himself, nor do they buy anything from one party that they can buy cheaper from another.

I think this is just one of the facts of life that surround human nature. I want to talk to you a little bit in a limited way about how we might do some things to improve what goes on today. I do this having taken total disagreement yesterday with some college professors who in my opinion are theorists who take the position that we in this country should not do anything and we shouldn't give the President any authority to retaliate against what they themselves described as unfair competition.

It was a little hard for me to understand how anybody could admit that something was unfair and then say don't do anything about it, just accept it.

It appears to me that tariffs as such become a smaller and smaller problem but tariff problems are continually being replaced by bigger problems involving non-tariff barriers.

I asked a question of some people earlier this week, why people took investment and production capacity overseas, was it because of our inability to compete by producing at home, to compete in export markets in foreign countries or was it because of the nontariff barriers erected overseas in the non-developing countries and the already so-called industrialized nations, and the answer was it was both, that there was no priority attached to whether it was more predominantly nontariff barriers or our ability to compete.

Can you tell me how we can get rid of nontariff barriers? I think we have to accept the fact that we have to have some trade from overseas because we have too much productive capacity in this country to limit it to producing for just Americans.

We have to find some way to sell and do business with the rest of the world on at least a quid pro quo basis.

Can you tell me how we can best move to get rid of the increasing problem of nontariff barriers as far as the developing and already industralized nations are concerned?

Mr. ABEL. I feel very strongly about this: that a lot of these problems must be worked out at trade conferences where our position and our problems are submitted and submitted with ample force so that we get some recognition for fairer treatment from the leaders of other governments in this whole problem.

Now, there are many ways beside tariff barriers and certainly we do not believe that tariffs are the answer by any stretch of the imagination. We think as an example that quotas with participation in our markets are by far the more sensible approaches but we certainly recognize that other governments resort to other means of curbing our exports from going into their countries.

As an example, you might well ship a Cadillac to Japan but you can't drive it on the streets of Tokyo during the busy hours. So what is the point in having the Cadillac in Japan.

We know that we can't export steel there and give it away because they have restrictions and curbs. All these things in our judgment must be put on the table at trade conferences and our Government has to start representing the American people and American industry by more forcefully presenting our problems and our attitudes. That is what we think the Burke-Hartke bill will do in strengthening the

bargaining position of the American Government. It will assure that the well-being of the American people, not just the well-being of a few corporate interests who are intent and determined to exploit the whole world market and the peoples of other countries, is given full notice.

Mr. WAGGONNER. Nobody can argue with you about settling some of these issues in conference and we are not going to settle them until we get face to face with the problems on the top of the table.

Are you saying that we should not enact legislation which lets this administration—and it is an urgent situation I will agree—go to conference with the other nations of the world to talk the specifics of trade if we mandate into legislation a guid pro quo?

Mr. ABEL. Well, we believe that this Congress should not enact legislation authorizing one individual with full authority to determine our trade policies. We think that this is something that we all have a great interest in.

We should all be a party to determining what our policy should be and certainly Congress should be looking over and giving its stamp of approval on whatever our trade agreements and understandings might be.

Mr. WAGGONNER. Could you tell me what you would recommend as an alternative to giving one man, in the final analysis the President, the authority to guide a team of negotiators who produce something for him to base a decision on?

Mr. ABEL. Well, I think certainly you advise and counsel and somebody has to give direction but I think when it comes to arriving at some understanding again the Congress of the United States should be the entity that would either veto or affirm and approve the actions that we take rather than one individual regardless of who that individual might be.

Mr. WAGGONNER. Do you believe that the authority proposed in the bill with regard to the authority provided to the Congress to veto nontariff barrier agreements is sufficient?

Mr. ABEL. No, I think it is important that the Congress does have that authority to veto.

Mr. WAGGONNER. You consider that a good provision?

Mr. ABEL. That is right.

The CHAIRMAN. Mr. Duncan will inquire, Mr. Abel.

Mr. DUNCAN. Mr. Abel, I want to thank you for your very comprehensive statement. I know the work that you and your committee have put into it.

Are you aware of the fact that the administration bill actually does have a section in it, section 103, that permits the Congress to veto any action in the agreement within 60 days?

Mr. ABEL. But you don't provide the standards for any of this exchange in these agreements.

Mr. DUNCAN. The standard is written into the bill.

Do I take it that you are opposed to the entire bill? You would just as soon have nothing as have this bill.

Mr. ABEL. No, we are supporting the Burke-Hartke bill.

Mr. DUNCAN. You are opposing this bill?

Mr. ABEL. In preference to the President's bill.

Mr. DUNCAN. If you couldn't get the Burke-Hartke bill you would just as soon have nothing, is that right?

Mr. ABEL. Rather than giving broad blanket authority to one individual and of course we are very much opposed to many other provisions of the President's bill.

You might say that we would prefer nothing to the President's bill, yes. We do want the Burke-Hartke bill.

Mr. DUNCAN. I am sure that the Japanese and the Common Market countries will be very happy to hear that.

Mr. ABEL. No doubt, no doubt.

Mr. DUNCAN. If you would just as soon have nothing then we would be in the same position we are in today.

Mr. ABEL. They would be equally happy, I would say to see the President's bill enacted by Congress.

Mr. DUNCAN. Well, they are coming in opposed to it anyway from those countries.

Mr. DENISON. I think what we are saying, Mr. Duncan, is that if the Congress turned down the administration bill there is still a need for legislation and you would go back and write a bill that is stronger in this regard, but if this bill is enacted it means we will go 2 or 3 or 5 years down the road before we realize as a nation that this is not going to work either.

Mr. DUNCAN. I think all of us want the same thing and perhaps want to take different routes to achieve it. I am very much interested in many of the things that you are talking about but I think we are fooling ourselves when we sit here and say the Burke-Hartke is the only thing because I think most people think that is not passable.

I would like to see something because the people I represent would like to see some protection against the nontariff barriers of these countries and to see that free trade be not a one-way street but a two-way street.

There are many changes that I think all of us including the trade unions could work out and take the best part of all of it. The Burke-Hartke has some good things in it.

Mr. DENISON. We think it would be to the advantage of the negotiator if he went to these meetings with the Burke-Hartke provisions in hand. He would be strengthened and could negotiate on non-tariff barriers in a position of greater equity with those nations which have raised them in the past 10 years.

At the moment he has relatively little to deal with.

Mr. DUNCAN. Our negotiators have always complained that they went into these negotiations without authority and the negotiators for our trading partners actually had authority while ours had to come back to the Congress.

Mr. DENISON. As old trade union negotiators we are used to going back to the membership for ratification so this doesn't bother us.

Mr. DUNCAN. Thank you very much

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Karth will inquire.

Mr. KARTH. Thank you, Mr. Chairman.

I have no questions.

I merely want to join the committee membership, Mr. Abel, in complimenting you on what I consider to be well marshaled and well organized facts in support of your position. I want to commend you for an excellent statement.

Thank you.

Mr. ABEL. Thank you.

The CHAIRMAN. Mr. Brotzman?

Mr. BROTZMAN. One of the large problems that I see developing in this whole area is the trade preference problem where developed country A grants a trade preference to less developed country B and then a reverse trade preference is granted back to the developed country.

I wondered whether your answer was to breaking down this web of resistance to American trade?

Mr. ABEL. I am not sure that I understand exactly what it is you are asking there, Congressman.

Mr. BROTZMAN. I just tried to identify the problem. I wondered what you thought we should do about this.

Mr. ABEL. About trying to break down the barriers to our trade.

Mr. BROTZMAN. Well, these preferences and reverse preferences that are springing up around the world. In other words, it is a bilateral thing that is developing. Of course, if A and B are trading with each other it means that we are going to have a pretty tough time getting into that market. I have heard you say and we certainly agree that we have to expand our productivity and expand these markets——

Mr. ABEL. No question.

Mr. BROTZMAN [continuing]. For the general welfare of our people and those that you represent, the American workers. I wondered what if anything you recommended be done to break down this web.

Mr. ABEL. Well, I happen to think myself that this kind of a problem can be approached in many ways through our direct trade negotiations. Furthermore I happen to believe strongly that the well-being of all the people of this world hinges to a great extent on the United States making the United Nations a more effective instrumentality for good.

I think many of these problems that we are confronted with now and many of the retaliatory and cozy arrangements that might exist around the world can best be dealt with in the family of nations when we get into those kinds of discussions.

I think it is way over due for this government to take a more active role and stronger position in the work of the United Nations.

I think we would solve many of these problems that you allude to through that kind of action.

Mr. BROTZMAN. Do you think that we should have something in the form of legislation? Is there something that we should do to at least give somebody the authority to try to tear down these barriers or at least to negotiate?

Mr. ABEL. Not only give the authority, sir, but to make all peoples aware that we do have this kind of authority, we have these kinds of concerns certainly.

I think up to now you have a strong feeling around the world that we are pretty easy going, you know, and our mission in life is to take care of everybody else's problems but our own.

Mr. BROTZMAN. I am just bringing out one of the multitude of problems and you have mentioned some in your testimony.

I think you agree that if we don't do something about this one we can look forward to a greater and greater trade imbalance as time goes on.

Thank you very much.

Mr. ABEL. Thank you.

The CHAIRMAN. Mr. Abel, let me just inquire briefly if I may.

I have such a high regard for the capacity to think this through on your part and the part of Mr. Meany and others in your organization that I want to ask just a few questions that would better enable me to understand labor support of the Burke-Hartke bill right now.

What would be the cutback initially, say, in imports into the United States from abroad if we adopted a base limiting imports in these instances to the level of 1965–69 and it became effective with respect to imports coming into the United States January 1, 1974?

How much would we cut back in the imports that we will receive into the United States on the basis of estimates for 1963, say.

Mr. GOLDFINGER. Mr. Chairman, we don't have the data with us but of course if that base date were used there would be a significant cutback, although there would be exceptions, such as those for goods in short supply in the United States.

The CHAIRMAN. What base would you now recommend?

Mr. GOLDFINGER. The 1965–69 base date which is the one you refer to.

The CHAIRMAN. It would be $10 billion to $15 billion, somewhere in that neighborhood.

Mr. GOLDFINGER. Yes, something like that.

The CHAIRMAN. What base do you recommend that the committee use?

Mr. GOLDFINGER. We are sticking with that 1965–69 base date but our view as we have explained many times is that obviously this bill like other pieces of proposed legislation is not carved in stone and perhaps another base date could be developed to regulate the rise of imports of goods that are not in short supply at home.

The CHAIRMAN. You recognize of course what worries me, that if we use this base date that we would be charged with having reduced imports and under the provisions of GATT the other nations then could reduce our exports to them by an equal amount if we could not reduce duties on other items not subject to the reduction here.

So that we would still receive the total of our imports during future years that we did receive in 1973, say, and I don't know that the President could find places where he could reduce enough to make up for anything like $10 billion to $15 billion of imports, Mr. Abel. That is what worries me, being retaliated against.

Mr. GOLDFINGER. Mr. Chairman, you know that the key point that we are addressing ourselves to in this section of the bill, on this issue of restricting imports, is the urgent need to regulate the flood of imports. We have been flooded with imports during the past decade.

The CHAIRMAN. I agree with you and I am in entire sympathy with that objective. I have had something to do with some of the arrangements that have been worked out in the past that have put a limit on the amount of increase in imports from year to year and I welcome a chance to do that in other areas so as to control it.

Have you thought in terms of what the increased cost to consumers might be if we passed the Burke-Hartke bill out just as it is?

Mr. GOLDFINGER. Well, Mr. Chairman, we think that there would be very little if any increased consumer prices. There might be some very slight increase in such prices.

The CHAIRMAN. You disagree with the estimate made of as much as $20 billion?

Mr. GOLDFINGER. We entirely disagree with the Importers Association and with their spokesmen like Fred Bergsten at Brookings who wrote a propagandistic pamphlet for them. We utterly disagree with them and furthermore, Mr. Chairman, the alternative that has been posed by the free traders is the continuing devaluation of the American dollar which is inflationary domestically.

We are suffering now from the two devaluations in terms of our domestic inflation.

A good deal of this inflation at home is the result of the devaluations.

Mr. DENISON. If I could add to that, in our appendix No. 6 we include tables there showing the increases in prices of goods that are subject to quotas and goods that are not subject to quotas as imports. Overall the goods we use as examples, such as undershorts, shirts, sugar, beef, cheese and items of that nature all of them under quotas have risen in price less than the goods not subject to quotas and less in price than the overall consumer price index.

So that quotas per se do not mean higher prices. In the example we gave, they actually show lower prices.

The CHAIRMAN. I wanted to get your thinking about that because of the testimony that has been presented to the committee that we might have an upward adjustment even in prices here to the consumer.

What anticipation do you have as to the employment effect of the Burke-Hartke? Of course, you view if I understand as a basis for increasing the employment here in the overall I take it?

Mr. ABEL. Yes, sir.

The CHAIRMAN. What would be the relationship? Say we jump our employment in manufacturing. How much of your employment would we lose as a result of reductions in imports or in some of our services or in our shipping and things of that sort?

Mr. ABEL. We don't think we would lose jobs but that we would gain them.

The CHAIRMAN. What is your basis, Mr. Abel, for that conclusion? I am interested in your thinking.

Mr. ABEL. In the steel industry as one example, and I can speak better of that because I live with it daily, we have lost in the neighborhood of 150,000 jobs since 1965.

The CHAIRMAN. In the steel industry?

Mr. ABEL. In the steel industry, and we have increased the production of steel substantially during that same period of time. Roughly 40 percent I believe the figures are. At the present time we have imports of steel running roughly 18 millions. That is comparable to the entire capacity of the United States Steel Corp. or it's comparable to the total capacity of Republic Steel, National Steel, and Armco Steel.

Those companies, the United States Steel Corp. for example would be the equivalent of about 125,000 additional steel worker jobs right there.

The CHAIRMAN. As we have imported that steel, Mr. Abel, how much have we exported in any comparable period?

Mr. ABEL. Well, we exported several years ago a relatively high figure. We got up around 7 million tons but normally it is around 3 million to 4 million.

Here again it is the low-grade, low priced steel that we export.

The CHAIRMAN. Where there is less profit?

Mr. ABEL. That is right, where in contrast the high price tool steel and stainless steels are coming into this country.

The CHAIRMAN. Let me ask you what is the reluctance in your opinion, Mr. Abel, on the part of the business side of the steel industry to try to export more steel.

Mr. ABEL. Well, No. 1, I think the American steel industry wants to safeguard and develop the American steel industry and not become a multinational corporation.

No. 2, I point out that it takes a substantial amount of money to build a steel mill. Our industry as an example has invested in the neighborhood of $16 billion in modernization and expansion of the industry in the last 10 or 12 years. This is an awful lot of money.

The CHAIRMAN. It is. I agree with you.

Let me ask you this for information.

I have been told that more or less historically the only one of the larger steel companies that has tried to conduct export business has been United States Steel. Is that right or have all the others also tried?

Mr. ABEL. Some of them haven't to be sure. Some of the steel companies don't have that amount of potential business to go out and search for United States Steel does do an outstanding job of trying to develop an export market.

The CHAIRMAN. Friends of mine in business in Germany—and when I say friends I mean I know them—tell me that now West Germany is having to import into West Germany for domestic use about 30 percent of its total steel consumption. Practically all of that import is from Belgium.

Now, is it impossible for us because of non-tariff barriers or something else to be able to get American steel into the German market?

Mr. ABEL. No. I am sure United States Steel would be happy to have part of that business. Perhaps not right today with the high demand that there happens to be in the American market today but on a normal business basis I am sure they would be happy to have it.

The CHAIRMAN. I understand also, Mr. Abel, that the demand is not just here but that there is considered to be right now a world shortage of total steel production?

Mr. ABEL. That is correct.

The CHAIRMAN. That is in your opinion the reason why the producers of steel within the Common Market as well as Japan so far this year you are not exporting to us steel at levels that they are permitted to export under the agreement.

Mr. ABEL. Well, I think that plays a role beause they have a greater domestic demand for it and the British steel industry has been limited somewhat because of labor problems there. This itself helps and of course we here have an exceptional demand that is keeping the industry pretty well in operation.

The CHAIRMAN. Did the policies of management in the steel industry following World War II, Mr. Abel, of limiting their production when we had a large demand for all steel products to the more profitable lines make any contribution whatsoever to our importation of, say, galvanized steel, nails, and things of that sort where the profit is less?

Mr. ABEL. I think it did particularly in the nail and staple phase of the industry at one time and the re-inforcement bar ends of the industry. I don't think there is any question.

In the wire goods division there was a lot of your market lost there because, I happen to believe, of an indifference on the part of the industry to renew their plants and their operations.

The CHAIRMAN. As I have served here for these years and heard so much testimony, I have had questions in my own mind as to whether or not frankly the American businessman has done all he could do to improve his situation not only here but in sales abroad.

Mr. ABEL. I think you are quite right. They haven't done all they could do. If they had we wouldn't have near the problems we have.

The CHAIRMAN. I think you are right.

Mr. ABEL. I do think and I am happy to believe that, again going back to our industry, there has been an awakening on the part of the management people and an awareness of what has to be done to keep the American steel industry the important force in this country that is necessary.

The CHAIRMAN. I agree with you completely that present management is more alert than I have thought it to be in the past. But I think I could also say that that is true in many other segments of industry where the leadership of the past perhaps has not utilized as much ingenuity as it should and younger leadership coming in is going to develop that wiser leadership.

Maybe there is a brighter future for us.

Mr. ABEL. I am quite encouraged by what I see myself, Congressman.

The CHAIRMAN. I just want us to become if we can a much larger producer of goods for export and, if we can't do it, I am willing to invite the Japanese and Germans to come over here and show us how.

Mr. ABEL. Quite frankly we are the ones that showed them how.

The CHAIRMAN. I understand but I think they have surpassed us in ingenuity along the way. I have taken too long.

Mr. Archer?

Mr. ARCHER. Mr. Abel. can you tell what the comparative unit labor cost per ton of steel is in the United States today as compared to West Germany and Japan?

Mr. ABEL. No, I can't give you those figures offhand. I can give you some estimate of manhours required. We are lower than any of the foreign countries, Germany or Japan in the manhours required to produce a ton of steel. They are still up around 12 or 13 manhours per ton and we are below 11 manhours, but there is also the differential in earnings so that I am not in a position to give you cost figures.

Mr. ARCHER. Of course, that is a healthy thing and I am glad to get those figures but ultimately the proof of the pudding is in the eating and the proof in this instance is the total labor cost not just the hours that go in when you compare that factor with respect to a ton of steel.

If you can get those figures for us I certainly would appreciate having them.

Mr. ABEL. I might say one of the factors that goes into the cost of a ton of steel is the scrap. Because of our unlimited exports of scrap steel to Japan at the present time many of our companies are having great difficulty getting scrap and they are paying as high as $60 a ton for scrap that just a few months ago was selling at $28 or $30 a ton. These are not wage costs. These are material costs and they are brought about by unlimited export.

Mr. ARCHER. What presently in this country is the percentage of the total cost of steel that is labor and what percentage is material cost?

Mr. ABEL. I can't give you that figure at the present time. I am sorry.

[The following was subsequently supplied:]

The comparative unit labor costs figures for the iron and steel industries in the United States, West Germany and Japan reflect both output per man hour achievements in these countries and comparative labor costs. Unfortunately, 1971 is the latest year for which the U.S. Bureau of Labor Statistics now provides these comparisons.

In 1971, according to the BLS, unit labor costs in West Germany ranged from 69% to 86% of the U.S. average. If we take the midpoint, the West German average is 77.5%. Unit labor costs in Japan, according to the BLS ranged from 28% to 35%. At midpoint, the Japanese average is 31.5%.

Since 1971, dollar devaluation and the revaluation of the mark and the yen have somewhat narrowed these gaps.

Mr. ARCHER. We have had testimony before the committee recently by former Secretary of Agriculture Orville Freeman that the greater the foreign capital investment the greater the jobs produced here in the United States. He had a number of charts and facts to back up his presentation. I wonder if you have any figures as to how many jobs we will lose if we turn off capital investment abroad and force that capital to come back to this country.

Mr. GOLDFINGER. We think we would gain employment, sir. We think that the regulation and curtailment of the export of American technology and American capital would result in an increased employment rather than reduce the employment.

In the appendix to Mr. Abel's statement there is a long section on the export of jobs by multinationals and an examination of the various studies that deal with the employment impacts. We believe that we have lost a substantial number of jobs net, net loss of jobs as a result of this entire deteriorating trade situation.

Mr. ARCHER. How would we hope to pick up any jobs if we lost the ability to compete in other countries of the world by products that are manufactured there. Let me take the tire industry where imports back into this country are less than 1 percent of its production in plants abroad. If we cut off the ability of those people to compete in the foreign markets, those jobs that are present in the United States of America that relate to that function are going to be lost and they are not going to be picked up anywhere else because the tires cannot be made here in this country to compete in these foreign markets.

There are many many other industries that fall in this same category. If you have some substantive proof and facts that back up your statement I think it could be very helpful to the committee.

Mr. GOLDFINGER. Sir, the rubber workers union has provided us and I am sure that they would provide the committee with information on the import of tires but, in terms of today that I have available right at hand from the Department of Commerce, in the period between 1965 and 1971 the rise of imports of rubber products was almost 460 percent.

In 1965 the importation of rubber products was very very small and by 1971 it had jumped to $263 million whereas at the same time the increase in the exports of rubber products in that same period of time was hardly more than 20 percent.

So that here again in another industry we have a clear picture of deterioration.

Mr. ARCHER. Well, of course, when you deal with percentage figures it is like you are saying that if you increase the labor costs in Taiwan from 10 cents to 20 cents that is a 100 percent increase. Those figures can be misleading.

Mr. GOLDFINGER. Yes, sir, but I am trying not to be deceptive.

Mr. ARCHER. I didn't mean to imply that you are intending to be deceptive.

Mr. GOLDFINGER. Let me fill you in a little more. By 1971 we were importing a greater dollar volume of rubber products, $263 million of imports as against exports of $205 million whereas in 1966 we had a clear export surplus.

This has happened in one manufacturing industry after another.

Mr. ARCHER. I think this proves the point that I am making, that if we discontinue our ability to compete with the foreign plants in the production of tires we are not going to pick that up by being able to export them from their country. We are going to lose every job that is related to the production of those tires overseas of which there are many in this country.

So this is something that has troubled a lot of us on the committee and we want to seek the same goals and ends that you do but we are concerned about whether our net is going to be a loss as a result of this.

Let me ask you one other quick question, Mr. Abel. You have talked about the conditions that labor faces in several countries around the world. I believe you specifically mentioned Taiwan and Hong Kong, and Ireland is another area that I understand is very depressed from the standpoint of wage rates.

Are you recommending basically to this committee that we shut off the importation of all goods manufactured in countries of this type such as Taiwan, Hong Kong, and Ireland.

Mr. ABEL. No; but we certainly could lay down or attempt to lay down some of what we describe as fairly important standards just as we do in our internal trade relations in this country. We can have a tremendous impact by saying to certain countries, "If you want to trade with the United States then you are going to provide for your workers certain minimum standards."

Mr. ARCHER. Would not the effect of that be what I just mentioned though, that if they failed to comply with the standards that we set up that we would then bar the importation of their products.

Isn't that the only way that we could enforce such an agreement?

Mr. ABEL. That would be the only way; that is true.

Mr. ARCHER. So basically it would be your recommendation to the committee that if these other countries did not comply with the standards that we would set as fair labor standards that we would then bar the importation of products from that country?

Mr. ABEL. We are talking about imposing fair labor standards on an international basis?

Mr. ARCHER. Yes.

Mr. ABEL. They don't comply, that is right.

Mr. ARCHER. If they don't do it we would bar completely the importation of products from that country?

Mr. DENISON. I might add, Mr. Archer, that under the Burke-Hartke bill those goods coming from Taiwan and Korea and Hong Kong would be guaranteed a portion of the market they don't have today. The bill would guarantee them a part of the market, and they would be guaranteed a greater piece of the market as our consumption increases here. Of course, Taiwan in particular, and those other countries, have industries that fled from the United States.

Mr. ARCHER. Let's suppose that they don't comply with these fair labor standards.

Mr. DENISON. The Burke-Hartke does not have that labor provision feature.

Mr. ARCHER. It would not concern you that Ireland and Hong Kong and other countries would possibly bar importation of products from the United States as a result of our action?

Mr. DENISON. Most of these nations have taken retaliatory measures against us and will continue. We think they will continue to buy from us what they need and will not buy what they don't need. A good illustration of that is that Japan buys cotton from Mexico and not here but Mexico has quotas against Japanese products and we do not. They go where the goods are and where the price is and where the market is.

Mr. ARCHER. Thank you very much.

Mr. VANIK. Mr. Chairman.

The CHAIRMAN. Mr. Vanik.

Mr. VANIK. I want to say that I am not one of the cosponsors of Burke-Hartke. I have tried to keep my objectivity and hear all of the testimony that we are going to hear before this committee so that I could retain flexibility.

I have great problems with the administration bill and its wide discretions. I certainly don't believe that we could go the full route with that proposal.

I wanted to ask you, Mr. Abel, excepting for the good production of 1973 in the steel industry, how has the voluntary agreement worked out?

Mr. ABEL. It has worked out fairly well, but at certain periods there has been lack of enforcement on the part of our own Government, in our opinion. An example is that for 1971 under the quota arrangement the imports should have been limited to roughly 15 million tons. Instead there were 18.3 million tons brought into the country. So somebody was lax, although I must point out that not all exporters of steel or importers of steel into this country are covered by the quota arrangements. It applies only to the Common Market countries and Japan.

So we do have a number of countries that are making steel and exporting it to the United States that are not covered by the quota agreements. Some of that would be attributable to those countries, but there wasn't the policing of it like there should have been.

Mr. VANIK. What were the long-range achievements of the agreement?

Mr. ABEL. The long run achievements provided at the outset a small rollback in the amount of steel imports, and the first agreement provided then for a five percent improvement factor geared to our market. This proved to be excessive. In other words, our entire expansion went

to imports. So this current agreement provides now for only a 2½ percent per year increase factor, which is pretty much in line with the improvement factor of our economy.

The CHAIRMAN. Would you yield briefly.

Mr. VANIK. Yes, certainly, Mr. Chairman.

The CHAIRMAN. I want you to clear my conscience of one thing. I admitted earlier that I did have a part to play I thought in the original arrangement that was worked out. This arrangement to limit the importation of steel, however effective it has been, is in no way responsible, is it, for the fact that since the agreement went into effect the price of steel in the United States has gone up 60 percent?

Mr. ABEL. No.

The CHAIRMAN. Good.

Mr. ABEL. Not at all.

Mr. VANIK. Did the agreement prevent the construction of facilities abroad for production for the American market?

Mr. ABEL. Did it do what?

Mr. VANIK. Did it prevent in any way or deter the development in foreign countries of extensive facilities to create and produce steel for the American market?

Mr. ABEL. Oh, no. The capacity has been expanded steadily, particularly in Japan.

Mr. VANIK. Abroad.

Mr. ABEL. In fact, we have now reached the point last year when Japan outproduced America in steel production. Their capacity is larger than ours.

Mr. VANIK. Now let me ask you this: What is the position of the steel industry on Burke-Hartke? I don't recall having seen an industry position. Do they join you in this position or are they silent or opposed to you?

Mr. ABEL. I am sorry to say that they don't join us. I think in many respects many of them would like to, but they are evidently businessmen first and business by and large is opposed to Burke-Hartke. That is the only justification I can give for that because they have certainly demonstrated just as much concern and just as much awareness of the need for some action in this regard as we have. Many of our actions have been joint, as you might know, including just recently the development of a co-sponsored film entitled "Where's Joe?" showing the real impact of foreign imports on jobs and on business in this country. But they do not join, in answer to your question, in support of Burke-Hartke.

Mr. VANIK. With respect to the tax provisions of Burke-Hartke, what would be your reaction to a limitation of, say 10 years on deferred repatratiation, or a 10-year deferral provision on foreign earned income?

Mr. GOLDFINGER. We see no reason for such a provision. We are simply opposed to the deferral.

Mr. VANIK. Entirely?

Mr. GOLDFINGER. Entirely: We see no reason for the deferral. We see the deferral as one element of the encouragement that the U.S. Government provides for overseas investment by U.S. companies.

Mr. VANIK. Under the present conditions you did mention, Mr. Abel, the tremendous exports of scrap to Japan which has increased

the price of scrap in the United States. I am very much concerned as to other things that can happen with respect to unlimited exports. For example, it is possible under the law that an aggressive trade policy in agriculture could result in a situation where we could export ourselves into scarcities in highly important agricultural products such as wheat or soybeans or beef. Some of the foreign countries today are so heavily loaded with dollars that they could buy up all our beef and limit us to a vegetable diet. They have that capacity.

Do you feel that some provision should be included in this bill to put a limitation on exports if they are disruptive to the market, to consumer prices, to the prices we have to pay in the United States?

Mr. GOLDFINGER. Congressman, we think that while the situation currently is nowhere as drastic as you describe, the possibilities are that we are in that kind of situation right now.

Mr. VANIK. The potential is there.

Mr. GOLDFIGER. We are exporting huge amounts of wheat, corn, soybeans, feed grains of all kinds, pork, and other agricultural products, exporting logs as well as exporting large amounts of scrap iron, as Mr. Abel pointed out, while at the same time the domestic prices goes up, and in the case of some of the feed grains and soybeans and hides, the prices have soared.

So that by all means we need some kind of export controls on these kinds of products so long as the domestic supply situation provides the basis for domestic inflationary conditions. A good deal of the domestic inflation currently can be traced to these kinds of conditions and they in part are also related to the devaluations of the American dollar.

Mr. VANIK. A price explosion through excessive exports of a given item.

Mr. GOLDFINGER. Right.

Mr. VANIK. One of the things that I feel ought to be in this bill, or whatever bill we write, is a consumer section. Something that would provide some protections for the American consumer on either side of the trade issue, both exports and imports, so that if prices are high because of policies that restrain imports, then we ought to probably open up the imports. On the other hand, if prices tend to be higher, or out of balance, or out of line because of excessive exports of a given item, perhaps they ought to be somewhat restrained so that the American citizen doesn't through a trade bill negotiate himself out of decent prices in this country.

Mr. GOLDFINGER. But, sir, it is worse than that. Under the DISC provision the export subsidiaries of American companies are now getting tax deferral on 50 percent of their benefits for exporting goods which are in short supply at home, such as the export of scrap steel, soybeans, feed grains, corn, logs, and so forth.

Mr. VANIK. In other words, there is a tax incentive to export.

Mr. GOLDFINGER. We think it is a subsidy.

Mr. VANIK. And increase the price of the commodity in the United States.

Mr. GOLDFINGER. We think there is a subsidy. We call it a subsidy. Regardless of what you call it, it is there, and it is a definite financial advantage. Furthermore, under the statute that was adopted back at the end of 1971, the President does have the authority to remove or to suspend the DISC operation for the export of those products which are in short supply, but he has not done so.

Mr. VANIK. He has never exercised it.

Mr. GOLDFINGER. He hasn't, and we are in short supply on scrap steel, as Mr. Abel pointed out. We are in short supply in logs. We are importing lumber and exporting logs, and a whole list of agricultural products, including hides, soybeans, and feed grains that are in short supply.

Mr. VANIK. Do you have a record of requests made on the President to exercise this?

Mr. GOLDFINGER. I believe Members of the Congress have done so. The AFL–CIO has issued several statements even within the past week on this issue.

Mr. VANIK. Thank you very much.

The CHAIRMAN. Are there any further questions.

Mr. Waggonner.

Mr. WAGGONNER. Mr. Abel, could you tell me what the average hourly wage of a steelworker, including overtime, is in the United States and in Japan and in England.

Mr. ABEL. In the United States it is running now roughly $5.10, or $5.12 an hour. In Great Britain, I think it is considerably short of the $4 mark. In Japan I think it is considerably less than $3.

Mr. SCHNEEBELI. Will the gentleman yield?

Mr. WAGGONNER. I say could you give me Germany too?

Mr. ABEL. No, I am afraid I can't.

Mr. SCHNEEBELI. Would the gentleman yield?

Mr. WAGGONNER. Yes.

Mr. SCHNEEBELI. Does that include, Mr. Abel, the many fringe benefits in Japan?

Mr. ABEL. I am talking about just take home pay.

Mr. SCHNEEBELI. In Japan, as you recognize, they have many more fringe benefits than we have here. So they may not be too comparable on an overall compensation basis.

Mr. ABEL. No. They do have lifetime tenure.

Mr. SCHNEEBELI. Plus vacation cottages and other benefits.

The CHAIRMAN. Mr. Carey is recognized.

Mr. CAREY. Thank you, Mr. Chairman.

Just briefly I want to comment that in my estimate, with the testimony, and especially the very extensive appendices, what you have done, as far as this Member is concerned today, is to make me believe that the administration bill is not quite divinely inspired.

We have been led to believe that the administration bill would really go all the way and make us a fair and foremost trading partner, and that we had nothing to worry about if we just gave the President all this power and went into the combat of trade, and we would come back better off. You have convinced me that a lot needs to be done to make this bill acceptable to our industrial based economy.

Secondly, the Burke-Hartke up to now has been the demon of the piece that would ruin the American economy. I don't say you have made both bills less angelic, or more so, but you have taken the horns off the Burke-Hartke.

I think this has been most helpful in one respect alone. Your analysis that in the high development labor intensive areas we have net reductions on the 66–67, two periods in the non-electric area, and the sole major area of gain is the chemical and allied products industry where

we have what is the most bothersome to our trading partners, a barrier remaining, the American selling price. So that is a rather strong argument that some barriers indeed have an impact upon restoration and creation of jobs.

Yet I find in discussions with Administration people and State Department people and others that the first thing they are prepared to give away and offer to evade entirely is the American selling price on Benzenoid chemicals. It makes me wonder what we are going to get in return for some of the giveaways.

Secondly, the rush, the great impulse behind this bill to get it out and moving seems to be to be prepared for the GATT negotiations to be taken up in the fall. I get more and more the impression after hearing from Secretary Butz that we want to get in there in a hurry while we have high technology successful low cost farming operations in the country to get that offer to the Europeans and other trading partners so that they will get the benefit of that, and we can break in and possibly eliminate their common agricultural policy in some regard or their variable levies so that we will get the benefit of the one great technologically superior area where we have products that will improve their standards of living, but may very well increase the food and fiber costs of the people in this country.

I am not in all that hurry to get to the GATT negotiations. If all we are going to do is increase agricultural exports with no adequate return in the industrial sector. I think you have shown that to be a very clear indicator that we have to watch out for.

Finally, as you point out, some of the major beneficiaries of a new round of worldwide trade negotiations are not members of GATT, not members of the family of democratic nations, Russia particularly, but she seems without a trading bill to be doing pretty well. We heard from Secretary Butz she is buying butter from the French at 19 cents a pound. She is getting a truck factory. In fact, in the one area where we could probably exploit our advantage over Russia, namely food exports she has bartered with an American company for the production of a fertilizer company to have high technology to assist in her farm production. So that as fast as she can, using American know-how, she may not need our farm exports very much further.

I think we have to look at who are the partners around the table before we get too much further, and I am strongly impressed by your advice that we need the strongest possible negotiating team with the strongest possible backup in legislation behind it to make certain that everybody around the table knows that we mean business, particularly American business.

Thank you, Mr. Abel, for your help today.

Mr. ABEL. Thank you.

The CHAIRMAN. Are there any further questions.

If not, again we thank you, Mr. Abel, and those at the table with you for a very fine presentation and your response to our questions.

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

The CHAIRMAN. Without objection the committee will recess until 2 p.m. when Mr. Kendrick will be our leadoff witness.

[Whereupon at 12:25 p.m., the hearing was recessed, to reconvene at 2 p.m.]

AFTERNOON SESSION

Mr. ULLMAN [presiding]. The committee will come to order.

Our next witness is Mr. Marron Kendrick on behalf of the Builders Hardware Manufacturers Association.

Mr. Kendrick, we welcome you and your colleagues before the committee. If you will further identify yourself and your colleagues for the record, we will hear you.

STATEMENT OF MARRON KENDRICK, PAST PRESIDENT, BUILDERS HARDWARE MANUFACTURERS ASSOCIATION, ACCOMPANIED BY CLYDE NISSEN, EXECUTIVE DIRECTOR, AND CLYDE HARTZ, CHAIRMAN, COMMITTEE FOR INTERNATIONAL TRADE

SUMMARY

The membership of the Builders Hardware Manufacturers Association endorse the broad purposes of H.R. 6767, THE TRADE REFORM ACT OF 1973. As a small industry, though, comprised mainly of small-to-medium sized firms, the Association's membership does recommend several modifications as follows:

A. TITLE II

1. Section 203(d)(4): Extend the permissible renewals to three of two years duration each.
2. Section 203(e)(2): Change the nine month checkpoint in petitioning the Tariff Commission to read twelve months.
3. Adjustment assistance is extended to workers under Section 202 if the President of the United States decides against import relief. Adjustment assistance under these circumstances should also be extended in this Bill in the form of tax rebates or reductions.

B. TITLE III

1. Section 303(b)(A): The determination of anything greater than "immaterial injury" should suffice and "immaterial injury" should replace "material injury" as a criterion.
2. Section 303(d): If countervailing duties are barred by the Secretary, then adjustment assistance for both workers and industry should be provided.

C. PREFERENCE FOR INCLUSION OF PORTIONS OF THE SO-CALLED SCHWEIKER BILL INTO TITLE III

1. Incorporate the Clayton Act market concepts in determining occurrence of dumping.
2. As in the provision for relief from fair trade practices under Title II, remove the requirement to demonstrate "cause" in determining injury.
3. Provide that injury can be found where there is reasonable likelihood of future injury.

The membership of the Builders Hardware Manufacturers Association endorse Title IV and Title VII. The Association and its membership are neutral on Title V and Title VI.

The Association reserves the right to offer further, possibly revised, comments and recommendations after other industry members inside and outside the Association complete their detailed analysis of the proposed Bill.

Mr. KENDRICK. Yes, Mr. Chairman. My name is Marron Kendrick, president and chairman of the board of Schlage Corp., of San Francisco. I am past president of the trade association of the hardware industry. I have with me our economist, Mr. Clyde Hartz, who is the chairman of the International Trade Committee for the association, and also Mr. Clyde Nissen, executive director of the Builders Hardware Manufacturers Association.

Mr. ULLMAN. We welcome you gentlemen and you may proceed.

Mr. KENDRICK. Mr. Chairman, we appreciate very much the opportunity to come before you to present our case. Our industry is not a large one but we are an old and well established industry. In fact, it dates back 3,000 years. Almost every one of the major firms has operated in the United States for well over 100 years. Our firm is a younger one, only 50 years in existence. It is the kind of business that requires great capital to get into and, consequently, there are not very many firms in the builders hardware business. It is a very necessary industry since it provides the hardware for all the moving parts of every kind of building, office building, home, hospital, school, or what have you.

Actually only one percent of the building cost is involved in the hardware, but without that very necessary one percent buildings cannot be finished. Builders hardware primarily consists of locks, hinges, hydraulic door closers—incidentally, the one on your main door is a hydraulic door closer that needs adjustment. The door should not slam the way it does every time someone goes in and out.

Mr. ULLMAN. We will be happy to have you stick around and fix it for us.

Mr. KENDRICK. I think I had better send you a new one.

All builders hardware has been furnished in the United States for many, many years with very little of it coming in from foreign countries. However, in the Kennedy round of tariffs, the tariff on hardware was reduced from 20 percent to 5 percent, and consequently in the last year the imports of hardware have changed from a very small amount to where they now exceed all of the exports of hardware from this country. In fact in the last year alone imports went up 47 percent, and that is what alarmed our industry. Our association quickly got together and formed a committee to investigate details further, and that is why we are here today to present our case. If it continues to expand at this rate we are very concerned that many of the smaller hardware firms of this country will be put out of existence.

The industry does not have a big enough budget to really defend itself, and perhaps we should have been here defending ourselves back in 1962, but we didn't do so and now we find that it is more important than ever that the industry be given more time to protect against these imports and, if possible, have some of the duties raised for a period of years until we can readjust to the sudden change in the import picture.

One of the things that bothers us particularly is that the imports at the present time seem to be a one-way street. The tariffs were lowered here in this country and the flood of hardware started to come in rapidly, whereas, our exports were not given an equal break in other countries.

As an example, in Canada where we have some business, we are still paying 17½ percent duty on everything that we ship into Canada. But Canada can ship into the United States for 5 percent.

In Mexico there is a complete embargo against any hardware going into Mexico but Mexico is regularly shipping hardware into this country, duplicates of many of the items made by us in this country.

Great Britain and Japan are also shipping hardware in here and shipping in at prices that are in many cases below the cost of the American manufacturers.

We are of the opinion that in many cases this hardware is being shipped in below the selling price of the same hardware in Japan or in England. In other words, it is being dumped here at a special price to break into the American market. Of course, there are rules against dumping but it goes on unless somebody makes a protest.

In 1972 for the first time the imports greatly exceeded all of the exports of hardware from the United States. If this picture is magnified throughout small industries and firms across the nation, then it is no wonder that we have a deficit in our national balance of trade.

Having served on the Federal Reserve Bank Board of San Francisco for the past 9 years, I am well aware of the very, very bad balance of trade that we have in this country.

Our hardware association strongly believes in free trade on a fair and equal basis. We don't mind competing on that basis in the world market. But at the present time it doesn't seem to be a fair and equal basis and we hope that in the adjustment of this trade reform bill you will be able to restore a fair and equal basis to the hardware industry of this country.

In our statement which we have filed with your committee we endorse the broad principles of the proposed Reform Act. However, we have recommended a few modifications which we would like to have entered on the record. I do not want to take your time to read them all, but they are spelled out in our statement and basically they are the extension of time, protection against dumping at lower prices than normal, and the reasonable amount of protection for the small firms that are being injured.

Mr. ULLMAN. Mr. Kendrick, your full statement will appear in the record, if that is the way you would like to have it.

Mr. KENDRICK. Thank you, I appreciate that.

The present 5 percent tariff on hardware imports is essentially no protection at all against much lower labor costs in the other countries where hardware is being manufactured. Hardware is produced in a very similar manner in every large industrial country. So it is a very competitive item. The lock has been perfected over 3,000 years and it has not changed too darn much except to get smaller and a little more sophisticated with better metals, but it is still the same principle whether it is in Europe, Japan, Mexico or any other country that may be shipping into this market.

One thing that particularly bothers us is the fact that this industry is such a capital intensive industry. It takes a great deal of money to get into it and to produce the quantity of hardware necessary for all the buildings in the country. Our firms have very large investments which would not be given any protection in case the foreign imports continue to flow.

Much of that machinery is very specialized machinery and hard to convert to some other product. I think some consideration should be given to financial assistance to the firms that are being injured by imports as well as to labor which is being displaced by imports.

In the bill there is a provision to take care of labor but there is no protection to the firm which has its money invested and may be put out of business. Several firms have already suffered in the hinge business from imports. We know of two that have already gone out of business.

We do not think that this request for assistance is out of order because, as I recall, when we went to war in 1941 our firm among others was called upon to convert from locks to fuses. We produced many of these fuses during the war and the Government naturally subsidized the change-over from door locks to bomb tail fuses and fuses for proximity shells.

We have rather unique skills in a wide variety of precision metal stampings that we make and our plants are easily converted to war production if necessary, and I am sure that our industry performed a great service during World War II.

We are really in another type of war, a trade war, and for the same reason we need assistance in converting to meet imports and help to increase our exports. The important thing is that our industry has had so much business in the United States that it has never made much of an effort to obtain export business and we think that with a little assistance provided by this trade reform bill that our many, many small industries in hardware and also other types of metal working can be encouraged to increase their exports and thereby improve the balance of trade. But they will have to have some assistance. The reason for this is that getting into foreign trade is very expensive. Our firm has been in it for 40 years and it has never been terribly profitable because it requires so many special things like brochures printed in foreign languages and foreign speaking staff and many travels abroad. When you don't have a large dollar volume it is hard to spread that cost around.

So, if a tax credit could be given to the hardware industry and to other small industries also, on the first $100,000 of their business, it would encourage small industry to get started into foreign trade. Then the tax credit could be reduced as they get up into, say, a million dollars worth of business and probably reduced again on the next $7 or $8 million worth of business. So that they would be finally launched into foreign trade on a large enough basis where they could carry themselves.

But these firms cannot make the first step into foreign trade without some assistance. That is the one major point that I think could be added to the bill which is not now covered in any way whatsoever. I am sure that such a plan woud encourage many thousands of small American industries, including the hardware firms that are not now exporting, to get out there and fight for the export market, create more jobs here and improve our balance of trade naturally.

[Mr. Kendrick's prepared statement follows:]

STATEMENT OF MARRON KENDRICK, BUILDERS HARDWARE MANUFACTURERS

PURPOSE OF STATEMENT

1. It is the purpose of this statement to present viewpoints of the builders' hardware manufacturing industry relative to proposed Bill H.R. 6767.

2. With recommended modifications, the builders' hardware manufacturing industry favors the broad purposes contained in the proposed legislation.

3. We strongly recommend modifications and, particularly under Title II and Title III, believe these modifications are necessary to ensure the orderly realization of the broad purposes incorporated into the Bill including the orderly adjustment of domestic industries.

INTRODUCTION

Builders' hardware includes hinges, cabinet hardware, door controls, locks and lock trim, exit devices, sliding and folding door hardware, padlocks, architectural

door trim and a wide variety of miscellaneous shelf hardware such as coat hooks, window locks, door stops, key blanks, etc.

The Builders Hardware Manufacturers Association is a trade group of American companies who manufacture builders' hardware items. The membership of the association accounts for approximately 75% of the total dollar value of builders' hardware items manufactured and shipped in the United States.

In general, the industry is composed of about 195 manufacturing organizations, ranging in size from those who employ less than 25 to companies whose employment exceeds 3,000. The companies are located nation-wide, with special concentrations in the lower New England area, in the Chicago area, and in California. In 1972, the net shipments of the industry amounted to approximately $850,000,000.

AN INDUSTRY STUDY IS UNDER WAY—A PRELIMINARY REPORT

A study of our industry is currently being undertaken by industry economists and others. Part of this study relates to international trade. A preliminary report was given to the Association's membership on May 5, 1973. One point made then was that the import duty on all import classifications of builders' hardware was reduced more than 75% under the Reciprocal Trade Agreement Acts and their extensions.

Increase in dollar volume of builders hardware imports, 1967–72

	Percent
1968	35
1969	31
1970	5
1971	20
1972	47

Over the last five years alone (1967 through 1972), import duty dropped 50% and the import of builders' hardware rose 226%. This gave imports approximately 12% of the domestic market in 1972 as measured in terms of physical units.

The study group concluded that imports will, unless action is taken, exceed 25% of the market in dollar volume and well over 30% of the market in physical units in less than ten years. The group pointed to the increasing automation of foreign builder's hardware manufacturing facilities and the liberal use of American hardware designs.

Increase in dollar volume of builders hardware imports: By major category, 1971–72

	Percent
Padlocks	83
Cabinet locks	18
Other locks	34
Door closers	25
Butt hinges	12
Other hinges	64
Hardware, n.e.s	47
Total	47

They also concluded that the export of hardware from the United States will not increase in physical volume unless steps are taken *beyond* the reduction and elimination of foreign tariff and non-tariff barriers to American-made builders' hardware items.

A major point in the preliminary report was that we are a small industry ($850 million in sales) comprised mainly of small-to-medium sized companies with a sprinkling of conglomerates owning one or two companies. The report went on and pointed to the demise of companies in the hinge and other sectors of the industry after the reduction of tariffs under the Kennedy Round of tariff negotiations. It suggested this reduction accelerated the decline in the number of firms from the 325 firms in 1958 to the appromixately 195 firms today—and projected a further decline in the next five and ten years. Along with this decline has come a drop in the industry's Return on Sales.

In commenting on the TRADE REFORM ACT OF 1973, as presently drafted, the study group underscored the possibility of tariff barriers being reduced once again. Their analysis shows that such a reduction would mainly affect the smaller firms. Such reduction would also result in the merger of more firms into

large organizations to enhance the chances for survival and, unfortunately, such reduction would further lengthen the list of companies leaving the industry.

A CLOSER LOOK AT REASONS FOR RAPIDLY RISING IMPORTS

American builders' hardware manufacturers are faced with certain unquestioned facts. Builders' hardware specifications published by the U.S. Department of Commerce outline a huge, mass market of builders' hardware products to which a foreign manufacturer may quickly and easily gear his operation. Efforts by the industry to refine these specifications (in conjunction with government agencies in many cases) to increase the security of American homes, office buildings, commercial establishments and factories are further outlining and detailing the American hardware market for foreign competitors.

The basic technology required to manufacture the majority of builders' hardware items is old and well known. The generosity of American industry, including the American builders' hardware industry, in aiding foreign countries to recover from the Second World War and in building the economics of developing nations has further upgraded foreign skills and manufacturing techniques. In many cases, the plants of foreign competitors are more modern than those of domestic hardware manufacturers.

Under these conditions, the less complicated products manufactured by the domestic builders' hardware industry—such as hinges, cabinet hardware, sliding and folding door hardware, shelf and closet items, etc.—have no important differences in general appearance or obvious performance characteristics to shield them from being displaced by closely resembling foreign imports. Since the foreign manufacturers are highly mechanized and have equivalent equipment, their production per man hour is nearly equal to ours. Their labor charges, including social benefits, though, are only one-third or less of the American rate. This tremendous disparity in wage rates gives foreign manufacturers a sharp advantage in the highly competitive American market.

Among the more complicated items manufactured by the domestic builders' hardware industry—such as door closers, floor checking hinges, cylindrical and tubular door locks, etc.—even more labor is required to fabricate products to meet American standards. Accordingly, because of the high percentage of labor costs in the finished product, the industry's competitive position against imported merchandise is vastly weakened. It is becoming more difficult for performance characteristics and design features to overcome the heavy price advantage enjoyed by imported hardware, even with present small import duty rates.

Another problem which faces the American builders' hardware manufacturer is the requirement that he comply with certain Federal enactments not binding upon the foreign manufacturer. One example is a purchase order by the Navy Department open to bid by both domestic and foreign manufacturers. American bidders are forced to meet U.S. product standards, comply with minimum wage and hour laws and adhere to applicable sections of the Walsh-Healy Act. Foreign competitors need not meet these restrictions, with the result that the foreign supplier can usually submit the lowest bid.

The continued lowering of domestic import duties is usually a one-way street. Imports increase substantially while exports struggle to hold their own or fall off. In time this can substantially affect the balance of trade in builders' hardware products.

A CLOSER LOOK AT THE EXPORT OF BUILDERS' HARDWARE

The export of builders' hardware has remained on a plateau of $25 million to $35 million for the last several years. The outlook for increased exports is not good. One problem, of course, is the tariff and nontariff barriers of foreign countries. Another problem, however, is the smallness of most American builders' hardware manufacturers. They do not have access to the immediate cash and the longer term funds needed to explore and develop foreign markets.

In August 1963 representatives of the builders' hardware manufacturing industry met with U.S. Department of Commerce representatives for the purpose of advising the Department relative to specific foreign tariff and nontariff barriers to the export of industry products. The meeting report noted the following points:

a. *Wage rate differentials.*—High production costs for American builders' hardware products tend to make such products noncompetitive in European and other foreign markets. A major portion of these costs are labor charges, including

social benefits, which in the Common Market countries are only about one-half of the rate in the United States and even lower in other markets.

b. *Style differences.*—American builders' hardware styling has limited acceptance in foreign markets. The streamlined clean cut of many American designs does not appear to fulfill the foreign desire for builders' hardware that is heavy and decorative, extra costly by American standards. American style cylindric locks, slim surface-applied door closers and hardware for lightweight doors appear to create little interest in the European marketplace. For American hardware manufacturers to tool-up for production of European styles and standards would be prohibitively costly in view of the available market size and other deterring elements.

c. *Diverse standards.*—Technical standards for builders' hardware items in the various foreign markets differ from American standards. The cost of tooling to produce the different types to meet foreign standards solely for export sale would be uneconomic and prohibitive for American manufacturers.

d. *Nationalistic tendencies.*—In most European countries, small but well established manufacturing plants satisfy the needs of the markets for builders' hardware items. Their market is protected by local product standards, a preference by consumers for products of their own country and a favorable price differential already noted. Many developing countries, such as Mexico and Venezuela, and such well developed nations as Japan, continue to use a variety of tariff and nontariff barriers to prevent the entry of our hardware.

Since August 1963 larger firms within the industry have tried many approaches to develop foreign markets. Some of these efforts have increased export sales. Many efforts were met by opposition from the foreign governments and resulted in hardware manufacturing operations being established in those countries. Whenever an American hardware company has become involved in this new operation, it has often resulted in the export of hardware parts and more sophisticated hardware items from the United States to that foreign factory.

The majority of the American builders' hardware industry's firms, though, are small in size. They cannot afford the manpower or knowhow required to explore foreign markets. And, being small, they do not have access to the immediate cash and the longer term funds needed to develop foreign markets. It is this problem as much as foreign tariff and nontariff barriers, that hampers the export of hardware from the United States.

ACTIONS BEING TAKEN BY THE ASSOCIATION TO HELP ITS FIRMS

The membership of the Builders Hardware Manufacturers Association anticipate further problems with imports even if tariff rates remain where they are now. The membership especially feels that the United States has become the dumping group for builders' hardware products on less than a fair and equal basis by some foreign hardware manufacturers.

The membership has voted funds to analyze the avenues of approach open to the Association and industry for assisting hardware manufacturing firms in adjusting their operations to meet foreign competition at home and abroad. One recommendation quickly forthcoming has been to gather evidence and prove the dumping of foreign hardware on the American market on less than a fair and equal basis.

Another recommendation has been to request the United States Congress for legislation permitting firms within the industry to cooperate via an industry export corporation in exporting builders' hardware to various sections of the world.

Action will be taken on these and other recommendations as firms within the industry adjust their thinking and operations to secure fair and equal treatment for their products in both the American and foreign markets.

CONCLUSIONS OF THE ASSOCIATION'S MEMBERSHIP BASED ON AN INITIAL APPRAISAL OF THE PROPOSED TRADE REFORM ACT OF 1973

The membership of the Builders Hardware Manufacturers Association recognize that the broad interests of the American Economy and the American Industry can be advanced by the TRADE REFORM ACT OF 1973. But, they also recognize that some sections of the proposed legislation may well result in the decline of some specific industries.

The membership is especially sensitive to the possibility of remaining tariff rates being reduced under the TRADE REFORM ACT OF 1973. Such a reduction

would be very disruptive to the industry since numerous firms have not yet adjusted to the 50% drop in tariff rates over the last five years.

However, after an initial review of the proposed bill and a first discussion of its general purpose and content, the membership of the Builders Hardware Manufacturers Association endorse the broad purposes contained in the proposed legislation.

The membership strongly recommend modifications, however, and believe these modifications are necessary to increase the effectiveness of the legislation and to ensure the orderly adjustment of domestic industries and firms.

The membership reserve the right to comment in greater detail as their analysis of the proposed legislation develops more understanding and suggestions by the individual members of the Association and industry.

RECOMMENDED MODIFICATIONS FOR H.R. 6767: TRADE REFORM ACT OF 1973

A. Title I: Authority for new negotiations

Because of the serious, negative impact the Kennedy round of tariff reductions had on our industry, we are very concerned about the President of the United States having the broad powers incorporated in TITLE I. But, as long as the prenotification and other precautions under Sections 111 through 114 are followed, or as long as even more restrictive safeguards are included and followed, we endorse the intent of TITLE I.

B. Title II: Relief from disruption caused by fair competition

This portion of the Bill has received close attention by some members of our Association but is stil being reviewed by other members. It is of special interest to our smaller companies and may well be applicable to them.

At this point in our analysis, we endorse the intent of TITLE II but recommend several modifications:

1. Section 203(d)(4) limits renewals of import relief to one renewal of two years duration beyond the basic five years of relief possible under Section 203(d)(3) to yield a total of seven years. We recommend Section 203 (d)(4) be modified to permit, upon review and justification, three possible renewals of two years each to yield a potential total of eleven years.
2. Section 203(e)(2) will not permit an industry to petition for a Tariff Commission report to the President on the probable economic effects the termination of import relief will have on the industry, or on the efforts by the industry to adjust until nine months before any existing import relief is to terminate. We recommend this nine months be changed to twelve months.
3. Section 202 and related sections: As a general comment and recommendation on TITLE II, we recommend that the provision for adjustment assistance to workers (such as in TITLE II, Chapter 2) to be extended *in this Bill* to also include adjustment assistance to industry firms in the form of tax rebates, tax reductions or some other manner whenever the President of the United States decides against import relief even after the Tariff Commission has found that imports are disrupting the industry.

Concerning our first recommendation (1) above, we believe a seven year period for many small firms is too short and can force abandonment of product lines rather than an adjustment to imports in a more orderly and acceptable manner. We are suggesting, of course, that extentions beyond five and seven years be possible only after appropriate review and justification under the intent and mechanics of TITLE II.

Concerning our second recommendation (2) above, we believe that a full twelve month period is justified. There are several reasons—including the difficulty of small companies and even small industry associations in working through the maze of forms and procedures often encountered in Washington. And, we feel that many companies require more than a nine month planning period before the end of termination to know if they will or will not secure additional time.

Concerning our third recommendation (3) above, we believe immediate adjustment assistance in the form of tax relief or some similar manner is necessary for the industry and for individual firms in addition to the workers of the industry. We recommend such adjustment assistance be incorporated in this Bill for situations when the President of the United States decides against import relief even after the Tariff Commission has found that imports are disrupting the industry.

C. Title III: Relief from unfair trade practices

We do not, at this time, have any objections or recommendations relating to Chapter 1: FOREIGN IMPORT RESTRICTIONS. We endorse the intent of Chapter 2: ANTI-DUMPING DUTIES; but, we recommend modifications. In effect, we favor portions of the so-called SCHWEIKER BILL and hope the Committee will give favorable consideration to these portions and related recommedations.

1. Incorporate the Clayton Act market concepts in determining occurence of dumping.
2. Anything greater than "immaterial injury" (rather than "serious injury") should be sufficient to determine injury.
3. As in the provision for relief from FAIR TRADE PRACTICES (TITLE II), remove the requirement to demonstrate "cause" in determining injury.
4. Provide that injury can be found where there is reasonable likelihood of future injury.

We strongly believe that imports and foreign competitors must be subject to the same broad legal retrictions as American-made products. We further feel that "immaterial injury" and, during the five year period, other aspects of determining injury should be liberally interpreted. We very strongly believe that point (4) should be included in this Bill and that there are situations where probable future injury can be proven and where action should be taken early.

We endorse the intent of Chapter 3: COUNTERVAILING DUTIES, but we recommend:

1. Section 303(b)(A): The words "immaterially injured" be substituted for "materially injured".
2. Section 303(d): Adjustment assistance should be extended to workers and, in the form of tax relief, to individual firms if the Secretary decides against granting countervailing duties.

D. Other Titles under the Trade Reform Act of 1973

We are not prepared at this time to comment on the balance of the titles under the proposed Bill. In general, we favor TITLE IV: INTERNATIONAL TRADE POLICY and TITLE VII: GENERAL PROVISIONS. We are neutral at this time on TITLE V: TRADE RELATIONS WITH COUNTRIES NOT ENJOYING MOST FAVORED NATION TARIFF TREATMENT and TITLE VI: GENERAL SYSTEM OF PREFERENCES.

FURTHER COMMENT

We are a small industry comprised mainly of small-to-medium sized firms. As such we do not have the number of staff members in our Association who can take the time to make detailed analyses of proposed legislation. We have asked our staff, however, to make a further review of the TRADE REFORM ACT of 1973. We have also asked our Commitee on International Trade which is comprised of industry economists and others to make a detailed review of the proposed Bill.

On this basis, we reserve the right to offer further, and possibly, revised comments and recommendations at a later time.

Mr. BURKE [presiding]. Does that complete your statement?

Mr. KENDRICK. Yes, Mr. Chairman, plus the part which we filed.

Mr. BURKE. Mr. Schneebeli.

Mr. SCHNEEBELI. First of all, from what countries do we import most of our hardware?

Mr. KENDRICK. It is coming from Britain and Italy. Japan is starting to move into it very strong. Germany also has an excellent hardware industry and they are starting to ship in here. The small items like padlocks are coming from Hong Kong and Taiwan.

Mr. SCHNEEBELI. You mentioned dumping. Has your industry filed an anti-dumping complaint?

Mr. KENDRICK. Not as yet.

Mr. SCHNEEBELI. Do you propose doing so?

Mr. KENDRICK. Yes.

Mr. SCHNEEBELI. We have provided avenues of relief under the Antidumping Act.

Mr. HARTZ. Mr. Congressman, as Mr. Kendrick mentioned, if you take the hardware industry you are talking about an industry of $850 million, and 3,000 years as an industry. Many of the companies have been in business 100 years or more and basically it is a domestic industry. Schlage has been around 50 years. We are kids in the industry.

As an association finally this year, really about 2 months ago the association director said. "Look, imports jumped 47 percent last year." We finally got together and we said, "Nobody has filed an antidumping complaint even when we see imports coming in at a lower cost."

Mr. SCHNEEBELI. The practical question is, why didn't you do something about it?

Mr. HARTZ. On May 5 we called the membership together and we said, "Look, boys, either we are going to wake up or 10 years from now we are not going to be in business any more. Quit fooling yourselves. Just because you have been in business 100 years does not mean you will be here another 100."

Mr. SCHNEEBELI. I agree with you. I trust you will be filing an antidumping complaint.

We have a new entity to encourage exports: DISC. I would encourage your association also to look into the DISC provision.

Mr. KENDRICK. We have done so. That only applies to very large corporations. It does not help the small companies.

Mr. SCHNEEBELI. It was put into effect in an effort to help solve your problem.

Mr. BURKE. Mr. Brotzman.

Mr. BROTZMAN. I have no questions.

Mr. BURKE. Let me ask you something. I notice going into these drug stores and places around the greater Washington area that they have a lot of these small hammers and pliers and different things, and I notice they are made in Korea and they are sold in small cellophane packages and they seem to be very low in price. Does that offer your people any competition?

Mr. KENDRICK. That is not our specific type of hardware, sir, but it is competition.

Mr. BURKE. You people deal mostly with locks and hinges and things like that.

Mr. KENDRICK. Right. Our industry is limited to builders hardware as such. There is competition there but you won't find it in the corner store. A few of our firms that go into tools, like, Stanley, Sargeant & Co., and a few others that have tools, are fighting that competition through another association.

Mr. BURKE. I have glanced through your statement here. It indicates that you support H.R. 6767, but with many, many reservations. It almost sounds like you are supporting the Burke-Hartke bill but you are supporting the administration bill.

Mr. KENDRICK. We don't have any objection to the Burke-Hartke bill.

Mr. BURKE. I am glad to hear that. That won't hurt you at all with me.

If there are no further questions, we wish to thank you for your appearance.

Mr. KENDRICK. Several of our firms have established branches in Europe to try and combat the European price situation because we could not export from this country on a direct export basis. We can only export parts to their branches over there so that then they could finish the product and compete locally.

Mr. BURKE. That is because of the trade barriers they have set up over there.

Mr. KENDRICK. Partly, and partly the cost of the labor in this country which makes our prices too high for European competition.

Mr. BURKE. Do you have a statement to make?

Mr. HARTZ. No, Mr. Chairman.

Mr. BURKE. Thank you very much for your appearance and your contribution.

Mr. KENDRICK. Thank you very much.

Mr. BURKE. Our next witness is Donald P. Haggerty, research director of the National Conference of Motion Picture and Television Unions.

Is Mr. Haggerty here?

Then our next witness is Doreen Brown, chairman of the Consumer Education Council on World Trade.

We welcome you to the committee. If you will identify yourself you may proceed with your testimony.

STATEMENT OF DOREEN L. BROWN, CHAIRMAN, CONSUMER EDUCATION COUNCIL ON WORLD TRADE

Ms. BROWN. Thank you, Mr. Chairman.

I am Doreen Brown, chairman of the Consumer Education Council on World Trade. I am presenting this statement on behalf of a number of national organizations, members of the Consumer Education Council on World Trade who are linked by a common interest in United States trade policy and the welfare of the consumer. The list of organizations joining in this statement is attached to the back of the testimony.

The Consumer Education Council on World Trade was established a little over a year ago through the efforts of 22 national public-interest and consumer-oriented organizations, who felt that the American consumer was neither adequately informed nor adequately represented on trade issues. There had never been sufficient debate on the implications for the consumer inherent in United States trade policy, and individual organizations who attempted to speak on behalf of the citizenry, were being overshadowed by the very vocal vested interest groups.

The Consumer Education Council on World Trade serves as a clearinghouse for the purpose of channeling information to and coordinating activities on trade matters of its participating members, with the objective of achieving more effective action on behalf of the American consumer. Its ultimate goal is an informed and concerned citizenry who will be able to assume its proper role in the formulation of U.S. trade policy.

Our member organizations are in unanimous agreement that every consumer in the United States has a major stake in international trade; that this is an issue which directly affects their economic well-being as well as their freedom of choice in the marketplace; that protectionism is against their interest and that it therefore behooves the American consumers to become vigorous advocates of a freer trade policy.

We are anxious that the public become aware of the adverse effects on their welfare of tariffs, quotas and voluntary export restraint agreements which reduce the quantity of foreign goods available and thereby raise the price on imports, as well as limiting significantly the range of consumer choice by making some goods totally unavailable. We are particularly concerned because the low income consumers generally suffer most, since they are most sensitive to any increase in prices and since low-priced goods from abroad are normally the primary target of U.S. import restrictions. These facts were shockingly brought to light by Dr. Fred Bergsten, a prominent economist and author, in his study published in March 1972. "The Cost of Import Restrictions to American Consumers," in which he estimates that American consumers are already paying at least $10 million to $15 million a year in hidden subsidies in the form of tariffs and other trade restrictions, including so-called voluntary export restraints by foreign suppliers, which have the same economic impact as import quotas. This amounts to a cost of $200 to $300 yearly for the average American family and Dr. Bergsten warns that any additional restrictions might cause this cost to soar as high as $500 or $600 a year.

Although we favor strongly the prompt passage of dependable and effective trade legislation and recognize the importance of such legislation to meaningful GATT negotiations, we are deeply troubled that, in all of the various proposals pending before this committee, none of them addresses itself to the specific interests of the consumer. Considering that the American consumer is the one most likely to be adversely affected by trade barriers, and from the potential trade wars, which such barriers are prone to generate, this seems to us to be assigning the consumer a very low priority.

During this last year we, as consumers, have been watching with mounting despair, quotas come and go in response to domestic needs. We are protecting meat producers, cheese producers, textile manufacturers one day. Then, as inflation becomes intolerable, restrictions are lifted on certain products the next, as in the case of oil and meat. The uncertainties of such a policy are not very reassuring and make it increasingly difficult to convince the consumer constituency that its best interests are foremost in the mind of the trade policy formulators or are even being taken into proper consideration.

Because of this we wish to present to this committee for their serious consideration the following recommendation: That whenever there is a matter of adjudications, negotiations, determinations or interpretations, or the creation of advisory bodies to the President, such as that proposed by Chairman Mills in the Joint Congressional Committee on Trade, on the Tariff Commission, the White House Council on International Economic Policy, the GATT negotiating authorities or any other entity concerned with the formualtion and implementation of U.S. trade policy, there should be included on these bodies a representative of consumer interests. Such a representative would be responsible for voicing and protecting consumer interest only,

as distinguished from the other self-interests of any particular segment of the population,

I should like to add a few remarks for the record concerning this recommendation which I have not written into the statement and that is that, as this committee well knows, this is neither a radical nor an original idea. The concept in fact has been already approved by Congress in the past.

Some years ago a piece of legislation was being considered by Congress relating to Tariff Commission matters and this legislation contained a proposal to include a consumer representative on the Tariff Commission. The entire bill, including the proposal for a consumer representative, was considered and passed by both Houses of Congress. The legislation unfortunately was vetoed at the executive level by President Hoover. And the proposal of course went down the drain with the total bill.

To the best of my knowledge, such a proposal has not been reconsidered in Congress. We think it is high time that it was, and not only considered as it was but expanded to include other trade entities as well, so that consumer interests can become a prime factor in the consideration of trade policy. We did not presume to propose any details on the mechanics of such representation but we wish to emphasize the validity and feasibility of the concept and the urgent need to have consumer needs ranked as an overriding interest in the formulation of trade policy, not merged with other special needs; particularly if such policy is designed, as it is claimed to be, for the benefit of both our national and international interests.

In his message to Congress on trade the President stated:

> A wide variety of barriers to trade still distort the world's economic relations, harming our own interests and those of other countries. . . . These barriers to trade, in other countries and in our presently cost the United States several million dollars a year in the form of higher consumer prices and the inefficient use of our resources. Even an economy as strong as ours can ill afford such losses.

We fervently hope that these words are meant to demonstrate a commitment on the part of the United States to develop and implement a new and progressive system of international trade from which all Americans may benefit and which will strengthen our ties with other nations.

As a member of the Consumer Education Council on World Trade, we recognize that all American citizens are American consumers, and that as such they represent the largest vested interest group in our country. Their welfare, therefore, is in the interest of the entire Nation and should not be denied nor overlooked, but should, on the contrary, be given major consideration in the formulation of "a more open and equitable world trading system."

We thank you for the opportunity of presenting these views on behalf of the Consumer Education Council on World Trade.

[The following was submitted for the record:]

The following Organizations are joining in the statement presented by the Consumer Education Council on World Trade: American Association of University Women; Americans for Democratic Action; Church Women United; Consumers Union of the United States, Inc.; Friends Committee on National Legislation; National Council of Jewish Women; National Council of Negro Women; Japanese American Citizen's League; United Presbyterian Church in the U.S.A.; National Council of Churches of Christ; United Church of Christ—Council of Christian Social Action; Young Women's Christian Association.

Mr. BURKE. Thank you.

Does that complete your statement?

Ms. BROWN. It does.

Mr. BURKE. Are there any questions?

Mr. Schneebeli?

Mr. SCHNEEBELI. Ms. Brown, you are a very capable advocate for the group you represent, which may be the largest group of consumers in the United States. I agree that all too often we can lose sight of this important segment of our citizenry in the consideration of major legislation. You have done a fine job. Thank you for coming.

Ms. BROWN. Thank you.

Mr. BURKE. Mr. Conable.

Mr. CONABLE. Ms. Brown, I want to tell you that I am pleased to hear that the consumers are getting organized in this area. We had a very little consumer interest at the time of the Mills bill in 1970. It seems remarkable to me that consumer advocates like Ralph Nader are not to be heard when the biggest consumer bill in the world comes down the pike. It seems to me that you have an interest in equitable trade as well as in free trade, of course, and you have an interest in a healthy job climate as well. But you have expressed a consumer's interest here that is, as Mr. Schneebeli says, frequently overlooked.

I welcome the organization of this general interest group, as opposed to special interest groups, to express some appreciation of the economics of trade which are all too often overlooked in questions of equity and competition, but which are of course underlying every decision we have to make in this field.

Would you agree with me that the very things that would be excluded by restrictive trade legislation are the things that we tend to find in the nation's bargain basements, and that the consumers of the country try to take into consideration when they are doing their comparative shopping. Do you also agree that competition is still the basic vehicle that keeps our prices restrained and stable?

Ms. BROWN. I certainly do.

Mr. CONABLE. Thank you.

Mr. BURKE. Mr. Brotzman?

Mr. BROTZMAN. Thank you, Mr. Chairman.

I would like to thank you for your testimony. Are you supporting the administration proposal or do you have a piece of legislation that you are supporting before this committee?

Ms. BROWN. No, the Consumer Education Council is not supporting any specific piece of legislation. The individual member organizations are, indeed, and some are filing their own individual statements. This statement addresses itself to no one piece of legislation, but to all pending legislation.

Mr. BROTZMAN. Do you have any specific recommendations you want to make as an individual?

Ms. BROWN. No. Chairing a coalition, I can not do, so but my own organization will be filing a statement regarding the legislation.

Mr. BROTZMAN. Thank you very much.

Mr. BURKE. Tell me whether or not there are any similar organizations such as yours in Japan?

Ms. BROWN. Did you say are there?

Mr. BURKE. Yes. Is there an organization similar to yours fighting for the consumers over there?

Ms. BROWN. If there is I have no knowledge of it, Mr. Burke.

Mr. BURKE. You take a Pinto car, it sells for $6,000 over there. They won't let us compete with their automobile industry and they won't let a lot of our machinery and hardware and other things go in over there. I was interested in knowing if there are any good advocates such as you are here in the countries of our trading partners. You don't know of any?

Ms. BROWN. I don't.

Mr. BURKE. Thank you very much. You have made a very strong case in behalf of the consumers. We appreciate your statement.

Ms. BROWN. Thank you.

Mr. BURKE. We will now call Mr. Donald P. Haggerty, research director for the National Conference of Motion Picture and Television Unions.

We welcome you to the committee, Mr. Haggerty. You may identify yourself and your associates and proceed with your testimony.

STATEMENT OF DONALD P. HAGGERTY, RESEARCH DIRECTOR, NATIONAL CONFERENCE OF MOTION PICTURE AND TELEVISION UNIONS, ACCOMPANIED BY STEVE D'INZILLO, REPRESENTING THE NEW YORK UNIONS; SAM ROBERTS, NATIONAL COORDINATOR; AND RUSS BARTLEY, REPRESENTATIVE, INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS

Mr. HAGGERTY. Thank you.

Mr. Chairman, honorable members of the Committee on Ways and Means, my name is Don Haggerty. I represent the members of the National Conference of Motion Picture and Television Unions.

On my right is Mr. Steve D'Inzillo who represents the New York unions. On my left is Mr. Sam Roberts who is the national coordinator for the conference representing numerous international unions for whom we are speaking. Also in the audience is Mr. Russ Bartley, who is a representative of the IBEW.

Mr. BURKE. If he would like to come up here, he may.

Mr. HAGGERTY. Mr. Chairman, the labor representatives of the American Motion Picture and Television Workers are genuinely concerned over the catastrophic unemployment in our industry which is presently 47 percent and is increasing. This mass unemployment is the direct outgrowth of the alarming erosion of domestic film production activities in the United States created in recent years by the unrestricted importation of foreign-produced motion pictures and television films. We sincerely appreciate the opportunity that your committee has afforded to bring to its attention this acute economic crisis which threatens our nation's domestic film-making capabilities with imminent destruction, largely as the result of outdated unrealistic, and irrelevant policies and negotiating postures of the U.S. Government with respect to international trade in motion pictures and television films.

THE U.S. FILM INDUSTRY, AN IMPERILED NATIONAL ASSET

The U.S. film industry has for many decades represented an important segment of the national economy in the United States. According to the figures reflected in the reports of the Bureau of Labor Statistics of the U.S. Department of Labor, at least 200,000 workers engaged in film production, distribution and exhibition activities are dependent upon the economic success of the U.S. film industry to provide a living for themselves and their families. The Commerce Department has consistently reported that the U.S. film industry is one of the largest earners of foreign exchange in the national economy. This industry represents a huge capital investment made over the years in plans, equipment and real property at domestic film studios and laboratories.

The United States clearly has a tremendous financial stake in restoring and encouraging the economic prosperity of this important American industry as a substantial source of jobs and pay-checks for large numbers of workers; as an important "customer" for numerous business firms and suppliers throughout the United States that provide the industry with goods and services utilized in film-making; and as a generator of tax revenues in substantial amounts at the Federal, State and local levels across the nation. Perhaps of even greater significance is a recognition that American made motion picture and television film productions are a valuable national asset in the field of world-wide communications as a source of international prestige and a vital means of accurately portraying American democratic institutions and cultural accomplishments to millions of people in other countries. Domestic film production which is worthwhile as well as financially rewarding must be preserved as an effective means of correcting the distorted image of the United States being fostered abroad by anti-American propagandists.

Because of the unfair and discriminatory treatment afforded films produced here in the United States by foreign governments in recent years, there has been a significant decrease in the number of motion pictures made annually in this country for exhibition at home and abroad and a corresponding sharp increase in the number of American-interest motion pictures largely or entirely produced in foreign countries. These latter "runaway" films are made abroad for exhibition on U.S. theatrical and television screens, along with other imported foreign films, but are largely financed by American companies, either through their foreign subsidiaries or under some involved type of co-production or co-financing arrangement.

The accompanying decline in U.S. domestic film production has produced in our local industry mass unemployment of the experienced workers; reduced job opportunities for new younger workers; slashed the annual earnings of all workers; deprived more than 3,000 workers of hospitalization and medical coverage and eliminated their pension credits. Unrestricted importation of foreign-made films has thus inflicted ever-increasing economic loss upon a host of long-time film employees in the key production centers of this country.

The so-called major motion picture studios that once provided substantial gainful employment for thousands of these skilled and talented studio employees are today waning shadows of their once-

prosperous past, when Hollywood was recognized as the international film capital. Companies like Columbia, Warner Bros., RKO Pictures, Inc., Republic Studios, and Hal Roach Studios have vanished entirely. 20th Century-Fox and Metro-Goldwyn-Mayer Studios have disposed of their "back lots," resulting in the elimination of "standing sets" and other essential facilities required for healthy motion picture production activities. Mass lay-offs of staff employees are taking place throughout the industry. Key departments such as the carpenter shop; costume department; make-up department; editorial department; film library; and sound departments are being sharply reduced or actually eliminated at leading film studios.

I would like to make one thing clear on the loss of Warner Brothers. Warner Brothers and Columbia have united their film facilities and have sold their equipment, their facilities. Now they are in a new location called the Burbank Studios in Burbank. There no longer is a facility for Warner Brothers, per se. They are now using the Burbank Studios. Columbia is selling the entire backlot facilities, their entire sound stage equipment and their backlot sets, departments, etc. Paramount now has its property up for sale. They provide no potential job opportunities for the craftsmen or technicians in our industry.

In a letter from the White House dated April 28, 1970, replying on behalf of the President to a communication to him from Mayor Sam Yorty of Los Angeles stressing the critical situation brought about by the still-unchecked "runaway production problem" of the American film industry, especially in southern California, Presidential Assistant Peter M. Flanigan asserted that the U.S. Government has experienced difficulty in convincing other governments to accept our country's position against foreign motion picture production subsidies because, supposedly, "the trade and unemployment effects of film production subsidies are difficult to isolate and prove." President Nixon's aide suggested to Mayor Yorty that neither the Secretary of State nor the Secretary of Commerce possesses "even partial or inconclusive evidence—of an association between foreign film subsidies and employment and local production in the motion picture industry in southern California over the past several years."

In other words, the White House does not deny the continued existence today of the serious "runaway production problem" involving lost employment opportunities and other substantial economic losses affecting thousands of southern California film studio workers. It does not dispute the fact that this problem has been created by the unfair and discriminatory practices of foreign countries that offer film production subsidies and other inducements to attract U.S. companies to produce motion picture and television films abroad, while imposing illegal trade restrictions—let me repeat that, while imposing illegal trade restrictions—on American films in order to favor their own nationals. Because the executive branch finds it difficult to reduce the dilemma of our industry and its workers to statistical terms; however, the U.S. Government frankly confesses its inability to force the discontinuance of these admittedly injurious trade practices by foreign countries which are wrecking our domestic film industry.

Notwithstanding the prohibitions against such practices reflected by article XVI of the General Agreement on Tariffs and Trade (GATT)—and I presume the agreement means we agree to give our

productions to foreign countries—and the film annex to the Code of Liberalization of Current Invisible Operations under the Organization for Economic Cooperation and Development (OECD), we are in effect told that the U.S. Government can do nothing affirmative to bring about trade parity for American-made films.

As long ago as 1962, a congressional subcommittee, under the chairmanship of Representative John H. Dent of Pennsylvania, which fully investigated "runaway" foreign film production during its Washington, D.C. hearings, found that ". . . the strongest inducement to foreign production is subsidy." The Dent Committee held ". . . no doubt that if our Government demanded an end to subsidies, the so-called American motion picture "runaway" production problem would become miniscule . . ." [1]

As long ago as 1963, a joint labor-management report prepared under the auspices of the Association of Motion Picture and Television Producers, Inc. and the Hollywod AFL Film Council, presented a well-documented plea to the executive department, through the then Secretary of Labor Willard Wirtz, for "the active public assistance of the U.S. Government" in bringing about ". . . the elimination or reduction of production subsidies which are contrary to international agreement on principles of free reciprocal trade, such as GATT and OECD . . ." [2]

Between February of 1962 and February of 1964, this joint labor-management committee provided a inter-departmental task force of the Labor, Commerce, State and Treasury Departments with a great deal of information and data to support the U.S. case against direct and indirect foreign film subsidies and trade restrictions that were responsible for luring more and more American-interest film production abroad. Notwithstanding these previous efforts to document our case against "runaway production" on the basis of voluntary labor-management cooperation with the executive branch of the Federal Government, to date no substantial progress has been made by the United States in removing, or even reducing, the foreign film production subsidies, unfair trade barrier, and other substantial competitive disadvantage to domestic film-making, whether through the appropriate international bodies, or bilaterally.

Bank of America vice president A. H. Howe, who is in charge of lending activities for motion picture and television, stated in the Back Stage periodical, "European subsidies are perhaps the chief reason for the flight of film production from Hollywood."

If the ravages of "runaway foreign film production" are not halted in the near future by affirmative actions and policy changes on the part of the U.S. Government, America stands in real danger of losing its domestic film industry both as an important segment of our national economy and as an invaluable national asset in the field of worldwide mass communications.

FOREIGN FILM SUBSIDIES AND OTHER STATE AID

With the exception of the United States, every important film-producing country in the world subsidizes or renders governmental as-

[1] Report on Impact of Imports and Exports on Employment, House Committee on Education and Labor, 87th Cong., 2d sess., May 7, 1-962, p. 88.

[2] Petition and report to the Secretary of Labor, Joint Labor-Management Committee on Foreign Film Production of the American Motion Picture Industry, Jan. 14, 1963, p. 12.

sistance to the production of motion pictures within its borders in one way or another.

Apart from the Soviet Union, Yugoslavia and other Communist countries which completely subsidize their government-owned film industries, more than 20 important film-producing nations offer cash subsidies or other forms of state aid to the independent producer or private company making a motion picture locally under required conditions.

While subsidies, screen-time quotas and prices were initially established by these foreign governments—along with import quotas, import duties, release taxes, remittance restrictions and other trade barriers in certain instances—upon the supposed justification that governmental support of their domestic film-makers is essential to preservation of their national cultures, the fact of the matter is that many American film companies have been able to meet the conditions for production or co-production of motion pictures laid down by the foreign governments under involved financial arrangements which qualify them to participate in subsidy payments or other economic advantages and greatly reduced their financial risks.

American companies making films abroad through foreign subsidiaries, co-production agreements, "split hemisphere deals", or other business arrangements with foreign nationals have thus been able to enjoy the following principal forms of state financial aid supposedly intended for "national films" of the foreign countries:

(1) cash subsidies;
(2) low-interest or no-interest government loans;
(3) private loan guarantees;
(4) advances of partial production costs;
(5) admission tax rebates; and,
(6) cash prizes.

The tremendous financial incentives for foreign film production activities by American interests range from an insurance of loss up to 80 percent of the cost in one foreign country to outright payment of 30 percent to 50 percent of the cost in other countries, tri-national subsidies—that is, United Kingdom, France, and Italy—permitted under international agreements for pooling film subsidies under certain conditions have permitted some American companies to secure as much as 80 percent of the cost of a single picture made in coproduction with foreign interests.

I would like to draw attention to a phone call from Hal Dennis of Hal Dennis Productions. He proposed a picture "Cinerama on the Mediterranean." He said, "I was successful in getting 110 percent subsidy before I spent 1 cent on negative cost because I went to the various countries facing the Mediterranean and got their subsidies." If we in the United States work for nothing and supply the chemistry for nothing and the raw stock for nothing, we still owe the producer 10 percent in order to be competitive.

In some cases, the complex nature of these elaborate film-financing arrangements and the unwillingness of the participants to disclose their "trade secrets" make it difficult, if not impossible, to determine whether a particular motion picture made abroad and distributed in the United States as well as other countries has been financed and

produced jointly by American and foreign interests so as to qualify for foreign subsidy payments.

A substantial number of foreign countries including many of the most important overseas markets for American film companies still maintain mandatory screen-time quotas established by legislation or government decree that require motion picture theaters in those countries to devote a specified portion of their screen-time to the showing of "national films."

I will demonstrate that later in the report where I show some tables which substantiate this position.

These screen-time quotas are a form of indirect financial subsidy favoring foreign-made films over films made in the United States. To the extent that American interests have been able to qualify pictures in which they have a financial stake as "national films" of a foreign country for cash subsidy purposes, they have likewise been able to increase their earnings from that film by taking advantage of the indirect "screen-time quota" subsidy, so as to further help finance their production costs. Cash subsidies and screen-time quotas go hand-in-hand in such European countries as the United Kingdom, France, Greece, Italy, the Netherlands and Spain. This factor helps to explain the prevalence of "runaway" American-interest fim-making activities in those countries, particularly the United Kingdom, which is English-speaking.

Reliable sources have demonstrated 90 percent of the English motion picture industry is owned and controlled by American money.

The three European countries which provide the largest part of the foreign earnings of American film companies, i.e., the United Kingdom, Italy and France, offer the heaviest production subsidies and together account for at least half of the "runaway foreign film production" by American interests.

According to reliable industry trade publications and other dependable sources of data, foreign subsidized American-interest productions, together with foreign imports, have steadily increased over the last two decades; that is: 1946—19 percent of films shown in the United States were foreign-made—that is, including both "runaway" and wholly foreign-produced; 1956—43 percent foreign-made; 1966—65 percent foreign-made; 1970—70 percent foreign-made; 1972—73 percent foreign-made.

Now, these are conservative figures. If you will refer to a statement made later, which I will touch upon now, I called the Commerce Department and asked them for figures on how many feature motion pictures were bona fide imports in the year 1972. They gave me a figure of over 5,000. I said: "Can you substantiate these figures?" They said: "Well, there are 5,000 items."

"What do you mean by items? Is that 16 mm, is this news-reel?" "No, it is all 35 mm."

All I can do is refer you to their figure of over 5,000 production pictures that came into the United States in the year 1972. You compare that with the number we produced in this country, which is 181, that would bring us closer to two percent of the pictures in this country that are domestically produced.

I haven't a great deal of confidence in your Commerce Department figures so I would prefer to defer in that area. If you can get more

information from them I would appreciate your forwarding such information to me in my office.

Now, if we may touch on some of the subsidy programs, on table 1 you will see that, for example, India, and it is a member of GATT, which has as one of its bylaws that members of this organization will not have any advantage that other members don't have, offers up to 75 percent production subsidy.

Italy has cash subsidy based on percent of gross box office receipts which means the more tickets that are sold at the box office the greater income you received from your picture.

Japan, France, Spain, West Germany, Greece, Mexico, Brazil, Argentina, Denmark, Austria, Belgium, Israel, Sweden, Netherlands, Norway, Portugal, South Africa and then we touch on the Communist bloc countries, the government owns and controls all facilities as well as motion picture facilities, so that their film industries are a hundred percent subsidized.

I talked to a producer who had been in Yugoslavia. He said he was offered three sound stages, three blacklot facilities. They would build backlots and necessary stage sets.

But they wanted in return they wanted him to bring one or two top starts for a salable product. They wanted a hundred percent of the gross profits from the Communist countries and 50 percent of the profit from the free world.

The United Kingdom has EADY plan which has been extremely successful. It was originally introduced on a voluntary basis by the theater owners on a box office format where the theater would pay back a percentage of the ticket on every product that was sold at the box office to the producers. That producer would then have the right to reinvest that profit into another production.

American interest productions have taken advantage of the program and now the program is completely controlled by the Government of the United Kingdom, which creates another interesting problem. We as a free enterprise system are in direct competition with foreign governments, we are not competing against free enterprise motion picture productions of foreign free enterprise systems. We are competing with foreign governments. We, representing the workers in this country, can not compete against foreign governments. Our Government does not come to our assistance so that we can compete on an equal basis. There is no such thing as reciprocity in this industry.

The next table is "free world countries imposing mandatory screen time quotas for locally made film." In essence, that states that you must run so many days a year or your own domestic product, which is not reciprocity.

The next table is "free world" countries imposing mandatory screen applied against American film imports by the free world countries. Again, if you will notice, most of these countries are members of GATT and OECD. OECD states that countries shall not offer subsidies who are members of this organization. We feel our Government has not been policing the international agreement in order to protect the domestic worker. It certainly is not reciprocity.

Statistics, in the year 1972, according to the motion picture industry trade periodicals, there were 181 feature motion pictures shot throughout the entire United States, including animation, documentaries, feature productions, et cetera. During this same period there were 149 feature productions shot by American-interest investments

in foreign countries. These same productions were released in the United States. This does not include bloc purchases by release organizations that will purchase pictures made out of the country that do not show in our domestic charts and oftentimes they will buy numerous ones, some that have been redubbed, that have been voice dubbed or sound track dubbed.

During the same period there were 149 features shot runaway. Add to this the Commerce Department figures of 5,381 and you will find that we are definitely in a serious competitive position. Hollywood produced alone over four hundred pictures a year during the 1940's and 1950's.

The next page will document the names of the pictures and the countries that these pictures were produced in, as well as the American interest in these pictures. I would like to bring out "Last Tango in Paris" was done in France. We as Hollywood and American technicians do not wish to take credit for this trash. It does hurt our industry.

I would like to bring out here, though, that the cost for that production is unknown as far as we know, but we do know that the cost for a theater ticket is $5. Also, one of the statements made here by some of the opponents of this bill is that if a product is made out of the country the consumer will get a cheaper purchase price.

I have yet to see a picture that was made out of the country by American interests that will say: "This was made out of the country, therefore, your ticket will be 10 cents, or 20 cents." This is typical, this is a $5 cost to get into this "Last Tango in Paris." As with the rest of these productions there is no cut-rate price on the American release of foreign made motion pictures.

I won't go through these productions. If you will notice how many of the pictures were shot in the United Kingdom you will be able to substantiate the American interest in this particular country.

Mr. KARTH [presiding]. Mr. Haggerty, without objection, all your appended tables and statistics will be included in the record the same as if you had given them, and will be given the same consideration in executive session as if you had given them orally.

Mr. HAGGERTY. Thank you. I know you people have a busy schedule, so I will not go through the appendix.

We do have a serious problem in that many of our productions have lost their domestic employment value. A great deal in the past was taken up by the production of the very product.

I would like to now move into the very area to demonstrate where these job opportunities are also going the same way of the foreign feature film production.

SIGNIFICANCE OF THE RISE IN IMPORTED FOREIGN TV FILMS

Between 1950 and 1960, the only compensating factor that kept intact the pool of highly skilled and talented film workers in the United States was the growth of domestic television film employment to offset the shrinkage of job opportunities in domestic theatrical motion picture production due to "runaway foreign production."

Today the "runaway" motion picture phenomenon has spread into the shooting of productions for television and is growing at such an accelerated speed that it is endangering the future job opportunities of every American motion picture and television craftsman, technician and talent employee.

As the richest television market in the world, America is the land of opportunity in a whole new context. Television producers around the world have become excited by the possibility of making a score in the country where the payoff promises to be the greatest anywhere.

The U.S. market is really three different markets—network, syndication, and public TV—with cable TV looming as a fourth, sometime in the future. Each has its own requirements, its own economic scheme, and its own range of possibilities. The network market, for instance, consists of three customers—ABC, CBS, and NBC.

ABC, with its late-night "Wide World of Entertainment" will experiment in that time period with foreign production, while NBC and CBS are locked into fixed program patterns there currently. On weekends. CBS as "The Children's Film Festival" which uses foreign TV. NBC and CBS deal more heavily in specials than does ABC; but ABC is the more likely of the three to buy a proposal for a 90-minute foreign-made-for-television movie.

SYNDICATION

The syndication market in the United States can be even more lucrative, although it's somewhat slower going to have to sell each station individually than to blanket the country by making a single sale to a network. The FCC's primetime access rule, which restricts the networks to three hours of broadcast time a night in the peak viewing hours, has created the need for network like series at the station level, and a number of foreign companies—virtually all of them British or Canadian—have been supplying many of these series. The kinds of programs indicated for the access time periods—usually 7:30 p.m.—are the continuing comedy and action melodrama series.

PUBLIC TV

As for the third American market—public television—the best prospect for foreign distributors on these shores. The public (non-commercial) system in the United States has an appetite for experimental, cultural and educational shows. PBS (formerly NET) is a big importer of TV series and specials and some of the individual stations have been buying product from abroad separately from the public network, usually with financial underwriting by American industry.

A sale to public television has value to foreign producers beyond the cash-in-hand, because it is a foothold in the U.S. market and a chance to make an impression here.

Again we can thank the Government for this help in creating more unemployment with the FCC prime time ruling. Instead of assisting us in solving unemployment, they have created more runaway product for the television facilities.

FOREIGN CHILDREN'S TV PROGRAMS

There are probably vaster syndication opportunities for foreign producers outside the primetime access, particularly in the field of childrens' programs and most particularly with animated fare. Such countries as Japan, Australia, and Holland, in addition to United Kingdom and Canada, have had success in supplying children's shows for the U.S. market.

Maybe I should clarify the syndication. The prime time ruling stated that in order to encourage local production and products a certain number of hours were restricted to the local production of local fare.

This was such an expensive requirement for, say, a small station in a small town or city to produce its own product that they either had game shows or talk shows which are extremely boring, or they put on product that was once made in the United States by American workers from the foreign market. This seemed to meet the FCC requirement.

In addition, where one series would be produced by a strong network throughout the country, this violated the FCC ruling. But if they took numerous prints of that, whether on tape or film, and shipped them around to these little cities, then they could legally put them on that local television station, which is called syndication of the product.

So these escaped the requirement of the FCC ruling except we lost the work.

FOREIGN TV IMPORTS

In recent years, foreign TV product has been finding its way onto U.S. television screens with increasing regularity.

The imports—with Canadian product included in that category—have so far been dominantly English-language programs requiring no dubbing.

The network market, insofar as regular series are concerned, has so far been the private province of Sir Lew Grade and to a lesser degree, British Broadcasting Company. In recent years, Grade has had "The Julie Andrews Hour," "Shirley's World," Tom Jones, Engelbert Humperdinck, "The KopyKats" and "The Persuaders" on ABC–TV regular schedules, and has the seven part "Strauss Family" sold to ABC for a May start.

Sir Lew Grade has announced sales of further Julie Andrews specials to ABC and "The Lawgiver" to CBS; six specials with American sponsors and a second feature picture with Julie Andrews. The stipulated price on all the TV deals is $9.5 million for one-run apiece.

Now I don't know what this does to the flow of gold. I am sure you know better than I. We exchange gold for celluloid. It is a great exchange. The first feature production with Julie Andrews and Omar Shariff, the "Tamarind Seed," rolls May 4—Bahamas, London, and Paris—and the second, thus far unnamed property written by Blake Edwards who will also direct, will roll next summer. Budget on "Seed" is $3 million and the second pic will cost $2.5 million.

Again that would be United Kingdom EADY plan subsidy program.

"The Lawgiver," an ATV–RAI Italian coproduction featuring Burt Lancaster, rolls in July and will location in Israel. Six hourly segments will take 6 months to produce.

In respect of Sir Lew's new sales vein, that is, direct deals with American sponsors, he has set two Burt Bacharach and two Glen Campbell specials for Chevrolet plus a Sammy Davis, Jr. show for General Electric and a Lena Horne-Tony Bennett program for Sentry Insurance.

BBC, through its American distributor, Time-Life Films, has cracked the network barrier with a number of miniseries, their coproduction of Alistair Cooke's "America"—a history of America told by the English—being the current active series airing every other week on NBC–TV.

In the recent past. NBC aired "The Search for the Nile" and CBS has shown "The Six Wives of Henry VIII" and this past summer aired "Leonardo De Vinci" from RAI–TV, the only dubbed foreign product to earn a network primetime miniseries run so far.

Rex Harrison starred in a 2-hour BBC production of "Don Quixote" shown on CBS April 23, 1973 and filmed in Spain and London. Co-producer was Universal TV. Rex Harrison is an English citizen and does not pay taxes here any more than Richard Burton or Liz Taylor or any of these other so-called American stars.

James Mason, David McCallum and Agnes Moorehead will star in the 4-hour "Dr. Frankenstein" film that Universal Studios is shooting in London for NBC's 1973–74 schedule.

Regarding TV specials from abroad, actually, the specials field has been more susceptible to foreign shows, with a number of such airing during the current season. Sir Lew Grade's organization has had three Burt Bacharach stanzas plus the "Royal Gala Variety Performance" and the 3-hour "Long Day's Journey Into Night" in the entertainment area.

CBS recently aired Potterton Productions of Canada's "The Selfish Giant." NBC has aired "The Hands of Cormac Joyce," a coproduction with Australia's Crawford Productions and a repeat of "The Snow Goose" which was another BBC-Universal co-production.

In children's TV, Australia's "Around the World in 80 Days" has had a regular Saturday morning slot on NBC. The animated series, "The Jackson 5 Show" shown regularly on ABC Saturday mornings, is produced in London by America's Motown Productions, Inc. in association with Arthur Rankin and Jules Bass.

In the nature documentary area, ABC aired Jane Goodall's "Wild Dogs of Africa," the first of an ongoing series of specials to be produced by Miss Goodall, her husband, and Britain's Bill Travers.

Though it is generally regarded as an American series, the Jacques Cousteau "Undersea World" specials are a Frency coproduction of Cousteau's Les Requins Associes. Survival Anglia, the documentary army of Britain's Anglia TV, placed two specials.

"The Incredible Flight of the Snow Geese," narrated by Glen Campbell and sponsored by the American Gas Association, was shown January 23, 1973 on NBC. "The Forbidden Desert of the Danakil," narrated by David Niven and sponsored by Kraft, appeared April 25, 1973 on CBS.

Travers also had his "Lion at World's End" on NBC. Syndication shows a much wider range of foreign suppliers, but Grade's ITC organization was still the dominant source. ITC's "The Protectors," sponsored by Faberge, has been a prime-access placement and renewed for a second season by the cosmetic sponsor.

ITC also had sales success with "U.F.O." and "The Adventurer"—starring Gene Barry—and enough rating success with "Department S" in two California bookings to make it available in 1973–74 to the entire country, along with a new "Menace in Space" series.

The current season has seen Fremantle International's "Adventurers of Black Beauty," Anglia Ltd.'s "World of Survival" and the second year of London weekend's "Doctor in the House," all British made, airing in price access programming slots in the major markets.

Let me touch on "Doctor in the House." I think we have here a violation of the antidumping laws. Many of these may also be, but

we have no way of knowing. I talked to several actors who came into my office recently.

They said they had done a great deal of work in Australia 2 years ago. The "Doctor in the House" series was running 2 and 3 years ago in Australia, which means that the cost of that production must have been already written off and amortized by the release through that domestic market.

They now dump it on our market at much lower than cost, which must be a violation of the antidumping laws. Does anyone have any records, does the Commerce Department have any way of finding out if they are violating the antidumping laws in much of the English, Canadian and Australian production of TV and feature films?

Again, we thank the Government for assistance in creating more runaway products for television. From Canada "Police Surgeon," "Half the George Kirby Comedy Hour," "Story Theatre," "Amazing World of Kreskin," "Rollin' with Kenny Rogers" and game show "Anything You Can Do"—all co-productions with U.S. firms which were produced in Toronto, Ottawa or Vancouver—have also been prominent in syndication.

"The New Beat the Clock" daytime television program produced by Goodson and Todman, is taped in Montreal, Canada. Toronto has long been the scene of numerous co-produced specials, with Murray Chercover's CTV and Glen Warren Productions the most active Canadian participants, and Vancouver is now increasingly being used for specials origination.

We are aware of Vancouver building additional facilities, sound stages and processing laboratories. I have had the assistant supervisor and superintendent of a technicolor motion picture television and motion picture processing plant resign his job in Hollywood and go to Vancouver for employment.

Technicolor in Hollywood is the largest motion picture processing plant in the world, and it is closing its large processing plant in Hollywood, but leaving the plant facility in London and in Rome.

British-made series are in abundance in the syndication availabilities so far announced for the 1973–74 season. Among them are "Arthur of the Britons," a Heritiage Enterprises, Harlech TV co-production; the British sitcom, "Dad's Army" from Time-Life Films, which also has BBC's "Vision On" in release right now; 20th-Fox TV–BBC co-productions of "Century Theatre" hour-long series and another project of 26 hour-long episodes which has not yet been given a title; and five series from Gottlieb-Taffner, "Bless This House," "Foresome," "Rivals of Sherlock Holmes," "Special Branch" and "The World at War," a $3-million series from Britain's Thames Television.

20th Century Fox TV has acquired the syndication rights to the BBC production of "Jack The Ripper," a new series in six 1-hour segments. From Canada will come "Adventures in Rainbow Country." From Ceylon—in co-production with a European consortium—"Elephant Boy" and from Holland, dubbed children's shows titled "Story Book Fables."

American public TV has been the most prolific users of foreign product in the past, with the accent having been on BBC programming, as we mentioned earlier. I won't go through this.

The co-productions I would like to touch base with you, if I may. In addition to all the activity noted above, the prime American net-

work interest in overseas programming lies in the co-production of mini-series and specials.

The Universal TV–BBC co-productions of "Colditz," "Fall of Eagles" and "History of the English Peoples" represent another of the serious losses of American television job opportunities for U.S. craftsmen and technicians.

Lacking such mutual benefit deals, the majority of network activity abroad this current season and in the near future will be European location shooting of series segments and specials utilizing foreign production and personnel but wholly financed by U.S. supplier money.

These are TV specials and series filmed outside the United States.

"Dr. Jekyll and Mr. Hyde" starring Kirk Douglas, a Winters-Rosen Production filmed in England, shown on NBC March 7, 1973, sponsored by Timex.

"Applause" starring Lauren Bacall. Universal TV Production filmed in London. Shown on CBS March 15, 1973, sponsored by Connecticut General and Volkswagon. Estimated cost was in excess of $1 million.

"James Paul McCartney" produced by ITC and shot in London and Liverpool, shown by ABC April 16, 1973.

"The Man Who Came to Dinner" starring Orson Welles, Universal TV production, filmed in England.

"George" a Winters-Rosen co-production with Marshall Thompson and German TV, Intertel Television GmbH, filmed entirely in Switzerland, will be placed into syndication for the 1973–74 season by Timex.

Greg Garrison Productions has made a deal with BBC–TV in London to co-produce the 1974 edition of "The Golddiggers" series, and on and on and on.

The need for changes in U.S. trade policies is the summary which I would like to get some of your attention on, if I may. The passive attitude of the State Department, supported by the Commerce Department, Treasury Department and the Office of the Special Representative for Trade Negotiations has been to tolerate and virtually ignore the direct and indirect foreign film production subsidies offered by other governments to encourage overseas co-production arrangements with "runaway" American film interests.

This week negotiating posture taken by the U.S. Government in such international forums as the GATT and the OECD stems from the State Department's long-standing reluctance to speak out in protest against the patently unfair and even illegal practices of foreign governments in the film field.

Due to the unwillingness of so many American film interests to resist the lure of direct and indirect foreign subsidies, quota advantages, tax benefits and other financial inducements accompanying overseas production activities, no substantial progress has been made by the U.S. Government to date in coping with these foreign inducements to "runaway foreign film production" through international discussions, whether in the OECD, in the GATT or bilaterally.

While the present administration here in Washington, D.C. has repeatedly expressed its concern about the serious and drastic unemployment situation within the U.S. domestic film industry, it remains content to hope in vain for the elimination of foreign film production subsidies, screen-time quotas and other discriminatory trade restrictions with respect to films by continuing to seek a solution through half-

hearted proposals, protests and suggestions for gradual dismantling of existing film trade barriers and reduction or elimination of film trade restrictions.

These traditional bilateral and multilateral approaches in international trade discussions offer no immediate prospect for relief from the "runaway foreign film production" facilities.

The United States is the only important film-producing country in the world which extends no governmental assistance, either in the form of subsidies, low interest loans, investment guarantees or tax incentives, to help provide adequate financial support or appropriate forms of economic encouragement for domestic film production.

While the United States imposes no limitations on the import of foreign-produced films into this country and only charges ridiculously low rates of duty on imported motion picture film—TSUS Item 724.10—virtually every other country subjects American-made films to a vast array of drastic restrictions, ranging from heavy import duties and very high "release taxes" or other special taxes, deliberately designed to both discourage the entry of American-made films and to force American film companies to purchase their release prints from foreign film laboratories in order to reduce such excessive payments, to outright screen-time quotas, import quotas or other such direct import restrictive devices.

The unrestricted importation of foreign-produced motion picture and television film productions into the United States, including both American-interest and wholly foreign-financed, has created mass unemployment among American film workers.

The U.S. Government is herefore obligated to reexamine its policies and attitudes regarding foreign trade with respect to films, in the face of the realiities of the present-day situation.

As representatives of the American motion picture and television employees, we endorse the legislative aims of the Foreign Trade and Investment Act as reintroduced by Senator Vance Hartke and Representative James Burke.

We further advocate the following essential changes in the foreign trade policies of the American Government as they pertain to the production and processing of motion picture and television films:

1. Establishment of adequate tariff and trade regulations to curb the unrestricted flow of imported motion pictures and television film productions into the United States.

2. Repeal of all provisions of the Tariff Code which provide financial encouragement to foreign production and the juggling of operations by U.S.-based multinational corporations.

3. Institution of direct restrictions and controls on investment of U.S. capital in production activities in developed foreign countries.

4. Creation of a more effective and workable trade adjustment assistance program to protect American workers displaced by foreign imports.

5. Enactment of other appropriate legislative measures needed to protect American workers from unfair and discriminatory foreign trade practices and to provide for the improvement of the U.S. relative trade position in the interest of all the American people on a truly reciprocal basis.

I want to thank you for your time and patience.

[Material appended to the prepared statement follows:]

TABLE 1.—*Free World Countries Offering Film Subsidies and Other Forms of State Aid*

Name of country and international trade affiliations	*Description of types of subsidy or State aid offered*
India (GATT)	Government agency makes loans to film producers up to 75 percent of the production cost.
Italy (EEC, GATT, and OECD).	Cash subsidies based on percent of gross box-office receipts; substantial cash awards or prizes to producers. Admission tax rebates to exhibitors. Low-interest credit loans.
Japan	Government support for the Japanese film production is limited to annual cash prizes totaling 43,000,0000 yen for superior films; and an annual 2,000,000,000 yen ($6,000,000) subsidy fund to encourage production of exportable films, from which each of the five major Japanese production companies may receive advances during the year to cover 80 percent of the production cost of each approved film, in a total amount not to exceed 400,000,000 yen per company.
France (EEC, GATT and OECD).	French Motion Picture Aid cash subsidies and no-interest loans and advances against future receipts, with moneys derived from admission taxes, film release taxes and repayments on prior loans.
Spain (EEC and OECD)	[2] Cash subsidies from National Film Institute Aid Fund, with moneys derived from dubbing taxes on foreign imports and Aid taxes. Low interest Government loans from Motion Picture Credit Fund of Bank of Industrial Credit. Lower income taxes collected on film rentals from Spanish films which require no heavy duties and dubbing permit charges applicable to imports.
West Germany (EEC, (GATT and OECD.	Cash awards or prizes for quality films, either before or after completion. (Strong recommendations have been made to Federal Government to adopt more substantial subsidies along lines of British Film Fund.)
Greece (EEC, GATT, and OECD).	Cash refunds of percent of admission, taxes for Greek producers. Cash awards or prizes also made from special levy on all feature films imported or locally made.
Mexico	Government Film Bank advances against distribution earnings, from 40 to 80 percent of production costs.
Brazil (GATT)	Government credit loans and guarantees of private loans by Bank of Brazil for local producers who present scripts acceptable to Ministry of Education.
Argentina	[2] Cash subsidies from National Institute of Cinematography with moneys derived from 10-percent cinema admissions tax. Cash prizes also awarded from admissions tax collections. National Institute loans or advances up to 50 percent of production cost also authroized.
Denmark (EEC and EFTA)	National Film Fund cash subsidies with moneys derived admission taxes collected on showing of pictures. 22½ percent for black-and-white films and 36 percent for color.

Name of country and international trade affiliations	*Description of types of subsidy or State aid offered*
Austria (EEC, EFTA GATT, and OECD).	Exemptions granted from National Film Fund levy on Box-office receipts and admissions tax debates granted to theater-owning producers who qualify. Government guarantees for repayment of 80 percent of private loans to film producers who qualify.
Sweden (EEC, EFTA, GATT, and OECD).	Cash subsidies with moneys derived from entertainment taxes collected on showing of picture. Thirty percent of national share for black-and-white films and 45 percent for color. Also exhibitors in large cities and towns make voluntary production contributions of percent of box-office receipts after deduction of amusement taxes.
Belgium (EEC, GATT and OECD).	Ministry of Economic Affairs authorized to pay cash subsidies to Belgian producers based on 80 percent of exhibition tax derived from showing local feature. Smaller percent for short subjects, newsreels, and so forth. Payments to be made on Film Commission recommendations.
Israel (EEC)	Government productions subsidies and export premiums in minor amounts.
Netherlands (EEC, GATT, OECD).	Small Netherlands Film Foundation Production Fund subsidies, and preferential municipal admission tax treatment for local films classified as "cultural" by censorship board.
Norway (EEC, EFTA, and OECD).	Government bonuses for local producers, based on gross receipts within prescribed range. Occasional government loans for production of "cultural" films.
Portugal (EEC, EFTA and OECD).	Small cash subsidies granted to local producers from fund derived from collection of release taxes on all features shown in the country.
South Africa (GATT)	Newly enacted law provides State aid for locally produced pictures up to double the amount of admission taxes collected from showing of picture.

TABLE 2.—*EADY plan*

United Kingdom (EEC, ETTA, GATT, and OECD).	Of all the subsidy plans of various sorts presently in effect around the world, the best known is the so-called Eady Plan of Great Britain. The Eady Plan originally was a voluntary agreement under which a small amount (levy) was collected by exhibitors on each seat sold in their cinemas and subsequently turned over to producers of British films as a subsidy. This program was made mandatory by the Cinematograph Films Act of 1957, which provided for operations for 10 years of a British Film Production Fund. The act is administered by the British Board of Trade and has been implemented by: (a) The British Film Fund Agency Regulation 1957, providing for the method of operation of the Agency; (b) The Cinematography Films (Collection of Levy) Regulations 1957, which provide for the collection of a statutory levy from

Name of country and international trade affiliations

Description of types of subsidy or State aid offered

exhibitors by the Commissioners of Customs and Excise; and (c) The Cinematograph Films (Distribution of Levy) Regulations 1957, which provide for the distribution by the British Film Fund Agency of the proceeds of the levy to makers of certain British films.

Only British quota films qualify for subsidy payments from the British Film Fund. Essentially a "British Quota" film is a 35mm film: (a) the maker of which is a British or Irish subject or a company incorporated under the laws of the United Kingdom, Ireland or any Commonwealth country (providing a majority of the directors are British, Irish, or Commonwealth subjects); (b) made in a studio within Britain, the Commonwealth or Ireland if any studio is used (studio scenes in non-British studios are allowable up to 20 percent of the total length of studio scenes providing they do not exceed 10 percent of the total length of the film); (c) 75 percent or 80 percent of labor costs have been paid to British subjects or to persons domiciled in the Commonwealh or Ireland (75 percent after disregarding payments to any one person not a British subject nor domiciled in the Commonwealth or Ireland, and 80 percent after disregarding payments to any two such persons one of whom must be an actor or actress). Qualification as a "British Quota" film entitles such films to inclusion in the British screen quota desrcibed above. It does not automatically entitle a picture to "Eady Fund" subsidy payments, being only one of the requirements that must be met.

Thus such payments are made only to producers ordinarily resident in, or companies registered and centrally managed and controlled in the United Kingdom. Companies incorporated in Commonwealth countries are not entitled to these subsidy benefits. The U.K. company may be a subsidiary of a foreign firm and receie foreign finance but it must be the U.K. company that is the maker of the film."

The present levy is one-ninth of the amount by which the total amount of the gross admission price exceeds eleven pence. This yielded in the year ending October 1965 4,676,847 pounds. Cinemas with takings of 350 pounds per week or less are exempt from payment of the levy. The Film Act of 1957 provided a ceiling of 5,000,000 pounds for the collection of the Levy in any one year. Payments from the Fund to producers are made pro-rata in proportion to earnings of qualified films at the box-office.

The life of a quota film is 4 calendar years after the year in which it is registered. Claims are made with respect to individual films. They are submitted monthly and include a statement, confirmed by periodic investigation and annual audit, of the rentals earned by the film during the period covered by the claim. The subsidy is paid in monthly installments with the rentals earned by the film during

Name of country and international trade affiliations	*Description of types of subsidy or State aid offered*
	the months, in proportion to the earnings of the qualified films, determining the amount of subsidy, for that month. Subject to certain conditions, "earnings" of an "eligible" film are: (a) in the case of a high cost film, the total amount due during the period from exhibitors under exhibition contracts; (b) in the case of a low cost film (labor costs of which do not exceed 20,000 pounds) two and a half times such total renal amount; and (c) in the case of a short film, two and a half times such total amount within certain prescribed limits. As previously noted, the producer's allocation bears the same relation to the total amount of Eady money allocated during the month that his rentals bear to the rentals of all qualified films during the month. After the close of each Eady year, when the rentals for the whole year are known a 13th allocation is made of the balance on hand, which has the effect of adjusting the allocation to the final figures for the entire year.

TABLE 3.—*Free-world countries imposing mandatory screen-time quotas for locally-made films* [1]

Name of country and international trade affiliations	*Description of screen-time quota requirements for locally produced films*
Italy (EEC, GATT and GATT and OECD).	Exhibitors must show Italian features at least 100 days per year; 25 days per quarter. Italian short subjects must be included in each performance for at least 180 days per year. Lengthy annual quota for national newsreels fixed each year by presidential decree. Quota defaults punishable by heavy fines and must be made up in a subsequent period. Closing of theater and prison terms imposed for contined default. 20 percent admission tax rebate for exhibitors showing Italian features, plus 2 percent additional for showing Italian shorts or newsreels.
United Kingdom [2] (EEC, EFTA, GATT and OECD).	Exhibitors must show specified proportions of "British Quota" films each year. For several years. Board of Trade quotas have remained at 30 percent of first feature screen time and 25 percent of second feature screen time for British films. (First feature on double bill is film with higher rental, or where rentals equal, film shown last on the program.)
Philippines	Manila first-run theaters must show Filipino-made pictures at least 10 days per year, second-run theaters at least 1 week annually.
France (EEC, GATT and OECD).	By government decree, exhibitors must show French feature films at least 5 weeks per quarter. Feature quota is reduced to 4 weeks per quarter for theaters which have included a French short subject in programs during at least 6 weeks of preceding quarters. Fines for quota defaults often paid by first-run theaters in larger cities for privilege of giving non-French films longer runs. French short sub-

Footnotes at end of table.

Name of country and international trade affiliations	*Descriptions of screen-time quota requirements for locally produced films*
	jects must be shown with "quota features" to satisfy requirements and also have separate annual quota of 18 weeks per year for all theaters. After 3 years from release date. French films can no longer be used to satisfy quota and are dropped from listing of "quota films."
Spain (EEC and OECD)	In Madrid and Barcelona, daily single feature theater programs must include at least 4 different Spanish Pictures 56 days per year. In other Spanish theaters exhibitors must show at least 9 different local pictures 63 days per year, if normal run is full week, or at least 18 Spanish pictures if 2 features a week normally are shown. Double feature showings must include Spanish pictures 84 days per year, with split bills counted as half-day showings. Theaters not open everyday must show 25 percent Spanish pictures and show one Spanish picture on a holiday for every 4 foreign pictures shown on a holiday.
South Korea	Variable monthly quota requirements imposed depending on availability of locally made films. Foreign films can only be used to fill out schedule, after provision is made for showing local pictures in main theaters. Government policy understood to be based on allowing 7 days showing time in main theaters for Korean films and 10 days for non-Korean films in main theaters.
Burma (GATT)	In Rangoon, all exhibitors must show Burmese films n their theaters at least 60 days per year, according to law.
Greece (EEC, GATT, and	In Greater Athens and the Thessalonika area, first-run theaters must show a Greek Feature at least 1 week per quarter. Second and subsequent run theaters in these areas and all theaters in other areas must show a number of Greek pictures per quarter equal to their weekly number of program changes.
Mexico	No formal screen quotas, but Mexican Government has recently taken over the major theater circuit in the country and follows a policy of giving playing-time preference to Mexican pictures and strictly controlling playing-time of non-Mexican films in that country's most important theaters.
Egypt (U.A.R.)	Arabic films must have 1 week's playing-time out of every 4 months reserved for them. Theaters playing double features are expected to show at least one Arabic film on the program.
Pakistan (GATT)	Theater licenses require exhibition of Pakistani films for 20 percent of playing time.
Brazil (GATT)	Exhibitors must show one Brazilian feature for each 8 non-Brazilian films. Brazilian features must be shown at least 42 days a year, including two Saturdays and two Sundays in each quarter. The run must be similar to that given non-Brazilian pictures. All theaters must include a Brazilian newsreel or short subject of at least 900 feet in every change of program.

Name of country and international trade affiliations	*Descriptions of screen-time quota requirements for locally produced films*
Indonesia (GATT)	Exhibitors must show one Indonesian film per month and State-produced newsreel in all theaters.
Argentina	Argentine pictures usually classified as meritorious by the National Institute of Cinematography, a Government agency, qualify for compulsory exhibition and are guaranteed first-run showing for at least 1 week and subsequent showing in roughly one-half of the theaters in the nation. First-run theaters must show an Argentine film one out of every 13 weeks; second-run theaters must do so once every 4 weeks. All theaters must show an Argentine newsreel. A recent decree requires all first-run theaters to show Argentine short subjects. Special cash prizes are awarded by the Government to theaters showing highest proportion of Argentine films.
Malaya (GATT)	Except in the city of Singapore, all theaters in the Malay Federation showing English-speaking films must devote 10 percent of their playing-time to British films, within a quota period of 70 consecutive days, or in other words, play British films for at least 37 days a year.
Australia (GATT)	Annual screen-time quota in New South Wales, representing about half the theater-seating capacity of the country, requires by law that 15 percent of all features shown be British and 2 percent be Australian.
Israel (EEC)	All exhibitors must show a minimum of 17 hours of other types of Israeli-produced films each year, in addition to Israeli-made newsreels which must be included in all movie programs of 90 minutes or more.
Netherlands (EEC, GATT and OECD).	At least 12 weeks per year must be devoted to showing features other than those originating in the dollar area.

[1] Communist bloc countries, with government-owned theaters as well as production facilities, exercise strict control over the quantity and nature of foreign films permitted to be shown on their screens. Except for Yugoslavia, only a very small number of American-made films can be shown in the Communist nations.

[2] UK ranking does not reflect volume of production in the British Crown Colony of Hong Kong. However, one British "quota film" must be exhibited at every performance for not less than 7 days in each quota period (70 consecutive days, in all first-run and second-run Hong Kong theaters which ordinarily show English-language films. Due to an insufficient supply of British films, this quota is not strictly adhered to. Hong Kong-produced films do not satisfy this quota requirement for showing British films.

TABLE 4.—*Partial list of other trade restriction devices applied against American film imports by free world countries*

Type of trade restriction applied against U.S. films	*Names and international trade affiliations of countries involved*
1. Unreasonably heavy import duties or fee.	Australia (GATT) (color film import duty); Formosa; France (EEC, GATT, and OECD); Pakistan (GATT); South Korea; South Vietnam; Spain (EEC and OECD).
2. Release taxes or dubbing charges on imported films released with foreign language sound track.	France (EEC, GATT, and OECD); Italy (EEC, GATT, and OECD); Spain (EEC and OECD).
3. Admission tax rebates for exhibitors who show local films in preference to imported films.	Belgium (EEC, GATT, and OECD). Italy (EEC, GATT, and OECD).
4. Quantitative restrictions on number of release prints which may be imported.	Japan (GATT).
5. Government pressures to compel economically unsound distribution of American films by local nationals rather than by branches of subsidiaries of American film companies.	Burma (GATT); Formosa; Indonesia (GATT); Japan (GATT); Mexico; Pakistan; Spain (EEC and OECD); Turkey.

STATISTICS

In the year 1972, according to the Motion Picture Industry trade periodicals, there were 181 feature moton pictures shot throughout the entire United States. This included animation, documentaries, feature productions, etc.

During ths same perod, there was 149 feature productions shot by American-interest investments in foreign countries that were released in the United States.

Add to this the Commerce Department figures for the year 1972 of imported feature films of 538,210 entire units (excluding news film) of 35 MM (or greater).

For the titles of imported feature films, please refer to Mr. Dougherty, Department of Commerce, Sundries Division, Tariff Classification, Washington, D.C.

The list of American-interest foreign motion picture production for 1972 is attached.

1972—FEATURE FILM PRODUCTIONS FILMED OUTSIDE THE UNITED STATES

United Artists:

"Man of La Mancha", Rome
"Billy Two Hats", Israel
"Avanti" (Jack Lemmon), Capri, Sorrento, Rome
"Last Tango in Paris", France
"Live and Let Die" (Started 10/9/72), Jamaica, London, New York
"Memoirs of a Ghost Writer", Malta
"Daughters of Satan (or "Evil Eye), Manila-Philippines
"Scorpio (Burt Lancaster), London
"Gawain and the Green Knight", England
"Fellini—Rome", Italy

Warner Bros:

"Sono Stato 10!! (I Did It), Milan, Italy
"Dracula is Dead and Well and Living in London", London
"Wednesday Morning" (John Wayne), Durango, Mexico
"Riata" (Richard Harris), Almeria, Spain
"The Mackintosh Man", London
"The Train Robbers" (John Wayne), Durango, Mexico
"Last of Sheila", France
"La Nuit Americaine", France
"Louise", France
"O Lucky Man", London
"Blume in Love", Venice
"The Invaded Man", (Il Borgo Film—Distributed by Warner Bros.), Italy

Anglo-EMI Productions:

"Henry VIII and his Six Wives", England
"Fear in the Night", England
"Straight on Till Morning", England
"The Boy", England
"Lady Caroline Lamb", England
"Made", England
"Up the Front", England
"Mutiny on the Buses", England
"Fear is the Key", London and Louisiana
"The Best Pair of Legs in the World", England
"Our Miss Fred", England

Metro-Goldwyn-Mayer:

"The Wrath of God", Mexico
"Every Little Crook and Nanny", Italy
"The Savage Messiah", London
"Travels With My Aunt", Spain
"The Great Waltz", Austria
"Pat Garrett and Billy the Kid", Durango, Mexico (Started 11/72)
"The Mutation", England

Cinerama:

"The Assassination of Trotsky", Mexico and Rome
"Vault of Horror", London

Palomar:

"Sleuth" (Released by 20th Century Fox), England

American International:

"Slaughter", London
"Dr. Phibes Rises Again", London
"The House of the Seven Gables", London

National General:

"A Warm December" (Sidney Poitier), London

20th Century Fox:

"The Legend of Hell House", England
"The Neptune Factor—An Undersea Odyssey", Toronto, Halifax and Malta
"The Paper Chase", (Started 10/18/72), Toronto, Canada and Cambridge, Mass.
"Dime Box", Durango, Mexico
"Sleuth" (Palomar Pictures-20th Cent. Fox Release), Pinewood Studios, England

Paramount

"Frankenstein and the Monster From Hell", England
"Innocent Bystander", London and Spain
"Phase IV" (Started 10/30/72), England
"Tales That Witness Madness" (10/30/72), England
"Don't Look Now" (Started 12/11/72), Venice, Italy

Universal

"Jesus Christ Superstar", Israel
"Two People", Marrakech, Casablanca, Paris and New York
"Interval", Panama
"Day of the Jackal", Vienna, Rome, Genoa, Nice, Paris, London
"The Nelson Affair", Bath, Somerset and London

Columbia
"40 Carats" (Started 10/10/72), Greece, New York, Hollywood
"The Last Detail" (Started 11/13/72), Canada, Washington, New York
"The Sin", Italy
"Death of a Snow Queen", London, Belgium, New York
"Girolimoni", Rome
"Il Delitto" (The Crime), Sicily
"The National Health or Nurse Norton's Affair", England
"Sinbad's Gold Voyage", Majorca, Madrid and London
"La Piu Bella Serata Della Sua Vita", Italy
Walt Disney Productions
"Nightmare Rally", England

1972—Feature Film Productions Filmed Outside the United States—Independent Producers

"Divorce His, Divorce Hers" (Richard Burton—Liz Taylor) (World Film Services/Gen. Continental Prods), Rome and Germany
"Vault of Horror", (Metromedia), London
"The Borneo Experience" (Vogue International Productions), Borneo, Hong Kong and Bangkok
"Mother's Day" (Taurean Films), Mahon Bay, Nova Scotia
"The Story of Juliane Koepcke" (Brut Productions—Started 10/9/72), Peru and Rome
"The Wicker Man" (British Lion), Scotland
"That'll Be The Day" (Anglo-Emi), England
"Nightmare Park" (Anglo-Emi), London
"A Doll's House" (Jane Fonda) (World Film Service—Started 11/13/72), Roros, Norway
"The Hirelings" (World Film Services—Started 11/27/72), England
"Luther" (Ely Landau Organization), London (With Stacy Keach)
"A Delicate Balance" (Ely Landau Org.), London (With Katharine Hepburn)
"The Pyx" (Host Prdos, Quebec Ltd.), Montreal
"England Made Me" (Atlantic Prods), Yugoslavia
"King, Queen Knave" (Wolper Prod), Munich, Germany
"Carry On, Matron" (Peter Rogers Prod. for Rank), England
"The Ragman's Daughter" (Penelope Films Ltd.), England
"Doomwatch" (Tigon), England
"Jamaica Reef" (Jamaica Reef Prods), Jamaica, B.W.I.
"Bernadette" (Carle-Lamy Prods), Quebec
"The Canterbury Tales" (Alberto Grimaldi and PEA Films), England (Orson Welles)
"The Living Dead" (Benmar/Scotia-Barber), England
"Siddhartha" (Columbia-Conrad Books Prods), India
"Jory" (Minsky-Kirshner Prod), Durango, Mexico
"Rare Blue Apes of Cannibal Isle" (Union Jack Enterprises), Malaysia and Los Angeles
"The Cherrypicker" (Elsinore Prods), Spain and England
"The Twilight People" (Four Associates—New World), Philippines
"Straight on Till Morning" (Hammer for Anglo-EMI), England
"Images" (Lion's Gate Films), Europe
"Neither the Sea Nor the Sand" (Tigon), England
"For the Love of Ada" (Tigon), England
"The Creeping Flesh" (World Film), England
"Nearest and Dearest" (Hammer Prods), England
"Hitler, the Last Ten Days" (Wolfgang Reinhardt Prods), London
"The 14" (Avianca Prods), London
"The Highest Bidder" (Four Associates Ltd), Philippines
"Death Line" (Kanter-Ladd, Jr. Prods), London
"The Triple Echo" (Senta Productions), Salisbury, England
"Once Upon a Scoundrel" (James S. Elliott Prod.), Mexico
"Digby—The Biggest Dog in the World" (Walter Shenson Films), London
"Kronos" (Hammer Films), England
"Carry on Abroad" (Peter Rogers Prod), England
"A Touch of Class" (Brut Prods), London
"European Circles" (Sleezy Prods), Crete
"Marco" (Arthur Rankin, Jr.), Tokyo

"Wedding in White" (Dermett Prods), Canada
"Night Watch" (Liz Taylor), (Brut Prods), London
"Two Gypsies" (Cintel Prods), France, Spain, Austria and Turkey
"OOh . . . You are Awful" (Cintel Prods), London
"Sweet Sugar" (Dimension Pictures), Costa Rica
"Vanishing Africa" (Bill Burrud Prods), Africa
"Interval" (Merle Oberon) (Euro-American Films), Panama
"Deja Vu" (Ridgedale Productions), Hong Kong
"Caribe" (Magellan Prod), Venezuela
"The Oval Portrait" (Maple Leaf International), Vancouver
"The Amazing Mr. Blunden" (Helmdale Prods), England
"So Evil My Sister" (Zenith International), Canada
"Charlie One Eye" (Paradine Films), Almeria, Spain
"Chains of Hate" (Four Associates Ltd), Philippines
"Impossible Object" (Franco London Film), Paris, Morocco and Rome
"Doomsday" (First Leisure Corp), London
"Scalawag" (Kirk Douglas's Byrna Prods), Yugoslavia
"Score" (Audobon Films), Yugoslavia
"Out" (Pacific Rim Films), Alberta, Canada
"Blacksnake" (Trident Films), Barbados
"Theater of Blood" (Cineman Films), London
"Big Zapper" (Lindsay Shonteff Prods), England
"The Official Film XX Olympiad" (Wolper Pictures), Munich, Germany
"Alien Thunder" (Alien Thunder Prods—Onyx Films), Saskatchewan (Started September 19, 1972)
"Cosmic Circus" (Animated) (Balaban and Quine), London
"Hugo the Hippo" (Animated) (Brut Productions), Hungary (Started September 1, 1972)
"The Yellow Dog" (Terence Donovan Prods), London
"A Doll's House" (Claire Bloom) (Elkins/Freeward Prod), Elstree, London (Started December 11, 1972)
"That'll be the Day" (Goodtimes/ANGLO/EMI), England (Ringo Starr) (Started October 23, 1972)
"Escort Service" (Monymusk Prods), London
"Death in Rome" (Richard Burton) (Carlo Ponti), Deer Studios—Italy
"Tarot" (Started October 16, 1972) (Taurean Films), Madrid, Spain

Significance of the Rise in Imported Foreign TV Films

Between 1950 and 1960, the only compensating factor that kept intact the pool of highly skilled and talented film workers in the United States, was the growth of domestic television film employment to offset the shrinkage of job opportunities in domestic theatrical motion picture production due to "runaway foreign production."

Today the "runaway" motion picture phenomenon has spread into the shooting of productions for television and is growing at such an accelerated speed that it is endangering the future job opportunities of every American motion picture and television craftsman, technician and talent employee.

As the richest television market in the world, America is the land of opportunity in a whole new context. Television producers around the world have become excited by the possibility of making a score in the country where the payoff promises to be the greatest anywhere.

The U.S. market is really three different markets—Network, Syndication and Public TV (with cable TV looming as a fourth, sometime in the future). Each has its own requirements, its own economic scheme, and its own range of possibiities. The *network market*, for instance, consists of three customers—ABC, CBS and NBC.

ABC, with its late-night "Wide World of Entertainment" will experiment in that time period with foreign production, whie NBC and CBS are locked into fixed program patterns there currently. On weekends, CBS has "The Children's Film Festival" which uses foreign TV, NBC and CBS deals more heavily in specials than does ABC; but ABC is the more ikely of the three to buy a proposal for a 90-minute foreign-made-for-television movie.

SYNDICATION

The syndication market in the United States can be even more lucrative, although it's somewhat slower going to have to sell each station individually

than to blanket the country by making a single sale to a network. The FCC's primetime access rule, which restricts the networks to three hours of broadcast time a night in the peak viewing hours, has created the need for network-like series at the station level, and a number of foreign companies (virtually all of them British or Canadian) have been supplying many of these series. The kinds of programs indicated for the access time periods (usually 7:30 p.m.) are the continuing comedy and action melodrama series.

FOREIGN CHILDREN'S TV PROGRAMS

There are probably vaster syndication opportunities for foreign producers outside the primetime access, particularly in the field of children's programs (and most particularly with animated fare). Such countries as Japan, Australia and Holland (in addition to United Kingdom and Canada) have had success in supplying children's shows for the U.S. market.

PUBLIC TV

As for the third American market—Public Television—the best prospect for foreign distributors on these shores. The public (non-commercial) system in the U.S. has an appetite for experimental, cultural and educational shows. PBS (formerly NET) is a big importer of TV series and specials and some of the individual stations have been buying product from abroad separately from the public network, usually with financial underwriting by American industry.

A sale to public television has value to foreign producers beyond the cash-in-hand, because it is a foothold in the U.S. market and a chance to make an impression here.

FOREIGN TV IMPORTS

In recent years, foreign TV product has been finding its way onto U.S. television screens with increasing regularity.

The imports (with Canadian product included in the category) have so far been dominantly English-language programs requiring no dubbing.

The network market, insofar as regular series are concerned, has so far been the private province of Sir Lew Grade and to a lesser degree, British Broadcasting Company. In recent years, Grade has had "The Julie Andrews Hour," "Shirley's World" Tom Jones, Engelbert Humperdinck, "The KopyKats" and "The Persuaders" on ABC–TV regular schedules, and has the seven-part "Strauss Family" sold to ABC for a May start.

Sir Lew Grade has announced sales of further Julie Andrews specials to ABC and "The Lawgiver" to CBS; six specials with American sponsors and a second feature picture with Julie Andrews. The stipulated price on all the TV deals is $9,500,000 for one-run apiece.

The first feature production with Julie Andrews and Omar Shariff, "The Tamarind Seed," rolls May 4th (Bahamas, London and Paris) and the second, thus far unnamed property written by Blake Edwards who will also direct, will roll next summer. Budget on "Seed" is $3,000,000 and the second pic will cost $2,500,000.

"The Lawgiver"—an ATV–RAI (Italy) co-production featuring Burt Lancaster—rolls in July and will location in Israel. Six hourly segments will take six months to produce.

In respect of Sir Lew's new sales vein, i.e. direct deals with American sponsors, he has set two Burt Bucharach and two Glen Campbell specials for Chevrolet plus a Sammy Davis, Jr. show for General Electric and a Lena Horne-Tony Bennett program for Sentry Insurance.

BBC, through its American distributor, Time-Life Films, has cracked the network barrier with a number of mini-series, their co-production of Alistair Cooke's "America" (a history of America told by the English) being the current active series airing every other week on NBC–TV. In the recent past, NBC aired "The Search for the Nile" and CBS has shown "The Six Wives of Henry VIII," and this past summer aired "Leonardo De Vinci" from RAI–TV, the only dubbed foreign product to earn a network primetime mini-series run so far.

Rex Harrison starred in a two-hour BBC production of "Don Quixote" shown on CBS April 23, 1973, (filmed in Spain and London). Coproducer—Universal TV.

James Mason, David McCallum and Agnes Moorhead will star in the four-hour "Dr. Frankenstein" film that Universal studios is shooting in London for NBC's 1973–74 schedule.

TV SPECIALS FROM ABROAD

Actually, the specials field has been more susceptible to foreign shows, with a number of such airing during the current season. Sir Lew Grade's organization has had three Burt Bacharach stanzas plus the "Royal Gala Variety Performance" and the three-hour "Long Day's Journey Into Night" in the entertainment area.

CBS recently aired Potterton Productions of Canada's "The Selfish Giant." NBC has aired "The Hands of Cormac Joyce"—a co-production with Australia's Crawford Productions and a repeat of "The Snow Goose" which was another BBC-Universal co-production.

In children's TV, Australia's "Around The World in 80 Days" has had a regular Saturday morning slot on NBC. The animated series, "The Jackson 5 Show" shown regularly on ABC Saturday mornings, is produced in London by America's Motown Productions, Inc. in association with Arthur Rankin and Jules Bass.

In the nature documentary area, ABC aired Jane Goodall's "Wild Dogs of Africa," the first on an ongoing series of specials to be produced by Miss Goodall, her husband, and Britain's Bill Travers. Though it is generally regarded as an American series, the Jacques Cousteau "Undersea World" specials are a French co-production of Cousteau's les Requins Associes.

Survival Anglia, the documentary arm of Britain's Anglia TV, placed two specials. "The Incredible Flight of the Snow Geese" (narrated by Glen Campbell and sponsored by the American Gas Association) was shown January 23, 1973 on NBC. "The Forbidden Desert of the Danakil" (narrated by David Niven and sponsored by Kraft) appeared April 25, 1973 on CBS. Travers also had his "Lion at World's End" on NBC.

SYNDICATION ARRAY

Syndication shows a much wider range of foreign suppliers, but Grade's ITC organization was still the dominant source. ITC's "The Protectors"—sponsored by Faberge—has been a prime-access placement and renewed for a second season by the cosmetic sponsor. ITC also had sales success with "U.F.O." and "The Adventurer" (starring Gene Barry) and enough rating success with "Department S" in two California bookings to make it available in 1973-74 to the entire country, along with a new "Menace in Space" series.

The current season has seen Fremantle International's "Adventures of Black Beauty," Anglia Ltd.'s "World of Survival" and the second year of London Week-end's "Doctor In The House"—All British made, airing in prime access programming slots in the major markets.

From Canada—"Police Surgeon," "Half the George Kirby Comedy Hour," "Story Theatre," "Amazing World of Kreskin." "Rollin' With Kenney Rodgers" and gameshow "Anything You Can Do"—all co-productions with U.S. firms which were produced in Toronto, Ottawa or Vancouver—have also been prominent in syndication. "The New Beat The Clock" daytime television program produced by Goodson and Todman, is taped in Montreal, Canada. Toronto has long been the scene of numerous co-produced specials, with Murray Chercover's CTV and Glen Warren Productions the most active Canadian participants—and Vancouver is now increasingly being used for specials origination.

CANDIDATES FOR FALL

British-made series are in abundance in the syndication availabilities so far announced for the 1973-74 season. Among them are "Arthur of the Britons"—a Heritiage Enterprises—Harlech TV co-production; the British sitcom, "Dad's Army" (from Time-Life Films, which also has BBC's "Vision On" in release right now); 20th-Fox TV—BBC co-productions of "Century Theatre" hour-long series and another project of 26 hour-long episodes which has not yet been given a title; and five series from Gottlieb/Taffner—"Bless This House," "Foursome", "Rivals of Sherlock Holmes", "Special Branch" and "The World At some" (a $3,000,000 series from Britain's Thames Television).

20th Century Fox TV has acquired the syndication rights to the BBC production of "Jack The Ripper"—a new series in six one-hour segments.

From Canada wil come "Adventures in Rainbow Country"—from Ceylon (in co-production with a European consortium)—"Elephant Boy" and from Holland, dubbed children's shows titled "Story Book Fables."

PUBLIC TV ACCENTS

American public TV has been the most prolific user of foreign product in the past, with the accent having been or BBC programming. The airing of "The Forsyte Saga" more than anything else, opened up the U.S. market to cultural-artistic mini-series, with critical successes registered by "Civilisation" and the Masterpiece Theatre series serving to cement the viability of that kind of programming for U.S. viewers. "Ballad of a Soldier"—shot in and by Russia, was shown on PBS Film Forum Series, May 3, 1973.

Granada TV's "Coronation Street" finally got a U.S. airing on two public outlets (New York and Boston) and this current season has seen many classical cultural specials aired with introductory segments in English to try to breach the language barrier. Public TV has been and will continue to be a good target for foreign-made product of a non-commercial nature.

CO-PRODUCTIONS

In addition to all the activity noted above, the prime American network inteerst in overseas programming lies in the co-production of mini-series and specials.

The Universal TV-BBC co-productions of "Colditz", "Fall of Eagles" and "History of the English Peoples" represent another of the serious losses of American television job opportunities for United States craftsmen and technicians.

Lacking such mutual benefit deals, The Majority of network activity abroad this current season and in the near future, will be European location shooting of series segments and specials tilizing foreign production and personnel but wholly financed by U.S. supplier money.

TV SPECIALS AND SERIES FILMED OUTSIDE THE UNITED STATES

"Dr. Jekyll and Mr. Hyde" starring Kirk Douglas—a Winters-Rosen Production filmed in England. Shown on NBC March 7, 1973—sponsored by Timex.

"Applause" starring Lauren Bacall. Universal TV Production filmed in London. Shown on CBS March 15, 1973 sponsored by Connecticut General and Volkswagen. Estimated cost was in excess of one million dollars.

"James Paul McCartney"—produced by ITC—shot in London and Liverpool—shown by ABC April 16, 1972.

"The Man Who Came to Dinner"—starring Orson Welles—Universal TV production—filmed in England.

"George"—a Winters-Rosen co-production with Marshall Thompson and German TV—Intertel Television GmbH—filmed entirely in Switzerland, will be placed into syndication for the 1973-74 season by Timex.

Greg Garrison Productions has made a deal with BBC-TV in London to co-produce the 1974 edition of "The Golddiggers" series.

"And On. . . .and on. . . .and on"

THE NEED FOR CHANGES IN U.S. TRADE POLICIES AS TO FILMS

The passive attitude of the State Department, supported by the Commerce Department, Treasury Department, and the Office of the Special Representative for Trade Negotiations, has been to tolerate and virtually ignore the direct and indirect foreign film production subsidies offered by other governments to encourage overseas co-production arrangements with "runaway" American film interests. This weak negotiating posture taken by the United States Government in such international forums as the GATT and the OECD stems from the State Department's long-standing reluctance to speak out in protest against the patently unfair and even illegal practices of foreign governments in the film field.

Due to the unwillingess of so many American film interests to resist the lure of direct and indirect foreign subsidies, quota advantages, tax benefits, and other financial inducements accompanying overseas production activities, no substantial progress has been made by the United States Government to date in coping with these foreign inducements to "runaway foreign film production" through international discussions, whether in the OECD, in the GATT, or bilaterally.

While the present Administration here in Washington, D.C .has repeatedly expressed its concern about the serious and drastic unemployment situation within the U.S. domsetic film industry, it remains content to hope in vain for the elimina-

tion of foreign film production subsidies, screen-time quotas, and other discriminatory trade restrictions with respect to films by continuing to seek a solution through half-hearted proposals, protests, and suggestions for gradual dismantling of existing film trade barriers and reduction or elimination of film trade restrictions. These traditional bilateral and multilateral approaches in international trade discussions offer no immediate prospect for relief from the "runaway foreign film production" difficulties.

The United States is the only important film-producing country in the world which extends no governmental assistance—either in the form of subsidies, low interest loans, investment guarantees or tax incentives—to help provide adequate financial support or appropriate forms of economic encouragement for domestic film production. While the United States imposes no limitations on the import of foreign-produced films into this country and only charges ridiculously low rates of duty on imported motion picture film (TSUS Item 724.10), virtually every other country subjects American-made films to a vast array of drastic restrictions, ranging from heavy import duties and very high "release taxes" or other special taxes, (deliberately designed to both discourage the entry of American-made films and to force American film companies to purchase their release prints from foreign film laboratories in order to reduce such excessive payments), to outright screen-time quotas, import quotas or other such direct import restrictive devices.

The unrestricted importation of foreign-produced motion picture and television film productions into the United States, including both American-interest and wholly foreign-financed, has created mass unemployment among American film workers. The United States Government is therefore obligated to reexamine its policies and attitudes regarding foreign trade with respect to films, in the face of the realities of the present-day situation.

As representatives of the American motion picture and television employees, we endorse the legislative aims of The Foreign Trade and Investment Act as reintroduced by Senator Vance Hartke and Representative James Burke. We further advocate the following essential changes in the foreign trade policies of the American Government as they pertain to the production and processing of motion picture and television films:

1. Establishment of adequate tariff and trade regulations to curb the unrestricted flow of imported motion pictures and television film productions into the United States.
2. Repeal of all provisions of the Tariff Code which provide financial encouragement to foreign production and the juggling of operations by U.S.-based multi-national corporations.
3. Institution of direct restrictions and controls on investment of U.S. capital in production activities in developed foreign countries.
4. Creation of a more effective and workable trade adjustment assistance program to protect American workers displaced by foreign imports.
5. Enactment of other appropriate legislative measures needed to protect American workers from unfair and discriminatory foreign trade practices and to provide for the improvement of the U.S. relative trade position in the interest of all the American people on a truly reciprocal basis.

Mr. HAGGERTY. Are there any questions?

Mr. BURKE [presiding]. First, I want to commend your group for an excellent statement. This is a real indictment of the trade policies of this Nation, and it is spelled out concisely with facts and figures. You know, I have been wondering about the TV. I have been watching it. Mr. Falk was taken to London, McCloud came on another week, his picture was in London. Then McMillen and his wife, a series of them one week after the other. I was wondering why they were all going to London. It seems almost like, not a conspiracy, but apparently they are making out very well by this means.

How do you feel about this tax exemption that an individual gets when he works overseas and the first $20,000 of his income is exempt?

Mr. HAGGERTY. I think it would be great if it was reciprocal and we all got it here. If we don't get it here, they should not get it over there. On top of that, an actor or writer over there gets his first $20,000

free. He also can write off a rental of a villa. He can write—or buy an attractive car. All of this he can write off. It is an acceptable writeoff under the present tax system. It is very attractive for him to go there.

Mr. BURKE. In other words, through very devious methods they have been able to structure a system whereby they have made sure that the film industry will be destroyed here in this country?

Mr. HAGGERTY. Exactly.

Mr. BURKE. They have given them so many tax incentives and benefits and low costs. And then they have complete access to our entire TV outlet here, and fo course another thing is that those TV's aren't even made here.

Mr. HAGGERTY. That is right.

Mr. BURKE. The TV sets are imported, too. So we are losing on both ends.

I was at the hotel the other day, and I met a few of you people. While I was aware of the problems, I really wasn't cognizant of all the damage which has been done. When I look over here and I see the disappearance of some of these well-known studios that were trademarks in the film industry, Columbia, Warner Bros., RKO Pictures, Inc., Republic Studios, Hal Roach Studios have vanished entirely, and 20th Century-Fox, and Metro-Goldwyn-Mayer Studios have disposed of their back lots, it is quite apparent that you people are going to wind up like the umbrella industry. There are only two of them left here, a couple of years ago. I don't know if they are still in business. The last two of them call themselves the Last of the Mohicans.

One of the fellows corrected the other witness and said, "Well, we are the last of the Mohicans." but actually he is going to be General Custer. He is going to be making the last stand for that industry, it seems quite apparent.

Now let me ask you something about this report that you have given to our committee.

Have you gotten these in the hands of every member of the U.S. Congress?

Mr. HAGGERTY. No, but I will make an effort to do that. I will guarantee that I will do it.

Mr. BURKE. I think it is important that they read this, every member of the House and Senate. Have you discussed with Ambassador Eberle who is going to be our negotiator?

Mr. HAGGERTY. One of the most effective lobbies you have in Washington is the Motion Picture Producers Association. They are greatly involved with foreign investments and their interests.

As Congressman Dent said in his hearing in 1962, they will bring money back here in bushel baskets. There is no way of knowing what they make in a foreign country. Obviously you can't say, "I want to see your books. United Kingdom, Spain, Yugoslavia, show me your books."

You are not going to get it. So they again are only charging taxes on the money they repatriate. If they continue to snowball effect their investment, they will never be charged a tax. So the industry keeps growing bigger and bigger in Europe or in Mexico where Mr. America goes; John Wayne makes all his pictures in Durango.

Mr. BURKE. As we develop better relations with China, they will probably make most of our western pictures over there. Is that true?

Mr. HAGGERTY. They will have to move them from Spain, Mexico, and Italy. It is either Mexico, Spain, or Italy, some in Yugoslavia. If you look at Clint Eastwood, he made his fistfull of dollars in Yugoslavia. He made his big start in Yugoslavia. That is where they produced this western. The Yugoslavian Government will give you 100 percent subsidy if you go over there.

Mr. BURKE. I only visited Hollywood once many years ago. How does it look now?

Mr. HAGGERTY. I tell you, if you go down Western Avenue where we used to have 12 sound stages of Fox, you will see a Zodie Gypo Department Store, all foreign products, which is rather embarrassing.

On the other side of the street is an apartment development. You go out to MGM, the back lots of two and three, there they shot "Raintree County." It is called Raintree Apartment Facilities. If you go to the 20th Century-Fox old back lot on Peco, it is now 20th Century City. There are some sound stages left.

I was out there with the reporter from Variety about 2 weeks ago. Alcoa, who owns the property, wants those sound stages removed because they are expanding their 20th Century City highrise complex; therefore they will have to remove those few sound stages.

If you go to Ogowo Gouch, which is Columbia, that is for sale. If you go to Paramount facilities, they are for sale. If you go to Hal Roach, you will see a Datsun agency, which is also encouraging.

I don't think you will recognize it. It is rather frustrating. Our problem is that there are no job opportunities. You might go to Spain, where we are building facilities; England, where you have MGM; Universal and United Artists all have interests.

You might go to Australia, where there are American interests, and to Canada.

Brazil, we understand Eastman-Kodak is building a facility there.

You would not know Hollywood, but you might find it relocated.

Mr. BURKE. Of course, we can set up museums in all these regions of the country to remind us of these industries that once were so much a part of America and have disappeared.

Up in New England we have our problems with textiles and shoes and electronics.

I am wondering about the State of California. I know the wine people, while they have not been to me, I understand they are making a few inquiries about this trade bill and how it is going to affect them. If they are able to destroy the wine industry and then the electronics industry, that causes a lot of unemployment out in California, and they have destroyed the motion picture industry. What do you think is going to be left for you people out there?

Mr. HAGGERTY. I think the old adage of Lincoln, "The government by the people, for the people, and of the people," is going to have to be rewritten because we are not people-oriented anymore; we are really dollar-oriented.

So the people will have to be relocated in a new area, which I think is called "welfare."

Someone has to pay that. Welfare comes from a tax base.

Mr. BURKE. That is what bothers me because the people who earn the money have to pay it to the government and your cost of govern-

ment is going up, unemployment is going up, welfare is going up, and this is going down.

That is what I can't understand, why some people don't seem to be concerned about it. They keep telling us about these wonderful figures, on how unemployment is going down.

In every State where unemployment has gone down, the welfare costs have spiraled up. They have not jumped up 4 or 5 percent, they have pyramided up as much as 25 percent. There is something wrong with our unemployment figures that they are giving out.

I hope to be able to arouse the Members of Congress and see if we can't get a factual breakdown of what the true unemployment figures are in this country.

You know, if you worked a full week back 2 years ago and you worked 1 hour this year, they would put you in the same classification of being employed.

Of course, that is not a true picture.

Would you care to inquire, Mr. Conable?

Mr. CONABLE. Thank you, Mr. Chairman.

Mr. Haggerty, you talk about subsidies. You have not talked about comparative wages. Is this one of the reasons for runaway industry?

Mr. HAGGERTY. I am glad you brought that up. It sounds like the strawman that the producers association has established. I will submit this for the record. The motion picture industry employees have been suffering from a depressed industry for probably 20 years, ever since the phenomena of the runaway problem.

To give you some examples, our people do not have sick leave. We do not have cost of living automatic adjustment clauses. We do not have dental, psychiatric, optical coverage. Our health and welfare once paid 80 percent of the bill and the employee paid the balance. Now they pay 50 percent.

The average holidays in manufacturing is 8.9; ours is 7. An electrician in the motion picture industry gets $5.62. In the Los Angeles area performing comparable work, identical work, in the building trades he gets $9.54. I think you will find that is almost $4 difference. Plumbers get $5.62 in the studios; they get $8.62 in Los Angeles. Painters get $5.62; $7.60 in Los Angeles. Carpenters get $5.62 in the studios, $6.75 in Los Angeles.

Labor gets $4.335 in the studios. They get $5.495 in Los Angeles.

The average rate in the motion picture industries, as stipulated by the Motion Pictures Producers Association on January 31, 1973, was $5.54 an hour. That includes our top people, the camerman, the sound people, the editors, down to our lower people, the laborers, the film technicians.

Let me repeat that figure; $5.49 an hour is what labor gets. The average motion picture worker gets $5.44. I don't think our workers are out of line. I think you will find the laborer gets $1.50 for pensions plus health and welfare. We don't get anywhere near that. He makes more than we do. Our rates are low, conditions are bad.

To compare us with the production and subsidized labor in Spain or Italy or England is very unfair, any more than you can compare your wages with what members of the Parliament make in England.

Mr. CONABLE. You would not say that the wages are comparable to what are paid abroad?

Mr. HAGGERTY. You used the word comparable.

Mr. CONABLE. I mean in relation to other industries.

Mr. HAGGERTY. When you say comparable, you are saying if the government is giving you 80 percent of the cost, you would have to add that on to the charge for labor. The cost of production is not what the guy who works with his hands makes. It is the charge of the star. It is the million dollar cost possibly for a production such as for "Godfather." The guy who works with his hands is not the cost of the production, Mr. Conable.

Mr. CONABLE. What I am asking is why have these industries gone abroad? Has it been because of subsidy or because of lower wage rates in the areas in which they are making the films abroad? Apparently the answer is that the subsidy is the big problem.

Mr. HAGGERTY. Exactly.

Mr. CONABLE. Has your industry filed any application for countervailing duty relief?

Mr. HAGGERTY. Yes.

Mr. CONABLE. I take it that you have written to Peter Flanigan.

Mr. HAGGERTY. Yes, sir.

Mr. CONABLE. And have had an unsatisfactory answer from him?

Mr. HAGGERTY. Yes, sir.

Mr. CONABLE. Have you filed any applications for countervailing duty relief?

You see, this device is what is available for the protection of people who are victimized by foreign subsidy. I wondered what happened there.

Mr. BURKE. Would you yield at that point?

I think the trouble in this industry is that some of these people are always in a position, some of these industries are almost in a position of a dual spy. They work for both sides.

Mr. HAGGERTY. I would like to answer his question, if I may, Mr. Burke.

Mr. BURKE. That is true in the shoe industry where we have many firms that have investments overseas and they get their tax breaks. So they don't make too many waves.

Mr. HAGGERTY. We appeared before the Tariff and Trade Commissions, the hearing that they had two years ago. I personally presented the violations of GATT and OECD. I have not heard a word. I have appeared before Maurice Stans when he was Secretary of Commerce. We have appeared before the State Department. The Labor Department had hearings. We have had hearings in 1962 by the Dent Committee on the impact of imports on American labor, as a result of which they found the problem was subsidy, which was substantiated in 1973 by the Bank of America vice president, which is a foreign subsidy. That is the biggest problem.

If you and I wanted to produce motion pictures and went out to get financing, the best break we could get is 15 percent, which is compounded, because it is a possible risk.

If we went to Europe, we would have no-interest loans or low-interest loans with a guarantee of the charges, and the subsidy paying for any possible risk, which is great for the industry, but the industry does not take into account the effect on the American worker.

If you consider the industry, the dollars, the investment, bucks, the companies, fine; but we feel we are part of the industry. We work.

Mr. CONABLE. The answer is that you have applied for relief on the basis of subsidy, and you have not had a satisfactory answer from the Government, is that right?

Mr. HAGGERTY. That is correct.

I would like to also bring out another point, the trade adjustment assistance program.

We had numerous people who lost their jobs as a direct result of runaway productions. We requested assistance from them. The answer we got is that you are in a communications industry and that is not covered by the act. So we have not had a lot of help from the Government.

Mr. CONABLE. What is the tariff on processed film?

Mr. HAGGERTY. The tariff?

Mr. CONABLE. Movies.

Mr. HAGGERTY. Point 98/100th cent per foot, less than 1 cent per foot.

Mr. CONABLE. Can you express that in percentages?

Mr. HAGGERTY. Practically nothing. If it is a thousand foot of film, it is about a dollar. You figure six reels in a production, $5. We really "burn" them.

Mr. CONABLE. There are apparently devices used by foreign countries, both tariff and nontariff, that are considerably more onerous than that.

Mr. HAGGERTY. Much higher. Also, they have quantitative restrictions like Australia, they will allow us to bring in one print. They have their own processing plants in Australia. Typical in Canada, they have screen dubbing, which is like 300 percent.

As Mr. Burke brought out about the car, they will have 300 or 400 percent on taxes. Then they have a restriction on how many pictures you can run that are foreign product on the scheen.

Many of the American producers will go in and say, "We will make a co-production for you. We will set up a Lichenstein or Swiss corporate structure, limited corporate structure." We are a party, a co-production, and therefore it is a domestic product, but it does not give us any work.

Mr. CONABLE. It sounds like you have a bad deal.

Mr. D'INZILLO. Mr. Burke, in the last 25 years here is what has happened to employment in the so-called motion picture-entertainment-television industry.

In 1947 there were upwards of 280,000 employees in what was then largely the motion picture industry and production, distribution and exhibition. There were at that time some 14,000 theaters in the United States. At that time there was no television, it was just coming onto the scene.

The International Brotherhood of Electrical Workers and National Association of Broadcast Engineers and Technicians were not then in the entertainment industry. They came in with television.

Today this large television industry and with still 14,000 theaters in the United States, there are now some 200,000 employees in the combined industry, and in motion picture production, as you have heard, there is on a year-round basis close to 40 percent unemployment.

In addition to all of the very pertinent factors that Mr. Haggerty brought out, one of the things that is increasingly apparent is that so long as these present trade practices continue, the major motion

picture producers who, as Mr. Haggerty points out, have everything to gain, will frustrate, as they have been doing, the institution of any comparable British-type plan here.

The theaters indicate, the theater employers asoociation indicate they will be willing to undertake a theater ticket admission tax for such an Eady-type plan, together with a government subsidy, but the motion picture producers, the majors, that is, not the independents, not even the big independents, but the major producing companies prefer to have greater competition for the fewer pictures which they control than the kind of subsidy program in these foreign countries which would enable increased production from independent producers, which would then make them more competitive in the domestic market, whether for theaters or in televsion.

Of course, as you very well know, there is no longer any justification for their going to foreign countries other than what Mr. Haggerty pointed out.

The original argument used to be that they needed the locale. Only recently they pulled a real cutey with a picture as American as the flag, and that is "The Great Gatsby." They are not only going to use some foreign subsidies, but they are bringing in, because of those subsidies, some foreign technicians.

In this case, they were interested mostly in the camera department. Which proves again that, unless there are procedures and restrictions that are indicated in the Burke-Hartke bill, there will be no more effective thing done in the next 20 years than there was in the last 20 to protect American employment. That is, in the next 20 it will continue to decline, and it is hurting tremendously.

I just want to point out that in many real instances the decisions that these companies are in actuality making with respect to the economic problems of a given industry are fast transforming themselves into political problems for the country as a whole.

This Committee certainly should be as concerned with that as with the economic aspects.

Mr. BURKE. I was wondering, a lot of these motion pictures that come out and some of the foreign films that come over here, seem to have a strong anti-American philosophy behind them. Do you think there is a trend in that direction?

Mr. HAGGERTY. I can give you a quote. Lenin stated years ago, "The most important media to us is the motion picture." In 1963 Stalin stated, "If I can control the American motion picture industry, I need nothing more to control the minds of the world."

You can draw your own conclusions. We don't control anymore.

Mr. BURKE. I am against censorship, but I think there is quite an abuse. I am shocked sometimes to hear some of the things I hear stated on TV and in motion pictures. I don't go to many pictures lately.

Mr. HAGGERTY. Every other country, because the government owns the film industry, controls the script content. You would not dare say anything anti-Mexican in a Mexican production. If you will think back, Frank Sinatra was barred from Mexico because of some remarks he made in a picture "Divorce Mexican Style."

The other countries will protect their image. We, as a free society, do not have any censorship restrictions, but that is not reciprocal. We also have seen a great deal of anti-American propaganda in the pro-

ductions. If you take a foreign subsidy, they have control of the money, so they have control of the script. If they are desirous of inserting any particular dialog in the production, they have the right to, and this has happened.

Mr. BURKE. I am not for censorship. I am merely pointing out that it is quite an irony when the taxpayers of the United States should be subsidizing films that have a philosophy that would like to tear down our Government.

Thank you very much for your appearance. I hope that you make this statement and the facts available to every Member of the U.S. Congress, the House and the Senate.

It has been an excellent statement. It is a shocking expose of what has taken place in your industry.

It has happened to several other industries. You have spelled it out quite carefully. Thank you very much.

Mr. HAGGERTY. I thank you, Mr. Burke.

We will certainly follow your counsel.

Mr. BURKE. The next witness is Edward L. Merrigan.

STATEMENT OF EDWARD L. MERRIGAN, COUNSEL, ARIS GLOVES, INC.

Mr. MERRIGAN. Thank you, Mr. Chairman. I have a very short statement.

My name is Edward L. Merrigan. I am a member of the law firm of Smathers and Merrigan, whose offices are located here in the District of Columbia. I appear before the committee today as counsel for Aris Gloves, Inc., one of the oldest ladies' glove manufacturers and distributors in the United States. Aris' offices are located in New York City and San Francisco, Calif., and presently it is a division of Consolidated Foods Corp. of Chicago, Ill.

While Aris Gloves is vitally interested in all of the provisions of the President's proposed Trade Reform Act of 1973, its testimony today will focus exclusively on the President's request for broad, new authority to grant most-favored-nation treatment to any country, subject only to possible subsequent congressional veto.

Aris Gloves does not oppose the President's request. However, in the case of Czechoslovakia, which is one of the potential recipients of most-favored-nation treatment if Congress allows the President to exercise the new authority he seeks, Aris urges the Congress, in fairness, to attach firm conditions such as will guarantee that, as a quid pro quo for the President's grant of most-favored-nation treatment, Czechoslovakia must promptly pay its long-standing debt to American citizens on awards rendered by the Foreign Claims Settlement Commission of the United States for the taking, expropriation, and nationalization of their properties by the Communist government of Czechoslovakia after World War II.

During the early 1960's, the Foreign Claims Settlement Commission, acting pursuant to authority granted to it by the Congress in 1958 in the Czechoslovakian Claims Act, Public Law 85-604, ruled that more than $75 million of American-owned properties had been confiscated and nationalized by the Czechoslovakian Government after the Communist regime seized power in 1947. In Aris' case, the Commission

granted Aris an award against the government of Czechoslovakia in the sum of approximately $630,000 as compensation for Czechoslovakia's expropriation of Aris' glove manufacturing facilities in that country, which consisted of two small plants, a tannery and large quantities of glove manufacturing machinery and equipment.

To date, Czechoslovakia has simply ignored these awards and it has refused to make any payments to the American award-holders, albeit the latter suffered their losses more than 25 years ago and Czechoslovakia has enjoyed the use and benefit of the expropriated properties since they were originally taken in the late 1940's.

Simultaneously, since the end of World War II and pursuant to the Paris Reparation Agreement of January 24, 1946 TIAS 1665, the U.S. Government, in partnership with the United Kingdom and France, has been holding approximately 18,400 kilograms of gold belonging to the Government of Czechoslovakia. At present rates, that gold is worth approximately $60 million or more, that is, an amount sufficient to pay about 80 percent of the principal sums—no interest—due on the American awards Czechoslovakia has ignored and refused to pay for such a long period of time.

In June, 1972, the Department of State advised the Senate Foreign Relations Committee that both the United Kingdom and France have released any claims they have against this gold, and that accordingly, the United States is in a position to negotiate directly with Czechoslovakia for the right to utilize the said gold in the payment of the American awards against Czechoslovakia. The Department also advised the Senate Committee that Czechoslovakia was extremely desirous of obtaining most-favored-nation treatment from the United States and that this was a factor to be considered in any agreement dealing with the American awards, the blocked gold, and new trade relations between the two nations. Indeed, the Washington Post went further and recently reported:

> **The United States and Czechoslovakia have exchanged draft agreements on a consular treaty in the first major effort to end a two-decade impasse in their relations, well informed sources said yesterday.**
>
> **Both sides plan to engage in complex talks on settlement of wartime damage and nationalization claims. The U.S. claims amount to roughly $72 milion.** Prague seeks the return of 18.4 tons of Czechoslovak gold looted by the Nazis and recovered by the allies. **The gold is currently held at Fort Knox.**
>
> **The impetus for normalization of relations has come from Prague seeking to break out of diplomatic isolation while at the same time gaining access to U.S. markets and technology.**
>
> **The Prague Government has already expressed interest in most-favored-nation status, and in U.S. credits and credit guarantees.**

Aris Gloves and the other long-suffering American award-holders are genuinely troubled and seriously disturbed, however, by persistent, ominous reports from State Department sources which indicate that the United States, admittedly possessed of tremendous bargaining strength in the current negotiations, through its control over the gold and its ability to grant Czechoslovakia the extremely valuable, sorely needed most-favored-nation status, might nevertheless be willing to release both to Czechoslovakia in return for some meager, long delayed, totally unsecured and completely insufficient settlement of the American awards—a settlement which, over perhaps 20 years from

today, would finally return at the most only 50 cents on the dollar of the American awards.

Clearly, Mr. Chairman, there can be no justification for any such settlement in this instance. The Czechoslovakian Government has already enjoyed the use and benefit of the expropriated American properties for more than 25 years, without compensation to the American owners. The Czechoslovakian gold held by the United States at Fort Knox is constantly growing in value, and today it is enough to pay 80 percent or more of the principal amount of the American awards. Finally, most-favored-nation status, plus access to U.S. markets and technology, plus U.S. credits and credit guarantees are far, far more valuable each year to Czechoslovakia than the relatively small amount that country has owed the unfortunate U.S. award-holders here involved since 1947.

Accordingly, Aris Gloves, speaking for itself and the hundreds of other U.S. award holders similarly situated, prays that, if this committee feels inclined to grant the President the new unilateral authority he seeks to extend most-favored-nation status to any country, including Czechoslovakia, it will simultaneously impose statutory restrictions or conditions applicable to Czechoslovakia which will prevent a Presidential grant to that country unless and until it concomitantly makes full, fair and prompt settlement of the long outstanding American awards against that nation.

If the Congress fails to protect the American interests here involved when obviously we have the diplomatic tools to do so, then it will certainly be a signal to those other countries throughout the world, which are bent on expropriating American properties without compensation, that they may proceed with absolute impunity, simply because our Government is too timid effectively to employ all of its available bargaining powers to protect its properties and its citizens' interests therein.

Mr. BURKE. Do you wish to inquire, Mr. Conable?

Mr. CONABLE. Thank you. I assume you don't expect this committee to do anything directly about this but you are hopeful that your appearance here will call to the attention of the State Department the problem you have?

Mr. MERRIGAN. I was hoping really, Congressman, that there would be something put in the bill or in the report which would attach some condition in the case of Czechoslovakia which would say the most-favored-nation status would be granted only if they make a just settlement of the award.

The State Department sources we have talked to are talking about making settlement similar to the Polish settlement where the awards were paid over 20 years at 50 cents on the dollar. That means the American award would be paid 45 years after the property was taken, without interest and 50 cents on the dollar.

The only protection that the Americans have is for the Congress to say to the President, "You are going to give the gold back to Czechoslovakia, give them the most-favored-nation status, at least they must have a fair settlement of the award before that is done."

Mr. CONABLE. I understand. I think that your appearance here is appropriate. Thank you very much.

Mr. BURKE. I don't think you are going to get much sympathy from me because I think when you people go over to those countries and you transfer those plants over, it costs Americans their jobs, you take your risk. Then you come back here to us after the country is taken over by another government and you ask us to bail you out.

So you don't have everything going for you. I want to be honest with you.

Mr. MERRIGAN. I understand your point of view as a Congressman from New England.

Mr. BURKE. I have no sympathy at all, particularly with Czechoslovakia after what happened over there. The shoe industry was hard hit in New England by Czechoslovakian shoes prior to World War II. If all those people are coming in here, who invested their money over there, to get bailed out you are going to find a little bit of unsympathetic feeling on the part of some of us.

Mr. MERRIGAN. I can certainly understand your point of view.

Mr. BURKE. If you people got your money back what would you do, build another plant over there and hope they would survive another 25 years and then come back 25 years later and try to get your money back again? Or would you build a plant over here and put some women to work making gloves?

Mr. MERRIGAN. I think in the case of Aris Gloves, I doubt seriously they would ever go abroad again because they lost these plants and were practically put out of business during World War II.

Mr. BURKE. Did they get burned badly enough to learn a lesson?

Mr. MERRIGAN. I think you could put it that way. I don't want to leave the impression we are asking Congress to pay the people to bail them out. We are asking Czechoslovakia to do it.

Mr. BURKE. I know, but you are asking us to put it in legislation to bail them out.

Mr. MERRIGAN. I think that is the least our government can do to protect its citizens when they invest abroad. Whether that is good or bad under the present standards of trade—

Mr. BURKE. I think one thing you are losing sight of is that we should not be letting these people going overseas now and export these jobs overseas and rely on Congress later on, 15 or 20 years from now, to put through legislation so that they can get their money back after the industries have been taken over by the government that is in existence there.

When you people go over there you are going over there without the full protection of the U.S. Government and you go over there with your eyes wide open, but you see tremendous profits you can make over there. Maybe you have learned your lesson, I don't know.

I don't want to be too hard on you. You seem like a pretty nice fellow to me.

Mr. MERRIGAN. Let me say that what we are talking about here is granting Czechoslovakia most-favored-nation treatment. What you are talking about doing is really opening a door for a flood of Czechoslovakia imports.

Mr. BURKE. Once Pepsi-Cola and a few other companies get over to Russia and there is a little shift in conditions, they will more than likely find themselves in the same position your people found themselves in.

Mr. MERRIGAN. It is a most unenviable position to be in.

Mr. BURKE. Are there further questions? Thank you for your testimony.

Mr. MERRIGAN. Thank you very much, Congressman.

Mr. BURKE. Our next witness is H. William Tanaka of Washington, D.C. You are recognized, Mr. Tanaka. You may identify yourself and proceed with your testimony.

WASHINGTON, D.C.
STATEMENT OF H. WILLIAM TANAKA,

SUMMARY

In addition to its broad policy implications, the proposed Trade Reform Act of 1973 involves a number of important procedural changes in the laws relating to foreign trade. These changes merit careful consideration by the Committee.

ESCAPE CLAUSE

(a) *Time Limits On Tariff Commission Investigations*

The proposed three to five month time limit on the conduct of escape clause investigations by the Tariff Commission is far too restrictive to permit adequate consideration of the facts. The Commission could not perform its duties in its usual careful and comprehensive manner within this limited time frame despite the relaxation of the criteria for relief.

Section 202(d)(2) of the Trade Reform Act should be amended to maintain the present statutory time limit of six months from the date the Tariff Commission initiates an escape clause investigation.

(b) *Market Disruption*

The provision specifying that a finding of market disruption constitutes *prima facie* evidence that increased imports are the primary cause of serious injury involves serious inequities and introduces an element of adversary procedure which has no legitimate place in Tariff Commission investigations under the escape clause.

The limited time provided for escape clause investigations would leave importers and foreign producers no opportunity to offer rebuttal evidence if a market disruption finding is made. Despite ambiguous statements to the contrary in the Section-by-Section Analysis, the bill contains no language specifically requiring the Tariff Commission to make an independent finding on the causes of injury in the absence of rebuttal evidence.

With only three months to conduct an escape clause investigation, and with the constant pressures of other cases, a finding of market disruption will soon become the virtual equivalent of a finding that increased imports are the primary cause of injury, and perhaps will become equivalent to a finding of serious injury itself. This would transform the escape clause investigation from a comprehensive analysis of all relevant facts to a purely mechanistic computation of statistics on imports, domestic shipments, and consumption.

Preferably, the entire concept of market disruption should be deleted. If Congress believes it necessary to include this concept in the statute, it should do so by providing that the test of market disruption will be considered by the Tariff Commission along with other factors in determining the relationship between increased imports and injury. But the concept of market disruption should not be elevated to the point of constituting *prima facie* evidence that increaesed imports are the primary cause of injury.

PROCEDURAL PREREQUISITES FOR DISCONTINUING PRESIDENTIAL ACTION

Sections 301, 401, 402, and 408 which give the President virtually unlimited authority to raise duties or impose quotas should be amended to require advance notice that import restriction actions are contemplated, and to give interested parties an opportunity to state their views in a public hearing before action is taken.

ANTIDUMPING PROCEDURES

I generally support the proposed amendments requiring the Treasury Department and the Tariff Commission to conduct public hearings in antidumping investigations, to base their conclusion solely upon the record, and to provide full elaboration of the reasons underlying decisions on disputed issues of fact or law.

But this provision should not be amended to provide that antidumping hearings must be conducted in accordance with the requirements of the Administrative Procedure Act. Adjudicatory proceedings under the APA are adversary in nature, and are therefore neither appropriate nor desirable in antidumping investigations. Also, the fact that decisions by the Teasury Department and the Tariff Commission are primarily based on confidential business information presents a serious obstacle to the conduct of a full APA hearing.

The *in camera* proceedings contemplated by Section 310(b) of the Trade Reform Act do not provide a realistic alternative, and this provision should be deleted from the bill.

Mr. TANAKA. Thank you.

Mr. Chairman and members of the committee, my name is H. William Tanaka. I am an attorney engaged in private practice in the District of Columbia, specializing in foreign trade and customs duty problems. A substantial portion of my time is spent representing clients before the Treasury Department and the Tariff Commission in investigations under the Antidumping and Trade Expansion Acts. I have been practicing in these areas for about 17 years.

I appreciate the opportunity to appear before this committee. Today, I am appearing on my own behalf and the views expressed are strictly my own.

I am testifying on H.R. 6767, the Trade Reform Act of 1973, because it involves a major overhaul of legislation in the field of foreign trade, including laws with which I have been dealing for most of my professional life. While enactment of this bill could bring about a fundamental transformation of U.S. foreign trade policy, the bill also involves a number of important procedural changes in the laws dealing with foreign trade. It is this aspect that I wish to discuss, rather than the broader questions of trade policy.

I believe that my experience as a practitioner in this field could be of some benefit to the committee in considering the procedural aspects of the Trade Reform Act of 1973. There are three basic issues that I wish to discuss: (1) revised criteria and procedures under the escape clause; (2) presidential discretion to impose import restrictions; and (3) procedures under the Antidumping Act.

THE ESCAPE CLAUSE

Section 201 of the Trade Reform Act constitutes a fundamental revision of the procedures and criteria for investigation by the Tariff Commission under what is commonly called the escape clause. This provision marks a sharp departure from the Trade Expansion Act of 1962 and prior legislation in that it eliminates any requirement for a causal link between trade agreements and increased imports. It also substantially modifies the required causal relationship between increased imports and serious injury.

a. Time limits on Tariff Commission investigations

The first procedural problem is the narrow time limits imposed on the conduct of investigations by the Tariff Commission. Section 201

(d) (2) requires the Commission to issue its report not later than 3 months after the date on which a petition is filed by domestic industry, or the date on which the Commission is requested to institute an investigation by either House of Congress or the President. An additional 2 months would be allowed if the Commission finds that a fair and thorough investigation cannot be made within the 3-month period, and publishes this finding in the Federal Register.

I recognize the need for swift action to prevent or remedy serious injury to domestic industry. But I know from my own experience in many escape clause investigations that a 3-month time limit is totally unrealistic, and that 5 months is also insufficient. I cannot see how the Tariff Commission could perform its duties in its usual careful manner within this limited time frame despite the relaxation of criteria for relief.

Escape clause investigations require comprehensive and in depth analyses of domestic and foreign producers, employment costs, prices, marketing, consumer tastes, and a host of other factors relating to the question of injury and its causes. Extensive preparation by the Tariff Commission's staff is required to gain a basic understanding of the conditions of competition in the specific product lines involved in order to draft appropriate questionnaires. These questionnaires typically call for detailed information over a five year period on matters such as production, sales, profits, employment, imports and prices. Completion of the questionnaires is a difficult and time-consuming task for both importers and domestic producers. Escape clause investigations often involve lengthy public hearings covering thousands of pages of transcript and requiring extensive legal briefs. The mass of information developed through these hearings must then be evaluated by the staff and the Commissioners.

Furthermore, neither the staff nor the Commissioners can devote full time to any single investigation. In addition to the escape clause, the Commission conducts injury investigations under the Antidumping Act whenever cases are referred to it by the Treasury Department. The Commission has no control over the timing of these investigations, each of which must be concluded within the statutory limit of three months from the date of reference by the Treasury Department. The Commission is also charged with the responsibility of conducting investigations of unfair practices in import trade under Section 337 of the Tariff Act of 1930 and with conducting investigations on other matters referred to it by the President or Congress. In addition to these continuing responsibilities, the Commission will most likely be inundated with new escape clause petitions if the criteria for relief are relaxed to the extent proposed in the Trade Reform Act.

Given these demands on the Commission's time, it appears unrealistic to assume that the Commission can do an adequate job in the limited period provided in this bill. The Tariff Commission serves an essential function as an expert disinterested body which can be relied upon to make an accurate, comprehensive, and objective analysis of the facts. I do not see how the Tariff Commission could maintain its present high standards if it is required to operate under these unreasonable time limits. The bill would sacrifice accuracy for speed, and thus contradict the basic purpose of Tariff Commission investigations.

I therefore urge the committee to amend section 201(d)(2) of the

Trade Reform Act to maintain the present statutory time limit of 6 months from the date the Tariff Commission initiates an escape clause investigation. I know of no credible evidence tending to indicate that this time limit has worked any hardship on domestic industries. A six month time limit on investigations by the Tariff Commission is clearly reasonable in view of the serious domestic and foreign repercussions of actions taken pursuant to the escape clause.

b. Market disruption

The second and, in my judgment, the principal procedural problem relates to the market disruption test specified in section 201. The Trade Reform Act substantially relaxed the required causal relationship between increased imports and serious injury by providing that increased imports need only be the "primary cause" of serious injury or the threat thereof rather than the "major factor". The test is further relaxed by introduction of a new concept of market disruption which, if found, is deemed to constitute prima facie evidence of the causal link between increased imports and injury.

Apart from the policy question of whether the criteria for relief should be relaxed to this extent, the concept of prima facie evidence involves serious procedural inequities.

The term "prima facie evidence" implies that once a finding of market disruption is made, the burden of proof shifts to the importers and/or foreign manufacturers to establish that increased imports are not the primary cause of injury. This introduces an element of adversary procedure which has no legitimate place in Tariff Commission investigations under the escape clause. These investigations are not, and should not be, adversary in nature. The Tariff Commission has an independent statutory responsibility to conduct investigations and it does not base its findings solely upon evidence presented by interested parties. Much of the information is highly confidential in nature, and is not available to either petitioners, respondents, or both. Only the Tariff Commission is equipped to determine all of the relevant facts through the resources of its staff and the assistance of other government agencies.

The procedure contemplated for the market disruption phase of investigations is clearly inequitable. The Tariff Commission must consider the question of market disruption whenever it is requested to do so by the petitioner. It must find market disruption whenever a showing has been made 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 at prices substantially below those of comparable domestic articles. At that point a presumption is created that increased imports are the primary cause of injury—a presumption which must presumably be rebutted by the importers or foreign manufacturers. But in many cases, official statistics on domestic consumption of a particular product are not available before an investigation, and must be developed by the Tariff Commission. Given the proposed 90-day limit on escape clause investigations, importers and foreign producers may never know whether a finding of market disruption has been made until the final decision is issued, and they will thus lose any real chance to rebut the presumption created by such a finding.

Even if a market disruption finding could be announced or anticipated before the final decision, it would be completely unfair to place the burden on importers and foreign producers to rebut the presumption that increased imports are the primary cause of injury. In order to present cogent evidence on the various causes of injury, it is necessary to have detailed information on the operations of individual domestic companies—information which is often confidential and is not available to importers or foreign producers.

While the section-by-section analysis of the Trade Reform Act seems to indicate that the Tariff Commission could issue a negative determination on the question of causality even if no rebuttal evidence is offered, the analysis is by no means clear on his point. It states that the Tariff Commission is obligated to conduct a market disruption investigation whether or not rebuttal evidence has been introduced by outside parties. But the question of rebuttal evidence becomes crucial after a finding of market disruption is made. The analysis also states: "The Commission could, notwithstanding a finding of market disruption, find that factors other than import competition were the cause of serious injury or the threat thereof."

This language does not constitute clear legislative history to support the proposition that the Tariff Commission must make an independent determination on this issue regardless of whether rebuttal evidence is offered.

But whenever the intent of the drafters, the unreasonable time limits provided in this bill will inevitably prevent a full and adequate consideration of relationship between increased imports and serious injury. With only 3 months to conduct an escape clause investigation, and with the constant pressures of other cases, a finding of market disruption will soon become the virtual equivalent of a finding that increased imports are the primary cause of injury, and perhaps will become equivalent to a finding of serious injury itself. This would unfortunately transform the escape clause investigation from a comprehensive analysis of all relevant facts to a purely mechanistic computation of statistics on imports, domestic shipments, and consumption.

For these reasons, I believe that the entire concept of market disruption should be deleted from the bill. The relaxation of the causal test from the major factor to the primary cause makes relief more readily available to domestic industries. In applying this new test, the Commission would probably take into consideration the same factors which are described in the definition of market disruption. But it is neither necessary nor appropriate to introduce a concept of prima facie evidence into the escape clause procedure.

If Congress believes it is necessary to include a concept of market disruption in the statute, it should do so by providing that the various tests of market disruption should be considered by the Tariff Commission along with other factors in determining the relationship between increased imports and injury. But the concept of market disruption should not be elevated to the point of constituting prima facie evidence that increased imports are the primary cause of injury.

PROCEDURAL PREREQUISITES FOR DISCRETIONARY PRESIDENTIAL ACTION

The Trade Reform Act gives the President broad authority to raise duties or impose quotas under a variety of circumstances—all without

any prior investigation by the Tariff Commission and without any required finding of injury to domestic industry.

Section 301 gives the President unlimited authority to impose duties or other quotas on the products of countries which maintain unjustifiable or unreasonable restrictions against imports of American products or which provide subsidies on sales to other countries which have the effect of restricting U.S. exports to these countries.

Section 401 authorizes the President to impose temporary import surcharges or quotas to alleviate balance-of-payments deficits.

Section 402 authorizes the President to increase any existing duty or other import restriction or to provide additional import restrictions, including quotas, whenever the United States withdraws or suspends any trade agreement. Section 408 authorizes the President to terminate trade agreement concessions at any time.

The important policy questions presented by this broad grant of authority are outside the scope of my testimony. But I would like to address myself to the procedural deficiencies of these provisions.

The criteria for Presidential action under these provisions are either vague or nonexistent, and there is no requirement for public hearings before the action is taken, or even for any advance notice that import restrictions are under consideration. While there is provision for public hearings concerning action taken under the authority to withdraw or terminate trade agreements, these hearings can be held only after the action is taken, and there is no provision for any hearing with respect to action taken under the retaliatory authority of section 301 or the balance-of-payments authority of section 401.

It is important to bear in mind that foreign producers are not the only ones who would be affected by these actions. The imposition of import restrictions would have a direct impact on American economic interests. The problem would be particularly severe for American manufacturers who rely upon imported raw materials or parts. The sudden imposition of quotas, sucharges, or duty increases would totally disrupt their operations. Importers, retailers, and consumers would also be affected, and should have a right to be heard before any action is taken under these provisions.

Section 410 requires public hearings before action is taken to renegotiate duties under section 403 or to grant compensatory tariff concessions under section 404. There is no valid reason why simliar procedural rights cannot be granted before the President exercises the broad discretionary authority granted to him under sections 301, 401, 402, and 408.

Any benefits which might be derived from the ability to take immediate action are far outweighed by the serious damage which can be done to innocent parties who bear no responsibility for the circumstances which led to the use of the authority provided in these sections. All interested parties should be given full opportunity to not only challenge the merits of the proposed action, but also to point out any special hardships which may result. Furthermore, once the President decides to impose import restrictions, a reasonable period of time should be provided so that American businessmen may renegotiate contracts, find new sources of supply, or take other action to protect their interests before the restrictions are imposed.

While the administration has provided no official explanation, I assume that it decided not to require prior notice or public hearings in order to avoid a sudden import surge during the interval between the original notice and the final decision. I question whether this is a serious risk in most cases. But in any event, the problem could be avoided by authorizing the President to suspend liquidation of imports after notice of proposed action is issued pending the final decision. As in the case of the 1971 import surcharge, the suspension of liquidation should apply to articles exported to the United States after the date of the initial notice.

For the foregoing reasons, in my judgment, sections 301, 401, 402, and 408 should be amended to require advance notice that action under these sections is contemplated, and to provide all interested parties an opportunity to present their views concerning the merits and the scope of the proposed action.

ANTIDUMPING PROCEDURES

Section 310(b) of the Trade Reform Act would establish new procedural requirements for the conduct of antidumping investigations by the Treasury Department and the Tariff Commission. Both agencies are required to conduct public hearings, and to base their decisions solely upon the record developed in these hearings and in other papers filed in connection with the investigation. Both agencies are also required to publish the reasons for their decisions on all material issues of fact or law presented on the record.

These provisions reflect an attempt to deal with widespread dissatisfaction with the present procedures under the Antidumping Act—particularly the lack of adequate hearings before the Treasury Department and Treasury's unwillingness to publish the reasons for its decisions on contested issues.

As a practitioner in this field I welcome this effort toward reform. I particularly support the provision requiring a full elaboration of the reasons for decisions by the Treasury Department and the Tariff Commission on all material issues of fact or law. In view of the wide discretion afforded to both agencies by the Antidumping Act and regulations, there is a critical need for this provision in order to provide reliable guidance to foreign exporters and American importers.

I also generally support the hearing provision—except for the reference to in camera proceedings—as now written, but I am concerned that these provisions may be amended to provide that antidumping hearings must be conducted in accordance with the requirements of the Administrative Procedure Act.

First, the statutory time limits imposed on antidumping investigations are too restrictive to permit use of the full panoply of APA procedures.

Second, adjudicatory proceedings under the APA are adversary in nature, and are therefore neither appropriate nor desirable in antidumping investigations. Adequate investigations could not be conducted in the framework of an adversary proceeding between domestic complainants and exporter and importer respondents, since the Treasury Department and the Tariff Commission have an independent statutory duty to determine the facts through their own resources.

The Secretary of the Treasury can initiate an investigation on his own motion without a complaint. The concept that the Treasury Department or Tariff Commission and the foreign respondents are the "adversaries" is equallly mistaken. At no point in the investigation does any official of either agency act in the nature of a trial counsel or prosecutor having the responsibility of establishing a case against the respondent.

Throughout the proceedings all officials responsible for the conduct of the investigation act as independent investigators who attempt to develop all the facts so that a proper determination can be reached. There is no prosecutor, and there are no adversaries as such.

Third, the problem of confidential business information is a serious obstacle to the conduct of a full APA hearing. Investigations at the Treasury Department involve such questions as the production costs of foreign manufacturers, the names of their customers, and the prices at which particular sales were made. This information is entitled to confidential treatment under the Treasury regulations since its disclosure to competitors, customers or the general public could have serious anticompetitive effects. Yet Treasury's determinations in most cases are based on just such confidential information.

Investigations by the Tariff Commission involve matters such as the prices, customers, sales and profits of domestic producers in particular product lines. Although this information is essential to the Commission's decision, it is also highly confidential and is not disclosed to the foreign respondents or the general public.

I seriously question whether formal hearings could be conducted pursuant to the rules of evidence with full right of cross-examination when such vital information must be withheld from the parties. Nor do I believe that in camera hearings contemplated by Section 310(b) of the Trade Reform Act provide a realistic alternative. Neither the Treasury Department nor the Tariff Commission are given any legal authority to impose sanctions to compel nondisclosure by counsel who participate in in camera proceedings. Even if sanctions could be imposed, they would not provide effective protection in cases where parties are represented by corporate legal officers, or where the information must be evaluated by company experts. The entire concept of in camera proceedings for treatment of confidential information is inapplicable to antidumping investigations by the Treasury Department or the Tariff Commission, and I urge that this reference to in camera treatment be deleted from the bill.

Otherwise, I support section 310(b) as now written and suggest that it be retained in its present form except for the reference to in camera treatment of confidential information. For the reasons I have stated, this provision should not be amended by require the conduct of hearings pursuant to the Administration Procedure Act.

CONCLUSION

As the committee considers the critical trade policy issues raised by the Trade Reform Act, it is impossible not to lose sight of the procedural problems raised by a comprehensive overhaul of existing legislation.

I hope that the committee will give careful consideration to these procedural problems and will revise the bill in a manner which will

provide essential due process while recognizing the special problems of administrative proceedings in the foreign trade field.

I appreciate this opportunity to appear before you, and I will be happy to answer any questions.

Thank you.

Mr. BURKE. Thank you, Mr. Tanaka.

Mr. Collier?

Mr. COLLIER. It is my recollection that under the existing escape clause procedures there must be necessarily a petitioner filing for relief. I say that because I question whether or not three months would be adequate time under those provisions for the Tariff Commission to render a decision. You would have to concede there has been a event or reason for establishing action by the Tariff Commission; otherwise, this would necessarily prolong action by the Tariff Commission to provide such relief and would result in a very serious impact upon the domestic industry in many cases.

I don't know of a commission or agency of the Congress, in all the years I have been here, that ever came forward with a report or a finding in advance of the date that they were permitted. It just seems to be a kind of bureaucratic way of life.

Mr. TANAKA. Mr. Collier, if I might restate my position on this question of the time limits, the Tariff Commission, as I have stated in my prepared statement, has any number of responsibilities under different statutes in addition to the escape clause procedure.

Mr. COLLIER. Let's stay with just the escape clause if we can.

Mr. TANAKA. These time limits under other statutes, for example, the Antidumping Act, is not within the control of the Tariff Commission and we have, in addition thereto, proceedings such as under Section 337 or section 332, which have no time limits and which are ongoing investigations, comprehensive investigations. This is, I think, one of the reasons why the Tariff Commission to date, at least in my observation, has been unable to come out with decisions earlier than the deadline in most instances.

The Congress established a Tariff Commission for the purpose of making a thorough economic study and for this reason the Tariff Commission is appropriately staffed by economic experts and commodity experts and that this type of extensive as well as in-depth analyses and so on into prices, competition and so on, can't really be done unless, at least in my opinion, 6 months' time is afforded.

Mr. COLLIER. Is it not true the petitioner before he would file would certainly be adequately equipped with sufficient information so that 90 days should be an adequate time to make an evaluation and analysis of what is in the petition together with all the other data which obviously is available through the Department of Commerce as well as through the information the Tariff Commission has and it wouldn't take 6 months in many cases to make a proper judicial determination in those cases?

Mr. TANAKA. I think in simple cases that may be true. However, in many instances the—what is it, the import statistics, domestic shipping figures and so on are not necessarily available through public sources so the petitioner himself may not have sufficient data at the start of the investigations, sufficient for the Tariff Commission staff to make their staff study and submit their report on the basis of which the Tariff Commission might make a determination.

Mr. COLLIER. I want to make one closing observation. It is interesting to note, Mr. Tanaka that your concern with the executive authority in this area is concern over fear that that would be used in a manner that would be too restrictive or perhaps even in a protectionist way while most of the witnesses have opposed this great authority on the grounds they fear the executive would use that authority in a means that, without guidelines, that would not be sufficiently protectionist?

Mr. TANAKA. No, as I stated at the outset of my statements, I have limited myself to the procedural aspects. I think though when you have such a broad grant of authority to the President and his staff, it is pretty difficult for the President and his staff to know all the facts and to understand how some important economic sector within the domestic economy could be adversely affected. My point is that these procedural safeguards could serve to take unnecessary harshness out of the decisions.

Mr. COLLIER. I am not quarreling with that. I say it is merely interesting to note one group of people are concerned that the executive authority will be used in a too liberal manner in which domestic industry will be sacrificed and your concern is obviously in the other direction. I can certainly understand it.

Thank you, Mr. Chairman.

Mr. BURKE. Mr. Conable.

Mr. CONABLE. I am interested in your practice. It must be a very specialized practice. Are there many lawyers in Washington that operate in this field and, if so, do they specialize almost exclusively in this area?

Mr. TANAKA. There are quite a few of my professional colleagues who practice in this particular area. There are some practicing in this particular area and who operate out of New York, Chicago, Cleveland, and San Francisco.

Mr. CONABLE. Do you have additional qualifications outside that of being lawyers? Are they economists and statisticians as well?

Mr. TANAKA. No, I think specialization in one legal area is more than one can handle. Usually lawyers who specialize in this field retain economic consultants or statisticians in connection with preparation of their cases.

Mr. COLLIER. Would the gentleman yield?

Mr. CONABLE. Yes.

Mr. COLLIER. I think it is just as well to give economists the same set of data and information and they come up with contrary conclusions. That is why economics will never be a science.

Mr. CONABLE. No, but it will be an important part of advocacy.

Do you represent for the most part aggrieved parties in Tariff Commission proceedings or do you represent those who are charged with unfair practices, or do you do both?

Mr. TANAKA. I represent mostly respondents in these actions.

Mr. CONABLE. Rather than petitioners?

Mr. TANAKA. Yes.

Mr. CONABLE. Well, you understand the problem about the time lag. You are usually dealing with dramatic intrusions into the domestic market for which bankruptcy is the claimed possible result and there is a great pressure on time, great pressure for moving the case along,

something that has not been typical in this field in the past. Many businessmen who came before us in 1970, when the Mill's bill, was up, talked about making complaints about unfair trade practices and having those complaints disappear into the bureaucratic maw not to be heard from for another 2½ years.

In the meantime the economic conditions about which they were complaining came to full maturity with all its ultimate implications. So I think you understand the pressure on time which is implicit in any bill the President presents here, his anxiety to prove he is willing to provide a framework within which timely remedy can be sought.

I understand your point about the Administrative Procedure Act and otherwise, but we have a political problem here also. The problem of reassurance of American interests in the face of what they usually consider to be a rather dramatic and rather pressing economic threat.

Mr. TANAKA. Yes, but I might add, Mr. Conable, that certainly in this day of rapid rate of technological innovation in the purely domestic context, products are being obsoleted very rapidly with the result there are bankruptcies and conversions to manufacture products of other products going on.

I think these are the signs of the times where you have such a rapid rate of acceleration in terms of innovation, in terms of trade, in terms of livelihood expectations and so on.

Mr. CONABLE. Thank you, Mr. Chairman.

Mr. BURKE. Thank you very much. You have made a good contribution and we really appreciate your testimony.

Mr. CONABLE. Thank you.

Mr. BURKE. Our next witness is Noel Hemmendinger from Washington, D.C.

We welcome you to the committee. You may identify yourself and proceed with your testimony.

STATEMENT OF NOEL HEMMENDINGER, WASHINGTON, D.C.

SUMMARY

1. Section 201 of the bill should be amended by deleting the provisions relating to market disruption, which are unnecessary and tend to create confusion, and the three month time limit, which is unrealistic.

2. Section 310 of the bill should be amended by omitting time limits as unnecessary, since they are already covered by the Regulations. The Anti-Dumping Act, 1921, should be amended to provide that in comparing the home market price with the export price allowance shall be made for circumstances of sale which are found to exist under accepted accounting principles, whether or not directly related to the sale under consideration.

3. Section 330 of the bill would wisely give the Secretary of the Treasury discretion not to impose a countervailing duty if this would cause economic detriment to the United States, but is defective in not providing an injury test for dutiable articles.

4. Section 350 should be amended to repeal Section 337 of the Tariff Act of 1930 altogether. The proposed provision would leave in the Tariff Commission jurisdiction with respect to patent cases, with changes in the procedures and standards presently prescribed. Removing the economic tests from the law makes it very clear that this is an inappropriate type of jurisdiction to be exercised by the Tariff Commission, which is an economic fact finding and evaluating body. This is particularly true since the Tariff Commission would not be given the power to consider both validity and infringement, which are inextricably related. The patent issues should be left entirely to the courts.

Mr. HEMMENDINGER. Thank you, Mr. Chairman.

My name is Noel Hemmendinger. I am a member of the law firm of Stitt, Hemmendinger & Kennedy, Washington, D.C. The other partners are Nelson A. Stitt and John A. Kennedy, Jr. We have asked to appear here today in order to bring to the committee our experience as practitioners with respect to section 201, 310, 330, and 350 of H.R. 6767.

We represent a number of foreign trade associations and importers, on whose behalf we have appeared in various proceedings under the escape clause, the Antidumping Act, the Countervailing Duty Act, and section 337, of the Tariff Act of 1930. This statement, however, is not made at the request of any of our clients nor on behalf of any of our clients.

We feel it is at some point necessary to come off the high ground of general discussion and examine how things work in detail. We feel we might have experience, therefore, of benefit to the committee. We are not representing any specific client interest. We may be biased, but are honestly speaking our own personal convictions.

I would like to ask that my statement be offered in evidence because I do not intend to read it.

Mr. BURKE. Your entire statement will appear in the record without objection.

Mr. HEMMENDINGER. I should like to use these few minutes before you simply to elaborate a few of the points which, in our judgment, have tended to escape adequate attention because they are technical and they involve a considerable exposure to the details of particular cases.

In our statement we refer to four sections of the act, section 201, section 310, section 330, and section 350. Since other witnesses have discussed some of these, I am going to restrict myself to some comments on section 310, which is the amendment to the Antidumping Act, and section 350, which would amend section 337 of the Tariff Act of 1930.

The point that I want to stress under the Antidumping Act was made briefly in the testimony given the other day by Nelson Stitt testifying for the United States-Japan Trade Council. You will find it in that statement and at greater length in my statement. We say with great seriousness and with great sense of responsibility that the Treasury Department, which claims to be administering laws in the interest of fair trade, has been unfair in applying the Antidumping Act in situations which have tended to cause justified grievances on the part of foreigners accused of dumping, and that this would be apparent to any fair-minded person who was willing to examine in detail how they actually administer the act.

We extend the suggestion to this committee that when the Treasury people are before you later on in this session you examine them, you ask them to explain whether these claims that we make are actually valid or not valid.

We are suggesting an amendment to the act. Now to be fair to you, an amendment would not be required to remedy the defects. We are essentially asking that the law be administered as written and that the Treasury Department strike from its practice a portion of the regula-

tion which is inconsistent with the intent and spirit of the law. This has to do with the question of circumstances of sale because, as is well-known, the home market sale and the export sale are almost never directly comparable. In order to compare them you have to strip off the charges which are peculiar to the market under consideration and net it back, as they say, to the factory price.

There are two situations where Treasury simply refuses to do this. One is where the so-called purchase price is used, what I often call a water's edge sale, where it is naked, there is practically no cost involved except the factory cost and profit and a tiny bit of transportation to the port, perhaps. Then you have the sale in the home market where the domestic manufacturer frequently bears large overhead such as sales organization and distribution centers, and Treasury will not allow that overhead to be allocated. And yet, strangely enough, this is not because of any accounting problem or theoretical problem, because in the other situation where the foreigner sells in the United States through his own sales organization, they will strip back right down to the profit, strip all the overhead away on the American side when he sells through his own organization under the so-called exporters' sales price and then, because it would be a naked piece of unfairness that nobody could stand, they will allow a deduction on the home market side in that situation, but with the arbitrary limitation that the amount per dollars and cents per category is limited to what was deducted on the American side.

If you stop to think about that for a few minutes, what it means is they will deduct these general expenses when it helps to create a dumping margin and they refuse to deduct it when it would tend to diminish the dumping margin. It is difficult to think of anything more unfair than that practice.

Now in my remaining time I wish to point out that section 337 has been an anomaly in the customs laws of the United States for 50 years. Finally, after much consideration in the executive branch, a proposal is put before the Congress which would do something about it and it is extremely disappointing. I am not in a position to tell you what bureaucratic resistance is caused where the experts have not come up with a clean report, but it seems to me there must have been some resistances. We have explained in our statement in many, many pages, going into the history and use of this section, why it is wrong. This has been an anomaly from the very beginning because the object of the law is to strike at so-called unfair acts and unfair methods of competition in the import trade. It was originally an adjunct of the 1923 Act where they were interested in protecting the dyestuff industry. It was never directed at patents, but it came, over a period of time, uniquely to be directed at patent cases. Then they developed a doctrine that the Tariff Commission couldn't look at the validity of the patent. Most patents that are challenged in court are held to be invalid.

This is a story the committee would have to go into for literally days of hearings if it were to do justice to one little part of the Trade Act that is before you.

You would think that the Tariff Commission would have at least elaborated a doctrine that paralleled that of the courts. Courts will enjoin patent infringement under certain circumstances but only after

a challenged patent, as they say, has been adjudicated, passed on by a court. The Tariff Commission ducks that question, following a peculiar decision of the Court of Customs and Patent Appeals of long standing.

Now the Tariff Commission may not look at validity of patents even though validity and infringement are inextricably entwined; they are usually two sets of conclusions drawn from the same type of patent testimony. The abuse we have would not be remedied adequately by the present bill. It reveals, indeed, how ludicrous it is to leave this type of jurisdiction in the Tariff Commission. It would strip away all the economic tests and leave to the six-member Tariff Commission, with its impressive staff, which is passing on economic issues, a single question, does the imported article infringe the patent? There would be a safeguard that could avert the worst possible abuses under the present law in that the importer could put up a bond and himself go to court. He might have to go to court to challenge the validity of the patent. It still represents an opportunity for harassment of importers and discrimination against imports, and we submit very seriously to the members of this committee, if there is any real need here, it can very well be met by simply asking the proper committees of the Congress to amend the patent laws and the judiciary laws and then perhaps a minor amendment of the trade laws to permit a court which finds that relief cannot be given adequately through the traditional means to make a finding, which, after public hearing, would became the basis of exclusion by the customs.

There is no occasion for patents to be dealt with outside the courts and it doesn't belong in the Tariff Commission.

Thank you very much.

[Mr. Hemmendinger's prepared statement follows:]

STATEMENT OF NOEL HEMMENDINGER

Mr. Chairman, Members of the Committee: My name is Noel Hemmendinger. I am a member of the law firm of Stitt, Hemmendinger and Kennedy, 1000 Connecticut Avenue, Washington, D.C. 20036. The other partners are Nelson A. Stitt and John A. Kennedy, Jr. We have asked to appear here today in order to bring to the Committee our experience as practitioners with respect to Sections 201, 310, 330 and 350 of H.R. 6767.

We represent a number of foreign trade associations and importers, on whose behalf we have appeared in various proceedings under the escape clause, the Antidumping Act, the Countervailing Duty Act, and Section 337 of the Tariff Act of 1930. This statement, however, is not made at the request of any of our clients nor on behalf of any of our clients.[1]

The position that I am taking here today represents strictly the views of myself and my partners, and they represent our honest views as to the administration of the trade laws of the United States; they are not offered here in advocacy of any particular interest.

SECTION 201: TARIFF COMMISSION ESCAPE CLAUSE INVESTIGATION

We question the advisability of including the market disruption test in Section 201 because we think it is unnecessary and invites confusion with respect to the statutory intent and the operation of the escape clause. A proceeding under the escape clause is a Tariff Commission investigation in which much of the evidence which is obtained is obtained by the staff by interviews and by ques-

[1] We have registered under the Foreign Agents Registration Act on behalf of a number of our clients, and the registration statements are available for public inspection at the Department of Justice. Because we are not speaking for any of them, we have not submitted a copy of our latest registration statement to this Committee and we believe that it would be inappropriate to do so, as implying a responsibility for the views expressed herein on the part of our clients—a responsibility that does not exist.

tionnaires, and is not directly available to the parties who see fit to appear. Therefore, any procedural rules relating to order of proof would affect only the hearing, and not the total investigation, and would not be meaningful. We conclude that the expression "prima facie" as used in Section 201(b)(5) must refer to the mental processes of the Commissioners after hearing the whole case, and not to any order of proof. As we interpret the proposal, therefore, it would mean that after it had concluded upon all the evidence that there was serious injury or threat of serious injury, the Tariff Commission could find the presence of the elements of market disruption, and conclude from that fact that there existed the requisite causal connection between the serious injury and the increased imports. Presumably, the Commissioners could stop there unless there was evidence which indicated that some other cause or causes of the injury was primary. If the record before the Commissioners did so suggest, then they would have to go on to examine all the evidence and reach their conclusion accordingly. We are at a loss to see what the proposal accomplishes since the Commissioners would naturally look first at the broad statistical picture, and if there are other reasons for injury than the imports, the Commissioners are bound to look into them. We see a danger, particularly when this provision is combined with the further provision that the Commission should decide most cases within three months, that some cases would be decided on inadequate examination of the facts. We urge that this provision be deleted.

We also strongly suggest that the three-month time limit subject to extension to five months, be deleted because our experience indicates that this in unrealistic. In the cases that we have tried in the last several years, the Commission has apparently had difficulty in meeting the six-month deadline. This is no criticism of the Commission. The reason is built into the fact that the Commission must obtain information by preparing questionnaires and issuing them to the members of the trade that are concerned. By the time these questionnaires can be returned and properly considered, a considerable portion of the six months inevitably elapses.

SECTION 310: AMENDMENTS TO THE ANTIDUMPING ACT

We do not perceive any respect in which the proposed amendments to the Antidumping Act would significantly affect the practice under the present law which, as importers have found, has been extremely rigorous. We suggest, however, that the imposition of statutory time limits, which would be done by Section 310, is unnecessary, since time limits are already in the Regulations.

We wish to urge a further amendment of the Antidumping Act relating to circumstances of sale. Its purpose is to require the Treaury Department to enforce the law in accordance with the present statutory language, which we believe is not being fairly and correctly applied. The recommendation is that Section 202 of the Antidumping Act, 1921, 19 U.S.C. Section 161, be amended to provide that the Secretary of the Treasury shall make allowance for all differences in circumstances of sale which are found to exist under accepted accounting principles, regardless whether such differences are directly related to the sale under consideration. The purpose of this amendment is to modify Section 153.8 of the Regulations under the Antidumping Act, which for some years provided that the allowances to be made must, in general, bear a "reasonably direct relationship to the sales under consideration" and which were amended in 1973 to delete the word "reasonably". The correct principle was stated by Jacob Viner in his celebrated treatise which was contemporaneous with the adoption of the Antidumping Act, that the allowances must bear a reasonable relation to the sales under consideration.[2]

The reason for this goes to the very heart of the Antidumping Act. In order to make a fair comparison of sales in the home market with sales for export, it is necessary to make adjustments for those circumstances which are particular to the market under consideration. If some circumstances are arbitrarily excluded, then the comparison is not a fair one. This may sound like a technical problem which is best left to the experts, but in all conscience it is not. It has direct importance for the businessmen whose interests are directly affected by the administration of the Antidumping Act, and it also has very serious consequences for the fairness of the administration of the United States law.

Let us consider some actual situations. There are two main methods by which foreign goods are sold to the United States. One is an arm's length sale in

[2] Viner, *Dumping: A Problem in International Trade*, 1966 Reprint, 282.

the country of origin to the U.S. importer who is not related to the producer or exporter. In this situation the so-called "purchase price" is applied. The other is where the foreign producer maintains an affiliated company in the United States. Here, because of that relationship, the sale in the United States is the basis for comparison. Under the U.S. law, this is called "exporter's sales price."

Let us suppose that for a given article there is a price at the factory, including a reasonble profit, of 100, and that export price or "purchase price", including costs of shipping is 105. Let us further suppose, as is often true, that the manufacturer maintains a sales staff, and provides advertising in the home market, so that this home market price is 110. If commissions are paid, these are deductible by terms of the U.S. statute, but the salaries and expenses of the sales staff, and the advertising in the home market (unless directly related to the retail sale) are not permitted to be deducted. Let us add one more circumstance which frequently occurs, namely, that in addition to a sales staff at the factory, the manufacturer maintains distribution centers throughout the country of origin, at which point the price is 125. The overhead of these centers is clearly related to the sales in the home market and not to exports, and yet it is not allowed. In this situation the foreign businessman is confident that he is not dumping, because the price at the factory level is the same for both markets. Yet the U.S. Treasury would decide that there is a less-than-fair-value margin of 25.

In short, it often happens that the importer buys abroad at the factory cost, plus profit and perhaps the cost of putting the goods aboard ship, and all the overhead costs of wholesale distribution in the United States are borne by the importer. The comparable distribution costs in the country of origin are borne by the producer, and yet thy are included in the home market price and excluded from the export price, in making the price comparison under the Act.

This is the practical consequence of the innocuous-sounding provision of the Regulations that costs must be "directly related to the sale under consideration."

The unfairness is highlighted by the practice of the U.S. Treasury Department in the case of "exporter's sales price", that is, where the foreign manufacturer sells through an affiliated company in the United States. In this situation, the Treasury Department is required by the terms of the Act to deduct from the sale price in this country the general expenses which are allocable to the sales under consideration. To avoid a most blatant unfairness, the Treasury Department will in this situation allow deduction of the general expenses in the home market, subject, however, to the limitation of the same dollar and cents amount per unit per category of expenses as were deducted on the American side. This peculiar rule is nowhere to be found in the Regulations. What it amounts to is that in comparing the wholesale price in the United States with the wholesale price in the home market, the U.S. Treasury will deduct general expenses from both sides of the equation if to do so would tend to increase a possible dumping margin, but will not do so if the result will tend to decrease a possible dumping margin. Imagine the furor if such an unprincipled rule were to be written into the Regulations!

To apply our simplified calculations to the exporter's sales price situation, if the factory price was 100, than the landed duty paid cost might be 125 and the wholesale price in the United States, after general expenses and profit of the selling company in the United States, 150. Stripping the U.S. sales price down to the factory price plus the profit of both factory and U.S. affiliate would result in a figure of 105. Let us suppose that in examining the expenses in the United States it is found that advertising and salesmen's salaries and general sales overhead total 15.

As we have seen, on the home market side the wholesale price is 125, and the expenses for advertising, salesmen's salaries, and overhead are 25. Only 15 of the 25 would be allowed, leaving a price of 110 and a less-than-fair-value margin of 5.

This would be a far smaller margin than if "purchase price" were applied, but it proves the unfairness in the purchase price situation. Treasury has no difficulty in deducting general expenses from the sale in the United States, so where is the difficulty in deducting them from the sale in the home market?

We have gone into this situation in some detail because we are not aware of anything in the published literature relating to the enforcement of the U.S. antidumping law that brings out the way in which this provision is actually ad-

ministered. There were lengthy submissions made to the Treasury Department in 1972 in connection with its proposed changes in the Regulations, but they were ignored. We have been informed that there is now a study of "circumstances of sale" under way in the Treasury Department. If so, it is highly welcome, and it is hard to understand why it has been so long delayed. We urge the Committee to seek full enlightenment on this subject.

SECTION 330: AMENDMENTS TO THE COUNTERVAILING DUTY LAW

We support the proposed amendment to the countervailing duty law, Section 303 of the Tariff Act of 1930, to give the Secretary of the Treasury discretion to make the final decsiion in the light of the economic interest of the United States. This law as presently written would instruct the Secretary of the Treasury to impose a countervaliing duty to counter any bounty or grant, direct or indirect, and whether governmental or non-governmental, upon the manufacture, production or export of the article in question. This language is so broad that it could cover a multiplicity of activities that have long been regarded as legitimate by trading nations and which are practiced by the United States itself. Wisely, over the years, the U.S. Treasury Department has interpreted these words in the light of internationally adopted practice under the GATT. In the last year or two, however, there have been a raft of new complaints, and in the spring of 1972 the Treasury Department adopted a new practice of announcing a public investigation without a preliminary determination that a countervailing duty would lie. It seems to us that the Treasury Department is now in the awkward position of having to delay decisions indefinitely rather than to make decisions which would cause serious trouble in the international economic relations of the United States, with no commensurate benefit to this country.

We are not objecting to the further amendment which would extend the countervailing duty law to non-dutiable products and provide an injury test for such products, but we are surprised and disturbed that the injury test would not be extended as well as to dutiable products. This is provided by the GATT and makes excellent economic sense, because there is no reason to countervail against foreign export incentives if there is no injury to a substantial American interest. Indeed, quite the contrary, because the U.S. economy benefits. The justification, we suppose for omitting this proposal is that under the so-called "grandfather clause" the United States is not under a legal obligation to extend an injury test to articles that were subject to Section 303 at the time that the GATT was adopted. This is a pure technicality, however. Surely the intent and spirit of the GATT is that when the whole law is before the Congress for review, the United States' practice should be brought in line with the internationally agreed standards. It is very hard to see how the United States can expect its trading partners to live up to the spirit of their obligations, if it takes such a niggardly view of its own.

SECTION 350: AMENDMENTS OF SECTION 337 OF THE TARIFF ACT OF 1930 RELATING TO UNFAIR COMPETITION AND UNFAIR ACTS IN THE IMPORT TRADE

Because Section 337 is relatively little known and understood, we are submitting an extended analysis of the law and the proposed changes. We conclude that Section 337 should be repealed altogether.

BACKGROUND AND HISTORY OF SECTION 337

Section 337 of the Tariff Act of 1930, as amended, 19 U.S.C. 1337, authorizes the President to exclude from entry into the United States any articles if he finds:

1. Unfair methods of competition or unfair acts in their importation or sale.
2. The effect or tendency of which is to restrain or monopolize trade or commerce, or to destroy or substantially injure, or prevent the establishment of, an industry that is
3. Efficiently and economically operated in the United States.

The statute authorizes the Tariff Commission, upon complaint or on its own initiative, to carry out investigations of alleged violations, with such notice and hearing as it deems sufficient, and to reach findings. If a violation is found, the importer or consignee may appeal on questions of law to the Court of Customs

and Patent Appeals (CCPA). If the Court does not disturb the Commission's findings, they are transmitted to the President, who directs that the articles be excluded if he agrees with those findings. The President may issue a temporary exclusion order pending a full investigation, if he has reason to believe that there is a violation.

Section 337 was originally enacted, in substantially its present form, as Section 316 of the Tariff Act of 1922. Its purpose in 1922 was to help protect the large coal-tar chemical industry that had developed during the First World War, when there was an embargo on coal-tar products from Germany. To protect that industry, Congress enacted a package of protective measures including American selling price valuation and the so-called "flexible tariff." Section 316 was added on the theory that imports could get through this tariff barrier only by "unfair methods"; it provided for an additional duty of 10 to 50 percent *ad valorem* and, in extreme cases, exclusion. When the provision was reenacted as Section 337 of the Tariff Act of 1930 (the Smoot-Hawley Tariff), the principal change was to remove the possibility of additional duties as a remedy and to substitute exclusion as the sole remedy (except for temporary exclusion orders pending full investigation, where entry under bond, as in the 1922 version, was authorized). In 1940, Congress added Section 337a, 19 U.S.C. 1337a, which provides that articles made abroad in accordance with a process covered by a U.S. patent are also subject to Section 337. This legislation was enacted in order to overrule a 1935 CCPA decision, which had refused to apply Section 337 to such articles (*In Re Amtorg*, 75 F. 2d 826, 22 CCPA 558 (1935)).

Ironically, the coal-tar industry did not utilize the new weapon Congress had given it. Some early cases involved such unfair methods of competition as passing off and misleading labeling. However, by 1927 Section 316 was being applied in the context of patent infringement (*Synthetic Phenolic Resin*, No. 316–4). Of the first eight full investigations under Section 337, seven involved patents. The statute became dormant for many years, but it was revived in the 1950's and 1960's and the overwhelming preponderance of cases involved patent infringement. For example, in its Annual Report for Fiscal Year 1972, the Tariff Commission listed various actions taken under Section 337 in fourteen cases; all but one concerned patent infringement.

Tariff Commission proceedings under Section 337 differ markedly from a Federal District Court patent litigaton. The major difference stems from the first patent case decided by the Commission under Section 316. In that case, the Commission decided that the complainant's patents were infringed and valid. On appeal, the CCPA held that the Tariff Commission lacked power to decide whether the patents were valid; rather, it must presume their validity unless and until a court of competent jurisdiction found them invalid (*Frischer and Co.* v. *Bakelite Corp.*, 39 F. 2d 247, 17 CCPA 494 (1930), *cert. denied*, 282 U.S. 852 (1930)). The CCPA reiterated that holding in its last pronouncement on Section 337, *In re Von Clemm*, 229 F.2d 441, 43 CCPA 56 (1956). In every case involving patents, the Commission has treated each patent as though it were valid, even where that validity had been placed in issue by a respondent.

During the 1950's, the Commission adopted the practice of deferring action under Section 337 pending completion of concurrent litigation in which the issue of validity was in dispute. However, in more recent years the Commission has taken the position that the pendency of litigation involving the validity of the patent in question does not affect the authority or responsibility of the Commission to investigate and decide cases under Section 337. (See, e.g., *Ampicillin*, 1970, TC Pub. 345).

An important development affecting the provision in Section 337 for review by the CCPA of questions of law was the 1962 Supreme Court decision in *Glidden* v. *Zdanok*, 370 U.S. 530 (1962). That decision held that the CCPA is established under Article III of the Constitution, and intimated that its jurisdiction under Section 337 might be invalid because the President makes the final decision under the statute, so that any opinion by the CCPA would be merely advisory, whereas Article III requires that there be a "case or controversy" as a prerequisite to a court's jurisdiction. There have been no appeals to the CCPA of Tariff Commission actions under Section 337 since the *Glidden* decision.

THE PRESENT SITUATION UNDER SECTION 337

Section 337 has obvious advantages to a patent holder seeking to take action against imports that may fall within the claims of his patent. First, it provides

him a remedy that is unavailable in any single forum in the domestic context, since it is applied in an *in rem* fashion against all imports, whether or not a particular importer appears before the Tariff Commission. Second, he need not defend the validity of his patent. Third, in the case of process patents, he can obtain exclusion of articles made abroad by means of the patented process even though no relief whatsoever is available under the patent laws against the importation, sale or use in the United States of such articles.

As a result of those advantages, proceedings are often initiated under Section 337 by a patent holder whose patent is of dubious validity and who is unwilling to have its validity tested in the federal courts. This unwillingness undoubtedly results from the fact that most patents adjudicated by the courts are found invalid. For example, from 1966 to 1972, over two-thirds of all patents adjudicated by the Circuit Courts of Appeals were held to be invalid.[3] As a consequence, an importer of the article in question, or the foreign manufacturer, is often faced with the option of either initiating an expensive declaratory judgment action or defending in the Tariff Commission without being able to assert his strongest defense. The patent holder risks nothing, since even an adverse decision by the Tariff Commission on the infringement issue would not be *res judicata*, nor would it have any precedential effect in a federal court.

Once a complaint is received by the Tariff Commission, it initiates a preliminary investigation to determine whether it should (a) recommend to the President a temporary exclusion order (which it generally does if it finds a prima facie case of infringement and immediate and substantial harm to the complainant), (b) conduct a full investigation, including hearings and submission of briefs; or (c) dismiss the complaint. Recommendations of temporary exclusion orders, once rather rare, have become more frequent in the last four years.

As stated above, the Commission now takes the position that the pendency of litigation involving the patent in question does not affect the authority or responsibility of the Commission to proceed to investigate and decide cases under Section 337. It has even taken this position in two cases notwithstanding the fact that the United States itself was involved in litigation against the patent holders (*Ampicillin*, 1970, TC Pub. 345; *Meprobamate*, 1971, TC Pub. 389).

Once the Commission has found a violation of Section 337, the importer may appeal to the CCPA on questions of law. The last such appeal took place in 1954, in the *Von Clemm* case. However, as indicated above, it is doubtful that this jurisdiction presently exists, in view of the 1962 Supreme Court decision in *Glidden 1. Zdanok*. Thus, the only possible judicial review of an exclusion order under Section 337 would involve an importer's protest in the Customs Court under 19 U.S.C. 1515, and it is uncertain whether in such a proceeding the court could review more than the customs officer's judgment that an excluded article was in fact excludable under the terms of the exclusion order. (This would be essentially the issue of infringement, but it would be tried in the Customs Court, without the patent holder as party unless he intervened, and with the interrelated issue of validity still perhaps excluded from consideration.)

DEFECTS IN THE PRESENT SITUATION

The most serious defect of the present application of Section 337 is the artificial separation of the questions of infringement and validity, with validity excluded from the Commission's purview. This has resulted in manifest discrimination against importers, who have thus been deprived of a defense that is available to defendants in domestic patent infringement actions, and who are subject to exclusion orders in a situation where U.S. courts would grant no relief, even of a preliminary nature. (The courts will grant no preliminary relief where the patent's validity is seriously in issue and unadjudicated. See, e.g., *Bose Corp.* v. *Linear Design Labs, Inc.*, 340 F. Supp. 513 (D.C.N.Y. 1971). This is probably because most challenged patents, as indicated above, are eventually found to be invalid by the courts). Such discrimination may well violate the national treatment provisions of the General Agreement on Tariffs and Trade (Article III) and of numerous treaties of Friendship, Commerce and Navigation.

The exclusion of validity from the Commission's purview is inconsistent with federal patent policy, which is to grant protection only to true inventions (*Sears, Roebuck and Co., v. Stiffel*, 376 U.S. 225 (1964)), and to allow challenges to

[3] See statistics provided by Patent Resources Group, Inc., Washington, D.C., for seminar on Patentee Trial Advocacy, 1972.

validity in the public interest notwithstanding even contract clauses prohibiting such challenge (*Lear v. Adkins*, 395 U.S. 653 (1969)). Even more fundamentally, it totally ignores the frequently intimate relationship between the issues of infringement and validity in patent litigation. Thus, in a typical case, the scope of the patent's claims must be construed in the light of the prior art in order to avoid invalidity. The defendant's position in such a case will be that if the patent is read broadly enough to cover his product, then it is invalid, and if it narrowed to save its validity, then his product does not infringe it. Obviously, then, if the question of validity is to be excluded from the Commission's consideration, the Commission will be in the position of hearing all the patent evidence but arbitrarily excluding certain legally necessary elements from consideration.

Another major defect in the present situation is that it can, and often does, lead to burdensome and expensive duplicative proceedings, since the Commission does not suspend its investigation while litigation is in progress, even where the litigation was initiated first. This contrasts with normal procedure in the Federal District Courts, which is to proceed only in the court that was first seized of a patent case, with the other courts abstaining. It is particularly anomalous because the court will almost always decide every patent question relevant to the Section 337 proceeding except the existence of injury, and can grant total relief to the patent holder.

Furthermore, although the Commission has dealt with patent infringement questions for almost fifty years, it is highly questionable that it is an appropriate forum to resolve patent controversies. This responsibility, involving resolution of rather narrow and technical legal issues, is unlike any other that the Commission is accorded by law, contrasting sharply with the economic fact-finding that is the Commission's usual fare. More importantly, it seems a poor allocation of resources to burden the Commission with such narrow but time-consuming chores that of concern only to the interested private parties, the patentee and the alleged infringer, particularly when the Commission has a large and growing set of responsibilities of interest and concern to a much wider segment of the country.

Another defect is that the use of confidential data by the Commission prejudices the rights of the parties, who are not privy to information that is gathered in confidence by the Commission's staff or that is submitted by the other party. The Commission's decisions under Section 337 are thus based upon information that is not available to all concerned.

Finally, the exclusion of articles made abroad in accordance with a process patented in the United States goes beyond any relief afforded by the patent laws in similar circumstances, since the Supreme Court has held that a process patent is infringed only by production in the United States in accordance with the process. *Merrill v. Yeomans*, 94 U.S. 568 (1876). This protection of process patents against imports amounts to an extraterritorial enforcement of United States law, since it attempts to inhibit acts that are legal where they take place. In addition, it raises serious due process problems because in practice it would be difficult to determine the process by which particular goods are manufactured abroad; without a presumption that they are made in accordance with the patented process it is doubtful that relief could be granted to the holder of a process patent. This would place an importer or foreign manufacturer in the position of revealing trade secrets to avoid an exclusion order, and would be manifestly unfair.

THE PROPOSED NEW SECTION 337

Section 350 of H.R. 6767 has these principal features:

1. The statute will be limited to cases of patent infringement. (Other types of unfair methods of competition will be transferred to the Federal Trade Commission.)

2. Where the Tariff Commission finds infringement but validity is challenged in a federal court, imports may be entered under bond, based on a reasonable royalty or damages to be payable to the patentee, pending the outcome of the litigation.

3. The President will no longer be involved in the procedure, and the Tariff commission will itself issue the exclusive order.

4. Since the Commission's order will be final, the CCPA will have jurisdiction to review it, as well as any other action or refusal to act by the Commission that adversely affects any person. The review will be in accordance with the judicial review provisions of the Administrative Procedure Act.

5. The injury test and the requirement that the complaining industry be efficiently and economically operated will be deleted, except that in order to issue a temporary exclusion order the Commission must find that immediate and substantial harm to the patentee would result if it were not issued.

6. The Commission will be required to hold a public hearing, with a transcript to be made of all testimony and exhibits presented at the hearing.

ANALYSIS OF PROPOSED NEW SECTION 337

The revised Section 337 would render *de jure* what has already occurred *de facto*—the transformation of the statute into a remedial appendage of the patent laws. While ameliorating the present situation in some respects, the revision would place in clearer relief the basis defects of the law and might make it a more serious interference overall with legitimate import trade than the present law.

The major shortcoming of Section 337—the artificial separation of the validity and infringement issues—is not changed by the revision. Arguably, the Commission and the CCPA would still retain the option to reconsider the present situation and begin to take the validity issue into account. However, the fact that the amendment did not explicitly change the situation would leave the implication that Congress did not intend that validity be treated differently than it is now. So, too, would the special new provision for entry under bond while validity is decided by a court.

The revision would thus continue to discriminate against allegedly infringing importers: it would deprive them of a defense and of a full and fair consideration of the infringement issue, since that issue is inextricably connected with the validity issue,[4] and would subject them to a constraint (entry under bond) that is not imposed on domestic defendants under comparable circumstances in patent litigation.

Secondly, the revision would continue to expose importers to the burden of defending themselves in two forums for the same acts.

Third, it would retain jurisdiction in a body that is not designed to deal with narrow patent questions and whose resources should not be diverted from its other responsibilities, which are far more important to the public as a whole. Deletion of the injury test would bring the statute even further from the Commission's usual expertise.

In short, the most serious flaws in the present law would remain. Moreover, while there would be certain improvements, their utility would be limited. For example, appeal to the CCPA would presumably provide more effective judicial check on the Commission's actions, but the court would in all likelihood limit its review of patent questions to the infringement issue as it has since 1932. The President's role would be eliminated, but this also cuts two ways, since the President now provides an importer with his only opportunity in a Section 337 case to raise the issue of validity as well as other issues bearing on the equities of the case but not set forth in the statute.

Furthermore, these improvements reveal the basic shortcomings of the statute. For example, when an importer appeals an exclusion order to the CCPA, he will presumably argue that his imports do not infringe the patent. On the other hand, the Commission will presumably argue that they do. Thus, the Commission will be placed in the middle of a purely private controversy, arguing the position of one of the private parties. This is, at the least, anomalous. For instance, the patentee will presumably wish to intervene to protect his interests. He may not agree with the Commission over the scope or meaning of his patent. He may even be involved in litigation elsewhere *against* the Government on the same issues.

RECOMMENDATIONS CONCERNING SECTION 337

Section 337 should be repealed altogether. It has serious defects and does not achieve any useful purpose that could not be accomplished through amendments to the patent laws. There is one principal reason that is most often cited as justifying retention of Section 337: its *in rem* remedy is said to be necessary because there are so many potential importers of an infringing item that a patent holder would have to bring a multiplicity of actions in order to protect his rights if Section 337 were not available. There is no evidence, however, that this problem

[4] If the Tariff Commission and the CCPA in considering infringement determine the point at which the patent is so broad as to become invalid, then they are really passing on validity.

of multiplicity arises more often in the import context than in the domestic context. More importantly, if this is really a serious problem, there seems to be no good reason why the patent laws could not be amended to provide for an *in rem* remedy, with appropriate public notice, against infringing imports under appropriate circumstances (e.g., where the multiplicity problem exists) as part of judicial proceedings. This approach would have the virtue of placing all patent cases involving imports where they belong—in the courts—where all the relevant issues can be decided at one time, and it would eliminate all of the defects of Section 337 discussed above. In short, there is no reason why the same responsibilities placed in the Tariff Commission by Section 337 could not be given to the courts, particularly now that the economic tests are being eliminated.

We know of no foreign country having a provision of law comparable to Section 337; while many or most countries provide remedies against infringing imports, they do so in the context of normal patent infringement proceedings. The United States should adopt the same non-discriminatory approach.

In the event that the Commission is to retain its Section 337 jurisdiction, however, there are steps that should be taken to reduce or eliminate the problems that now arise under that jurisdiction.

First, the statute should be amended to assure that the Commission will consider every patent question that would arise in the course of an infringement action. This would include fraud and misuse as well as validity. Such a step would acknowledge that the Commission is not merely a fact-finding body in Section 337 cases; rather, it examines technical and sophisticated legal questions under the same standards applied by the courts. As already indicated, there are good reasons why it should not be doing this at all. But if it is to do so, there is no valid reason for denying it the ability to address *all* the issues that pertain to patent cases. Clarification of this point should not, for reasons discussed above, be left to the Commission and CCPA to reverse existing precedent; it should be accomplished through legislation.

Second, the statute should direct the Tariff Commission to suspend proceedings under Section 337 when the patent issues raised in such proceedings are before a Federal District Court. This would avoid the possibility of duplicative proceedings and place a priority on jurisdiction in the federal courts, where patent cases are usually handled. In addition, the Commission and CCPA should be directed to continue the Commission's present practice of deferring to decisions of the federal courts on patent questions, even when those decisions are subsequent to Commission actions. (See, e.g., *Meprobamate*, letter from Chairman Bedell to President Nixon, March 2, 1972). These changes would also prevent the possible creation of two separate legal results concerning the validity and infringement of the same patents.

Third, if the Commission is not to decide the validity issue, then the statute should preclude it from taking *any* action in circumstances in which a court would not issue a temporary injunction. Ordinarily, this would mean no order would be issued until a court had held the patent valid or unless other circumstances, such as public acquiescence in validity and the existence of numerous consent decrees in suits against infringers, were sufficient to support the issuance of a temporary injunction. This would eliminate the present discrimination against importers.

Fourth, if the provision is retained for entry under bond pending resolution of the validity issue in court, this should be extended to cover situations in which *infringement* is in issue in a district court, since the Commission would, under its present practice and under the preceding recommendation, defer to a subsequent District Court decision on infringement.

Finally, before the *in rem* remedy is to be made available to a patent holder, he should be required to make a showing that adequate relief is not available in the courts. It should not be sufficient for him to show that judicial relief would require lengthy delays; rather, there should be more compelling reasons, such as the existence of a multitude of importers. If the patent holder cannot demonstrate such reasons, then the only serious justification for Section 337 is absent. This step would limit the burden on the Tariff Commission and promote economy of litigation by assuring that the Commission's time and resources are used only when a real need for them exists.

PROPOSED AMENDMENT TO FEDERAL TRADE COMMISSION ACT

In order to cover all cases under Section 337 not involving patents, this proposal would add a new paragraph to Section 6 of the Federal Trade Commis-

sion Act (15 U.S.C. 46), to empower the Commission to order the exclusion of articles from the United States when it finds that unfair methods of competition or unfair acts are employed in their importation or sale, the effect or tendency of which is to destroy or substantially injure an industry in the United States that is efficiently and economically operated, to restrain or monopolize trade and commerce in the United States, or to substantially impair competition in the United States. The Secretary of the Treasury would have the power to block an exclusion order if it would have, or be likely to have, a significant adverse effect the economic interest of the United States.

This proposal is unnecessary and would discriminate against imports. Section 5 of the FTC Act already prohibits unfair methods of competition and unfair acts in commerce, which by definition includes commerce with foreign nations (Section 4 of the FTC Act). It empowers the Commission to order that persons cease and desist from such conduct, with penalties for non-compliance. There is no reason why this remedy should be less effectively in the import context than it is with respect to domestic commerce. Since the Commission under Section 5 can require that the unfair practices be stopped, the exclusion of the articles involved would usually exceed what is necessary to prevent violations and, in some cases, would only further restrain trade; since exclusion from commerce is not ordinarily enforced against domestic goods, its use as the standard remedy against imports would constitute discrimination.

The history of Section 337 bears out the conclusion that this proposal is unnecessary. We are aware of only three full investigations by the Tariff Commission since 1922 that involved acts other than alleged patent infringement. In *Manila Rope* (No. 316-4), the Tariff Commission in 1927 recommended that the President exclude certain rope that was labeled "manila" but that contained other types of fibers. The FTC had already issued a cease-and-desist order against a domestic maker of rope similarly labeled. It would have had jurisdiction also to proceed against importers of such rope.

In Watches, Watch Movements, and Watch Parts (TC Pub. 177), the Tariff Commission in 1966 rejected a complainant's allegations that certain Swiss watchmakers and U.S. importers were restraining trade and monopolizing commerce in the articles concerned. A Federal District Court had, as a result of a civil action brought by the Justice Department in 1954 under the antitrust laws, issued an order in 1962 enjoining the respondents from engaging in the acts alleged by the complaint. The Commission found that the alleged unfair acts no longer existed, principally because the court order had substantially altered the situation.

Finally, in *Tractor Parts* (1971, TC Pub. 443), the complainant alleged that an Italian tractor parts maker and several U.S. importers and distributors had conspired to boycott and cut off complainant and others from importing the parts. Complainant had also brought a civil action under the antitrust laws in federal court. The Commission initially found a violation of Section 337 and recommended that the tractor parts involved be excluded. However, upon reconsideration, the Commission decided that the unfair acts no longer existed and reversed its earlier recommendation. This case is noteworthy for two reasons: first, the Section 337 proceeding was based upon the same allegedly unfair acts that were the basis for a treble damage suit in Federal Court involving the same parties; second, the only remedy available under Section 337, exclusion, would have *halted* trade in tractor parts, whereas the complaint had been that respondents had restrained trade by cutting off certain importers. Thus, the complainant would have denied the goods to others, but would not have obtained them for himself. This case clearly reveals the flaws in the remedy afforded under Section 337, as well as the fact that it merely duplicates remedies available under other laws.

Mr. BURKE. Thank you. Does that complete your statement?

Mr. HEMMENDINGER. Yes.

Mr. BURKE. Do you wish to inquire, Mr. Collier?

Mr. COLLIER. One thing I would like you to clear up, which I was trying to follow closely, is the criteria used by the Treasury Department. Can you give me a specific example of a product where a misapplication of price establishment would operate?

Mr. HEMMENDINGER. I think the best example is one that I am not as well acquainted with personally. We did not as a firm on the TV

cases, but in the cases involving Japanese television, you had major groups of importers, names like Sears, Montgomery Ward, and Penney's, which bought at the water's edge.

They were responsible for all the marketing costs across the United States, their catalog, everything was printed in the United States at their expense. Naturally they got a naked factory price. The same producers, most of them, were selling in Japan and they have a notoriously expensive distribution system, so home market costs exceeded the costs in the United States.

The commensurate cost existed in the overhead of these distributors who were the importers. But Treasury just compared the sales price at the port in the country of origin with a domestic price which included a great many expenses of advertising, distribution and the like, which were never removed, so it was not a fair basis of comparison.

Mr. COLLIER. Generally speaking, would you say the differential in the price in the marketplace was substantially the same even though one of the importers, in the case of Sears, absorbed the cost?

Mr. HEMMENDINGER. I will answer your question in a different way. When some of these cases became obviously important, we were asked by some of our clients to do some preventive work so we sat down and we reviewed lines of importation into the United States to point out to them on the basis of their data how Treasury would decide the case.

They came into those conferences very confident that they didn't have dumping and they went away very worried about some articles because what they thought was fair did not correspond to the way in which Treasury in other situations had been interpreting the law.

In other words, the answer to your question is, even though the retail price and the wholesale price in, let's say, Japan and the United States would be the same, Treasury could find dumping. It could find dumping.

In the case of TV, I don't think that was generally the case. As I say, the costs of distribution in Japan were notoriously high. It became a cause celebre in Japan because of the cost to consumers in Japan.

Mr. COLLIER. Thank you.

[The following was subsequently received:]

STITT, HEMMENDINGER AND KENNEDY,
Washington, D.C., June 19, 1973.

Re Supplement to Testimony of Noel Hemmendinger on behalf of the law firm of Stitt, Hemmendinger and Kennedy.

JOHN M. MARTIN, Jr., Esq.,
Chief Counsel, Committee on Ways and Means, Longworth House Office Building, Washington, D.C.

DEAR MR. MARTIN: Please accept this letter as a supplement to my testimony of May 17, 1973.

During my testimony I stated that the reasons most cited as justifying retention of Section 337 was the necessity of a multiplicity of patent infringement actions against numerous importers, if the *in rem* remedy of Section 337 were not available. I suggested that any such problem could be avoided by an amendment to the Patent Code to provide an *in rem* remedy.

It has subsequently been brought to my attention that no amendment to the law is necessary because a remedy is already available to deal with the postulated problem. The class action mechanism of Rule 23 of the Federal Rules of Civil Procedure allows a patent owner to join numerous infringers in a single action, thus avoiding the filing of a multiplicity of patent infringement action. Since the extensive revision of Rule 23 in 1966, that rule has been employed by patentees to

join numerous infringers in a single action, on several occasions. *Technograph Printed Circuits, Ltd. v. Methode Electronics*, 285 F. Sup. 714 (N.D. Ill. 1968), *Dale Electronics, Inc., v. R. C. L. Electronics, Inc.* 53 F.R.D. 531 (D.N.H. 1971), *Research Corp. v. Pfister Associated Growers, Inc.*, 301 F. Supp. 497 (N.D. Ill. 1969), appeal dismissed, 425 F. 2d 1059 (7th Cir. 1970). This remedy can be as useful to deal with numerous infringing importers as with numerous domestic infringers, particularly when the imported products are identical. Even if the products are not identical, a single decision on the validity issue can be obtained to provide an interpretation to guide the infringement issue. Since nearly three-quarters of the patents adjudicated are found to be invalid, determination of the validity issue would dispose of most of these cases. The few possibly remaining do not justify the retention of Section 337.

In my testimony I also stated that the patent validity question should not be separated from the infringement question. It surely is not an unfair act for either an importer or a domestic manufacturer to infringe an invalid patent. Indeed, the Supreme Court has indicated that the public interest requires that there be an incentive for challenge to an invalid patent because of the public interest in free use of ideas in the public domain. *Lear* v. *Adkins*, 395 U.S. 653 (1969). No distinction was made between challenges from any source, whether by importers or by domestic manufacturers. An importer should not be foreclosed from asserting a good defense of invalidity against a U.S. patent, any more than should a domestic infringer.

However, if the Tariff Commission were to be given the power to decide validity, as well as infringement issues, an already anomalous situation would be worsened. Not only would the discovery mechanisms of the Federal Rules of Civil Procedure have to be provided, so that the factual inquiries mandated by *Graham* v. *John Deere*, 38 U.S. 1 (1966) could be fully developed, but the Tariff Commission could arrive at a different conclusion as to validity from those of the federal courts. It would therefore be possible that the identical product which could be made and sold in the United States without liability to the patent owner could be excluded from importation by the Tariff Commission.

A similar anomaly is already potentially present under the existing system, for the Tariff Commission now can reach a different conclusion as to infringement from that of a federal court. It is therefore possible that the identical product which has been determined not to infringe by the courts, and therefore to be free for manufacture and sale here, could nevertheless be excluded from importation by the President.

The anomalies above explained, and the public interest in competition, from both domestic and foreign sources, appear to require, not the amendment to Section 337 suggested by Section 530 of H.R. 6767, but rather the repeal of Section 337, as recommended in my testimony of May 17.

Yours sincerely,

NOEL HEMMENDINGER.

Mr. BURKE. Thank you. We appreciate your testimony.

Our final witness is Mr. Sherman E. Katz. We welcome you and thank you for your patience.

STATEMENT OF SHERMAN E. KATZ, WASHINGTON, D.C.

SUMMARY

I. The Administration long ago promised to seek a broad preference system, but, while other countries have acted, the Nixon Administration has delayed because of a supposedly hostile U.S. Congress.

II. Now the Administration proposes only a limited preference system.

III. Congress therefore has the opportunity to demonstrate that it has an enlightened voice to be heard on foreign economic policy by broadening the preference scheme to make it of greater benefit to both the U.S. and the developing world.

(a) Congress should replace Presidential discretion to determine eligible countries under Title VI with its own specific list of beneficiary countries.

(b) Congress should enumerate the articles eligible for preferential treatment, subject of course to U.S. import relief laws, thereby replacing the cumbersome and discretionary eligibility procedure proposed in the bill.

(c) Congress should eliminate the $25 million ceiling which is arbitrary, tends to undercut the purpose of preferences and is unnecessary in view of available U.S. safeguard protection from imports.

Mr. KATZ. My name is Sherman Katz. I am an attorney engaged in the private practice of law as an associate in the international law firm of Coudert Bros. I appear here today solely in my own behalf to present my comments and recommendations on the proposal for a generalized system of preferences in the administration's trade bill. This presentation is based on my research, writing and public discussion of the idea of tariff preference during the past several years.

The Nixon administration has at long last redeemed its commitment to ask Congress for authority to establish a system of generalized tariff preferences. Speaking to the Inter-American Press Association on October 31, 1969 more than 3½ years ago President Nixon said:

We will seek adoption by all industrial countries of a scheme with broad product coverage and with no ceilings on preference imports. We will seek equal access to industrial markets for all developing countries so as to eliminate the discrimination against Latin America that now exists in many countries.

The European Common Market adopted generalized preferences in July of 1971 and Japan adopted its preference system in August of 1971. The administration has not requested authority for preferences until now because, the administration has explained to developing countries, it feared that a protection-minded Congress would not accept the idea. The onus for failure of the United States to do its fair share in assisting developing countries through greater trade has been placed on this body, the Congress of the United States.

Now the administration has come to Congress with a preference scheme which lacks many of the features the administration said it would seek.

There are ceilings on preferential imports. The scope of the product coverage is not "broad" but is left vague and subject to extensive prior investigation and hearings. The scheme does not provide access for "all developing countries" but allows the President to designate eligible countries based on only partially relevant criteria which threaten to exclude the Latin American countries we have said we want to help.

At a time when Congress wishes to make its judgment and influence count in the making of U.S. foreign policy, the shaping of this preference system provides an excellent opportunity for this legislative body to assert itself. In particular, the Administration's limited preference proposal should be broadened by Congress. Just as the United States will benefit from a more open trading regime with industrialized countries, so too will it benefit from freer trade with developing countries.

As developing countries are permitted to sell more, they earn more foreign exchange and can, therefore, purchase more abroad. While these countries sell about 25 percent of their exports to the United States, 30 percent of their purchases come from the United States so increased purchasing power should produce a net gain in the U.S. balance of trade. About one half of U.S. foreign investment income comes from the developing countries, so the United States will therefore also have a direct share in the economic growth of these countries. These facts make preferences much more of a two-way street than foreign

aid, and an increased flow of goods from abroad can help ease domestic inflationary strain.

By expanding the limited preference system proposed in this bill, Congress would indicate not only to the developing countries but to all others who concern themselves with U.S. foreign economic policy that the Congress of the United States can and will make its voice heard in the shaping of that policy. Such an expansion of the U.S. preference system would demonstrate that the perspective of Congress is not backward looking and protectionist, but rather is an enlightened view of the long-range interest of the United States in the context of the world economic community.

What changes should Congress make in the administration proposal to make it more beneficial to the United States and to developing countries?

First, Congress should eliminate Presidential discretion to determine the eligibility of countries for preferential treatment on the basis of only partially relevant criteria. Particularly irrelevant is the criterion in this bill of whether a country has nationalized U.S. property without provision for fair and adequate compensation.

This has no relation to the purpose of extending preferences and it appears specifically aimed at Latin America, the very region which President Nixon promised would benefit from a U.S. preference system and, I might add, the very region the United States looks forward to become its ally in upcoming trade negotiations.

Instead, Congress could establish a specific list of eligible countries, possibly the "Group of 77" which actually has 96 members and originally formulated the preference idea. Additional states such as Spain, Israel. Greece and Turkey could be added to the Group of 77. Authority might be given to the President to eliminate countries from the congressional list under specified, relevant economic circumstances. In this way, there would be no doubt at the outset that the intent of the United States is to provide access to its market for, in the President's words, "all developing countries."

Second, Congress should eliminate the cumbersome and discretionary procedure by which articles would be found eligible for preferential treatment.

Again, if the intent, as the President has stated, is to provide "broad product coverage," then Congress should make that intent clear by specifically indicating the product coverage of the preference system. Of course, articles could be declared ineligible subsequently if and when they are imported in such quantities as to cause or threaten injury to U.S. industries and workers. This would replace the proposed system of article designation by the President followed by extensive investigation and hearings by the Tariff Commission.

Finally, despite the dministration's statement that it would seek adoption of a scheme with "no ceilings on preferential imports," the bill contains a ceiling of $25 million per year for any given product, subject to waiver if the President finds exemption in the national interest. No economic rationale or basis has been offered for this particular limit and it would tend to prevent the achievement of economies of scale which preferences are intended to make possible for new industries.

It should be remembered that according to the estimate of the U.S. Department of State, the amount of additional imports from the developing countries resulting from a generalized preference system would account for less than 1 percent of all U.S. imports, so that the danger of any glut of the U.S. market is slight.

There are already or will be in place ample safeguard devices should imports resulting from the preference cause or threaten injury. This unexplained and unnecessary "ceiling" should therefore be eliminated.

In short, Congress should rewrite the administration's preference proposal to make it the kind of action and commitment to a freer regime of world trade which this administration claims that it wants, a regime which will be in the interest of the United States and which can truly benefit the lower income countries of the world.

Thank you.

Mr. BURKE. Thank you.

Mr. COLLIER. I agree we should not establish a policy that would exclude Latin America. I think personally we have a greater stake in the economies of the Western Hemisphere than in the European markets or anywhere else.

Perhaps you underestimate, perhaps you do not, the degree of protectionist feeling that did exist a year ago. Bear in mind the job situation dictated to some degree that feeling which it seems has changed to some degree.

So the delay was probably in the interests of ultimately enacting trade legislation notwithstanding the fact during that period of time we were operating in what you might call a vacuum in terms of international trade policy.

You did say that you did not feel the problems we have encountered, particularly in Latin America of the expropriation of American industry, should have any bearing at all on our relationships with Latin America.

I think you will have to concede, too, that there was a period of perhaps 2 months in which trade legislation was further delayed because of the problem that developed in the refusal of the Soviet Union to let people travel without putting an educational departure tax, let's call it, on them.

That, in turn, could have reeked havoc with any action this committee might have chosen to take. It has not been resolved yet, as you know.

The question I guess in these matters is, should our trade policies be contingent upon internal matters, whether it is the Soviet-Jewish problem, or whether it is the expropriation of American factories and industrial complexes in another country.

It raises a very interesting question and indeed very sharp political question. I think that we are faced with having to divorce completely the internal activities of a nation from our trade policy or they should become contingent.

We have to come to some conclusion over the broad spectrum in this, and I would be interested to know whether you feel there should be exceptions or whether a nation that expropriates an American company that has employed like El Teniente with 10,000 foreign nationalities in an economy that certainly needed this kind of operation and

then it refuses to pay reasonable reparation and yet continues to get trade policies that they otherwise would not be entitled to.

Mr. KATZ. I believe with respect to the delay, the main question which I am raising is not so much how much time has elapsed since the administration initially approached the idea.

As you point out, in fact the delay may have served in some respects the interests of the developing countries. Rather the question now is, as you go on to say, what is the manner in which Congress deals with the trade policy questions and what I have tried to suggest today is that Congress should try to look at what is in the long run interests both of the United States and of the developing countries.

I have suggested today that by a broader preference scheme both the United States and the developing countries will benefit. You have properly raised the question, should we consider in looking at these long-range economic policy matters, internal political developments. I think one of the reasons we have been able to make as much progress in the past 24 months, or 4 years, if you will, with the Soviet Union and with China is because we have been prepared to look increasingly at areas of mutual concern and focused on those and moved forward on the basis of dealing with these areas of long-range agreement.

I would similarly suggest that in the making of economic policy, we should look at the long-term areas of common interest and conclude long-range policy on that basis and, where possible, not allow internal matters to interfere with our calculations of what the long-range benefits for both parties are.

Mr. COLLIER. I agree with you. I simply have some very deep feelings about the situation to which Mr. Vanik addressed his bill and to which I introduced a somewhat similar bill with somewhat broader application.

I am glad to hear you say that, because it does present some real knotty problems in trying to improve relations on one hand and having to turn your head on the other from things that basically people in this country have some very deep feelings about.

Mr. KATZ. May I add simply with respect to expropriation, over the long run, again one would hope that from arrangements such as preferences which will encourage economic development in lower income countries, that there will be increased resources there, that there will be increased domestic industry, that there will be be increased jobs and that to some extent we will have helped remove the pressure on the leaders of those countries which produces events such as expropriation.

Mr. COLLIER. Right, and it is regrettably, I believe, in the areas where the United Nation deals in matters of the economic issues involving these distressed countries that this is the type of thing that could not be handled at the United Nations and not in a trade bill.

I am talking about settlement of the expropriation of property where it would be ideal if this could be done in a judicial manner through the United Nations where it belongs and not having to write restrictions in a trade policy that seeks to deal with these problems that are outside of what you call the realm of overall economics and interests of the world.

Mr. KATZ. I agree that these forms where ever possible should be used and increasingly they are being used.

Mr. COLLIER. Thank you.

Mr. KATZ. Thank you.

Mr. BURKE. Your colloquy with Mr. Collier will be very helpful to the committee. We appreciate your cooperation and your statements and your patience.

Mr. KATZ. Thank you, it was a pleasure.

Mr. BURKE. This is our final witness for today, so the committee now stands adjourned to meet at 10 a.m. tomorrow morning.

[Whereupon, at 5:05 p.m., the committee adjourned, to reconvene at 10 a.m., Friday, May 18, 1973.]

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